

Building the Diverse Community

Beyond Regionalism in East Asia

edited by
Dominik Mierzejewski
and Grzegorz Bywalec



Contemporary Asian Studies Series

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UNIWERSYTETU
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Introduction

The processes in East and South Asia have become a peculiar subject for the global community of international relations field. The presented volume is a collection of papers dealing with the processes of regionalization in East and South Asia. We collected papers from different academic units both from Europe and Asia. The first article written by Professor Małgorzata Pietrasiak describes the theoretical approach to the issue of regionalism in East Asia. She touches upon very important points on the debates regarding understanding the ongoing processes in East Asia. Lu Xiaohong of China Foreign Affairs University continues with the subject of engaging China, South Korea and Japan in cooperation with ASEAN. This article is particularly worth reading as the author touches upon the state actor-multinational body relations. Joanna Dobkowska from the University of Warsaw shares her attitude towards integration processes in Southeast Asia. She uses with the Asian Financial Crisis as a starting point for the further integration of Southeast Asia and by presenting economic issues is able to give a holistic picture of the ongoing processes. Irina Troekurova of Saratov State Academy of Law presents her short thoughts on EU-Korea cooperation. Next Karolina Klecha-Tylec of Krakow University of Economics touches upon the issue of financial regulations in the East Asia region. She discusses the origins of integration processes, and debates the role of central bank cooperation, swap problems and Asian Bond Market issues. Mikhail Karpov from the Russian National Research University Higher School of Economics follows further and debates the issue of Taiwan's fiscal decentralization and its impact on Mainland China's reforms. Next Tomasz Kamiński (University of Lodz) together with Marcin Obroniecki and Piotr Wiśniewski (Warsaw School of Economics) explore the issue of how East Asian Sovereign Wealth Funds affects the European Union. The article is based on mega data collections and presents the big picture of the issue. This article concluded the part that debates the economic dynamics of integration in East Asia. The next section is composed of more political and military oriented pieces. By using the rebalancing approach Laura-Anca Parepa (University of Tsukuba) discusses the issue of military relation between the US, China, and Japan.

In the area of pivoting Michał Lubina (Jagiellonian University) follows on with the issues of Russia's new policy towards Asia. He debates the basic features of Putin's ups and downs in his policy towards East Asia. Being experienced in the field of international justice Tomasz Lachowski (University of Lodz) gives an important voice about the transitional justice and its impact on the security and internal stability in Southeast Asia in the case of Bangladesh. The last article is presented by Adrian Szumowski who presents theoretical disputes over power transition.

The whole volume presents the diversity of understanding among the international relations scholar community. By shaping the diverse view, we can possess a better and in depth understanding of East Asia.

Małgorzata Pietrasiak

(University of Lodz)

Building the Diverse Community. Beyond Regionalism in East Asia. Region, regionalism, regionalization – definitions, settlements and research field

This study refers only to the interpretation of these occurrences in the context of the science of international relations. It is necessary to emphasize that regionalism is an important feature of contemporary international relations and, by many theoreticians, is used also as a method, which the processes undergoing in the world, can be analyzed. The notion of “regionalism” can be set forth at least on two middle grounds: on the international level – as the creation of the integration constructions and institutions, on which are based through defining the group of states and the rules; but also in the national sphere – as approval of dynamism and the independent international activities of separate regions. The purpose of this study is to recall selected manners of the definition of the notion of regionalism and research meanings of this notion for contemporary international relations.

Old regionalism, modern regionalism, regionalization

Generally, in the source literature Joseph Nye is considered to be a founding figure of regional analysis. In his definition, which applied in the science of international relations in the 1960s, a region is pictured as a limited number of states linked by a geographical relationship and by a degree of mutual interdependence. However, regionalism is de-

defined as correlative interstate institutions, associations grouped by a regional base. In the article *“Comparative Regional Integration: Concept and Measurement,”* and others from this period, Nye tried to explain the occurrences that consist the model of regional integration (Nye 1968, pp. 855–880). The definition of the integration occurrences, which were connected with the process of regionalization, were found in the theoretical considerations of many other researchers of international relations of this period. Its juxtaposition and short analysis is in, for example, Karolina Klecha-Tylec’s book *Regionalism in the theory and practice of East Asia States* (Klecha-Tylec 2013, pp. 23–24). The analysis of these first post-war connected theories with liberalization of regional markets can be also found in the A. Panagagariya’s article *“Preferential trade liberalization: The traditional theory and new development”* (Panagagariya 2000, pp. 287–331). From a current perspective this regionalism is described as “traditional” or “old” regionalism. The regional associations were awaited to deal with the peaceful settlement of disputes and support for stable and peaceful development, which is determined in the Article 52 of the Charter of the United Nations. Obviously this classic regionalism was concentrated on state actors, often featured through the prism of the Cold War game, based on Cold War alliances, in economic and social spheres was more protectionist and closed, and states were usually engaged in one regional trade agreement. Regional trade agreements were characterized by limited trade liberalization (Klecha-Tylec 2013, pp. 31–32).

We can therefore assume that: first of all, regionalism is not a new occurrence, such a process was stimulated after World War Two with the hope of the more effective disposal of the disputes and conflicts of neighbors. Second, the meaning of regionalism was mainly connected with regional security, political and economic cooperation. Therefore, the research area of contemporary regional processes was restricted.

Edward Halizak says there was a decrease of interest in regionalism in the mid-1970s on account of the disappointment of the effects of West-European integration. However, in the late 1980s, a new bout of regionalism began (Halizak 2006, p. 19). The end of the Cold War, the intensification of globalization processes, the appearance of a number of new initiatives and regional formations, development of a new wide-ranging commercial system fixed itself to be crucial incentives to the intensification of regional links after the end of the Uruguay Round. In the context of global processes, the force and significance of regions and regionalism fixed itself to be the object of theoretical research of many outstanding

scientists at the turn of the 20th and 21st centuries. At the moment, what is being observed is the increasing multidimensional aspect of regional processes, regionalism influences on the processes in security, culture, social, communication and economic integration. These new occurrences connected with the intensification of the processes of regionalization and institutionalization are described in the literature as **new regionalism**. The features of new regionalism are such as: deep economic integration, coexistence of many forms of regionalization, a development of arrangements imposing on itself that liberalize trade, dictation of new integrations by the regions that were not participating in these processes so far, e.g. East Asia is featured in the Polish and the foreign source literature. (K. Klechta-Tylec, 2013).

In political doctrine this notion often appears as incoherent, inaccurate and difficult to explain. Among many theoretical works relating to this occurrence, A. Hurrell's is worth mentioning as Hurrell answers the questions: what the notion of regionalism really means and whether it is possible to describe the comprehensive theories that explain the dynamics of regionalism. He adds, that it is difficult because there are three levels of the analysis of regionalism: 1. the international system; 2. the system of regions; 3. the internal system.

Each of these levels describes the research field of regionalism in various ways. At the same time, Hurrell notices that if this notion could be defined it would be possible to distinguish different figures of regionalism alike in the historic and geographic sense, because regionalism in the different parts of world has its specificity. The theoretical perspective provides the chance of the arrangement of a notional occurrence and shows on research directions. Therefore, this generalization, which Hurrell constructs, defines regionalism by the prism of the degree of cohesion: a social (ethnic group, nationality, race, language, religion, culture, tradition); economic (trade, investments, financial union, complementary of the economies); political (political system, shared ideologies, political culture); and organizational (existence of structural regional institutions). However, the most important idea is a perception of regionalism by the prism of a regional correlation (Hurrell 1995, p. 38). The states of a region "go in the same boat" they struggle in with the similar ecological, strategic as well as economic problems and they must restrain national egoisms to solve them.

This correlation is explicitly emphasized in all case studies. B. Drelich-Skulaska understands "regionalism" as the cooperation of several

states, which are connected with geographical proximity, however, Drelich-Skulska claims it is not the sufficient criterion: “Regionalism can be interpreted as a multi-sided process that includes various related and multidimensional economic, social, political and cultural determinates” (Drelich-Skulska 2012).

In fact, regionalism is considered as a profitable occurrence in the majority of debates. It is necessary to differentiate regionalism as the description of a situation and regionalism as a doctrine, the manner of the organization of international relations (Hurrell 1995, p. 39).

This makes it especially important to distinguish between regionalism as description and regionalism as prescription-regionalism as a moral position or as a doctrine as to how international relations ought to be organized. As with the more general idea of interdependence, there is often a strong sense that the states of a given region are all in the same ‘regional boat’, ecologically, strategically, economically; that they are not pulling together; but that, either explicitly stated or implicitly implied, they should put aside national egoisms and devise new forms of co-operation. In much of the political and academic debate, then, there is a strong implication that regionalism is a naturally good thing.

Hurrell distinguishes the notion of regionalism from regionalization, which he defines as a growth of social integration in the region and the frequent indirect processes of a social and economic interaction.

“Regionalization refers to the growth of societal integration within a region and to the often undirected processes of social and economic interaction” (Hurrell 1995, p. 39).

The process of regionalization is particularly visible in the Asia-Pacific region, where the connections of different types of institutions and specialized transnational companies (supply chains) are particularly strong. Regionalization indicates also the various opportunities to transfer ideas, social behaviors and the creation of transnational civil society.

Regionalization is therefore commonly conceptualized in terms of ‘complexes’, ‘flows’, ‘networks’ or ‘mosaics’. It is seen as undermining the monolithic character of the state, leading to the creation of cross-governmental alliances, multi-level and multiplayer games and to the emergence of new forms of identity both above and below existing territorially defined states. (Hurrell 1995, p. 40)

The difference between the notions of regionalism and regionalization is also in O.W. Plotnikova’s work *The international co-operation of regions: conceptual aspect* (Płotnikowa 2005). She explains regionalism as a natural base, the natural manner of a territorial organization of social, political,

economic and cultural aspects of activities and the existence of societies. In this meaning regionalism, Plotnikova assumes, is examined as:

- a) the social group connected by ethnic, racial and language links;
- b) economic and economic individuals acting within the framework of the territory;
- c) the community of values, religion and historic traditions;
- d) political solidarity.

Regionalism, which is treated by Plotnikova in an internal and national context, is directed at the practical utilization of these chances, which emerge from a natural division of a country. Because regionalism is characteristic for all contemporary states, it can be utilized as the characteristic method for a different type of intellectual model, doctrines directed by the rational natural utilization of differences existing within contemporary societies.

Portiakova emphasizes, that it is the process of a repeatedly fuller inclusion of regions in the economic, social and political sphere on the national and transnational level and it passes into **regionalization**; in other words, it is the regional process to structure areas.

Furthermore, B. Drelich-Skulaska based on the F. Lu's analysis differentiates both notions: regionalism refers to the initiatives of government relating to a region, regionalization, she assumes, is the integration taking place by means of market mechanisms (Drelich-Skulaska 2012).

Research models

In order to study regionalism paradigms are used, which were developed in the science of international relations, including realist and neo-realist, liberal, constructivist and behavioral theories. Each one of them changes research optics and determines the research field. To give one example, systemic theories emphasize the structure of the system. The theories of a structural and globalization correlation emphasize the meaning of the international system and the influence of economic and technological changes (Hurrell 1995, p. 46). Regionalism, analyzed via the prism of neo-realist theory, emphasizes an anarchical international system and battle for political influences (the period of the Cold War, rivalry between the Soviet Union and the United States, battle for their zones). There are no significant differences between economic and political regionalism. Realists and neo-realists emphasize the scale of an outer configuration of the force of powers.

Powers often stimulate the formation of the sub-regional organizations and the institutions regulating the international system. Some of the organizations were founded to balance influences, others formed to be anti-Power organizations, like the Association of Southeast Asian Nations (formed in 1967) during the Vietnam War and was recognized as anti-Vietnamese, Persian Gulf Cooperation Council was against Iran, the Southern African Development Community was against the Republic of South Africa, the Contadora Group and Mercosur were anti-American. Hurrell assumes that all these regional organizations “cannot be understood except against the background of their respective regional balances of power and the policies of the regionally dominant power” (Hurrell 1995, p. 41). In other words, regional organizations can be formed as the confirmation of balance of power in the region, however, also to prevent the domination of one of the states.

Hurrell refers also to the problem which is often recalled in scientific literature, i.e. the relation between the globalization and regionalization, and he notices that on one side, these occurrences act in spite of themselves, regions fight for strong position in the globalized world, so they can disturb the interests of other regions, on the other side, globalization stimulates regionalism. The approach to the occurrence of regionalism from the perspective of the processes of the globalization of the international environment can be found in C.M. Dent’s works. Dent perceives a strict correlation between these occurrences and argues that these occurrences are not excluding each other, but rather they are supplying and stimulating each other.

There are strong interconnections between regionalism and globalisation that cover a variety of issues and draw on similar motivational forces. Actions leading to the advancement of both can, at a general level, be interpreted as risk averse, strategic responses to counter apparent extraneous pressures while consolidating a more impregnable defence against them and any other future potential threats. These will include efforts to improve the efficiency, competitiveness and international stature of those parties involved and collaborative enterprises with compatible partners. (Dent 1997, p. 12)

Many researchers analyzing contemporary regionalism use constructivism. It is the conceptualization of interaction between: material motives, inter-subjective structures, identity and interests of actors. Then liberal theories increase the role of the institution of co-ordinations, which bond regions. At last, the research method can be a return to the research of dependences between the political economy and the necessity of the policy changes of an internal coalition of national-social groups which are examples of new regionalism (Hurrell 1995, p. 73). New regionalism

emphasizes the necessity of applying attention to the non-state actors as important participants of this process.

The study of regionalism based on the “stage-theory” directs the interest of a researcher on economic cooperation in the search of a common enemy, or leader that can be defeated together. However, in constructivist theories community appears in the foreground.

Some theoreticians consider that there should exist one level of analysis, others, like Kenneth Waltz, affirm that everything will be explained with not one systemic theory, and processes should be analyzed with the use of inductive method through research of small and large events. Many research methods, which are used, are not a barrier in the factual analysis of the problem. On the contrary, the different theories should be used to research different occurrences, e.g. neo-realists preferably explain the early period of the formation of the European Union (EU), however, they could not explain the dynamics of the creation of the EU in the later years. It also concerns the processes of regionalization in other regions of world.

Soft regionalism and hard regionalism

Many researchers, such as Hurrell, turn their attention to the specificity of regionalism of the Asia-Pacific region. In his work *Regionalism in theoretical perspective*, Hurrell introduces five categories of this process (Hurrell 1995, p. 73). The first one is the regionalization which refers to narrow social integration in a given region. The principal motive forces of this process is the economy – markets, companies and the private sector. However, determinants are deemed the growth of the number of international fusions and taking over, the increase of commercial turns within companies (Klecha-Tylec 2013, p. 17). Drelich-Skulaska describing new regionalism in East Asia turns her attention to its following features:

- (1) removal of commercial barriers through the bilateral understandings about free trade and economic partnerships and through the creation of a regional free trade zone;
- (2) predominant role of international chains of production in the region;
- (3) idea of a regional cooperation relating to financial markets;
- (4) political, social, economic, religious and civilization heterogeneity of the region that has influence on the perspectives and the range of the institutionalization process of regional cooperation (Drelich-Skulaska 2012).

Hurrell introduces the notion of soft regionalism, which he assumes, is the process particularly developing in the Asia-Pacific region. Hurrell, concerning the process of regionalization, emphasizes that it is characterized by two features: this process does not base on the deliberate action of states and is not necessarily in accordance with the borders of states.

Kevin G. Cai also analyzed the notion of soft regionalism. Cai on his schema, describing the international economic order, places soft regionalism besides other paradigms of an international economic order. Hard regionalism is defined as institutionalized, closely defined by agreements signed by states. Soft – open regionalism is more loose, autonomous, taken by economies (Cai 2003, p. 92).

Ivo Strecker, the German ethnologist, also refers to the notions of hard and soft regionalism. He defines soft regionalism as the reaction to the internationalism and the deterioration of international environment in the 1960s, in other words, soft regionalism is based on environmental policy. Ivo Strecker unites soft regionalism with postmodernism and the resigns it from wealth. According to him, it is a return to individual values and tradition, and it develops as a reaction to the vices of internationalism and modernism. The main aim of soft regionalism is to preserve an existing environment and preserve or restore a local lifestyle. Stecker assumes that soft regionalism is a reaction to internationalism and hard regionalism is a reaction to imperialism. These are centralized structures. However, each regionalism has its own economic aspect (Strecker 1994, pp. 47–52).

Not only is the notion of regionalism ambiguous and difficult to define. Professor Halizak says that the notion of international region and criteria of its separation is also ambiguous (Halizak 2006, p. 12). Each time the approach of a researcher to a given occurrence decides about its separation: “In the science about international relations region is a theoretical construct reflected in the larger or smaller precision of international reality” (Halizak 2006, p. 12).

In many analyses of geographic criteria, as most explicit and hard as e.g. in the works of Edward Mansfield and Helen Milner, were used to separate regions (Mansfield & Milner 1999). In the historical and political sciences a region is isolated when it perceives identity and is defined. Anne Marcusen affirms that: a region – is historically, the evolutionally formed, definite territorial community, the notion of region is characterized by the prism of physical and socioeconomic environment, political culture as well as spatial structure that makes it distinctive from other regions and the

territorial units such as city or nation (Marcusen 1987, p. 251). In the economic sciences a region is united with trade agreements and customs unions (Vayrenen 2003, pp. 25–51). However, the problem is that regions have recently changed, they are dynamic, they go through transformation process and it is possible to apply the different levels of analysis, from the global, to the regional and national. So the definition of region cannot be univocally treated (Vayrenen 2003, p. 26). However, the more philosophical definition of region can be mentioned. F. Brodel, the philosopher, describes a region as a special “world” with the typical mentality, way of thinking, world around and traditions (Płotnikowa 2005, p. 26).

In the Cold War era criterion of attachments to the region were connected with ideological divisions, military and political criteria such as NATO or the Organization of African Unity (OAU) were used to separate regions. In the 1980s, sub-regions appeared on the basis of an authentic sense of communion of goals and identities. Thus occurred e.g. the Council of the Baltic Sea States or the Visegrád Group. It was connected with the fragmentation of Cold War blocs, particularly in Central and Eastern Europe, and with the globalization pressure considering local thinking. The second criterion of separating sub-regions was differentiation between the physical (geographic and strategic), function (economic and environmental) and culture of the regions (Vayrenen 2003, p. 26).

The separation of regions is also connected with applied methodology, hereon occurs differences between the realists and constructivists. In the past, in the Cold War era the regions were often separated with the utilization of economic and organizational relations between the states. The realist approach permitted to research so formed regions in a correct manner. Currently, the majority of economists look on the regions, which are marked by the institutions and integration associations, e.g. EU, NAFTA, MERCOSUR, and are mainly occupied with changes inside and among the regions (Vayrenen 2003, p. 26). On the other hand, constructivists emphasize how regions redefine rules and build identities by governments, social groups and companies. Constructivism emphasizes the instrumental use of regionalism as exposed specific political and economic aims.

The study of the evolution of a contemporary international system with the use of the concept of region is analyzed in neo-realist works, e.g. Barry Buzan about the regional patterns of security (Buzan & Waever 2003).

Accordingly, in the study of regions a division (the use of division) of the world on the levels of analysis with the use of functional criteria is essential. Physically regions refer to territorial, military and economic areas

controlled originally by states, however, regions are functionally defined by the non-territorial factors such as culture and the market, which are often created by non-state actors (Vayrenen 2003, p. 27). Like ethnic groups are willing to create cultural regions and use them to the promotion of an independent political community.

To sum up. The notions of regionalism, region, regionalization are ambiguous – their content and range have changed historically. Even the scientific approach to regionalism has evolved into an objective process characterizing international relations, and into a research perspective. This other perspective is obtained through applying the various theoretical approaches, or defining elements consisting on the research field.

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Accelerando of East Asia Regional Cooperation. Analyzing the ASEAN+3-Centered Community-Building Process

Introduction

Since the first ASEAN+3 (APT) Summit meeting was held in Kuala Lumpur in December 1997, the process of East Asia regional cooperation has gradually taken off. After more than 15 years of development, all of a sudden, we have noticed the speed-up of East Asia cooperation. The East Asian Summit (EAS) has been held eight times. Consequently, we sense the rapidity of East Asian regional cooperation forging ahead toward the vision of East Asian community with the scenario of the co-existence of a complex of multilateral regional processes, i.e. ASEAN meetings, ASEAN+1 meetings, ASEAN+3 meetings, EAS meetings, etc.

ASEAN is now striding forward with its own reform. The document of the ASEAN Charter was signed by the 10 member states on November 20, 2007, during the 13th ASEAN Summit in Singapore. The ASEAN Charter entered into force on December 15, 2008. This is the very first legal document in the history of ASEAN, which intends to help make ASEAN a more effective organization with clearer purposes, a stronger legal framework and a better mechanism for dispute settlement. ASEAN will henceforth operate under this new legal framework and establish a number of new organs to boost its community-building process.

The process of establishing the ASEAN Community has been accelerated. The Blueprint for the ASEAN Economic Community was signed in November 2007, which serves as the roadmap for transforming ASEAN into a single market and production base, highly competitive and fully integrated into the global community by 2015 (Yeo 2007).

Moreover, ASEAN has already accepted 10 countries and the European Union (EU) as its dialogue partners. The 10 countries are China, Japan, Korea, Australia, New Zealand, Russia, India and Pakistan. Almost all the ASEAN dialogue partners have appointed ambassadors to ASEAN under the framework of the ASEAN Charter. Up to April 2014, altogether 78 countries worldwide have appointed ambassadors to ASEAN, including Poland (ASEAN 2014).

ASEAN is now in its forties and is undergoing unprecedented transition and the reinvigorated ASEAN is playing and to play a crucial role in the process of the APT. It is believed that the APT will remain as the main vehicle in regional community building efforts. With the adoption of the Second Joint Statement on East Asia Cooperation and its accompanying ASEAN Plus Three Cooperation Work Plan (2007–2017), the APT is geared up for building an open regionalism connected to the world (Yeo 2007).

With a detailed review of the efforts at the East Asian regional cooperation, the paper tends to conclude that the APT is of considerable promise to be the main vehicle to promote East Asian cooperation with ASEAN as the driving force. However, what we must heed is that the East Asian regional cooperation can never be reached through expedient endeavors, rather a process in which all regional actors will enjoy a certain level of comfort, through which regional awareness and identity can be fostered.

Birth of the APT

The end of the Cold War marked a key turning point in the analyses of the new regionalism in East Asia. The geostrategic context of Cold War politics in which ASEAN was created has transited to a geo-economic context in which ASEAN is facing a variety of changes and ways of functioning. With the incorporation of former adversaries into ASEAN and a move towards economic cooperation with China, Japan and South Korea, new development rationales come to the scene.

The first proposal for East Asian cooperation was made by an East Asia Economic Group (EAEG), renamed before long as the East Asia Economic Caucus (EAEC), in late 1991. The EAEC was intended to create an Asian common market comprising the then six ASEAN countries as well as China, Japan, South Korea and the Indochinese countries, which very much resembled the ASEAN+3 framework. However, this proposal

received lukewarm support within ASEAN. It was also opposed by the United States (US) because the East Asia Grouping might exclude it, and would affect the then two-year-old Asia-Pacific Economic Cooperation (APEC). The ASEAN states, though preferred to have ASEAN states work together, guarded against a trade bloc (McGowan 1991).

However, there was enough sympathy among the caucus members for the goal of producing a collective voice for East Asia. Later, the establishment of the Asia-Europe Meeting in March 1996 invigorated the idea of East Asia cooperation. The East Asian countries were forced to consider themselves as a grouping in their own right, so that they could interloquite with Europe (Hassan 2006). In practical terms this proved to be the catalyst that turned the EAEC into the APT, a functioning 3 if somewhat embryonic – East Asian regional cooperative arrangement (Stubbs 2002, p. 442).

The Trajectory of the APT

It is still fresh in our minds that on November 20, 2007, the heads of the ten member countries of ASEAN and the three Northeast Asian countries convened in Singapore on the occasion of the 10th Anniversary of the APT cooperation. At the summit the leaders issued the historic document in the development of the APT, i.e. the Second Joint Statement on East Asia Cooperation: Building on the Foundations of ASEAN Plus Three Cooperation. Meanwhile, a detailed ASEAN Plus Three Cooperation Work Plan (2007–2017) was signed which serves as the master plan to enhance APT relations and cooperation in a comprehensive and mutually beneficial manner for the next ten years (ASEAN Secretariat 2007).

Hardly when we could notice the swiftness of the APT development, a series of document had been signed in Cambodia in November 2012 to celebrate its 15th anniversary. On November 19, 2012, the ASEAN Plus Three Leaders' Joint Statement on the Commemoration of the 15th Anniversary of the ASEAN Plus Three Cooperation was signed in Phnom Penh, Cambodia (ASEAN 2012a). Besides, the leaders adopted The Leaders' Statement on ASEAN Plus Three Partnership on Connectivity. The latter reiterated the importance and necessity of the multi-faced and multi-layered ASEAN-led regional framework and re-stressed ASEAN's commitment to the APT connectivity and the building of the East Asian Community (Ministry of Foreign Affairs of Japan 2012). Moreover, the leaders took note of the Report of the East Asia Vision Group II, Memo

No. 9 of the Network of East Asian Think-Tanks (NEAT), Summary Record of the 10th East Asia Forum, the Progress Report on the Implementation of the Second Joint Statement on East Asia Cooperation and the APT Cooperation Work Plan, and the APT Plan of Action on Education: 2010–2017 (ASEAN 2012b).

A review of the 15 years of its evolution is to shed much light on our understanding of the recent acceleration of the APT process. The evolution of APT in the past decade can be divided into three stages. The first stage (1997–1999) is the process of institutionalization of the APT cooperation. The second stage (2000–2005) is the period of further development of the APT. The third stage (2005–beyond) is the period when the APT moves side by side with the EAS in an effort of community-building in East Asia.

The First Stage (1997–1999)

The idea of ASEAN+3 was hinted by Goh Chok Tong at the 5th ASEAN Summit, suggesting inviting China, Japan and South Korea to an ASEAN informal summit. His idea echoed with the Malaysian idea of inviting the three Northeast Asian countries to the informal summit of 1996. In December 1997 China, Japan and South Korea were invited to the ASEAN informal leaders meeting to be held in Kuala Lumpur.

Overshadowed with the Asian financial crisis, this meeting ended up being a “talk shop” meeting, with leaders stating their views without any concrete agreement. Anyhow, the first APT Summit did provide a chance for leaders of East Asian countries to sit together to voice their concerns and willingness to cooperate in the face of the impending crises.

Thus the 1997–1998 Asian economic crisis is predestined to open a new phase of regionalization in East Asia. Thanks to the crisis, the ASEAN countries are brought face-to-face with its own inability and ineffectiveness. Still, APEC’s inaction during the crisis and the US pressure to stymie the Asian Monetary Fund in 1997, left regional states with no regional solutions but to turn to the International Monetary Fund (IMF) for impractical solutions of no use.

Hence the APT cooperation. The East Asian countries were jolted into realizing in times of crisis it was best to rely on each other. It was imperative for ASEAN to realize that any future crises could not be steered clear of unless the Northeast Asian countries were included.

The second APT Summit was held in Hanoi on December 15, 1998, against the backdrop of the turbulent political and social situation in many East Asian countries in the wake of the economic crisis. It was at this meeting that China promised not to devalue its currency. By exerting its own capacity to help its neighboring countries, China behaved as a responsible international economic player and further solidified its image on the international stage.

It was at this Summit that the APT summits were regularized to be held annually. In addition, the three Northeast Asian states put forward key policies to ensure efficient and effective cooperation to cope with the crisis, such as the New Miyazawa Initiative, China's proposal of the financial experts meeting and South Korea's proposal of an East Asian Vision Group.

The third APT Summit was held in Manila on November 27, 1999. The leaders reached extensive agreements on the principles, goals and priority areas of regional cooperation and issued the Joint Statement on East Asia Cooperation.

Henceforth, the APT Summit, an informal meeting among leaders in ASEAN, China, Japan, and South Korea, has become an annual meeting held in tandem with the ASEAN Summit. Various regional cooperative initiatives have emerged, such as functional ministerial meetings and an advisory panel. By the end of last the century the APT has been gradually getting full-fledged as a viable international institution in East Asia.

The Second Stage (2000–2005)

Since the crisis started in the financial sector, it is thus of top priority to explore proper mechanisms of financial cooperation. The APT Finance Ministers Meeting was held in Chiang Mai, Thailand on May 6, 2000, during which the APT finance ministers agreed to create a network of bilateral swapping deals among member states. Other functional fora were set up: the Economic Minister Meeting was held first in Yangon on May 2, 2000, and has been held annually since then. Other areas such as labor, agriculture, energy, tourism and environmental issues are still being discussed at the ministerial level.

At the 2000 Singapore Summit, a range of new ideas were raised such as transforming the APT Summit into an EAS and the possibility of building a free trade area in this region.

In November 2001 the East Asian Vision Group (EAVG) submitted to the APT its report in which the Vision of East Asia cooperation was stated, i.e. "an East Asian Community of peace, prosperity and progress based on the full development of all peoples in the region" (ASEAN+3 Summit 2002, p. 6). According to the EAVG, the community-building is comprised of six areas of cooperation, that is, economic, financial, political and security, environment and energy, social and cultural, and institutional cooperation. The report made altogether 57 recommendations, among which there are 3 most noteworthy, namely:

- establishment of East Asian Free Trade Area (EAFTA) and liberalization of trade well ahead of the APEC Bogor goal;
- establishment of a self-help regional facility for financial cooperation. Adoption of a better exchange rate coordination mechanism consistent with both financial stability and economic development;
- evolution of the annual summit meetings of ASEAN+3 into the East Asian Summit.

However, the EAVG could not work out the concrete steps to realize the hope of East Asia cooperation. Thanks to the EASG, a final report was presented to the 2002 Phnom Penh Summit, which included the assessment of the recommendations made by the EAVG and assessment of the implications of an EAS. Mindful of sorting out concrete measures to be carried out to achieve the vision of East Asia Community, the EASG had selected 26 implementable concrete measures with high priority, among which 17 were selected as "short-term measures" and 9 "medium-term and long-term measures" (ASEAN+3 Summit 2002, pp. 3-4).

In regard to the recommended EAS, the EASG came to a practical conclusion that the EAS can be "a long-term desirable objective of the ASEAN+3," and "part of an evolutionary and step-by-step process." It reaffirmed that "the ASEAN+3 framework remains the only credible and realistic vehicle to advance the form and substance of regional cooperation in East Asia" (ASEAN+3 Summit 2002, p. 5).

The outcomes from the EASG report do show a willingness to move beyond talk into substantive policy actions. Both the vision set out in the EAVG report and the final report of the EASG have duly aroused people's intense interests in working for East Asia Community.

The following years have witnessed the intensification of ASEAN+1 processes under the overarching APT framework. China took the lead by deciding to open its Free Trade Agreement (FTA) negotiations with ASEAN in 2001 and expected to conclude the ASEAN-China Free Trade Area

(ACFTA) in 2010, which has been realized within the time range. Then at the 2002 ASEAN-China Summit, China and ASEAN concluded a Framework Agreement of Comprehensive Economic Cooperation together with the Early Harvest Program. In 2003, China became the first dialogue partner of ASEAN to sign its Treaty of Amity and Cooperation. Since then China has continued to expand the scope and depth of its cooperation with ASEAN, with a new bilateral dispute resolution mechanism being agreed upon in 2004 and cooperation in disaster management and relief operations being undertaken in 2005.

Japan followed suit by signing its first regional FTA with Singapore in January 2002, and by proposing to launch talks in 2008 for an FTA with ASEAN, also with a target date of 2010. At the 2003 APT Summit, Japan and ASEAN concluded a Framework for Comprehensive Economic Partnership. And in 2004, Japan, together with South Korea and Russia, acceded to the Treaty of Amity and Cooperation. South Korea has agreed to implement an FTA with ASEAN by 2016.

The Third Stage (2005-beyond)

December 14, 2005, witnessed the commencement of the EAS. After that a series of EAS has been held. Henceforth the APT goes side by side with the EAS. As for the membership of the EAS, besides the APT countries, Australia, India, and New Zealand joined the summit as full participants.

An epoch-making event took place at the 5th EAS in 2010, when the US and Russia were formally invited to participate in the EAS starting from 2011 (Ministry of Foreign Affairs of Japan 2010). Thus, the number of member states of the EAS reaches 18. After the enlargement of member states three EASs have been held. A number of EAS document of historic significance have been signed. They include: The 2010 Ha Noi Declaration on the Commemoration of the 5th Anniversary of the EAS (Department of Foreign Affairs and Trade of Australia 2010); The 2011 Declaration of the EAS on the Principles for Mutually Beneficial Relations (ASEAN 2011a); The Declaration of the 6th EAS on ASEAN Connectivity (ASEAN 2011b); and The Joint Declaration on the Launch of Negotiations for the Regional Comprehensive Economic Partnership (RCEP) (Ministry of Economy, Trade and Industry of Japan 2012). In general, the EAS framework has been progressing swiftly and has been making great efforts on enhancing

cooperation in the six priority areas of the EAS, namely energy, education, finance, global health issues including pandemic diseases, environment and disaster mitigation, and ASEAN Connectivity. Recently the major achievements are as follows:

a. In the field of construction of a free trade zone in East Asia, the RCEP negotiations have started since early 2013. The whole process of negotiation is expected to end by the end of 2015;

b. In November 2011 at the 6th EAS, the Master Plan on ASEAN Connectivity was embraced in the EAS efforts to ensure intra-regional Connectivity among all EAS participating countries, which would complement and contribute to the ongoing community building efforts in the East Asian region. By doing so the commitment of the ASEAN's maintaining its centrality is evident;

c. Still in November 2011, the 6th EAS issued the Declaration of the EAS on the Principles for Mutually Beneficial Relations, which is considered as the guiding principles setting the norms for the member states of the EAS. It is stated definitely that the participating states of the EAS are to form friendly and mutually beneficial relations on the basis of the twelve principles, from which the typical "ASEAN Way" stands out.

In spite of the involvement of the US in the EAS framework, it is still believed that the EAS is moving forward steadily and healthily. The central role of ASEAN in the EAS and the APT's role as a main vehicle towards building an East Asia community have been reaffirmed.

The year of 2012 is a historic point for the development of APT. Though facing a variety of challenges, the APT welcomes its 15th birthday. The construction of East Asia integration has been moving on steadily. On November 19, 2012, the 15th ASEAN Plus Three Summit was held in Phnom Penh, Cambodia, to celebrate this special occasion, during which The ASEAN Plus Three Leaders' Joint Statement on the Commemoration of the 15th Anniversary of the ASEAN Plus Three Cooperation was adopted. According to the Joint Statement, the fast growing and deepening of cooperation in all areas of cooperation is satisfying, such as politics and security, economy, finance, connectivity, food security, energy, etc. It is extensively acknowledged that the APT cooperation played "an indispensable role in promoting East Asian unity and coordination, deepening regional economic integration and expanding horizon for common development" (ASEAN 2012a, p. 1). In facing the complex changes in the world and the pressures to maintain sustainable development in this region, the APT leaders expressed collectively their commitment to meet

the challenges and to make good use of the well-established APT cooperation mechanisms.

Still, the Second Joint Statement on East Asia Cooperation signed in 2007 and the ASEAN+3 Cooperation Work Plan (2007–2017) formulated that year were re-stressed as the master plan providing strategic guidance for the future direction of the APT Cooperation. Moreover, the leaders reiterated their strong will to ensure the APT to serve “as a main vehicle towards the long-term goal of building an East Asian community” and together they expressed “their continued support for the central role of ASEAN in the evolving regional architecture.” They reiterated that “the ASEAN+3 Cooperation would continue to support the realization of the ASEAN Community and pave the way towards regional integration” (ASEAN2012a, p. 2).

As for the future efforts of the APT, there are several proposals made at the 15th APT Summit in Phnom Penh. First, the APT leaders agreed that it is obliged to boost the economic development in the region. It was for the sake of fighting against the 1997–1998 financial crisis the APT came into being. Thus it is natural and reasonable for the APT to further strengthen its regional ability and resilience in dealing with the financial and economic crisis. Thus ASEAN Plus One Free Trade Agreements with Plus Three countries are called upon. The APT leaders hailed for RCEP, which was believed to construct “a comprehensive, high-quality and mutually beneficial economic partnership” (ASEAN 2012a, p. 3). The APT Summit expressed its appreciation for the launch of the negotiations of the RCEP at the end of 2012.

Secondly, in order to ensure healthy and stable regional macroeconomic development and enhance regional financial cooperation, the APT summit meeting called for strengthening the effectiveness of the Chiang Mai Initiative Multilateralisation (CMIM) as part of the regional financial safety net in light of the Joint Statement of the 15th ASEAN+3 Finance Ministers and Central Bank Governors’ Meeting in May 2012. The APT economic and financial leaders have made successful efforts to strengthen the CMIM, i.e. doubling its total size from USD 120 billion to USD 240 billion, increasing the IMF delinked portion to 30% in 2012, and introducing a crisis prevention facility “CMIM Precautionary Line” (AMRO-ASIA 2012). The ASEAN+3 Macroeconomic Research Office (AMRO) was established in 2013 which was expected to be transformed into an international organization so as to strengthen its capacity as an independent regional surveillance unit. “The Asia Bond Market Initiative New Roadmap +” has been endorsed in 2013 (ASEAN 2013).

Thirdly, the APT Emergency Rice Reserve Agreement, which has come into force on July 12, 2012, is to serve as a permanent mechanism to ensure sustainable and integrated food security in the region in response to the acute food emergencies in this region.

Here appears the co-existence of the APT framework and the EAS process. The former is viewed as one of the East Asian frameworks, among others, the ASEAN, ASEAN+1, ASEAN+6, the members of which are all from East Asia. The latter, as well as the Trans-Pacific Partnership and APEC, involves as its member states from outside the region. Hence Pan-Asia processes (Yuan 2008, p. 32), which is different from the one conceived in the EAVG and EASG reports. Both the APT and the EAS are of great significance to the efforts of ASEAN and East Asia community building.

Till now it has been agreed by East Asian countries that the EAS is an open, inclusive, transparent and outward-looking forum of “leaders-led” and strategic nature. As the first Pan-Asian summit meeting, the EAS should play a complementary and mutually reinforcing role with other mechanisms. Unquestionably, the EAS has been endowed with the symbolic value of “Asian solution for Asians” for the very reason that the US was not in, which was true before 2011.

However, whatever the EAS becomes it cannot be a primary vehicle for community building in East Asia, though it may be beneficial. Therefore, those two approaches to community-building should be complementary and mutually supportive with the APT Summit at the core and the EAS playing a supportive role (Tanaka 2006).

Prospects of East Asian Cooperation

It was in 2002 that Richard Stubbs wrote, “As a result of APEC’s limitations and the need for a vehicle for East Asia to voice its concerns on the international stage, political space has opened up so as to allow the APT process to develop as a potentially major regional institutional cooperative arrangement” (Stubbs 2002 p. 447). After more than 15 years of development, the APT has turned itself into a gradually mature regional cooperative framework as the foundation of East Asia cooperation, and contributed significantly to East Asia Cooperation covering twenty-four areas. Institutionally, the sectorial bodies, the EASG and the APT Unit of the ASEAN Secretariat have likewise made great contributions, according

to the Second Joint Statement on East Asia Cooperation. The APT is in effect the main vehicle towards the long-term goal of building an East Asian community, with ASEAN as the driving force (ASEAN Secretariat 2007b).

The APT will continue to support ASEAN integration in order to realize the ASEAN Community, and contribute to the building of an East Asia community as a long-term goal (ASEAN Secretariat 2007b). The assumption, based on the second Joint Statement, is that East Asian integration is an open, transparent, inclusive, and forward-looking process for mutual benefits and support internationally shared values to achieve peace, stability, democracy and prosperity in the region. The future scope of APT cooperation would go beyond economic and financial cooperation to include other fields, namely, political and security cooperation, energy, environment, etc. within wider cooperative frameworks (ASEAN Secretariat 2007b).

The purpose of the Second Joint Statement will be realized through the implementation of concrete priority activities and flagship projects stated in the attached Work Plan, which serves as the master plan for more comprehensive APT cooperation. Such broad frameworks imply long-term commitments to a common vision (Pablo-Baviera 2007, p. 239). The commitments of the ASEAN leaders to strengthen the APT as a more efficient and effective process to facilitate East Asia cooperation are evident in its multilayered monitor arrangement stipulated in the Work Plan. Yet such a commitment to a shared vision is not readily existing in East Asia and will have to be negotiated for years to come among the APT countries. The project of building a community is fraught with challenges and obstacles.

In the aspect of political-security, the first political obstacle is the role of the US in East Asia. The main reason for the US presence is to recover and maintain its hegemony. Though greatly affected by the 2008 financial crisis, the US is still powerful. However, the rise of the newly-emerging powers in East Asia and the rather high-speed development of East Asia community have pushed the gravity of world strategy and economy to the East. Under those circumstances, the US has to steer back to Asia and has been worried in the case that it might be shunned from that region. The US has tried every means to maintain the hegemony of Dollar, free trade (by proposing Trans-Pacific Strategic Partnership) and the safety of maritime passage in East Asia, which are its topmost concerns.

The second political obstacle is the competition between China and Japan. It is said that both are trying to dominate the agenda of East Asian

cooperation. China has declared that it has not attempted and will never intend to be the regional leader. It is imperative for Tokyo to take a realistic attitude toward its past and only through bilateral dialogue and cooperation can misperception and distrust be wiped out. After all China and Japan are two important players in East Asia and their relationship is key to the building of an East Asian community (Qin 2007).

Besides, in East Asia traditional security threats are various, which, if not properly handled, will turn into serious problems for the region as a whole. Territorial disputes have surfaced in the South and East China Seas, and over the Taiwan Strait. China has been playing a crucial and assertive role in handling such issues. It has, on the one hand, demonstrated repeatedly its strong political will to safeguard its sovereignty and national integrity, while, on the other hand, demonstrated readiness to set aside disputes in the interests of regionalism.

Nontraditional security issues have been identified where immediate cooperation involving all East Asian countries is called for. These are transnational crime, maritime piracy, trafficking of persons and illegal substances, epidemic diseases and terrorism. In the processes of pursuing multilateral coordination and cooperation in these activities, the parties can gradually build mutual confidence, enhance sensitivity to each other's concerns, and develop habits of consultation and consensus building that will serve them well in addressing more difficult bilateral problems (Pablo-Baviera 2007, p. 238).

However, the practical benefits that further regional economic cooperation are expected to produce appear to outweigh the problems it may create. The APT is committed to giving East Asian states a voice in global trade negotiations and a forum in which to discuss regional economic issues themselves. Crucially, that the APT's support and immediate implementation of an expanding set of currency swap agreements help deal with future currency crisis is a major reason to keep the whole process moving forward (Stubbs 2002, p. 454).

After all, the APT has just celebrated its 15th anniversary in 2012. The APT leaders acknowledged the indispensable role of the APT. Thanks to the collective efforts, the APT has successfully tackled the global financial crisis and preserved economic and financial stability, thus East Asia becoming the most vibrant region in the global economy. In light of the profound and complex changes in the world and the multiple pressures to maintain sustainable development of the region, the leaders were determined to work together to meet the challenges, make good use of the

well-established ASEAN+3 cooperation mechanisms and give full play to the advantages (ASEAN 2012a, p. 2).

As stressed again in the Second Joint Statement on East Asia Cooperation, the APT is the core of regional cooperative arrangement. The East Asian community, to a great extent, is process-oriented, which is an open, transparent, inclusive and forward-looking process for mutual benefits. The main purpose of strengthening APT is to promote and facilitate functional cooperation among APT member states in the following aspects, i.e. political and security cooperation, economic and financial cooperation, energy, environment, climate change and sustainable development cooperation as well as socio-cultural and development cooperation.

Still, the EAS functions as a forum for strategic dialogue between the APT member states that are important to the well-being of the East Asian countries, for mutual benefit and in keeping with the spirit of open regionalism and constructive engagement with major players outside the East Asian community (Hassan 2006, pp. 11–12). The EAS is proposed to be a leaders-led forum of informality, with a flexible agenda of discussion on strategic issues, no secretariat and at a low level of institutionalization. It cannot replace the APT and can only play a mutually reinforcing and complementary role with ASEAN+1, ASEAN Regional Forum in the East Asian Community building process.

Conclusion

The East Asian regional cooperation is on the fast drive heading for the building of East Asian community. However, the potential pitfalls, trouble spots and requisite conditions are likely to make participants dismayed and skeptical about its future prospects. As the history of European integration as well as the experiences of ASEAN show, regional community building is not for the easily disheartened, but for visionaries and strategists, namely those who are prepared to move forward steadfastly. After all, the East Asian community is a prolonged course, delicate and fragile, in need of care.

Facing such a complicated situation, China, in order to set up a beneficial environment for its development as well as be a responsible member in pushing forward East Asian regional cooperation, should try to speed up the change of its own development pattern so as to ensure sustainable economic development; to further its efforts to strengthen its trade and

economic relations with East Asian countries, so as to ensure more and more regional countries to benefit from China's growth; to seek cross-regional economic cooperation so as to develop healthy cooperation with other regions as well.

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Mimicking of Integration. At the Sources of Under Utilization of Intra-ASEAN Institutions

Introduction

The Asian financial crisis 1997–1998 is widely recognized in literature as the turning point in development of the Association of Southeast Asian Nations (ASEAN) – having undermined the credibility of the Association as a responsible and capable international organization it facilitated the change of the member states’ approach to regional integration in general, and the role of institutions in this process in particular. In the recent years the institutional development of ASEAN indeed has not only been rapid, but also comprehensive: it included the development of the existing inter-parliamentary body, advancement in building and improvement of the existing dispute settlement mechanisms, establishment of institutional framework for human rights protection, and also wide institutionalization of cooperation in the areas of trade, investment, and finance. The general direction of these changes led to adopting the ASEAN Charter in November 2007, and thus establishing the legal status of the Association as a formal international organization, as well as agreeing on the desired institutional structure of ASEAN in the form of the three Communities – all this in order to move closer to “an EU-style community” (Phillips 2009; Lin 2011, p. 23).

However, a closer inspection of the activity of the ASEAN bodies casts doubts on this rationale, as the institutions are underequipped in competences at best, and completely neglected at worst; in most cases they also

seem to have a marginal impact on the advancement of the integration process in the Southeast Asia. Thus, the progress which the Association has achieved seems to be a paradox: the member states devote considerable efforts to establishing the institutional structures, which they subsequently reject to use. This contradiction evokes questions on the sources of the underutilization of the ASEAN institutions – whether they result from an insufficient level of trust among the member countries and a lack of a regional leader, contradictory national interests, or the very idea of the Association itself.

The theoretical framework which offers interesting insights into this problem is sociological institutionalism, according to which institutional solutions are chosen not necessarily because of their functionality, but frequently also because they are perceived as the “appropriate” solution within the community (Finnemore 1996, p. 338). A consequence of this, besides a diffusion of a certain institutional model, is the lack of relation between adoption of a given institution and its efficiency in the circumstances it is applied to. The analysis of the institutional development of ASEAN seems to show that this is the case of the Association as well.

Development of the ASEAN institutions after the Asian financial crisis

The underdeveloped institutional structure which would enhance the feeling of community among the ASEAN members could be named as one of the main causes of the poor damage control after the Asian financial crisis. The perception of the financial breakdowns in particular countries as their own national problems, the lack of means necessary to coordinate the international response, and the minimal interest in adopting comprehensive, ASEAN-wide policies were the main causes of chaotic and ineffective reactions. As a result, not only serious doubts were casted on the ASEAN member countries’ commitment to the regional cooperation, but above all – it undermined the Association’s legitimacy as a credible international organization, which was only strengthened by the abrupt decline in the economic growth of the member countries (Rüland 2000, pp. 428–432). Taking into account the fact that ASEAN was envisioned as an integration structure established independently of the foreign (i.e. European) models, its loss of validity could be perceived not only as a failure

of policy of certain organization, but also as an example of shortcomings of the promoted “Asian model of integration.”

In order to regain the legitimacy, a new blueprint for ASEAN has been proposed, namely the ASEAN Community consisting of three pillars: ASEAN Political-Security Community (APSC), ASEAN Economic Community (AEC), and ASEAN Socio-Cultural Community (ASCC), with the middle one being considered as the key element of the Association’s activity. The enhanced engagement in economic cooperation, so far neglected in favor of the security interests, was supposed not only to alleviate the consequences of the crisis, but also prove the member countries’ commitment to the integration by partaking in some actually functioning initiatives (Narine 2008; Rüländ 2000). The new blueprint was accompanied with an institutional reform, which was conducted as both widening the scope of integration by the new areas and deepening the cooperation in the already covered ones. The goal of the reform was establishing the ASEAN Community as an international organization with legal personality, equipped with effective institutions, and its main point was the adoption of the ASEAN Charter which came into force in 2008 (Acharya 2009). The development of the particular institutions, however, mostly proceeded independently from the works on the Charter itself, and is briefly described in the four subsections below.

Inter-parliamentary cooperation

The history of inter-parliamentary institutions within ASEAN started in the early 1970s, when Indonesia proposed cooperation of the representatives of parliaments of the five initial ASEAN members, i.e. Indonesia itself, Malaysia, the Philippines, Singapore, and Thailand. Firstly, the cooperation took form of ASEAN Parliamentary Meetings (APM) – three of them took place between 1975 and 1977, with their main objectives being the regular cooperation between the parliamentary bodies of the Association’s members and drafting a statute of an organization. The ASEAN Inter-Parliamentary Organisation (AIPO) was established at the end of the third APM in September 1997 in Manila (AIPA 2014a). The membership in AIPO was open and developed together with the enlargement of the ASEAN. In 2007 the member countries decided to modify AIPO and the ASEAN Inter-Parliamentary Assembly (AIPA) was established (Deinla 2013, pp. 7–8). The main rationale of the reform was to increase role

of the inter-parliamentary cooperation in regional integration, as well as “steer AIPO towards a more closely integrated parliamentary institution” (AIPA 2014c).

The main decision-making body within AIPO/AIPA is the General Assembly (GA), which gathers in annual meetings hosted by the AIPA presiding country. Each member country has right to delegate up to fifteen representatives who discuss the agenda prepared by the Executive Committee. The GA issues its decisions in form of resolutions which should be disseminated to the parliamentary bodies of the member countries to facilitate their implementation and thus harmonization of the legislation in ASEAN (AIPA 2007). The progress should be reported during the AIPA Caucus – a new body established by the AIPA members. Its role is also enhancing the harmonization the legal framework of the ASEAN member countries (AIPA 2009).

However, despite the main goal of changing AIPO into AIPA, namely facilitating the regional integration by strengthening the cooperation between member countries’ parliaments and harmonization of the legal framework throughout ASEAN, the statute reform in 2007 did not empower AIPA with any capabilities to fulfil it. Under closer observation, AIPO cannot realize any of the parliamentary functions, i.e. legislation, representation and control.

The resolutions adopted by the Assembly, though numerous (until 2014 there have been over 400 of them), are not legally binding, thus there is no possibility to force a member country to implement AIPA decisions into their legal system. Moreover, even though all resolutions are conveyed to the member countries’ parliaments with the request of enacting them, and the progress should be reported during the AIPA Caucus, there are no sanctions for failing to implement the resolutions, or submit the report of progress. The resolutions are very general and vague in their formulations. As a result, the Assembly’s capacity to inflict any change on the members’ legal order is almost non-existing (Rüland & Bechle 2011, pp. 11–12). What is more, AIPA representatives are frequently hand-picked by the governing elites. The results of that, however, are twofold: firstly, the representatives in AIPA do not actually represent the member countries’ citizens, and any opposition to governmental policies within AIPA is fairly unseen. The Assembly cannot thus be perceived as fulfilling the representative function. Secondly, the role of AIPA is perceived by the governing elites as promoting the idea of ASEAN and regional integration to their parliaments – as Rüland puts it,

as a transmission belt between the ASEAN and the parliaments (Rüland 2013, p. 178). Lacking representation of any opposition voices within AIPA, combined with no explicit control measures included in the statute functions of the Assembly, excluded the possibility of it realizing the third function of a parliamentary body, namely the control over the policy of the governments.

Thus, AIPA is not only underequipped to realize its tasks; it also fails to fulfil the criteria of a parliamentary body on supranational level. It acts as a supporting and, to lesser extent, an advisory body – the tasks which it could have done as well without the reform in 2007.

The dispute settlement mechanisms

Despite its long history of cooperation and integration, ASEAN is not free from disputes among its member states, be they of political or economic nature. The number of political quarrels was growing along with the territorial expansion of ASEAN; as for the economic arguments, their number has also the potential to grow due to closer integration of the ASEAN markets through the free-trade area (AFTA) and other agreements. To put it simply, the number of possible disputes rises with the number of interactions, both due to including more members and to intensifying the contacts among them (Cockerham 2007).

Settlement of political disputes

The first mechanism established for the political disputes settlement was included in the Treaty of Amity and Cooperation (TAC), signed in 1976. The main purpose of TAC is to create a non-aggression zone among its members: it obligates the parties to solve their disputes peacefully and forbids threats or use of force. The member countries are also to refrain from any intrusion of another party's territorial integrity, sovereignty, as well as political and economic internal affairs. The provisions of TAC can be utilized in any dispute "disturbing regional peace and harmony" (as per Article 13), thus encompassing a broad scope of issues (ASEAN Secretariat 1976).

TAC includes also a mechanism of its peaceful settlement which can be used upon prior agreement of all arguing parties. A continuing body named the High Council is established, consisting of representatives (on

the ministerial level) of each ASEAN country, as well as representatives of non-ASEAN countries participating in the dispute; the High Council serves as the third party in this mechanism. The decisions are made in form of consensus, after a negotiation process; should they reach an impasse, the High Council can propose appropriate means of further action, e.g. mediation or conciliation. If agreed upon by all the disputing parties, the High Council can also engage as mediator or conciliator (ASEAN Secretariat 1976; ASEAN Secretariat 2001).

The TAC mechanism has been included in the ASEAN Charter as a vital part of the Association's dispute settlement system. Upon a closer examination, however, the mechanism does not seem functional. It cannot be started unilaterally but requires an agreement from all disputing parties, which makes it prone to blocking. The decision-making process, consisting of through political negotiations, and a consensus is required. Should it be achieved, there are no means of enforcing it. Thus, application of the final solution is at the discretion of the parties. As a result of that, the TAC mechanism has so far never been utilized; all cases of settlement of political disputes involving the ASEAN members included the utilization of international courts instead, namely the International Court of Justice (ICJ) and International Tribunal for the Law of Sea. There were cases in which one of the disputing parties opted for utilizing the TAC mechanism, but the objection voiced by the other party blocked the constitution of the High Council; it is worth noting that in these cases all parties were ASEAN members (Severino 2006, pp. 12–13). Thus, despite the existence of the TAC mechanism, ASEAN does not provide its members with a functional means of solving political disputes.

Settlement of economic disputes

Whereas the TAC procedure for political arguments bases on political rather than legal solutions, and is deeply embedded in "the ASEAN Way," the mechanism regarding the economic disputes, namely the Enhanced Dispute Settlement Mechanism (EDSM) is highly judicialized, and its design does not allow a simple blocking out of its utilization. It was adopted in 2004 in Vientiane, Laos (thus is also known as the Vientiane Protocol), replacing the old protocol from 1996, and its legal provisions are modelled on the solutions of World Trade Organization (WTO) (Wu 2009, p. 350).

The procedure can be initiated by a state which consider that the economic agreement it takes part in has been violated.¹The first step is a round of obligatory consultations among all directly affected parties. Then the claimant state requests to institute a dispute settlement panel of three to five “well-qualified governmental and/or non-governmental individuals.” The Senior Economic Officials Meeting (SEOM), the central body of the EDSM, decides upon establishing the panel. After hearing the interested parties, examining the facts and documents, and gaining information from all other necessary sources, the panel issues a decision which is reported to SEOM, together with a list of recommendations for the party which violated the contract provisions. SEOM gives the violating party sixty days to implement the recommendations and is entitled to monitor the process; in case of failure the negotiations about compensation measures are required. The EDSM offers also a possibility of appealation, though it is limited to the legal procedure only (ASEAN Secretariat 2004).

The EDSM provides reasonable procedures of settling the economic disputes: it omits the obvious obstructions to the successful utilization of the procedure, delegates the decision-making process to professionals rather than to politicians, and includes measures of enforcing the decisions of the panel. A solution worth noting is also the “reverse consensus,” which is the default decision-making procedure for SEOM (Wu 2009, pp. 350–351). It limits the political influence on the settlement process to a significant degree. Despite their values, however, the EDSM measures have not yet been utilized; ASEAN members prefer to turn to the WTO dispute settlement mechanisms instead.

Disputes regarding the provisions of the ASEAN Charter

Subsequent to implementations of the ASEAN Charter the possibility of disputes related to the interpretation of its provisions or its application appeared. The settlement procedures of this new type of quarrels are included within the Protocol to the ASEAN Charter on Dispute Settlement Mechanisms, adopted in 2010 in Hanoi. In case an ASEAN member state does not agree with a given interpretation, it can engage in consultations

¹ The interests of private entities can be engaged in this procedure only through the agency of their government.

with the other party. The arbitration and conciliation procedures are available if necessary, though only upon prior agreement of all parties. Each party appoints one arbitrator and collectively they choose the third one; all arbitrators need to be expert professionals in law and/or international dispute settlement, and they are obliged to decide independently basing on the provisions of international law and existing ASEAN measures. Their finding is final and legally binding to the parties. In case any of the parties do not agree to arbitration, the dispute can be presented to the ASEAN Coordinating Council, which decides whether legal or political procedures are to be applied. The case can be directed to the ASEAN Summit, which issues a political decision about the dispute (ASEAN Secretariat 2010).

The Protocol provides measures for settlement of new type of disputes, which due to their nature cannot be resolved using external mechanisms. It offers a choice between political and legal procedures, and that the utilization of the latter requires the consent of all parties involved. Despite of some praise that the flexibility received (Naldi 2014), it seems to be a drawback as it can result in overusing political influence. The actual functionality of the Protocol, however, remains yet to be seen, as no ASEAN country has yet decided to utilize its measures.

Protection of human rights

The idea of human rights promotion and protection has been featured in ASEAN documents and proceedings since the Ministerial Meeting in 1993, and has been included in both the Hanoi Plan of Action (1998) and Vientiane Action Programme (2003). The institution dedicated to human rights issues has been established under provisions of the ASEAN Charter, Article 14 of which required the founding of the ASEAN Human Rights Body. In October 2009, the ASEAN Intergovernmental Commission on Human Rights (AICHR), as well as the ASEAN Commission for the Promotion and Protection of the Rights of Women and Children (ACWC) were established (Centre for International Law 2009).

The founding document for the AICHR are the Terms of Reference (TOR), according to which the AICHR is “an intergovernmental, consultative body,” whose mandate encompasses advisory functions to the other ASEAN bodies as well as to member countries, as well as technical assistance in matters related to human rights. The AICHR consists of representatives appointed by the ASEAN members’ governments and

responsible to them, meeting regularly twice a year. Decisions should be achieved by consultation and consensus; the AICHR is allowed to consult the civil society organizations (CSOs). In case of a suspected infringement of human rights, the Commission can engage in consultations with the state (ASEAN Secretariat 2009b). Due to the fact that women and children are groups especially vulnerable to discrimination and rights infringement, the ACWC was established simultaneously with the AICHR, and – according to its TOR – it consists of 20 representatives (each member state delegates one representative for women's issues and one for children issues) meeting regularly twice a year. Similarly to the AICHR, the decisions are made through consultation and consensus, with the right to consult the CSOs. The main functions of the ACWC are to promote the women's and children's rights agenda among the members and provide technical assistance (also with reporting to respectable bodies for Convention on the Rights of the Child and Convention on Elimination of All Forms of Discrimination against Women) (ASEAN Secretariat 2009a). Both bodies are responsible to the ASEAN Ministerial Meeting and obliged to submit annual reports of their activity.

Despite of the fact that establishing the AICHR and ACWC, as well as subsequently agreeing upon the ASEAN Declaration of Human Rights, are important advancements in this area (Kosmala-Kozłowska 2013, pp. 54, 58–59), their efficiency is significantly limited by a number of factors. Firstly, the fact that both institutions have been established as intergovernmental consultative bodies is a vital limitation itself, as it is hard to believe that bodies working on governments' discretion would advocate concrete measures of human rights protection (Johnston 2009). Secondly, putting the highlight on the consultative character excludes any possibility of their decisions being legally binding; on the contrary, the decisions made by the AICHR and ACWC are voluntarily adopted with no enforcement mechanism foreseen in TOR. This is only strengthened by emphasizing the "ASEAN Way" rule of non-intervention in internal affairs (Basham-Jones 2013, pp. 6–7). Thirdly, despite the fact that there are numerous ASEAN CSOs active in the field of human right protection, their impact on AICHR creation has been limited (Asplund 2014) and so is their influence on both Commissions' works. Since only the CSOs accepted by the national governments can partake in consultations, interests of numerous groups are not represented, and the appointed CSOs would not advocate solutions contradicting their government's policy (Gomez & Ramcharan 2013, p. 28). Finally, there is

no mention of any international or supranational court dedicated to human rights issues, and no possibility of an individual application against a contracting state, or even the states suing each other. Apart from limiting the scope of protection it is a serious obstacle in the development of a human rights protection legal framework, as the already implemented measures cannot be verified and amended according to the actual needs (Phan 2009). Thus, the AICHR (and analogically the ACWC) can be considered “a toothless tiger” (Mercado 2009; Kosmala-Kozłowska 2013, p. 49), with no actual tools of effective human rights protection.

Summing up the institutional development in the recent years, there is noticeable progress in creating a more elaborate, judicialized and accessible institutional framework. The institutional network becomes more comprehensive in terms of legal means adopted, and it covers virtually all areas of interest of ASEAN member countries. The effort dedicated to developing it has been significant, and yet, the utilization of the mechanisms has been scarce. The ASEAN members either did not equip the institutions in legal capabilities to fulfil their functions or – in the case of more elaborated mechanisms – showed no trust in their own solutions, more willing to use external procedures. The following subsections seek to explain the reasoning behind this contradiction.

The paradox of ASEAN institutional development

An analysis of the aforementioned examples leads to an obvious question: why does ASEAN not utilize the mechanisms whose creation required so much effort and cost? However, what seems more interesting is the question turned around: why does ASEAN create institutions it is not eager to use?

The first reason of the reluctance to use the intra-ASEAN institutions could be a poor design of the mechanisms; it seems, however, not very likely to be the significant cause. As described above, ASEAN institutions vary in terms of their design, and despite the obvious shortcomings of some of them, there are examples of relatively well-prepared solutions. What is more, ASEAN institutions have been drafted bearing in mind the characteristics of the Association, which should make them even more suitable for addressing the members’ specific needs. Thus, it seems that the modes of working of a given institution do not have any influence on whether or not it will be used by the ASEAN members.

What could have more impact is the focus on national interests. As Acharya points out, during the formative years of both the Association and the ruling elites of its member countries, the challenges to their internal security and stability have been continuously present, which is reflected in the “ASEAN Way” mindset and attachment to political negotiations (Acharya 2004). ASEAN members refrain from bestowing responsibilities and capabilities on institutions, thus avoiding to make them independent players which could gain more influence over time, achieving supra-national status and pursuing their own interests similarly to European Union (EU) institutions. It seems even more probable due to the fact that the national elites of ASEAN countries do not perceive the Association favorably (Rüland 2013, p. 178). Moreover, the level of trust among them is very low – not only they do not perceive the other ASEAN countries as “good neighbors,” but also there is a significant group of the elites which are afraid of the high possibility of an armed conflict within ASEAN in two next decades (Roberts 2007, pp. 4–5). Building on such premises, ASEAN countries are wary in trusting their own institutions.

The mistrust could be eased by responsible leadership which could as well enhance the prestige of the institution by showing confidence in their efficiency. Yet, in the case of ASEAN, the disputable position of the Association’s leader seems to be a significant obstacle in becoming more institutionalized. While there is no obvious ASEAN leader, the state most frequently named as the one is Indonesia, which seems not to have a clear view on the role of institutions in ASEAN. Even though it initiated the creation of some of them, it has not made use of them even if only to – according to the theory of hegemonic stability – strengthen its regional influence (Rüland & Bechle 2011). According to Roberts’ findings, Indonesia seems to be the most distrusting country within ASEAN (Roberts 2007) and significant growth of nationalistic and anti-ASEAN sentiments in the recent years can be observed (Noor 2012). Thus, there is little possibility to strengthen Indonesia’s commitment in the institutional framework.

While there are reasons preventing the ASEAN countries from using the institutions are significant, what seems more important are the reasons standing behind the creation of these institutions. The main theoretical approaches to establishing institutions, namely liberal institutionalism and institutional realism seem to fail in explaining the case of ASEAN.

According to the liberal approach, the institutions facilitate the cooperation and reduce its costs. Institutions are a means of addressing

functional needs experienced by all participating states, recognizing and pursuing of shared interests, and of managing their growing interdependence resulting from existing cooperation (Keohane 2005, p. 241 ff.). While it seems fitting for ASEAN due to the similar challenges its members face, as well as the expanding network of economic connections, the fact that the institutions are not utilized limits the explanatory power of this theory. There is a significant level of mistrust among the members, combined with a complicated network of frequently contradictory interests – what is more, some of the economic institutions only deepen the existing discrepancies (e.g. Chen & Yang 2013). Thus, for ASEAN countries the institutions have not been a means of solving shared problems and managing their interdependence.

The explanation provided by institutional realism does not seem to fit the ASEAN case either. According to this approach the main reason for creating institutions lays in “institutional balancing” – states with smaller relative power advance establishing of institutions in order to have better leverage over the bigger players (Lee 2012, pp. 4–5). Yet again, obtaining any gains from the institutions would require utilizing them, which is not the case in ASEAN. Moreover, during the process of drafting and negotiating the mechanisms it was frequently the relatively less powerful countries which objected institutionalization (Yen 2011, pp. 399–400). A similar explanation is provided by the hegemonic stability theory, the difference being the fact that it is the regional hegemon who pursues institutionalization to legitimize and pursue its interests. As exemplified above with the case of Indonesia, this approach does not correspond with the ASEAN reality either.

The theoretical approach which seems to provide the best explanation for the case of ASEAN is sociological institutionalism. It argues with the idea that handling problems through institutions is always the most rational answer, giving numerous examples in which an institutional solution is chosen *because* it is deemed rational, and not because it rationally is the most effective option (Finnemore 1996, p. 330). Further, the states engage in establishing institutions to be perceived as rational, capable, and modern – the values respected in the international environment due to the propagation of Western-style rationality (Finnemore 1996, pp. 331–334). Thus, the institutions are not directed “inwards,” towards the issues faced by the member states, but rather “outwards,” to show certain set of qualities to other actors and gain credibility. What prompts an institutionalization process is a decline in international legitimacy; in order to

rebuild it, the organization adopts more intricate institutional measures, modelling them after its counterparts perceived as more advanced and successful (in terms of legitimacy and international credibility). As a result, the organization becomes isomorphic, i.e. displaying similarities to other entities of the same type, and it replicates the other institutional measures without any evidence that they are effective (mimetic isomorphism) (DiMaggio & Powell 1983, p. 152).

This approach seems to explain the specific case of ASEAN. The Asian financial crisis, subsequent significant decrease in the economic growth, and the rise of China as an important competitor for foreign direct investment – all these factors casted doubts over the credibility of ASEAN as an organization, but also on the Asian development model promoted by the “Asian tigers.” In order to regain credibility in the eyes of international players and regain the trust of investors and trade partners, ASEAN advanced institutionalization. The organization they modelled their solutions after is the EU (Jetschke 2009, p. 407). However the adoption of the solutions in the process of isomorphic modelling is on the rhetorical level only; the actual change of norms and practices is not likely (Rüland & Bechle 2011, p. 4).

While it may be argued that the mimicked institutions in ASEAN fulfilled their role as facilitators of legitimacy and thus enhanced the development of the Association (Jetschke 2009, p. 422), this strategy does not come without cost. Since both external institutional solutions and norms are adopted on the rhetorical level only, without actual substance accompanying them, there is a high risk of decoupling the actual proceedings from the theoretically adopted procedures (Ashworth et al. 2007, pp. 182–183). In the long term such a discrepancy could lead to undermining the regained legitimacy again: the problems identified through the mimicked institutions (e.g. the need of parliamentary representation, or protection of human rights) can require an efficient handling according to the institutional provisions, yet the institutions will not be able to provide the solutions due to their lacking functional capabilities.

As a result of decoupling, a normative change is to be expected. However, it is not an automatic process and in the case of ASEAN it is a fairly limited one. From a spectrum of scenarios of possible normative change, three could apply to it: (1) inertia, i.e. rejection of the external norms or practices if the domestic conditions allow it (e.g. if the elites are strong enough to prevent the new norm from propagation); (2) localization of the external norms through changing and adapting them until they display congruence with lo-

cal practices; and (3) transformation, or radical normative change prompted by powerful external incentives (Jetschke & Rüländ 2009, pp. 194–195). In the following section these three scenarios are to be applied to the examples of institutions presented in the first chapter, to establish the probable trend in the future development of ASEAN institutions.

The predicted trends in the development of ASEAN institutions

The brief analysis of the existing institutional framework of ASEAN displayed the discrepancy between the mimicked theory and practice. According to the arguments proposed by Jetschke and Rüländ, the strategies of overcoming this decoupling favored by the ASEAN members are inertia and limited localization, while the transformation is very unlikely to occur (Jetschke & Rüländ 2009, pp. 195–197). The area which appears most resilient to any normative change is the inter-parliamentary cooperation – the establishment of AIPO and its subsequent reform into AIPA seem to have no influence on behavior of the ASEAN members. The reasons of that are: low level of political freedom and political awareness; lack of confidence and attachment to democracy among the elites; significant number of authoritarian regimes among the members; and lack of the parliamentary traditions in the region. Until recently there have been no signs of more liberal concepts of democracy, individual rights, or representation in the AIPO/AIPA documents (Rüländ & Bechle 2011, p. 10). Thus AIPO/AIPA is a result of isomorphism, but coercive (i.e. existing due to an external pressure) instead of mimetic. The establishment of AIPO was preceded by growth of the significance of international advocacy networks promoting the issues of parliamentary representation, democracy, and political rights on international agendas (Rüländ & Bechle 2011, p. 9); for example Indonesia initiated the discussion on a parliamentary body only after the European Community established its Parliament (Jetschke 2009, p. 417). While there are voices praising AIPA's role in accelerating the regional integration and propagating ideas of parliamentary representation and democracy (Deinla 2013, pp. 27–28), there is no evidence supporting such theses; AIPA seems to be an institution limited to the rhetorical sphere.

The case is similar for the dispute settlement procedures. It seems to be the result of mimetic isomorphism, especially so in the EDSM – it has

been established with the objective of lessening the international uncertainty and strengthening legitimacy, with no intention of being utilized (Korte 2012, pp. 111–112). Similarly after signing TAC “[i]t was as if the ASEAN had had little expectation that any member state would invoke the treaty’s mechanism any time soon,” which resulted in adopting the rules of procedure of the High Council only 25 years after the treaty itself was signed (Severino 2006, pp. 12–13). An argument in favor of this thesis is also the priority which ASEAN countries give the idea of sovereignty; as a result, there is no possibility of appellation by a non-state actor as it could, in the ASEAN members’ perspective, diminish their sovereignty and political integrity. This is strengthened by the fact that the external dispute settlement mechanisms used by ASEAN are available for state actors only.

Despite the scarce examples of any normative change brought by the ASEAN dispute settlement measures, there is one example of a different attitude among the member countries. Even though it did not prove successful, there was an attempt to convene the High Council to settle a dispute under the provisions of TAC: in 1994, when the Indonesian government expressed clear preference for the TAC mechanism over the ICJ for settling the territorial dispute with Malaysia over the Sipadan and Ligitan islands. Malaysia did not agree to this mechanism, opting for the ICJ. This decision has been officially explained by the concerns “not to burden ASEAN with considering the quarrel”; in fact, however, Malaysia, having similar disputes with all other ASEAN countries, was convinced that the High Council would side with Jakarta’s claims (Butcher 2013, pp. 242–244). This case exemplifies that ASEAN members do not exclude the possibility of utilizing internal dispute settlement mechanisms automatically, but the shortcomings in their design that make them tools of political meddling rather than a legal dispute settlement can be an important cause of their underutilization.

The last area, most widely criticized by external observers, is the institutionalization of human rights protection. While the AICHR and ACWC have been criticized, it seems that in this regard the most significant normative change has been achieved. Between the first mention of the human rights issue in official ASEAN documents and establishing an institution only sixteen years have passed, which seems a relatively short time comparing to the evolutionary process of other ASEAN institutions. Moreover, the issue has been formalized in the form of institutions despite various forms of resistance among the member states, with the most notable example of Myanmar (Kosmala-Kozłowska 2013, p. 51). Establishing the AICHR is an “initial stage” of building the Southeast Asian human rights

system; nonetheless, its success is the fact that human rights cannot be perceived as a solely domestic issue, when there is an international forum dedicated to them within ASEAN (Phan 2009). Another advance brought by the AICHR is the possibility to receive help and support from external partners; as for now, it has been utilized in the ASEAN-Japan plan of action (ASEAN Secretariat 2011). Finally, both the AICHR and ACWC introduced the idea of close engagement of CSOs in the decision-making process; while limited, it is still a significant change of attitude. Thus, not forgetting about the restrictions of their effectiveness, the AICHR and ACWC seem to be an example of most significant normative change. This view is contested by Katsumata who claims that human rights are an example of mimetic adoption, pursued in order to gain legitimacy and recognition among the Western states (Katsumata 2009).

The discussed examples support to a large extent the thesis about the lack of substantial normative change caused by ASEAN institutions. The theory-practice gap has been present in ASEAN policy since its beginning, and is unlikely to change even under significant external pressures. Even the shock brought by the Asian financial crisis did not cause an actual reformulation of policy, but only a new wave of mimicry (Jetschke & Rüländ 2009, p. 198 ff.). The examples of normative changes noted above do not change the general trend of ASEAN's actions.

Conclusions

This paper investigated the existing contradiction between the theory and practice of ASEAN institutionalization process, seeking to find out why the institution developed by the member countries with significant effort are not, in fact, utilized. After examining several theoretical approaches, the sociological institutionalism seems to provide the most comprehensive explanation, ascribing the gap to the practice of mimetic isomorphism, i.e. modelling the institutional solutions on the ones provided by a more advanced organization (in the discussed case – the EU) on a rhetorical level, while leaving the actual practice unchanged. The analyzed examples of selected institutions seemed to confirm this reasoning and showed that there is little normative change in the ASEAN members' behavior.

On the final note it should be emphasized that while some of the institutional solutions may have been modelled after the EU, it should not be confused as a role model for ASEAN. Firstly, while the mimetic

isomorphism can occur unconsciously, i.e. without a plan to model after a certain institution, and so some of the ASEAN institutions could receive similar characteristics to the European ones, the EU has been merely an “inspiration,” and never a role model. Secondly, the core of the idea of isomorphism is to prevent the vital characteristics of the modelling organization; consequently, the activities of ASEAN should not be assessed as “copies” of the EU ones, and assessed through a European lens. Therefore, even if the mimetic isomorphism does indeed take place, ASEAN is not “a product of mimicry” (Jetschke 2009, p.421). On the contrary – it works towards a unique set of goals by its own set of means, deriving from other players only the solutions which are considered necessary, all in order to pursue its own agenda of regional integration.

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Science and Technology Cooperation between the Republic of Korea and the EU Countries

Introduction

Science and technology (S&T) development of the Republic of Korea (ROK) was particularly intensive during the last fifty years. After the Second World War, the Republic of Korea was one of the poorest countries in the world, technically backward. The war between North Korea and South Korea had also worse economic consequences. The purpose of the article is to assess the opportunities of science and technology (S&T) cooperation between the Republic of Korea and the EU, to study the current status of S&T cooperation and to reveal its main barriers.

More: please add research questions, research method applied in the article and structure of the paper.

Science and Technology in South Korea

After the Second World War, the main directions of Korean S&T development were research and development (R&D) in the field of defense, nuclear energy and space.

S&T policy formation of the Republic of Korea began in the early 1960s. as continuation and an integral part of industrial policy. The first five-year economic development plan was adopted in 1962, and only in 1967 the Ministry of Science and Technology of the Republic of Korea was established. The main task of the Ministry was to develop and implement

the state S&T policy. Also in 1967 the S&T Promotion Law was enacted to provide the legal basis for S&T development.

The development of the national innovation system of the Republic of Korea was based on foreign technology borrowing and sensible patent policy. The transfer of foreign technologies took forms of “turnkey contracts”, licensing, consulting (UN IDO, 2012). An important role in the “economic miracle” of the Republic of Korea played large financial-industrial groups (chaebols) that were the basis of the national economy development for many years. They accumulated new knowledge and created scientific and technological potential of the country.

As a result of the innovative development the Republic of Korea is the twelfth largest economy in the world. By 2025, the Government aims to achieve seventh place in the world in terms of S&T development.

This objective is stated in long-term strategic initiative adopted in September 1999 and known as “Long-term vision for science and technology development toward 2025.” The initiative involves three time frames, spanning a 25-year period:

First Step (by 2005): Place the Korean scientific and technological capabilities at competitive levels with those of the world’s leading countries by mobilizing resources, expanding industrialized infrastructure, and improving relevant laws and regulations, to achieve leading role among Asian countries. Second Step (by 2015): Stand out as a major R&D promoting country in the Asia-Pacific region and get in the top 10 countries in the world, actively engaging in scientific studies and creating a new atmosphere conducive to the promotion of R&D. Third Step (by 2025): Secure a scientific and technological competitiveness in selected areas comparable to those of G-7 countries (Long-Term Vision for Science and Technology Development Toward 2025).

The realization of this initiative had positive effect: in 2012 the country moved in the first place in the ranking of information and communication technologies (ICT) development among 155 countries of the world. Innovative development of the Republic of Korea is also confirmed by the American agency Bloomberg which estimates South Korea as the second country in the list of the most innovative countries in the world. The Republic of Korea actively develops the following sectors: fundamental science, IT, nanotechnology, biotechnology, “green technologies”, new forms of energy and materials (V. Samsonova, 2013).

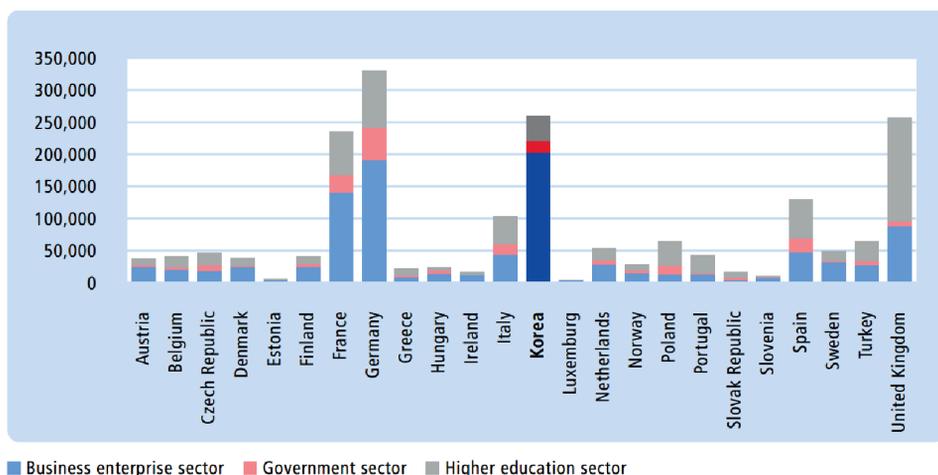


Figure 1. Number of full-time equivalent researchers by institutional sector (2011 or latest year available)

Source: OECD Main Science and Technology Indicators 2012/2.

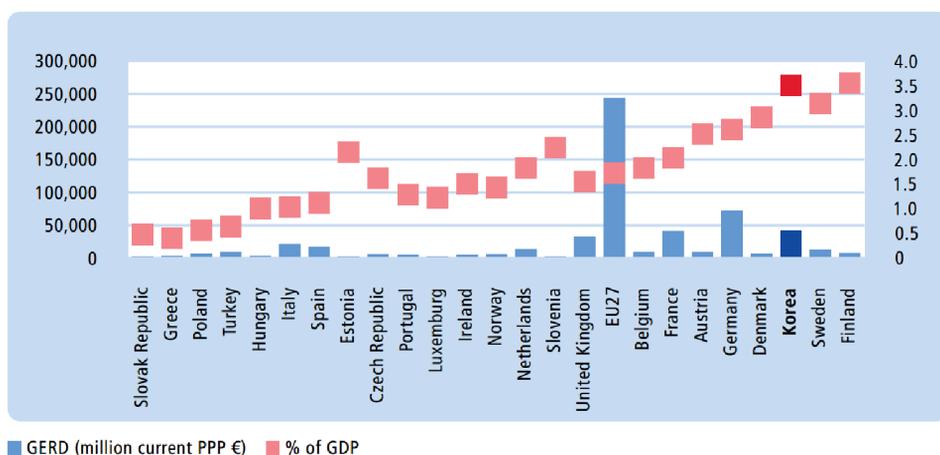


Figure 2. GERD at current PPPs and GERD as a percentage of GDP (2011 or latest year available)

Source: OECD Main Science and Technology Indicators 2012/2.

Korean methods of cooperation

The Republic of Korea is an important EU partner in the field of S&T. It is the first Asian country that concluded a free trade agreement with the EU. The EU is the second trading partner and the largest source of foreign direct investment of the country.

The Republic of Korea is one of the leading global suppliers of a wide range of consumer electronic products which are manufactured by Samsung and LG. Hyundai and Daewoo are important manufacturers of cars and other vehicles. Less well known the fact that the Republic of Korea is the world's largest exporter of construction services. The country has a well-developed shipbuilding industry. The largest vessels carrying liquefied natural gas are produced in the Republic of Korea. Korean companies have contacts with many partners around the world. Their units in the EU create workplaces and pay taxes to the local budgets. They collaborate with research laboratories in the EU and cooperate with European centers of excellence. Therefore, S&T cooperation between the Republic of Korea and the EU has high importance for both sides.

Nominally cooperation of the Republic of Korea and the EU in science and technology can be divided into two components: cooperation at the international level and at the level of the private sector. Cooperation on the highest level covers more fundamental areas: knowledge sharing, joint research, the creation of research centers, etc. Cooperation between the companies in the field of science and technology touches upon more practical aspects, it focuses primarily on the development and creation of goods and services which contain "know-how" and have competitive advantages to capture share of the market.

Before studying the S&T cooperation between Korean and European institutions it is important to understand the ways of Korean S&T interaction with other countries. The Korean S&T strategy contains the following methods of technology transfer (Graham Mitchel, 1997):

- *International Forums and Foundations*

The Korean government is supporting the establishment of S&T forums to act as a corridor between Korean commercial S&T establishment and world high-technology companies to facilitate the transfer of international technology. The role of both the forums and the foundations is to remedy Korea's weakness in key industrial sectors by creating opportunities to interface with scientists working with specific technologies. These

forums and foundations facilitate Korea's globalization plan by exposing foreign companies and individuals to Korean business practices.

- *Centers of Excellence*

Centers of Excellence operated by leading foreign institutes provide Korean researchers with opportunities to work with internationally accomplished scientists and excellent equipment. The Ministry of Science and Technology is encouraging the international research centers and world leading institutes to create centers in Korea to help the Koreans catch up with the more advanced countries in S&T. The Korean S&T strategy called for establishing Centers of Excellence as a means of attracting first-rate scientists from more advanced nations to Korea.

- *Academic Exchanges*

Academic exchanges are common in every field of study and almost every country. Korea is no exception, and Korean students and researchers are often sent abroad to acquire advanced degrees or study specific fields of knowledge. For Korea, however, there is a greater sense of national purpose to these exchanges than for many other countries.

- *Technical Links with Foreign Universities*

The chaebols form international industrial-academic cooperative associations with foreign universities to do joint research in advanced technology. Expanding links with foreign universities allows the chaebols to improve their industrial capabilities faster, incorporating highly trained personnel who have professional connections to research institutions. There are a number of benefits to be gained from cooperation with foreign academic research institutions.

- *Strategic Cooperation between Korean and Foreign Companies*

Cooperative agreements between Korean and foreign firms have long been a source of infrastructure and commercial technology for Korea. The chaebols generally bring cash, production process experience, and access to new markets with them to the negotiating table; foreign firms generally bring the necessary technology. Strategic technical alliances with other world market leaders allow the chaebols to penetrate new markets faster and give them access to a broader range of cutting-edge technology.

Strategic cooperation is the process of identifying gaps in indigenous technologies, seeking out the technology, and then engaging the owner of

the technology in a cooperative relationship that results in the transfer of the technology. Korea may provide any number of incentives for technology transfer, including funding commercialization, providing plants and equipment, contributing other technology, or facilitating local market access.

The Korean government is often involved at different levels of the strategic cooperation process, specifically in identifying weaknesses in the indigenous S&T structure, finding foreign companies willing to transfer their technology for commercial purposes, and subsidizing the actual transfer.

- *Joint International R&D*

Strategic cooperation can also include participation in joint international research. Because the initial focus of this research is precompetitive, companies are reportedly more willing to share their technology. Korea's expansion of these types of international projects indicates their success.

The interaction between Korean and European researchers and the authorities responsible for S&T cooperation began in the 1990s. The importance of such cooperation is recognized by both parties: S&T cooperation was added to the Framework Agreement for Trade and Cooperation between the European Community and the Republic of Korea, which came into force in April 2001.

Cooperation with the European Union

In 2006 the Republic of Korea and the EU signed an agreement on S&T cooperation. The principle of mutual access to S&T programs is a crucial commitment of the fair and mutually beneficial cooperation.

Moreover the Republic of Korea has agreements with the International Thermonuclear Experimental Reactor (ITER) and Euratom, and the European Council for Nuclear Research (Conseil Européen pour la Recherche Nucléaire – CERN) and the European Research Coordination Agency (EU-REKA). The Republic of Korea and the EU have launched the following projects to strengthen S&T cooperation: KORANET (the Korean scientific cooperation network with the European Research Area), KESTCAP (the Korea-EU Science and Technology Cooperation Advancement Programme) and KORRIDOR (Stimulating and facilitating the participation of European researchers in Korean R&D programs) (Bobe, Crehane 2013).

The main directions of S&T cooperation between the Republic of Korea and the EU at the international level are:

- *nanotechnologies and new materials development*

The parties have agreed to exchange information regularly and work together to solve problems of mutual interest. However, the actual results of cooperation have not been achieved because of long-term period of research in this area.

At the same time, the Republic of Korea has a great potential in this area, because the country is the fourth in the world in terms of the nanotechnologies development. In December 2000, the government has included the development of nanotechnologies in the number of budgeted projects, and since then has funded research centers and programs in this area. Nanotechnologies have been declared as strategic technologies. As a result, the Republic of Korea was able to reconcile the distance between the levels of nanotechnologies development of the Republic of Korea and the leading countries. In 2004, the level of nanotechnologies development of the Republic of Korea accounted for 62% of the United States' (in 2001 – 25%). Now South Korea aims to enter the three leading countries in the field of nanotechnologies by 2015.

The Republic of Korea began to develop nanotechnologies actively in 2002. By 2008, Korean scientists developed about 15 new devices that would be used in different industries. The Republic of Korea is the fifth largest country in the world in the number of inventions and patents related to nanotechnologies.

Now Korean scientists are developing those kinds of nanotechnologies, which are used to create new materials, to solve environmental issues and energy problems. Nanodevices that will be applied in robotics, automotive industry, “pervasive” computer networks and medicine are planned to be created by using the experience in the field of semiconductors.

- *information and communication technologies: new technologies, Internet-technologies, robotics.*

Korean authorities are actively involved in the Framework Programme №7, embracing ICT. Cooperation in field of information technologies represents mutual interests of the both sides.

During the last thirty years, the Republic of Korea has had high rate of ICT development and by 2010 had become one of the world leaders in prevalence and availability of services in this sector. ICT are regarded by the government as one of the main “engines” of the South Korean economy.

In 2011, about 21% of the GDP of the Republic of Korea and 32% of its export were determined by ICT sector. At the moment, the country is in first

place in the world in the use of broadband connection: 78% (16 million) of residential homes have a broadband connection to the Internet. The Republic of Korea has leading positions in the field of mobile technology and one of the first countries in the world to commercialize the technology of 3G and 3G+.

- *non-nuclear energy*: diversification of energy sources, decrease of the fossil fuels usage, reduction of carbon dioxide emissions, and increase of energy efficiency.

Cooperation between the Republic of Korea and the EU in the field of energy technologies is covered by the agreement on energy cooperation between Euratom and ITER. Participation of the Republic of Korea in the EU Framework Programmes on research and technology development has been focused only on the energy sector: Korean Institute of Science and Technology (KIST) in the project NANOHy – a project to develop hydrogen storage systems in the solid state.

In June 2011 Brussels hosted a South Korea – EU forum devoted to “green energy”. It joined officials, academics and representatives of the companies involved in photovoltaics, wind energy, intelligent networks, fuel cells, etc. – the areas where the Republic of Korea and the EU are recognized as the leaders.

The most promising areas of cooperation: the intelligent networks, hydrogen fuel cells, solar and wind power.

The Republic of Korea in terms of energy consumption is in the tenth place in the world. Meanwhile, the South Korean economy is 83% dependent on the import of energy, of which 44% is oil. Due to the almost complete absence of commercial deposits of hydrocarbons on the territory of the Republic of Korea, and as well as aiming to reduce the country’s dependence on traditional energy sources, in December 2008, the President of the Republic of Korea Lee Myung-bak declared the strategy of “green growth” development and transition to a “low-carbon” economy as the national priority (Han Taek-Whan, Kang Sang In, 2011).

In accordance with the objectives by 2030, the share of “clean” energy in the energy balance of the country is expected to increase from the current 17% to 39%. In this case, nuclear power is seen by South Koreans as the most suitable alternative to traditional energy resources: its share is expected to grow from 15% to 28%. This is connected with the presence of own technological base in field of peaceful use of nuclear energy, and with the initiative taken by the Government of South Korea that targets to reduce greenhouse gas emissions commitments by 30% toward 2020.

The Committee on the “green growth” was established under the President of the Republic of Korea and headed by the Prime Minister of the Republic for the practical implementation of the strategy.

At a meeting of the committee on “green growth”, held on 13 October, 2011, the President of the Republic said that in the near future, one of the pillars of the Korean economy will be solar and wind power, and by 2015 in the renewable energy will be invested 40 trillion JK won (about \$ 36 million) (KPMG, 2012). In addition, it was decided to allocate 9 trillion JK won for the construction of a wind farm on the coast of the Yellow Sea with the capacity of 2.5 GW / h and 7 trillion JK won for the construction of small wind and solar power stations.

The nation’s leadership develops own technologies, and capacities of the production of wind power stations, which until 2009 were imported from the abroad. Since October 2009 the plant that was built by the ship-building company Hyundai Heavy Industries operates in Kunsan (prov. North Jeolla). This plant can produce wind turbines with the total capacity of 600 MW per year. In addition, the South Korean corporations acquired the American wind energy company De Vinci and the Dutch STX Group.

Programs of researchers and scientists mobility are the basis of S&T cooperation. EU countries such as France, Germany, GB and Italy, together with the Republic of Korea successfully implement mobility programs:

1. Italy and the Republic of Korea organized the programs which supported scientists in the short-term missions. However, with the reduction in the international travel costs and increasing number of international conferences, forums and workshops that enable the exchange of experience and knowledge, such programs have been canceled. Currently, the support is provided to scientists in the mid-term missions (up to 3 months), which enable them to develop ideas for the further fruitful cooperation.

2. The Danish Government is also implementing a mobility program aimed to support researchers at the mid-term missions which prepare projects and proposals to implement independently or jointly by the EU, Member States and the Republic of Korea.

3. Germany implements mobility programs in cooperation with the Republic of Korea. The result of such exchange is the creation of a community of scholars and researchers, consisting of more than 30 thousand of experts who have lived or worked in Germany and the Germans who lived or worked in the Republic of Korea. At the moment Germany is moving towards the institutionalization and systematization of knowledge-sharing processes (Bohe, Kreohane, 2013).

Many of the mobility programs are implemented at the institutional level. For example, within the cooperation between the Danish Technical University (DTU) and the Republic of Korea, which began in 2008, 5 educational programs were organized for the award of joint academic degrees, mainly from Korea Advance Institute of Science and Technology (KAIST). DTU made R&D contacts with major Korean companies such as Samsung, LG and Hyundai.

International projects were launched to promote S&T cooperation between the Republic of Korea and the EU:

1) KORANET – Initiative to strengthen the regional S&T cooperation between the Republic of Korea and the EU.

The project brings together European and Korean scientific and technical community through collaborative research and joint initiatives. The first joint initiative was published on February 8, 2008. The purpose of the project is to analyze the current situation of scientific and technical cooperation between the Republic of Korea and the EU, as well as the creation of sustainable relationships between researchers, investment institutions, research organizations and political institutions (Elke Dall, Hanna Scheck, Marion Steinberger, Hans Westphal 2013).

2) KORRIDOR – the project to encourage and support the participation of European researchers in R&D programs of the Republic of Korea.

The project aims to provide European researchers information on the Korean national research programs.

3) KESTCAP – The program of scientific and technological cooperation development between the Republic of Korea and the EU.

KESTCAP project promotes cooperation in science and technology between scientists from the Republic of Korea and the EU, mainly on the basis of the Framework Programme of the EU № 7. The objectives of the project are the development of the strategy of sustainable cooperation; facilitating the exchange of information; organization and support of activities between the two countries.

In addition to the main areas of cooperation contained in the 2006 agreement between the Republic of Korea and the EU cooperation in the field of health are actively developing, where the main subject of research are infectious diseases, mainly tuberculosis. Projects with the participation of the both sides focus on the development of vaccines. The Republic of Korea is represented by the Institute Pasteur of Korea (involved in 4 projects), the International Vaccine Institute (2 projects), the Yonsei University and the Korea Research Institute of Chemical Technology.

Conclusion

The European centers network has been established in Korean universities aimed to promote better understanding of EU policy through the development of a variety of programs, including training programs for researchers, as well as outreach activities related to the EU and its policies. In the Republic of Korea four centers provide financial support to researchers whose work involves the study of the EU. Domestic and international conferences and seminars are organized.

However, despite the agreements in force and the created institutional framework of S&T cooperation, the collaboration between scientists, researchers, engineers from the Republic of Korea and the EU has not yielded significant results yet. Cooperation potential remains untapped.

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The Origins and Transformation of East Asian Financial Regionalism¹

The process of financial cooperation in East Asia for many decades, due to economic conditions, and especially political factors, was very difficult, and initially it based on a loose cooperation of central banks. The Asian financial crisis of 1997–1998 was the turning point. In its aftermath, as a result of a failed attempt to create the Asian Monetary Fund (AMF), three pillars of financial cooperation had been developed. The first one was aimed at providing liquidity against speculative attacks, that is, at financing short-term financial needs. The second – on the development of capital markets in order to reduce East Asian countries' and enterprises' dependencies on the banking system. The third – and the least developed form of financial cooperation – was the idea to establish a common monetary unit among East Asian economies.

The purpose of the paper is to present the reasons of the financial regionalism in East Asia and its initiatives. In particular, consideration will be given the following forms of accomplishments: the regional central banks cooperation (inter alia Executive Meeting of East Asia and Pacific Central Banks), the Association of Southeast Asian Nations (ASEAN), the Chiang Mai Initiative (and its Multilateralisation), East Asian Surveillance Processes, the Asian Bond Market Initiative, and a possibility to create an Asian Currency Unit (ACU). The main research method is a qualitative analysis.

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The gist of financial and monetary integration

The process of financial integration is based on the progressive liberalization of capital flows, budget and tax systems' harmonization, coordination of banking and financial services, and integration of capital markets. By analyzing the evolution of the integration processes, the monetary union is usually a consequence of the integration of goods, services and factors of production markets, and is inextricably linked to economic integration. A monetary union is an area in which there is a complete liberalization of capital transactions, the full convertibility of the currencies, the elimination of exchange rate fluctuations and the full integration of financial markets. Therefore, in parallel with the deepening monetary integration, the region also extends the process of financial integration.

Monetary cooperation includes agreements concluded between at least two countries, whose aim is to coordinate the value of their currencies. From a theoretical point of view, the scope of cooperation can take two forms. The first one is the introduction of the common currency, replacing national currencies (e.g. the euro as part of Economic and Monetary Union in the European Union). The second one is based on the irreversible fixed exchange rate in countries forming a monetary union (e.g. in the past European Monetary System in the European Economic Community, currently for instance: Common Monetary Area in Southern Africa). In the case of the first solution, a prerequisite is the establishment of a common central bank (in the case of the Eurozone it is the European Central Bank, pursuing a policy of monetary and exchange rate). The second form of a monetary union does not require the creation of common institutions, but it is necessary to conduct close cooperation of national central banks. However, fixing exchange rates without a common regulatory approval, require additional harmonization of economic and fiscal policy (for more see: K. Klecha-Tylec 2013a, p. 225). In the case of East Asia, because of economic and (mainly) political factors, only the second form of monetary cooperation may be taken into account.

The Optimal Currency Area (OCA) is the theory that an analysis of the benefits and costs of establishing a monetary union. The OCA theory was formed by Robert Mundell in 1961. The OCA is a group of countries that are closely interlinked with each other in terms of monetary issues. Besides that, there is free movement of the inner factors of production, and there is lack of external mobility. The most important problem in relation to the theory of OCA is to develop criteria for successful monetary

integration process. As a result, along with the development of the theory of optimum currency areas, the emphasis on different requirements to be met by the countries has changed (K. Han 2009, pp. 11–18). Initially, the first economists dealing with the OCA theory (i.e. R. McKinnon, P. Kenen) had focused on the real economy, which they believed should be the basis for assessing the optimality of a currency area.

The second generation of the OCA theory, so-called new theories of optimum currency areas, focuses on nominal factors, such as the level of financial integration, the convergence of inflation rates, with a special attention to the synchronization of economic cycle phases. When there is the absence of such synchronization, a risk of asymmetric shocks can occur. Their source can be in the demand side, resulting in monetary disorders – these are the demand shocks, referred to as the nominal or the supply-side shocks (resulting from the structural transformations induced price movements). Asymmetric shocks require diversification of economic policy, which, however, in the case of a currency area union is either limited or even impossible. It means higher costs of participation in monetary union, especially for the less developed countries (see: C. Cortinhas, pp. 38–45).

Given the fact that among the East Asian countries, only Japan is among the group of developed economies (see: UN Country classification, pp. 145, 147), and in addition, these countries are characterized by great diversity (not only in terms of the level of economic development, but also because of different political, cultural and social systems), the creation of a monetary union in the region seems to be a very difficult process, and certainly it would need a long time.

Origins of East Asian financial cooperation

East Asian regionalism, comparing to the Western Europe or American one, can be characterized by a much lesser degree of institutionalization and greater importance of informal relationships. The main advantage of this form of regionalism is the ability to make quick decisions in crisis situations, which against the background of European experience (in the form of blocking unfavorable for some countries regulations or solutions), and the Asian one (the Asian Financial Crisis of 1997–98), proved to be for the East Asian region a very important factor for development, particularly in relation to financial markets (see: K. Klecha-Tylec 2013b, p. 85).

East Asian financial regionalism is relatively a new phenomenon. Particularly important in deepening this process has had the above mentioned Asian financial crisis, as well as, establishing at the end of the 1990s the ASEAN+3 structure. The result is a variety of initiatives involving countries of the region, whose main initial goal was to increase the financial stability of the East Asian countries. In the subsequent years, regional financial cooperation has been intensified among East Asian countries. The main reason was a significant increase in value of foreign exchange reserves, especially in the People's Republic of China (PRC). This has contributed to the initiation of a series of actions designed to use the financial capital of the East Asian countries in order to develop their own region.

As a result of these changes, in the context of financial integration, the East Asian states had achieved much more satisfactory, actual results than in other integration initiatives (see: T. J. Pempel 2006, pp. 239–254; E. L. Frost 2008, pp. 169–171). In addition, there had also been obtained a higher degree of institutionalization, compared even to the region's many preferential trade agreements. It is worth noting, that it had occurred, despite the fact that Asian financial markets, as opposed to commodity markets, are small, closed, and there is lack of transparency. In addition, traditionally for decades, they were more focused on the United States (US) dollar than on their own local currencies.

However, the situation has been gradually changing, mainly because of the global financial crisis of 2007–2009, and the consequent weakening of the US economy, and especially the Eurozone economies (see: K. Klecha-Tylec 2014). The effect of these changes were strengthening the financial cooperation in the region. The basis was created by the regional central banks a few decades earlier, not even strictly in East Asia, but in Australasia and Southeast Asia.

Regional cooperation of Asian central banks

The first initiative of financial cooperation was put forward by Australia during a meeting of the central banks' representatives of Asian and Pacific countries in the middle of 1950s. As a result, the Central Banks of Southeast Asia, New Zealand and Australia (SEANZA) was established in 1956. The primary objective of SEANZA was to organize training courses for employees of central banks of the member states, which was supposed to help in allocating aid flowing to Asia. However, over the years, because

of different levels of economic development, political objectives and the features of the members' economies, the ability to interact within the SEANZA structure was more and more limited.²

Another form of cooperation between the central banks of the region (also as SEANZA regulated by annual meetings) was the South East Asian Central Banks (SEACEN), established in 1966 (for more about SEANZA and SEACEN see: S.Hamanaka 2009, pp. 100–101).³ It was supposed to be a forum for information exchange and ideas about the functioning of domestic financial systems and economies. In 1982 the Research and Training Centre was established in Malaysia on the basis of SEACEN. It aims to promote a better understanding of issues related to financial, monetary, economic and banking cooperation of the member states and the region as a whole, and further to stimulate cooperation in research and training. Later, in 2005 the Center for Monetary Cooperation in Asia (CeMCoA) was established by the Bank of Japan. Besides providing technical schooling, it is also a forum for the exchange of ideas and for strengthening personal relations between central bankers of the region (U. Volz 2010, pp. 181–182).

The youngest form of cooperation between the central banks of the region of East Asia and the Pacific is the Executive Meeting of East Asia and Pacific Central Banks (EMEAP). Its aim is to establish cooperation between central banks and monetary authorities in East Asia. The initiator of the collaboration was also the Bank of Japan. The first EMEAP meeting took place in 1991 (they are held twice a year). It was attended by representatives of the central banks of Japan, South Korea, Indonesia, Malaysia, Singapore, Thailand, the Philippines, Australia and New Zealand. In subsequent years, membership has been extended to the PRC's and Hong Kong's central banks. In 1996 it was decided to create within the EMEAP banking supervision (a study group to undertake studies on the primary functions of central

² The founding members of SEANZA were: Australia, New Zealand, Pakistan, India, and Sri Lanka (Ceylon). According to the state of 2014, SEANZA consists of 20 member states, i.e.: Bangladesh, Iran, Nepal, Mongolia, Papua New Guinea, and from East Asia: Japan, South Korea, the PRC, Hong Kong (China), Macao (China), Indonesia, Malaysia, Singapore, Thailand, and the Philippines.

³ The original members were the central banks of: Malaysia, Myanmar, Nepal, Indonesia, the Philippines, Thailand, Singapore, and Sri Lanka. Later other central banks became full members of SEACEN, i.e.: the Bank of South Korea, the Peoples' Bank of China, the Central Bank Chinese Taipei, the Bank of Mongolia, the Ministry of Finance of the Sultanate of Brunei, the Reserve Bank of Fiji, the Bank of Papua New Guinea, National Bank of Cambodia, the State Bank of Vietnam, the Reserve Bank of India, the Bank of the Lao PDR, and the Central Bank of Myanmar.

banks) and two working groups (on central banks operations and on financial market development). Two years later the EMEAP Internet was launched. Its function is to connect all central banks to accelerate the exchange of information between them (S. Shirai 2007, p. 86). Currently the EMEAP also plays a very important role in the development of financial integration in Asia, particularly in the creation of the Asian bond market.

East Asian swap agreements

An idea to create an East Asian network of swap agreements was aimed at ensuring a mechanism for counteracting short-term fluctuations of financial stability. Its foundation was the ASEAN Swap Agreement (ASA) – an agreement signed in 1977 by the five founding members of ASEAN (ASEAN-5, i.e. Malaysia, the Philippines, Singapore, Indonesia, and Thailand). ASA was an agreement between the central banks of the ASEAN-5 group, which regulates the conditions for mutual assistance in case of problems with liquidity in their international settlements. ASA was a typical currency swap, in which exchange rates of the local currencies to the US dollar were controlled in case of the country's struggling with the problem of lack of liquidity. Initially, under the ASA agreement, each country could count on maximum support in the amount of USD 40 million out of a total sum of USD 100 million (each member of the ASEAN-5 had paid USD 20 million). In 1978 the agreement was revised, and all these amounts were doubled. It ought to be added that ASA was launched only five times, while the agreement was not used during the Asian financial crisis in the 1990s. The reason was too low amount of financial resources at the disposal of the ASEAN countries.

At the turn of the 20th and the 21st century, ASA became the foundation of a new swap contract extended to other East Asian countries – the Chiang Mai Initiative (CMI). The new swap agreement was the first tangible achievement of ASEAN+3, taking the monetary area into consideration. The conception was initiated by the politicians of the ASEAN+3 group during the Summit in Manila in 1999. It was officially adopted by the finance ministers of the thirteen states a year later in Chiang Mai, Thailand, from where it derives its name. The main reason for initiating this project was the failure of the concept for the establishment of the AMF. In turn, the main reason for the acceptance of the Initiative was the fact that, unlike the AMF, the CMI did not require the creation of new institutions.

The extension of the participants in the new swap agreement of the Northeast Asian countries was associated with an increase of available finances for the countries from USD 200 million to USD 1 billion. This took place in May 2001. During subsequent conversations, the amount available under the CMI was increased up to USD 90 billion in April 2009. On the basis of the agreement the countries were entitled to exchange their national currencies to the major global international currencies (for up to six months) to a maximum two times the amount of a state's own contribution. The CMI agreement allows countries to raise funds on similar terms as the International Monetary Fund (IMF), but the agreed amount transactions can be entered into without the mediation of the IMF. Initially, it was up to 10%, and since 2005 to 20% of a bilaterally agreed swap transaction. Above this amount, the conditions of the IMF must be met. Hence there is still a strong link between the CMI and the IMF, which primarily affects a significant delay in response to signals of potential crises. This resulted in the critique of the analyzed initiative (for more about the critique of the CMI see: C. R. Henning 2002, pp. 33–47).

As a result of the above presented criticism, the members of the ASEAN+3 group took action to reduce their reliance on the decision of the IMF. The finance ministers of the group decided in 2009 to replace the bilateral agreements by multilateral swap agreements. At the same time, the ministers decided to keep the two basic objectives of the CMI, i.e. assistance in financing short-term liquidity problems and the complementary function to other existing international financial arrangements. Following the decision, the CMI was multilateralized. The new activity is called the Chiang Mai Initiative Multilateralization (CMIM).

The CMIM consisted in a created pool of foreign exchange reserves. Initially, the amount of funds amounted to USD 80 billion. In 2009 it was increased to USD 120 billion, in 2012 to USD 240 billion. The independence of East Asian economies with respect to the IMF was then also increased, by raising up to 30% the sum of the swap, which can be started without consultation with the IMF. The dominant contribution of the agreed total amount (80%) was to be financed by the countries of Northeast Asia, and the rest by the ten ASEAN members. According to the adopted concept, the CMIM is used primarily for smaller and weaker economies (i.e. Brunei, Cambodia, Laos, Vietnam). Those five countries will have the ability to use, if necessary, the appropriations in excess of five times their own contribution to the account. The Philippines, Hong Kong, Indonesia, Malaysia, Singapore and Thailand can

count on the 2.5-fold, and the South Korea on the equivalent of its contribution. Japan and the PRC will be able to use half of its contribution (For more see: W. J. Yuan, M. Murphy 2010, p. 3; *The Joint Statement of the 15th ASEAN+3 Finance Ministers and Central Bank Governors' Meeting 2012*).

The East Asian Surveillance Processes

The regional surveillance mechanism in East Asia is the second (out of three) element of the regional governments activities, in addition to the CMI, towards coordinating exchange rate policies and establishing regional financing arrangements. The first direction of that financial cooperation of East Asian countries was based on the exchange of information both between economies of the region, as well as with the third countries. In terms of intraregional mechanism, it operated primarily under the ASEAN Surveillance Process (ASP). The ASP was established by the ministers of finance of ASEAN member states in October 1998, as a part of the Hanoi Plan of Action (see: M. G. Plummer, R. W. Click 2009, p. 19). The goal of the ASP was to deepen coordination of economic policies within the framework of ASEAN, and to improve financial supervision. It monitored macroeconomic aggregates and exchange rates, as well as social and sectorial policies within the members of ASEAN. The ASP was based on principles of mutual interest and peer review. There were two levels of meetings: ASEAN finance ministers (once a year) and ASEAN finance ministers together with central bank deputies (twice a year) (J. M. Dowling, P. B. Rana 2010, p. 217).

In the late 1990s, this mechanism was extended to the Northeast Asian subregion. After Japan, the PRC and South Korea joined the surveillance process, its name was changed to ASEAN-Plus-Three Surveillance Process (APTSP) (D. K. Das 2005, p. 245). The basic goal of the APTSP is to enhance objective monitoring by supplementing the IMF, that particularly concerns its new short-term lending facility (so-called Short-Term Liquidity Facility). But it ought to be underlined, that the mechanism is not intended to be a substitute for the IMF (J. M. Dowling, P. B. Rana 2010, p. 220).

In May 2000, as a result of those changes, the Economic Review and Policy Dialogue (ERDP) within the framework of ASEAN+3 was introduced. It is a system of annual meetings of ministers of finance of the

thirteen countries, aimed at the exchange of information in order to intensify political and monetary cooperation within the East Asian region. The meetings are focused on reviewing financial sector developments and vulnerabilities (including bond market), and assessing national, regional and global risks and conditions (P. B. Rana 2012, p. 32).

Another forum for the exchange of information on the financial stability of the region is the Manila Framework Group (MFG). Similarly, as the two initiatives outlined above, it was created just after the Asian financial crisis, in November 1997. Its aim was to conduct discussions of common interest, periodically twice a year. It should be added, that the MFG was created as a side effect of an unrealized concept of the establishment of the AMF. The idea was proposed by Japan in August 1997. The AMF was supposed to be an independent institution, aimed at stabilizing the Asian financial markets and exchange rates. However, due to the opposition expressed particularly by the IMF and the US, the idea of the AMF was refused.

Financial cooperation initiatives arose also in a broader context – in terms of the East Asian cooperation with the countries of the Pacific region and Europe. The first direction refers to the forum of Asia-Pacific Economic Cooperation (APEC). It was proposed in March 1994. The overriding aim of the framework was to exchange (during the meetings of finance ministers) views and information about the development of financial markets and capital movements. A similar mechanism was also created in September 1997 by involving European and Asian finance ministers at Asia-Europe Meeting (the ASEM Forum). Since 2003 those ministerial meetings have been held annually. Within this structure the Kobe Research Project was adopted, which aims to promote monetary cooperation in East Asia (H. Kuroda, M. Kawai 2004, p. 153).

The finance ministers of East Asian countries cooperate also with each other by exchanging information on the transfer of capital, exchange rate policy, the development of financial markets within smaller structures. They are: the Four Markets Meeting, with the participation of Australia, Hong Kong, Japan and Singapore (it was established in May 1992); and the Six Markets Meetings (created in March 1997), a group of the four above markets, together with the PRC and US. In turn, in September 2000 the three Northeast Asian states established a Trilateral Finance Ministers Meeting.

Asian Bond Market Initiative

The Asian Bond Market Initiative (ABMI) was a direct consequence of the Asian financial crisis of 1997. The main reason for the crisis were loans in foreign currencies which were taken at a large scale in Western financial institutions by local entrepreneurs. These agreements were concluded because of the lack of domestic capital raising alternatives, resulting from an underdeveloped regional bond market. Therefore, the concept of ABMI was to mobilize significant East Asian internal savings and to make them available to invest within the economies of the ASEAN+3 group, without targeting the capital in foreign markets. Thus, the region, in accordance with the assumptions, is going to be less dependent on assets denominated in outside currencies, especially the US dollar.

The first discussions on the establishment of a common bond market in East Asia were led within the framework of ASEAN at the turn of 2002 and 2003. The aim of the dialogue was to create an alternative to the stock market by extending the offer to investors by further financial instruments with fixed incomes (M. Plummer, G. Wignaraja 2009, pp. 183–184). Discussions about the ABMI began in December 2002 during the ASEAN+3 Summit in Chiang Mai. Nevertheless, specific decisions were made at the EMEAP forum in June 2003. Then it was decided to establish the Asian Bond Fund (ABF1), managed from Hong Kong by the Bank for International Settlements (BIS). In August 2003 the plans for the ABMI had been officially approved by the finance ministers of the ASEAN+3 countries. By virtue of the agreement, each of the nine shareholders contributing to the Fund (i.e. Japan, South Korea, the PRC, Hong Kong (China), the Philippines, Malaysia, Indonesia, Thailand, and Singapore) had allocated to the ABF 1% of their foreign exchange reserves. The total assets of the ABF1 amounted to USD 1 billion. They were invested in bonds denominated in US currency, and were issued by the EMEAP member economies. It was decided, that the initiative is going to offer financial support for eight of the eleven EMEAP member economies.⁴ The ABF1 was launched in June 2003.

The success of the ABF1 contributed to the decision to implement the second phase of this initiative, known as the second Asian Bond Fund (ABF2). It was launched in April 2005. The value of its assets, comparing to the ABF1, was doubled. It was assumed that the money will be invested in bonds

⁴ Japanese, Australian and New Zealand's financial markets were excluded as the most developed ones among the EMEAP members.

denominated in the currencies of eight members of the EMEAP (excluding Japan, Australia and New Zealand). The fund was divided into two parts.

A Pan-Asian Bond Index Fund (PAIF) was the first part of the ABF2. It was supposed to invest its capital in bonds issued in the eight EMEAP markets (without the three abovementioned developed economies). The share of the rest eight of the EMEAP members in the structure of PAIF was dissimilar, due to the different size of the economies included in the index. PAIF is managed from Singapore by State Street Global Advisors, and listed on the stock exchange in Hong Kong. PAIF is quoted in US dollars on an unhedged basis.

The second element of the second Asian Bond Fund were eight single-country funds (Fund of Bond Funds (FoBF)), i.e. the Chinese, Malaysian, Indonesian, Thai, Filipino, Singaporean, Korean funds and the fund of Hong Kong. Each of them invested in separate, also denominated in local currencies, bonds within the EMEAP market. Thus, the single market funds were to invest in the respective local currency bond market (i.e. in China, Kuala Lumpur, Jakarta, Bangkok, Manila, Singapore, Seoul, and Hong Kong) (see: G. Ma, E. Remolona 2009, p. 92). Every fund is managed by the financial institution of the country. The ABF2 was launched in June 2005, as a fund opened to both public and private investors. FoBF is seen as an important step towards the development of a regional bond market denominated in local currencies of East Asian economies (S. Shirai 2007, p. 87). It is worth noting that the ABMI is strongly supported by the Asian Development Bank, as an important opportunity to accelerate economic growth and development in East Asia.

Regional Currency Unit

The idea to create a common regional currency unit by East Asian economies was the third, next to the CMI and the ABMI, main direction of discussions about the regional activities towards stronger financial cooperation in the region (see: P. B. Rana 2008, pp. 128–129). It is also the most difficult one. The conception was strongly supported by Haruhiko Kuroda, the president of the Asian Development Bank in the years 2005–2013. Therefore, the Asian Development Bank was promoting this idea. A Regional Currency Unit (RCU), an Asian Monetary Unit (AMU), an ACU, an “Asian” or just “units,” would in fact be the basis for the construction of the future monetary union in East Asia.

The idea to establish a RCU is dated back to the 1970s. Then, four East Asian countries (Indonesia, South Korea, the Philippines, and Thailand) took activities to include Japan into the regional system of payment. As a result, a common currency unit was to be introduced. However, Japan rejected this proposal. The final agreement was signed by the governments of Bangladesh, Burma, India, Iran, Nepal, Pakistan and Sri Lanka. Through this agreement, none of these countries experienced any serious financial crisis in the 1990s (B. Gao 2001, p. 262).

The next step towards the creation of a common currency in the region was taken by ASEAN in late 1998. Representatives of ASEAN had then adopted a project to investigate the benefits of adopting a single currency. Two years later a special task force (under the leadership of the Central Bank of Malaysia) was established for this purpose. Despite that, in 1999 Hong Kong expressed its willingness to create a common currency with Singapore, in the long-term perspective. Also other heads of states, inter alia from the Philippines and Malaysia, favored at that time a common currency in Asia (A. Bènassy-Quèrè, B. Cœuerè 2005, pp. 194–195).

In terms of the entire East Asian region, finance ministers of the ASEAN+3 adopted a study on “regional currency units” in May 2006 (see: P. B. Rana, M. Dowling 2009, pp. 236–237). The idea of a regional ACU was then officially presented. At the same time many disputes concerning the composition of the Asian currency basket had occurred. Initially the dialogue considered participation of up to forty Asian currencies. Later the number was narrowed down to thirteen currencies of the ASEAN+3 members. But in parallel, there were many other concepts, such as an exclusion of the Japanese yen, the inclusion of dollars emitted by Hong Kong, and Taiwan. The exclusion of kip (Lao), riel (Cambodia), and kyats (Myanmar), as the currencies of the weakest economically group of the ASEAN member states was also considered. There were also concepts of RCU as a basket of currencies including all countries participating in the East Asia Summits. There were also ideas about creating regional currency union based on the so-called G3 basket (the US dollar, Japanese yen, and euro). This concept was proposed by W. McKibbin, as the better alternative for East Asia than the option presented above (see: W. McKibbin 2004). Considering in turn the question of the currency basket, the dispute relates to a method for calculating the share of each currency in the basket. The problem applies to, inter alia, the issue of recognition of the GDP (nominal or real), the choice of exchange rate system, the demographic data, or other economic indicators, such as currency convertibility, or the volume of trade. The problem is

also connected with the question as to which institution ought to be used to publicize a value of the RCU (W. Moon, Y. Rhee 2012, pp. 149–150).

Furthermore, due to the underdeveloped process of economic integration in the region, establishing a currency union seems to be a very distant concept. In addition, there is no unified country position on the scope of such a union. Accordingly, there is also a lack of a unified position on the territorial range of a RMU. There are concepts that it should cover only ten ASEAN member states. Other projects concerned thirteen members of ASEAN+3, or even all over twenty members of APEC (which seems the least likely alternative). Much more realistic seems to be concepts of creating in East Asia a currency union based on a smaller number of members. For instance, H.C. Tang, instead of the great Asian monetary union, recommended the creation of several smaller currency zones, that can in a better way meet the OCA criteria. He proposed introducing a currency union between Singapore and Malaysia, Japan and South Korea, or among ASEAN, Hong Kong and Taiwan (H.C. Tang 2006).

Another proposition is the so-called Greater China (the PRC, Hong Kong and Taiwan) currency area. In the opinion Y. W. Cheung and J. Yuen, it is particularly worth highlighting from an economic point of view. The Greater China currency area shows significant synchronization of business cycles. These three economies are characterized also by strong trade relations, a large value of mutual investment, and a high degree of complementarity (China has well developed production facilities and low-costs resources; Hong Kong, modern management skills, advanced financial services and well-developed legal system; and Taiwan – capital and technological know-how) (H. Dieter 2007, p. 137).

On the other hand, W. Moon and Y. Rhee proposed as the most realistic option to create an ACU composed at the beginning only of the three Northeast Asian states (Japan, China, South Korea), and later the extending it to other Asian countries. The authors underlined, that China has good reason to support this option because it would help to promote the internationalization of the renminbi (W. Moon, Y. Rhee 2012, p. 150). It ought to be added that there can be distinguished two different paths for China to internationalize its currency, proposed by the unilateral expanse school and the multilateral union school (M. Li 2012, p. 129). The first one points out that an East Asian region is far from being an OCA, and there are many political obstacles for monetary cooperation among its states. The unilateral expanse school also notes that China ought to create a regional monetary system centered on the renminbi (not on a basket

of currencies), and if China aspires to internationalize the renminbi it should first increase the use of the currency in East Asia. It would both decrease the risk of liquidity crises, and reduce existing over-reliance on the US dollar. The multilateral union school states that China should be more engaged in regional monetary cooperation, which ought to be based on the basis of multicurrency, including creating a common regional currency in the future.

However, the most important problem in the context of East Asian currency cooperation seems to be undoubtedly the ongoing rivalry between the two largest regional economies.⁵ Both China and Japan try to make their currencies the key currency in the region. In addition, there is the fundamental question: what strategy of finance cooperation and what criteria should be met by the East Asian countries to create in the future optimal currency area.

Conclusions

Financial regionalism is the process related not only to economical, but also to political transformation. The establishment and implementation of financial cooperation requires institutionalization, including partial transfers of sovereign national authorization to supranational levels in concrete areas of activities. This issue is particularly important in the context of the various economic conditions existing in East Asia, and different political systems. Another factor impeding the development of financial and monetary cooperation in the region is the fact that the East Asian countries reveal a relatively small degree of political cooperation (especially comparing to Europe), and their financial markets are much less developed comparing to the Western countries. It should be added that the financial systems of East Asian states (in particular Japan), for many decades were banks-oriented (continental or Rhine models), with a relatively weak development of financial markets (as is the case of the

⁵ This rivalry could be recently seen on the occasion of the establishment of an Asian Infrastructure Investment Bank(AIIB). The agreement was signed on October 2014 by representatives from 21 Asian states (without Japanese, South Korean and Australian ones). This new China-backed initiative is going to lend money to develop infrastructure in poorer parts of the continent, and it is de facto another developing bank for Asia (along with the dominated by Japan ADB). The AIIB is to be launch by the end of 2015.

Anglo-Saxon model). However, the advantage of East Asia is the ability to make quick decisions in crisis situations, what against the Asian experience (the Asian financial crisis, and the global financial crisis of 2007–2009), proved to be a very important factor in regional development, particularly in relation to the financial markets.

East Asian financial regionalism has focused on the activities taken by the thirteen member states of ASEAN+3 in the three major projects: the CMI, ABMI, and setting up a RCU. At the same time, countries in the region have deepened financial cooperation, as exemplified by the multilateralization of the CMI. The fund managed jointly by the ASEAN+3 members is seen to be very similar to the Japanese concept of the AMF. The CMIM can become an Asian contribution to the shape of the new financial architecture. Concurrently ongoing activities on the establishment of an East Asian currency area can be seen in terms of a much wider-reaching transformation, that will affect not only the financial sphere, but also real economies, relating not only to the region but also the entire global economy.

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Can Taiwan's Pattern of Financial Deregulation be Instructive for Market Reforms in Mainland Chinese Financial Sector?

Ongoing debate in Mainland China on the need to free exchange and interest rates, the recent inauguration of the Shanghai Free Trade Zone as well as the plans of the fifth generation of Chinese leaders to introduce more market reforms in national finance proclaimed at the Third Plenum of 18th Chinese Communist Party (CCP) Congress in November 2013, made it relevant to turn to the lessons of the 1980s successful financial liberalization in Taiwan to see if these lessons may be instructive for the new stage of market transition in the People's Republic of China (PRC).

To casual eye it may seem that the situations in Taiwan at the turn of 1970–1980s and in Mainland China today are indeed structurally very much similar. Huge trade surplus and foreign currency reserves, international pressure to appreciate national currencies, an imperative to make the banking system and investment mechanisms less rigid and more diverse to meet the need to achieve more balanced and intensive economic growth – all this seem familiar to both cases across the Taiwan Strait.

Moreover, institutional arrangements in Taiwan in the late 1970s – early 1980s and in today's PRC also look comparable. In both cases political regimes were organized in the form of Leninist party-states penetrating and controlling society from above in a pretty dictatorial, autocratic way.

To say the least, there are undeniable cultural similarities between the political and social entities across the Taiwan Strait.

The following paper will examine the systemic relevance of these similarities and possible lessons – if any – of the Taiwan’s successful financial liberalization for the planned financial liberalization in Mainland China.

The first part of the paper defines basic methodological points of departure for comparative analysis of Taiwan and Mainland China’s financial reforms.

The second part is devoted to the analysis of structural socio-economic and institutional prerequisites for the successful financial liberalization in Taiwan.

The third part examines fundamental features of political economy of price reform and macroeconomic dynamics in Mainland China as structural and dynamic foundations for currently debated interest and exchange rates’ deregulation. The last part of the paper contains concluding remarks.

Basic methodological framework: two types of “non-democracies”

A considerable portion of applied political science literature in the second half of the 20th century was devoted to the description and definitions of non-democratic developmental regimes. The crisis of the “totalitarian” approach in late 1950s was followed by almost two decades of triumph of “social science,” modernization and convergence theories. After the collapse of the Soviet Union and of the East-Central European “socialist block” the “totalitarian” approach shortly lived through a kind of “renaissance” but it quickly turned out that its traditional explanatory potential is still rather limited (Mueller 1997, p. 27–28). A. Motyl argued with good reason that “totalitarianism” is nothing like the same everywhere but constitutes rather a continuum of political systems characterized by the degree and forms of the state penetrating and monopolizing societies (Motyl 1993, p. 117–118). But it is exactly this degree and forms of state monopoly over the social and economic life in different non-democratic political entities that caused profound debates among political scientists and made it so difficult to define and explain the differences between these entities.

This paper methodologically proceeds from the approaches adopted by S. Huntington, C. Moore, J. Linz and the Hungarian school of political economy of socialism whose leading figure is J. Kornai.

S. Huntington and C. Moore argued that one-party regimes can be divided into two types: strong revolutionary and weak exclusionary. The main guideline for understanding the "strength" and "weakness" of a one-party regime is exactly the degree of its political, social, economic, cultural, etc., monopoly.

The first type annihilates the opposition (quite often physically) and proclaims the aim of monopolizing society as deep as possible in the name of its thorough qualitative transformation. Empirical history testifies that the absolute majority of such regimes (with the sole exception of Nazi Germany) practice Marxist-Leninist utopia. In the course of their development these political entities go consecutively through the stages of "revolutionary transformation," "regime consolidation" and "adaptation". The last stage means gradual retreat from terror and utopia, more technocracy in leadership nominations and possible introduction of market reforms.

Exclusionary regimes may be very well dictatorial too, but they tend to exclude the opposition from the process of political decision-making without totally annihilating it and without proclaiming the aims of utopia-based qualitative social transformations. Moreover they may eventually try to co-opt some parts of the opposition into the elite, however, controlling it and preventing from undermining the leading positions of the ruling group (Huntington & Moore 1970, p. 1–50).

J. Linz openly calls revolutionary regimes "totalitarian" and exclusionary regimes "authoritarian." He defines what S. Huntington and C. Moore called "adaptation" of revolutionary regimes as "post-totalitarianism" (Linz 2000, s. 72).

For us here methodologically most important is the fact that J. Linz understands the "post-totalitarian" period of revolutionary regime development as still an integral part of the "totalitarian" stage and not as "authoritarianism."

Indeed, in a number of revolutionary regimes the stage of adaptation brought such feasible social, economic, cultural and even ideological changes that a large portion of experts was at a loss to find principal differences between the adapting revolutionary and developing exclusionary non-democratic regimes. In fact, most of "social theory," "modernization" and "convergence" approaches to the former communist systems in the Soviet Union and Central and Eastern Europe, as well as to the PRC since the start of "reform and openness" argued and go on to argue that post-Stalinism and post-Maoism respectively are nothing but a goodbye to totalitarianism and transformation to authoritarianism.

J. Linz does not sign up to such arguments and we tend to agree with him. He points to the fact that in authoritarian regimes the degree of socio-economic and cultural pluralism is usually higher than that in post-totalitarian regimes but this is not perhaps the most important factor. The really crucial moment is that for both ruling party-state and opposition in post-totalitarianism the point of departure is the previous stage of revolutionary transformation and consolidation when the party-state annihilated all important forms of socio-economic and political pluralism by means of force in the name of proclaimed “bright future.”

In other words, the systemic setting was given well before and thus – according to J. Linz – there is no direct and easy-going way between post-totalitarianism (which is still the concluding stage of totalitarianism) to a authoritarian political and socio-economic arrangement. He presumes that such transformation inevitably means a sort of rupture with totalitarian structures and practices of power monopoly.

J. Linz argues in conclusion that post-totalitarianism is also actually a continuum of political regimes which may well sway from “early” to “frozen” or “mature” forms. But such sways do not mean that there is an ingrained logic of consecutive transformation from “early” to “mature” post-totalitarianism and then to authoritarianism or democracy. Some socialist countries indeed may go through all these stages but others may be locked for decades at certain junctures of transition (Linz 2000, s. 75).

Another important methodological point for our analysis is the structure and dynamics of economic monopolies of totalitarian (post-totalitarian) and authoritarian systems. Empirical history tells that strong revolutionary one-party regimes led by Marxist-Leninist utopia tend to annihilate the market as a socio-economic institution and substitute it with central planning based on party-state distribution-redistribution practices operated by means of vertical bureaucratic coordination. Such an annihilation of the market means that first of all the abolition of market pricing and the whole amount of socio-economic institutions connected to it. This revolutionary transformation that happened in some countries in the 20th century was something really brand new in the history of humankind.

According to the works of the leading figure of the Hungarian school of political economy of socialism, J. Kornai, the systemic substitution of the market by party-state bureaucratic coordination done by force puts all principal socio-economic players in the socialist economy under specific conditions of soft-budget constraint. This means that they are non-sen-

sitive to price indicators and demand constraints while the party-state is always ready to bail out their economic inefficiency. With given hard resource constraint economic growth in such a system becomes inherently extensive and resource devouring, strangulating the party-state itself in infrastructural and resource bottlenecks (Kornai 1992, p. 250–300). From the political point it is important to mention that the conditions of soft-budget constraint are not enjoyed by everybody in socialism by definition. A party-state grants these conditions only to those socio-economic players who behave according to certain political rationality, i.e. to those who do not openly oppose or deny the party-state power monopoly. All other players are either obliterated or constantly face the danger of obliteration (Csanadi 1998; 2006).

J. Kornai claims that even when market reforms are introduced in socialist economies the principle of soft-budget constraint and politically rational behavior prevails. According to him the main systemic obstacle on the way to get over such state of affairs is the political and ideological power monopoly of the ruling communist party (Kornai 1992, p. 408).

Our own research in the field of market reform limits in socialist economies brought us to the conclusion that it is exactly the party-state non-market monopolistic control over national finance as a whole (banking system, stock market, exchange and interest rates, investment mechanism, monetary policy etc.) that makes soft-budget constraint and ideological political rationality a sort of incurable sickness of post-totalitarian “market reformed” socialism (Karpov 2011a, p. 21–39; 2011b, p. 34–57).

By contrast, ruling groups in authoritarian regimes do not aim at annihilation of the market as socio-economic institution. Their purpose is to control the amount and structure of the profit extracted by different players from the existing market economy. In order to do this, they use different direct and indirect leverages such as artificial containment of investment institutions diversity, manipulating exchange and interest rates, channeling credit for certain purposes etc.

Indeed, there is no free market in most of authoritarian regimes. But from the systemic point of view the lack of a free market is not at all equal to the lack of the market as an institution.

Thus financial liberalization in authoritarian regimes and in post-totalitarian regimes means essentially a different nature of the tasks facing the respective political structures.

In the case of authoritarian financial liberalization, the ruling elite and opposition have to agree on the terms of abolishing state control over

the structure and amount of the profit extracted from the already existing market economy.

In the case of post-totalitarian financial liberalization party-state and potential opposition face the double task to agree on the terms of how to introduce a market mechanism itself and how to abolish the party-state control over the extracted profit. Such a transition, in our view, presumes much deeper and painful socio-economic and political restructuring than in the case of authoritarian financial liberalization.

Bearing all this in mind, our methodological point of departure is following. What happened in Taiwan in the 1980s was essentially a case of financial liberalization in democratizing the authoritarian system. What is happening (going to happen) in Mainland China currently is an attempt to introduce financial liberalization in a comparatively “mature” post-totalitarian socialist one-party system. In these two cases we have to deal with a very different constellation of actors and – perhaps – with rather different outcomes.

The case of Taiwan: from the market with state-controlled profit to free capital allocation

There is unique concurrence of necessary and incidental circumstances which eventually conducted to the successful financial deregulation in Taiwan in 1980. These circumstances go well back to 1949 and perhaps even earlier.

1. Already since 1949 financial system in Taiwan was market based and diversified. Although after coming to Taiwan the Kuomintang (KMT) government did not have to face mature local financial entrepreneurship it is worth noting that the first investment cooperatives on the island were created by Qing dynasty authorities in 1890, five years before the war with Japan. Japanese administration followed suit but at a bigger scale, especially after 1914. The cooperatives were supposed to be the centers of socio-economic life of rural localities. In the cities big Japanese banks were operating, thus leaving very limited space for local finance.

The KMT nationalized the branches of Japanese banks but decided to integrate rural financial structures. This decision might be a forced one because the KMT – especially after tragic events of February 28, 1947 – felt the need to find the basis of cooperation with local society.

Thus almost from the beginning of KMT rule in Taiwan the island's financial system became double or perhaps even triple layered.

The first (highest) layer was represented by the KMT controlled state banks operating mainly with state-owned big enterprises and supporting large infrastructural projects. In the 1950s the Bank of Taiwan, which was de-facto the Central Bank, possessed one-third of all deposits and gave two-thirds of all credits received by the state sector. In 1961 the Central Bank, as well as four commercial banks which used to exist in Mainland China, was restored. In 1959 China Development Corporation – the first private investment institution with 75% of local capital and with only 10% of state capital – was established. In 1962 six foreign banks from the United States (US), Japan, Thailand and Philippines were invited. Two more private banks were introduced in 1961 – Huaqiao Bank and Shanghai Trade Bank – to accumulate the capital of Chinese diaspora abroad. By the middle of the 1970s Taiwan had rather multiple structures of big state- and foreign-owned banks but obviously an underdeveloped system of local private capital representation (Cheng Tun-jen 1993, p. 55–92).

The second layer of the island's financial system consisted of local credit cooperatives and credit departments of farmers' and fishermen's cooperatives. The number of credit cooperatives, although licensed, was not subject to limits and membership in such cooperatives was voluntary. The number of associations was limited (one township – one association) and membership was compulsory. Associations were ruled by the board of directors responsible for four departments: credit, distribution, selling and insurance. The department of credit was the backbone of the whole association. Politically speaking, there was a marriage of convenience between the local elites ruling cooperatives and associations and the KMT. The latter controlled the former politically, expecting consecutive victories at local elections. The former had to accept the latter's control having no other political option but expecting granted rights for local financial or other economic monopoly.

Local credit associations and departments could allocate deposits in Cooperative Bank and Land Bank, controlled by the KMT. At the same time, even in the 1950s there was no obligation to do so. Local credit associations and departments enjoyed a Central Bank-licensed corridor for their interest rate policy.

The third layer of Taiwan's financial system was represented by an export oriented medium and small private enterprises' funds and their investment activities. Existing literature on the subject sometimes alludes to them as to "shadow banking" but most of the experts whom I interviewed during my field research in Taiwan expressed the opinion that

there was basically no shadow banking on the island. Although this layer of financial system accounting for 25–30% of GDP was perhaps the least regulated, it nevertheless definitely was not “shadow banking” in the sense used to describe the current state of affairs in Mainland China’s financial system. These enterprises in Taiwan were operating with their own money received as export income or investment from abroad and did not have an access to the state banks’ national or foreign currency reserves. They were also the least inclined to take loans from KMT controlled state banks because of two reasons. First, state-owned banks themselves were not eager to deal with small and medium private local capital looking upon it as a irresponsible, unreliable and perhaps politically dangerous client. Second, local small and medium enterprises – being in most cases family- or clan-based economic structures – found it easier to make investments from their own savings or turning to credit cooperatives and private trust companies for extra capitalization. They operated independently from the state – politically, institutionally and financially (Szu-yin & Ho Jih-chu Lee 2001, p. 69–89).

But they indeed could undermine the country’s macroeconomic stability. Perhaps the most vivid case is the accumulation of a big amount of foreign currency by them in 1985–1987 just on the eve of Taiwan’s final acts of financial deregulation. At that time the third layer of the island’s financial system was expecting huge profits in the wake of Taiwan’s dollar appreciation, which looked inevitable. But restricting measures of the Central Bank on the amount of accumulated foreign currency in 1987 and 1988 basically ruined the Taiwanese “shadow banking” and at the same time softened appreciation pressure on TWD (Liu 1992, p. 207–208).

The national financial system as a whole withstood the interest rate liberalization without recession and big bank insolvency.

2. The KMT’s attempts to regulate prices on Taiwan’s domestic market were absolutely marginal. Unlike the CCP in Mainland China which attempted to annihilate the market in the name of Marxist-Leninist utopia and thus made almost all prices in the national economy subject to the state’s direct setting, the KMT’s price setting policy in Taiwan was actually pretty loose. Interestingly enough, even in the most politically harsh period of the 1950s there were basically no attempts to resort to direct price setting.

There were only two attempts to introduce price control procedures. From July 1, 1973, till January 1, 1974, in the wake of the oil shock consequences the KMT government decided to start regulating the prices of

clothing, staple foods, building materials etc. As a result, shortages ran wild while the black market flourished. Moreover, after the lifting of these regulations staple foods prices hiked well higher than the pre-regulation level.

The second attempt took place in January 1974 while the KMT government forbade the rise of domestic oil prices to the world market level in order to prevent imported inflation. The ban held on for less than a month. Eventually the overall index of oil prices in Taiwan in 1974–1975 grew higher than in developed countries in the same period. (Wan-an Yeh 2001, p. 38–40).

The KMT government learned useful lessons from these two conspicuous price regulation failures and never tried this path again. That is why by the beginning of the final stage of financial liberalization in Taiwan in the 1980s, there was basically no need for any “price reform” or introduction of “market price setting.” Prices in the island’s economy were well before adjusted to the dynamics of supply and demand.

As regards the price of capital, by the end of the 1970s deposit rates in the state-owned commercial banks were defined by the Central Bank. Credit interest rates in state-owned commercial banks were defined by the banks themselves but within the corridor, the parameters of which were submitted by the Association of Taiwan Banks to the Central Bank for approval.

In 1988–1989 the “ceiling” of the corridor was abolished. In 1991 fifteen new private banks, investment and trust companies and cooperatives were established, marking the final stage of deposit and interest rate deregulation in Taiwan (Yun-peng Chu 2001, p. 89–119).

3. Under the KMT government Taiwan’s Central Bank enjoyed super independence and its credit and monetary policy invariably remained super conservative. Describing Taiwan’s credit and monetary policy in the decades of KMT dictatorship, Tun-Jen Cheng wrote that “the case of Taiwan poses the puzzle of the dog that did not bark” (Cheng Tun-jen 1993, pp. 55).

By this he meant that between 1949 and 1989 all commanding heights in the island’s financial system were under KMT monopoly, to which it may seem reasonable to stimulate economic growth by means of credit expansion. Especially in the wake of export oriented miracle when Taiwan’s foreign currency reserves were only next to those of Japan. Still it never happened. The credit and monetary policy of Chiang Kai-shek’s regime was so conservative and the island’s Central Bank enjoyed such

a degree of real independence from both legislative and executive power branches that it can be claimed that long before monetarist theory upsurge and the formation of the Washington consensus, pretty dictatorial and statist KMT autocrats pursued exactly the financial policy that Milton Freedman and the Chicago school would have prescribed to them if existent in 1950 or 1960.

Some statistical data that can be given in this context is indeed amazing, especially in contrast with the financial developments in “reforming and opening” today’s Mainland China.

Between 1951 and 1988 the deficit of Taiwan’s central budget was either non-existent or never higher than 2% (Tun-jen Cheng 2001, p. 120).

The monetization of Taiwan’s economy (M2 rate to GDP) according to different sources was less than 25% in 1950, around 34% between 1961 and 1971, around 57% in 1971–1981. On the eve of financial deregulation it was still well below 100% – around 85–90%. Only in the wake of final stage of liberalization in 1986–1988 with the central government deliberately increasing money supply to curb the possible rise of the state banks interest rates did M2 to GDP exceed 100% (Liu 1992, p. 198).

As far as the investment rate is concerned: in the decade of import substitution in 1950 investment stood 16% to GDP. By 1965 it increased to 23%. During the oil shocks at the beginning of 1970 investment was up to 26% to GDP. And on the eve of financial deregulation in the early 1980s it was slightly above 30% (Wan-an Ye 2001, p. 29).

Such a strict financial diet of the KMT-led socio-economic development model has, however, at least two feasible explanations.

First, the KMT leadership and Chiang Kai-shek in particular perceived hyperinflation of the 1940s as one of the main reasons for political and military defeat in the Civil War of 1946–1949. Closely connected with this perception was deep distrust towards private entrepreneurs and investors as corrupt clientele always ready to swindle economically and betray politically. This twofold distrustful fear to a great extent laid the foundation of the political economy of Taiwan’s financial order between 1949 and 1988. Monetary and credit policy must be strict almost up to an extreme degree and the private sector is to be separated from the state finance by all possible means. Although with the passing away of Chiang Kai-shek and rise of Jiang Jinguo the attitude towards local private entrepreneurs became much friendlier but the idea of no-deficit and low-inflation financial policy absolutely prevailed until the end of the 1980s.

Second, the KMT regime in Taiwan faced a potential lack of accessible capital, at least through the first two decades of its rule on the island. US financial help delivered and distributed through the Agency of International Development (AID) between 1951 and 1965 made up to almost 40% of state investment in this period. Indeed, it was both economic and political leverage of considerable strength. In 1958, for example, Chiang Kai-shek had to yield to pressure from AID advisors on the subject of creating a friendlier environment for private investors. But it seems that the AID board of advisers and KMT leading autocrat were united on the point of the need for credit and monetary conservatism (Chen Hen-chin 1996, pp. 115–116).

The Republic of China on Taiwan indeed had to pay a big price for initial macroeconomic disorder. Between 1948 and 1949 the prices on the island soared thirty-five times. This was the overspill of hyperinflation from Mainland China torn at that time by the Civil War. Tragic events of February 18, 1947, can also be partly explained by growing economic misbalances.

In June 1949 the national gold and currency reserve was established and – as a firewall from Mainland China's inflation – the quantity of banks in Taiwan was reduced by cancelling the licenses of four banks existent during KMT rule in Mainland China. After currency reform was carried out, state banks started absorbing people's savings for an annual deposit interest rate of up to 125%. By the end of 1950 the monthly inflation rate went down from 12% to 2% (Wu Jiahua 2012, p. 18).

The new Central Bank Law promulgated in 1952 followed the example of the Central Bank Law of 1935 in the sense that it made the Director of the Central Bank accountable only to the President, i.e. Chiang Kai-shek. Indeed, two Central Bank Directors of the KMT's Taiwan period, Xu Boyuan and Yu Guohua, were closely associated with the Chiang Kai-shek family and served in this post for fifteen years each.

The Central Bank in Taiwan in a way was something more than a Central Bank. The leader of the KMT was the highest guarantor of financial stability and the Central Bank was the "bank of the banks" whose credo was proclaimed in 1958: "First thing which we must achieve is macroeconomic stability. This can be achieved only by means of fighting inflation. The main source of inflation is budget deficit and loose credit policy with low interest rates. If we can achieve balanced budget CB may use at least a portion of its reserves to help economic development" (Yan Jiajin 1958, p. 2–3).

There is another interesting piece of evidence of Chiang Kai-shek's personal concern about macroeconomic balance. In 1963 the KMT leader, in conversation with the Minister of Finance, stressed that the purchase of Taiwan's farming produce by the state companies must be financed by means of current export income and by no means through the spending of Central Bank reserves (Li Guoding 1963, p. 47).

The principle difference between the Taiwan financial policy and that of Chinese Communist government in Mainland China since the inauguration of "reform and openness" is that in Taiwan – even after the sky-rocketing export income since the 1960s – the state foreign currency reserves were never used as a source for stimulating economic growth. This fact also greatly conduced to healthy GDP growth, the overall macroeconomic stability of the island and positive sustainability of its financial system.

In fact, even in the period of import substitution the state banks' credit interest rates were never artificially set too low. In the 1960s, when the Taiwan export-oriented miracle began taking shape, state credits were almost never channeled for support of certain branches or enterprises but went to export-supporting infrastructural upgrading, for example, to the development of ports and near-port logistics.

Interestingly enough, by means of state credit policy, namely by stopping certain credit lines, the KMT government prevented accumulation of excessive industrial capacities.

All banking procedures in state-controlled banks were extremely bureaucratized but perhaps the most complicated and potentially punishable measure was the process of debt amortization. Accumulation of debt itself as well as its unaccounted amortization was looked upon as serious political delinquency which could lead to severe administrative and sometimes even criminal penalties. By the end of each day, on all levels of the state banking system, consumption must have equaled parish.

The system was indeed able to achieve an almost perfect macro-economic balance, but was rigid, closed, poorly institutionalized and badly prepared to supply the demand for capital from both state and private businesses. It became especially clear by the middle of 1970 after the oil shocks, with huge trade surplus and – hence – unprecedented amount of liquidity in the state banks.

Between 1979 and 1989 the Central Bank was gradually put under the control of Executive Yuan (Cabinet of Ministers) and the deregulation of interest rates on credits and deposits splendidly carried out against the

background of a more loose monetary policy in 1986–1989 finished the process of “normalization” of Taiwan’s Central Bank’s position with regard to political leadership and to other banks.

4. After 1955 until the final stage of liberalization between 1986 and 1989 Taiwan’s financial system was in an almost constant process of deregulation. The first feasible steps towards financial deregulation in Taiwan can be traced back to July 1955 when the KMT administration abolished previous restrictions on security trading, proclaimed free stock-price setting and place of trade and diminished by half the transaction tax. This was followed by the inauguration of the first stock exchange in 1962. About 58% of its capital turnover belonged to private businesses, although the state intervened to support certain companies and to ensure an overall growth trend (Wade 1990, p. 110–115).

The money market was officially introduced in 1976, deregulating partly the capital account for export oriented private sector with the Central Bank-licensed Bank of Taiwan, Trade Bank and Transport Bank to supervise loan securities turnover.

In 1975–1981 state banks were granted more autonomy in defining credit interest rates within the corridor defined by the Central Bank. Subsequently credit interest rates of credit cooperatives and credit departments of farmers’ and fishermen’s cooperatives were actually freed while interest rates of state banks were more than dozen times adjusted to become closer to the real capital demand index.

In 1982–1984 the financial market in Taiwan facing double-digit inflation, fall in growth rate and excessive liquidity reacted accordingly by decreasing deposit interest rate from 13% to 9% and loan interest rates to less than 5%. In March 1985 loan interest rates were deregulated against the background of almost 9% GDP growth and less than 2% inflation. Spread between short-term and long-term loans was widened and in January 1986 the “ceiling” of deposit interest rates was finally abolished. 1989 witnessed the final stage of current account and capital account exchange rate deregulation (Chiu 1992, p. 121–193).

It can be said that by the end of 1991 with the beginning of state banks’ privatization and establishment of fifteen new private banks, Taiwan’s financial system transition from the market with state-controlled profit to the market of free capital allocation and turnover was basically completed. What followed was the maturation and development of the island’s free capitalist finance. This process went on not without serious socio-economic and political pitfalls and continues until today. But these

pitfalls, their causes and consequences as well as the reasons as to why the process of financial market maturation in Taiwan is perhaps still not finished are well beyond the scope of this paper.

5. The political economy of Taiwan's financial deregulation: basic constellation of actors and ideas. The principle conceptual cleavages between the parties concerned with Taiwan's financial liberalization can be traced in the discourse on the role and place of the Central Bank which was held in the second half of 1970s.

According to the view of the "reformist party," "financial policy must correspond to economic policy and...Central Bank is to report to the government. In this country (Taiwan) ... government embodied in the Ministry of finance, Ministry of economy under the leadership of a Prime Minister will ... control the CB activities bringing them into correlation with imperatives of economic policy" (Bai Junnan 1975, p. 1).

The take of the "conservative party" was the following: "Central Bank is first and foremost the instrument of monetary policy carried out in the interests of society as a whole. Government represents different parties and political orientations. CB reporting to the government may end up in a situation when common interests will be sacrificed to some private and factional aspirations. Government will invariably choose growth to the detriment of stability. And Ministry of finance won't be able to avoid the policy of low loan interest rates to ease the debt burden. Low loan interest rates and high attention to economic growth create nutrient medium for inflation. Besides, in order to attain certain goals monetary policy must be of consistent and long-term character. If CB reports to the government the latter's policy changes may ... make monetary policy chaotic and inconsistent" (Women dui 1979, p. 1).

The same cleavage is visible in big debates on economic policy which took place in the first half of 1980 when fundamental financial deregulation was already in the air. For example, in August 1982 round table discussion on loan interest rate policy held by the "Commercial Times" newspaper (Shangye Shibao) witnessed a sharp clash between the advocates of low interest rates ("reformers") and those who adhered to the principles of strict credit and monetary policy ("conservatives").

At the end of the day, however, leading figures of both parties (Wan Juyong and S.C. Tsiang) published a joint article urging further deregulation of Taiwan's financial system (Yun-peng Chu 2001, p. 115–116).

With the market economy existing and overall macroeconomic environment (debt, inflation rate, loan and monetary policy showing) healthy,

"reformers" backed by local private entrepreneurs, foreign investors and liberal intellectuals were eager to make the island's financial system better institutionalized, more competitive and open, ready to meet capital demand from the non-state sector, which made up more than 70% of GDP.

The so-called "conservatives" did not oppose deregulation in principle but were seriously concerned with possible inflation overspill, monetary policy chaos and factional strife in the government. They were certainly also preoccupied with saving their political and financial positions as "commanders of Taiwan's economic heights."

Technically speaking, the essence of the dispute was the degree of the loan and monetary policy softness. The "reformist" party was eager to increase this degree by means of more institutional pluralism in both financial and political systems. The "conservative" party, understanding pretty well the shortcomings of the existing financial arrangement, was still inclined to retain overall hard loan and monetary policy constraints with limited institutional pluralism and gradual political liberalization.

From the height of today it is impossible to deny that the following two fundamental structural factors of internal socio-economic development in Taiwan created favorable conditions for the success of final stage of financial deregulation. First, the overall healthy macroeconomic environment guaranteed by extremely conservative loan and monetary policy of the politically authoritarian KMT regime. Second, despite the political and economic patron-client relationship between the KMT party-state and local private credit and investment structures, the latter remained financially and institutionally independent from the former. Taiwan's financial system stayed diversified and plural. This plurality was guaranteed and enhanced by the fact of an existing market economy and by gradual but consistent financial deregulation which began as early as the mid-1950s.

The case of Mainland China: from "non-market" to the "market" of bureaucratic agreements

Price reform in China, being introduced as a priority step "from above" in 1979–80, forestalled many other measures aimed at market transformation, such as property, bank, tax or administrative reforms. The new mechanism of pricing, which took shape in China by the mid-1980s, was called "double-track" – meaning the parallel existence of "plan" and "market" prices in the national economy (Li Huizhong 1998, p. 81).

On the whole, the implementation of “double-track” price reform in China in 1980s essentially was the quantitative expansion of mechanisms familiar from the past, with which communist leadership effectively got over the shortages on the domestic market. Decentralized decision-making and resource allocation made radical price “liberalization” technically impossible. The “double-track” model was far from uniformed. Chinese experts usually allude to “sectional” and “proportional” variants of the “double-track” price model (Yang Shengming & Wang Lijun 1993, pp. 27–33).

In reality, however, the “double-track” price model was a queer and multi-dimensional combination of these two variants. Empirical facts testify that this border was always very mobile, moving periodically both into the directions of “plan” and “non-plan,” depending on concrete political, administrative, economic and social conditions. Chinese experts claimed that “so far as currently market prices are considerably higher than planned prices, the produces want to sell their produce on market prices but to buy raw staff on planned prices. “Volume proportions of used planned and market prices for the most part are subject to bargain between enterprises and the government. Thus it is extremely difficult to say, what these proportions are” (Yang Shengming & Wang Lijun 1993, p. 81).

Party-state institutions had the final say in defining the design of the “plan-market frontier.” It should be also remarked that the implementation of “double-track” price model went simultaneously with the decentralization in decision-making. Thus the role of local authorities in defining the parameters of this “frontier” was gradually but steadily growing.

Covert and at the same time harsh bargaining developed all along horizontal and vertical lines of party-state bureaucracy and enterprises’ management. First, lower levels of party-state hierarchy lobbied for getting more powers in price-setting decision-making from the center. Second, corresponding economic organs fought for more powers on the horizontal levels. Third, enterprises of both central and local subordination lobbied party-state organs for more price-setting possibilities as well as for “optimal” (in the enterprises’ own understanding) ratio of “plan” and “market” spaces.

The Chinese “double-track” pricing model was such a symbiosis of “plan” and “market,” which badly yielded to central management and simply couldn’t yield to any targeted dismantle, either in the name of “plan,” or in the name of “market.” In our judgment the “double-track” price model as an internally coherent system with a clear ratio of “plan” and “market” prices for each commodity, enterprise, sector or province,

probably never existed in the PRC. The volumes of “plan” and “non-plan” sections differed greatly from one sector and region to another, defined by more and more decentralized price-setting powers of party-state organs and productive units.

The next stage of deepening fragmentation and localization of price setting, which took place from 1990 on, was in most cases irregular and spontaneous. It further undermined the central government's ability to administer “plan-market frontier” in the bigger part of Mainland China's “economic space.” By 1993–1994 this process led to **such a state of affairs when the central government retains the rights to set the prices of natural monopolies, capital and national currency, while local authorities retain the rights to design a “plan-market frontier,” using a tremendous variety of bargained “tracks.” We tend to call this structural environment the “multiple-track price setting model”** (Karpov 2011 № 4, p. 39).

The “multiple-track” model in different sectors of the Chinese economy

From the mid-1990s on, there appeared more and more signs that “market-oriented transformations” in all important socio-economic sectors – state own enterprise joint-stocking, interest and currency rates, taxation, real estate etc. – proceeded according to the logic of “multiple-tracking.” It seems to be also true even for some parts of the political and administrative fields.

Each “track” is, in fact, a sum of conditions on which different units of the system participate in the Chinese domestic “market.” This sum of conditions for the concrete unit is achieved through non-transparent bargaining between this unit and corresponding level of party-state authorities or between mutually depending units under the control and patronage of the corresponding party-state organs. Thus the “tracks” are bargained between party-state organs of different levels, between enterprises (social units) and party-state organs and between enterprises (social units) themselves but under the party-state's auspices.

The supporting frame of the “multiple-track” model is still the political monopoly of the Leninist party-state, which penetrates the whole society and guarantees the norms of politically “rational behavior,” reproducing the principles of “soft-budget constraint” in both economic

and political fields. In order to be able to do so, the party-state firmly and monopolistically controls and regulates the whole complex of national finance – banking and monetary policy, interest and currency rates, taxation, stock market as well as price setting in key sectors. **Hence it is the party's power monopoly intertwined with the party's financial monopoly at the central level of the party-state which secures internal cohesion of the whole "multiple-track" edifice from the danger of different "tracks" tearing apart.**

The most important structural characteristic of the "multiple-track model" is non-transparent and indissoluble "symbiosis" of "plan" and "market." The described mechanism of non-transparent bargain under control and with mediation of the party's political and financial monopoly **in each concrete case designates to the "contracting parties" quite clear limits of the "market space."** "Market" here is not a "system" but a "practice" of a speculative nature which is used unevenly and – for the external observer - without clear regulations at different "floors" of the party-state which still constitutes the core of the "system."

The "multiple-track" model in Chinese financial system

It is very characteristic, that in financial sector and in macro-economic regulation (certainly, as well as in political and ideological fields) the Chinese party-state *is at least inclined to bargain* with its economic and social counterparts. Cyclical struggle with macro-economic "overheating," at least since the mid-1990s, each time begins with the implementation of the so-called "indirect" or "market" methods of regulation which means enhancing interest rates and increasing the flexibility of taxation.

But with given Chinese "multiple-track" credit and investment mechanisms, interest rates and taxation being subject to bargain, inflation "overheating" repeats. Thus central financial bodies of the party-state have to drop the bargain and go for inevitable administrative limitations of credit, price regulations and other prohibitive non-market practices (Fan Gang & Zhang Xiaojing 2005, p. 165).

In other words, each macro-economic cycle in China starts with bargain and ends up with administrative repression which is also an important mechanism of the system's self-reproduction. Such a model will come to an end only when this growth turns unsustainable (depriving

the “track” bargain parties of their rent share) or in the case when still technically sustainable growth – due to the increase in total costs on more aggregated levels – will lead to such structural damage, which would be lethal for the system. In our view such an “end” will, most likely, take a form of systemic collapse.

Other structural factors in Mainland China's economy which run contrary to Taiwan's developmental experience

The Chinese banking system as well as investment mechanism are still not structured along the market economy lines. Reforms initiated by former Premier Zhu Rongji indeed helped to recentralize four big central banks and separate the tax base of central and local governments but did not lead to long-awaited interest rate deregulation. The investment mechanism, although decentralized, remains “the last bastion of socialist planned economy.” Chinese “shadow banking” which has become extremely active in recent five years is in many ways a replica of state-owned central and local banks capitalizing from their reserves but lending on even less transparent conditions conducing to overall precariousness of the macroeconomic environment (Zhang Joe 2014, p. 107–119).

Chinese economic growth was and, despite all undertaken reforms, still is predominantly investment-led, with an investment to GDP ratio up to 50% and even more.

Loan and monetary policy subject to “multiple-track” bargaining and politically motivated growth settings produce an avalanche of liquidity with monetization (M2 to GDP) running as high as 200% (Guilford 2013).

National hard-currency reserves constitute one of the main sources for GDP growth stimulation. The exchange rate mechanism is still fixed to meet the needs of growth stimulating money supply. (Qin Yi 2011, p. 5)

Domestic indebtedness runs high, standing, according to some recent estimation, at more than 200% to GDP. The problem, perhaps, is not that much with the actual amount of the debt but with the fact that the party-state still stands as the whole system's lender of last resort. This means that any substantial movement towards financial deregulation (loan interest rate liberalization, investment or exchange mechanism reform, further diversification of the banking system etc.) may activate so far latent claims of the creditors, thus dealing a powerful blow to the

whole political and economic edifice of the PRC. The “lack of liquidity” crisis which happened in Mainland China in May-June 2013 was provoked not by the actual shortage of liquidity. With M2 standing 200% to GDP the assumption of such a shortage sounds absolutely irrelevant. The true cause of the Chinese financial system coming almost to a standstill by mid-June was the limits imposed by the Central Bank on money supply to other state-owned banks in order to curtail subversive loan activities of quasi-state “shadow banking.” However, universal debt and moderation of the creditors’ claims demand a steady money supply. So the “lack of liquidity” crisis was in fact the crisis provoked by activated creditors’ claims facing a sudden credit crunch.

Mainland China’s financial reform: basic constellation of actors and ideas

Unlike in the case of Taiwan, the main actors of economic transition in Mainland China are still closely associated with the party-state both institutionally and financially. Relations between them and the communist party-state are characterized not only by political patron-client arrangement but also by “multiple-track” model bargaining based on vague and twisted price setting in the domestic goods and capital market.

To our mind, what actually emerged in China after three decades of “reform and openness” is not even the “authoritarian” market with the state-controlled profit rate but rather a “post-totalitarian” “market of bureaucratic agreements.” The principle actors in this “market” including a big portion of what looks like the non-state sector are interested not that much in financial deregulation but in the perpetuation of middle-of-the-road conditions which provide nutrient medium for different sorts of “moral hazard.” Neither of the parties concerned seem to crave for free capital market. It looks as if both “reformers” and “conservatives” clash for the upper hand in dealing with the state financial resources just to use them afterwards for the benefit of their respective clientele on the basis of “multiple-track” bargaining.

Unlike the Taiwanese case where the technical task of financial liberalization was the softening of loan and monetary policy, in Mainland China the technical task of market oriented deregulation should in principle be an opposite one, namely the hardening of budget constraints for the state-owned enterprises and other party-state clientele. Such hardening

indeed occasionally happens – in the cases of central government fighting inflationary “overheating” - but is carried out by administrative methods. It only conduces to the system’s self-reproduction without either bringing in more market or curing universal indebtedness.

The above-mentioned “technical difference” between the cases of Taiwan and Mainland China testifies to the fact that when comparing these two entities we deal with systemic settings which are very much different in their structure and dynamics.

Financial liberalization outcomes might be also quite different. In the Taiwanese case there was successful deregulation which opened the way for free capital allocation accompanied by gradual introduction of political pluralism. In the case of Mainland China we still have to wait and see what may happen to the “market of bureaucratic agreements” and basically unreformed Communist party-state in the wake of ardently debated interest and exchange rate deregulation.

Conclusion

It looks like that the lack of a free market is indeed not equal to the lack of the market as a socio-economic institution. Authoritarian party-states create systemic settings which are essentially different from the settings of totalitarian party-states, even at their “post-totalitarian” stages.

The case of financial deregulation in Taiwan represents a successful abolishing of the authoritarian party-state profit rate control in a diversified and originally market based systemic setting. It is certainly true that some extremely important variables of this setting were either forced or incidental. The fact that the KMT accepted existing diversity of local financial institutions after arriving in Taiwan was a forced variable while the US aid to the island in the wake of the unfolding Cold War may be looked upon as an incidental one.

Anyway, the diversity of the island’s financial institutions, existing market economy framework and conservative up-to-being-frenzy loan and monetary policy of the KMT between 1949 and 1988 laid solid foundations for the eventual financial liberalization.

The case of Mainland China looks structurally and dynamically very different. Initial lack of market economy as an all-nation socio-economic institution, annihilated during decades of Maoist utopia, made the terrain of “reform and openness” full of pitfalls unknown to Taiwan. **Almost**

all the important structural and dynamic variables with regard to the financial system of the PRC are in contradiction with those of Taiwan in the corresponding period. Bearing this in mind, it is indeed very difficult to point to the lessons which reformers in Mainland China may learn from the Taiwanese experience of financial deregulation. One might say that the overall systemic setting should turn out to be different. But this is obviously by no means a lesson.

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How the rise of East Asian Sovereign Wealth Funds affected the European Union?

Introduction and research propositions

A sovereign wealth fund (SWF) can be defined as a pool of capital controlled by a government or a government-related entity that invests in assets in search of competitive, risk-adjusted returns (Balding 2011). As of November 2014, SWFs assets totaled USD 6.977 trillion compared to USD 6.106 trillion in December 2013 (SWF Institute 2014) controlling a massive amount of global capital. Although incomparably less powerful than conventional asset managers, SWFs top the rankings of all major classes of alternative investment managers: including private equity-, hedge- and exchange traded products (ETPs) (Maslakovic 2014). The lion's share of this wealth has been accumulated by a handful of states, mainly from the Middle East, Europe and East Asia.¹

Major Middle Eastern and European SWFs derive their capital base from the extraction of natural resources – this is the case of funds owned and managed by countries such as Kuwait, Abu Dhabi, Norway, Saudi Arabia or Russia. The so-called “commodity funds,” as they are sometimes dubbed, have been incorporated in varying historical circumstances but they generally tend to act similarly, that is, as stabilization funds reducing

¹ The term “East Asia” is used in this paper to describe Northeast Asia as well as Southeast Asia collectively.

the volatility of government revenues or saving funds that are to accumulate wealth for future generations (Curzio, Miceli 2010).

The capital of “non-commodity funds” is derived from sustainable fiscal surpluses and foreign reserves. East Asian countries, with China and Singapore as the most prominent examples, are the ones (with the exception of Brunei and East Timor) that own SWFs whose financial resources have been amassed thanks to brisk macroeconomic growth and not due to access to vast natural resources. In recent years, non-commodity SWFs have gained traction due to dynamic exportation and the rising value of assets under their management.

The thrust of this paper is analyzing how the spectacular rise of East Asian SWFs has affected the European Union (EU). Did they act as market stabilizers or have they contributed to heightened capital market volatility? How important is Europe in the SWF investment strategies and how much have they already invested? Do they behave in a similar way to other alternative investors? What are the geographical and industrial preferences of East Asian SWF acquisitions in Europe? Finally, whether their activities bear a demonstrable political risk. Theoretically, as state sponsored actors, SWFs can be used by their creators for politically minded purposes, potentially harmful for the recipient countries (Truman 2010, Weiner 2011, Csurgai 2011). Clark and Monk (2012) go so far as defining SWFs as “long-term investors whose holdings are selected on the basis of their strategic interests (fund and nation) rather than the principles of modern portfolio theory.” This definition makes an important distinction between the owner and the fund itself suggesting that sometimes the ruling elites of a country and its fund managers might have conflicting interests. Pistor and Hatton (2010) even observed that the overriding objective of SWFs is to maximize the gains of the ruling elite in the SWFs’ home countries.

This research study is based on empirical data gleaned from the Sovereign Wealth Fund Institute (SWFI) Transaction Database – arguably the most comprehensive and authoritative resource tracking SWF investment behavior globally. Despite all the efforts, the investment activity of these SWFs in the EU remains relatively elusive. East Asian SWFs are widely perceived as particularly opaque (even among all SWFs whose transparency in general leaves plenty to be desired). On the oft-cited Linaburg-Maduell Transparency Index the majority of them ranked relatively low, their average hovering at 6.6 (of maximum 10.0 points).²

² The Linaburg-Maduell transparency Index is a rating of SWF transparency. The index is based on ten equally-weighted drivers of SWF transparency.

Europe as the top investment destination of global SWFs

As evidenced by Figure 1, Europe has – since time immemorial – been global SWF's first choice in asset allocation in the entire history of SWF activity (as per the SWFI database). The supremacy over the runner-up (the Americas having posted barely a half of Europe's investment total) attests to Europe's lasting competitiveness in attracting global SWF inflows. SWF investments tend to be relatively inert – the global shift of power towards East Asia has resulted in a redistribution of capital resources, yet the investment targets have not evolved significantly. This inertia owes a great deal to the lasting competitiveness of European and American financial markets which enable reliable access to a wide spectrum of investment asset classes and instruments (cf. Maslakovic 2014).

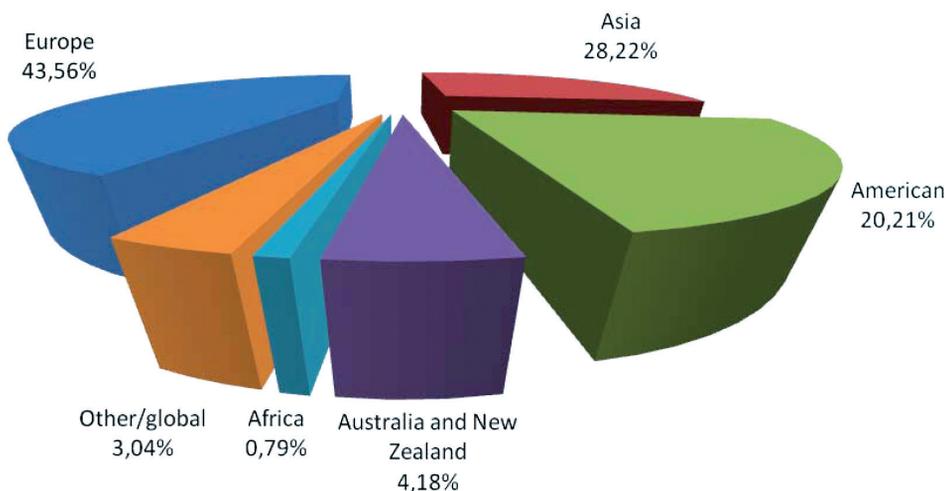


Figure 1. Geographical breakdown of direct investments by global SWFs in 1974–2014 (in %)

Source: own calculations based on SWF Institute 2014 Transaction Database.

As displayed in Table 1, Europe's effectiveness in luring global SWF investment is particularly striking in light of the rather distant place (third) of both Americas – whose competitiveness in attracting global capital flows, especially by the US, is widely recognized (Maslakovic 2014). Evidently, investment efficiencies – although important for the capital al-

location process – are not the exclusive bargaining power when it comes to accommodating global SWF assets. Among ancillary comparative advantages wielded by Europe are: political and cultural diversity, growing homogeneity, and general nonalignment with political movements overtly hostile to the Arab World (home to numerous SWFs).

Africa, the emerging “investment frontier,” despite a rising visibility (notably among East Asian SWFs) has remained peripheral in global investment league tables. Before commanding a larger pool of SWF investment, African economies will have to achieve the critical mass needed to develop adequately diversified and liquid capital markets.

Table 1. Direct investments (in total) by global SWFs by geographic location in 1974–2014 (in USD billion)

Region	Investment size
Europe	370.27
Asia	239.90
Americas	171.78
Australia and New Zealand	35.52
Africa	6.72
Other/global	25.83
Total	850.02

Source: own calculations based on SWF Institute 2014 Transaction Database.

The characteristics of East Asian SWFs

According to the SWF Institute (2014) East Asian SWFs command USD 2.492 trillion assets under management (AuM), which represents 35% of all SWF assets globally. As of November 2014, there were eight East Asian states (plus Hong Kong) having at least one SWF. The vast majority of all SWF assets in East Asia is controlled by China and Singapore (see Table 2).

Singapore, the most important commercial, transportation and communication hub in South-East Asia, is an epitomic economic success story of the 20th century. Since the beginning of the 20th century and,

particularly, when the British colonial rule ended, the city has benefitted from continuous economic growth (Huff 1994). Singapore has thus run recurring fiscal and trade surpluses that prompted the establishment of two SWFs – Temasek Holdings (Temasek) in 1974 and the Government Investment Corporation of Singapore (GIC) in 1981. Designed as flagship entities, with privileged access to capital, not only have both funds invested surplus liquidity but they have also been used to help manage the local economy (Balding 2012).

Table 2. Assets under management and origins of East and Southeast Asian SWFs as of November 2014

State	AuM	Origin
China	1426.7	non-commodity
Singapore	497.0	non-commodity
Hong Kong	400.0	non-commodity
Korea	72.0	non-commodity
Malaysia	40.0	non-commodity
Brunei	40.0	oil
East Timor	16.0	oil
Vietnam	0.5	non-commodity
Indonesia	0.3	non-commodity

Source: own calculations based on SWF Institute 2014 Transaction Database.

The People's Republic of China (PRC) moved to establish their funds much later. The rapid development of mainland China started only with an economic reform package introducing market principles initiated in 1978. The following decades of uninterrupted, brisk economic expansion combined with a fixed exchange rate have spurred exportation. China has consequently sterilized the capital account surplus resultant from large foreign exchange reserve receipts. Chinese foreign currency reserves skyrocketed from USD 610 billion at the end of 2006 to USD 4 trillion by June 2014 (Wildau 2014) and their SWFs act as de facto reserve investment managers allocating the reserve assets to risky yet potentially profitable investments.

The PRC has two major SWFs – China Investment Company (CIC) and the SAFE Investment Company (SIC), a Hong Kong based subsidiary of SAFE – commanding a total of USD 1.2 trillion under management (SWF Institute 2014).³ The other two vehicles: the National Social Security Fund and the China-Africa Development Fund are much smaller in size.

The smaller funds are widely viewed as obscure, non-transparent operations. For example, SAFE had even refused to acknowledge SIC's very existence, until it was confronted with an irrefutable press report in 2008 (Anderlini 2008). CIC, as a flagship Chinese SWF, exhibits a great deal more transparency – being a member of the International Forum of Sovereign Wealth Funds (IFSWF) and generally compliant with the Santiago Principles – a voluntary international code of conduct for SWFs adopted in 2008 (IWG 2008).

Singaporean SWFs also differ in the degree of transparency. Temasek scored 10 on the Linaburg-Maduell Transparency Index whereas GIC a mere 6 (November 2014). Such a disparity demonstrates that SWFs are managed on a case-specific basis and may be used by their sponsoring states for varying purposes.

Table 3. Shows the magnitude of seven East Asian SWF investing in Europe, alongside the countries of origin, years of establishment and asset totals:

Table 3. East Asian SWF investing in EU countries as of November 2014

SWF	Country of origin	Established	AuM (USD bn)
1	2	3	4
China Investment Corporation (CIC)	China	2007	652
SAFE Investment Company (SAFE)	China	1997	568
Hong Kong Monetary Authority's Investment Portfolio (HKMA)	China	1993	400
National Social Security Fund	China	2000	202

³ The State Administration of Foreign Exchange (SAFE) is responsible for the management of Chinese foreign exchange reserves.

1	2	3	4
Korea Investment Corporation (KIC)	South Korea	2005	72
Government of Singapore Investment Corporation (GIC)	Singapore	1981	320
Temasek Holdings	Singapore	1974	177

Source: SWF Institute website (18 November 2014).

It is noteworthy that although Singaporean SWFs have a much longer history than other East Asian funds, the SWFs from mainland China have massively outstripped them in total assets under management. Korea Investment Corporation, managing only USD 72 billion, is difficult to compare with rich funds from the two aforementioned Asian states. Due to this fact, we decided to exclude it from further analysis.

East Asian SWF investments in Europe

Since the 1980s, East Asian SWF transactions in countries currently belonging to the EU amounted to ca. USD 68.9 billion. Among them, the Government of Singapore Investment Corporation has been the most active (as of May 2014 it had closed about 594 transactions totaling ca. USD 33 billion).

Figure 2 sums up the impact of East Asian SWF investments in Europe since the 1980s. Clearly, the SWFs differ considerably in size. Singaporean and Chinese funds top the league tables of leading investors, and taken together their European investments account for ca. 99% of all East Asian SWFs' investments in Europe. In fact, Singaporean funds account for 57.4% and Chinese funds account for 41.5% of East Asian SWF's European transactions.

Notwithstanding their powerful domiciles, East Asian SWF investments represent 22% of all SWF investment exposure to the EU, which puts them only in third place after the Gulf Cooperation Council countries (GCC), i.e. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) and Norway, which account for 35% and 30% of all investments in the EU, respectively.

EU countries are a major investment target for East Asian SWFs, as deduced from publicly available information. In fact, in its annual report, the GIC stated that investments in Europe represented 29% of its portfolio

(with 34% allocated to the United States and 27% to Asia) at the end of March 2014.⁴ Conversely, CIC does not explicitly mention Europe in its annual disclosure, however, it concedes that investments in non-US advanced economy equities (of which Europe probably makes a significant part) represented 36.8% of the entire equity portfolio at year-end 2013 (against 46.1% for US equities).⁵



Figure 2. The size of investments in the EU by each East Asian SWF

Source: own calculation based on the SWF Institute Transaction Database.

Based on the transaction record going back to the 1980s and excluding East Asian SWF transactions in their own economies, European countries account for most, i.e. 31%, of all East Asian SWF investments, more than those in the US or China. Even including inward transactions, Europe remains the main recipient of East Asian SWF funding, with 25% of all deals.

Geographical and industrial preferences of East Asian SWFs investing in Europe

As portrayed by Figure 3, East Asian SWF' investments in the EU are relatively undiversified compared to the geographical breakdown of non-East Asian SWFs. In fact, the United Kingdom (UK) is the leading destination for East Asian funds, with 64% of all assets invested in this economy, followed by France (16%), and Germany (5%). Although other SWFs also

⁴ *Report On The Management Of The Government's Portfolio For The Year 2013/14*, Government of Singapore Investment Corporation, August 2014, p. 14: www.gic.com.sg/images/pdf/GIC_Report_2014.pdf

⁵ *Annual Report 2013*, China Investment Corporation, p. 32.

allocate most of their investments to the UK, however, the participation of this economy in their portfolio is much smaller (i.e. 37%). In turn, Germany accounts for 18% and France for 13% of all investments. The share of UK assets in East Asian SWF portfolios is also more significant than that of GCC SWFs (50%).

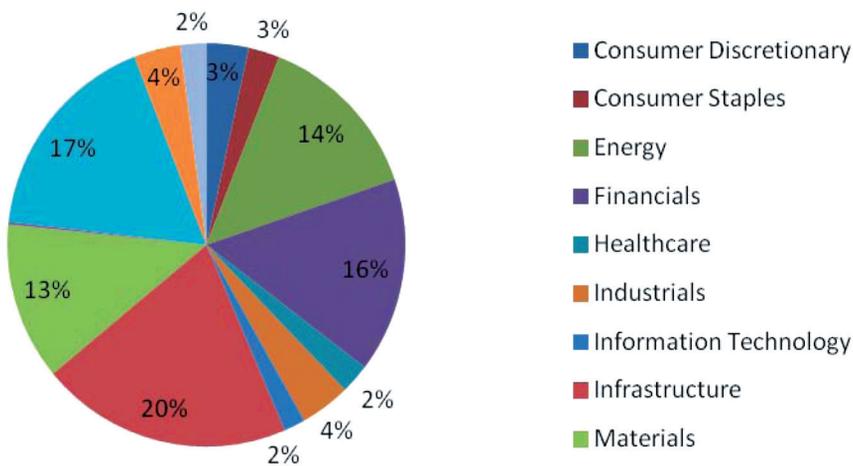


Figure 3. Asian SWF investments in Europe by sectors (% of all investments)

Source: own calculation based on the SWF Institute Transaction Database.

In industrial terms, East Asian SWFs have placed most of their assets in infrastructure (ca. 20.4%), real estate (17.3%), financial (15.6%), energy (13.8%) and materials (12.6%). Comparing to SWF global investments, it can be inferred that European portfolios are visibly less concentrated on the financial industry (accounting for 32% of their global portfolio) but more on infrastructure (12% of the global investments), energy (9%), materials (8%), and have a more or less comparable focus on real estate.

Underexposure to the financial industry cannot be fully explained by the recent financial crisis. In fact, East Asian SWF investments in the European financial sector represented a similar proportion of their overall investments in the EU between the years 2000 and 2007 (15.2%) than between 2008 and 2014 (15.8%). A lower focus on the financial sector could be explained by an overall distrust in the soundness of European financial companies rather than by any short term policy or capital moves. As a matter of fact, East Asian SWF investments in the Swiss fi-

financial sector alone (widely viewed as a safe haven) are more important than their financial involvement in the entire European financial sector (15% vs. 12% of all investments in financial companies), not to mention investments in American financial companies (27.4%). Such a stance argues for a definitive propensity on the part of these SWFs to favor asset protection over risk adjusted investment efficiencies. On the other hand, it is also worth noting that East Asian SWFs demonstrate a strong belief in the robustness of the Chinese financial sector. In fact, CIC's allocation to Chinese companies makes up about half of all its investments in financial companies. This is also the case of Singaporean SWFs, which dedicate almost a third of all their investments in financials to Chinese companies (28.4% versus 21.3% and 11.8% into American and European companies respectively).

As Table 4 manifests, the investment policy of East Asian SWFs has significantly evolved over the past few years. Their investments between 2008 and 2014 have been carried out in a broader range of sectors than before (this may be also due in part to the fact that CIC has been active only since 2007, although it does not explain in full the relatively low degree of investment diversification by industry of other SWFs prior to that date). In fact, as demonstrated below, between 2000 and 2007 investments in infrastructure and real estate accounted for almost 60% of all investments, with no exposure to industrials or utilities and limited emphasis on energy.

Table 4. East Asia SWF European investments in 2000–2007 and 2008–2014 (% of all investments)

Industry	2000–2007 (in %)	2008–2014 (in %)
1	2	3
Consumer Discretionary	0.5	4.5
Consumer Staples	1.6	2.8
Energy	1.6	17.8
Financials	15.2	15.8
Healthcare	4.0	1.9
Industrials	0.0	5.4
Information Technology	0.0	2.3

	1	2	3
Infrastructure		30.6	17
Materials		15.8	11.6
Media and Entertainment		0.0	0.3
Real Estate		27.8	13.8
Telecommunication Services		2.9	4.0
Utilities		0.0	2.8

Source: own calculation based on the SWF Institute Transaction Database.

A comparison of industry allocations by East Asian and other SWFs

Basing on Figure 4, it is hard to detect spectacular similarities between East Asian and other SWFs in investment allocations by industry. In fact, while East Asian SWFs put most of their assets in infrastructure, the exposure of other SWFs to this industry has been much more subdued. Conversely, while GCC SWFs have very vigorously pursued the industrial sector, East Asian SWF interest in this domain has been relatively low (vis-à-vis all other SWFs).

However, certain similarities do come to the fore. Both East Asian and GCC SWFs are allocating an important share of their assets to real

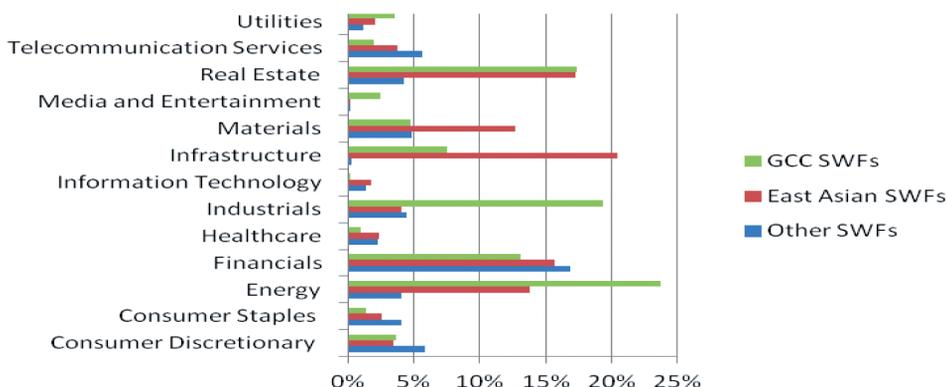


Figure 4. Industrial asset allocation by origin (% of all investments)

Source: own calculation based on the SWF Institute Transaction Database.

estate, and they are slightly less exposed to the financial industry than other SWFs. It is also vital to note that while East Asia SWFs are devoting a large share of their investments to the energy sector, the share of investments in this space in the case of GCC SWFs is even more sizeable (24%).

As demonstrated by Figure 5, East Asian SWFs had ranked among the most active SWF players in Europe until 2007–2008.

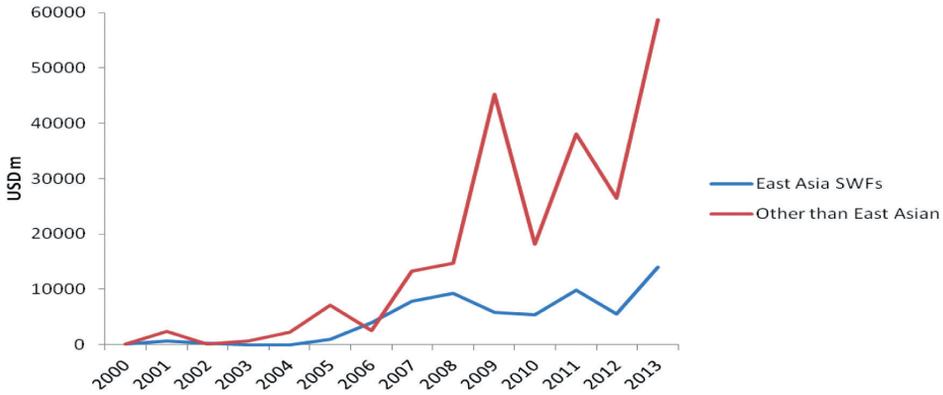


Figure 5. Annual Investments by East Asian SWFs vs. other SWFs in the EU in 2000–2013

Source: own calculation based on the SWF Institute Transaction Database.

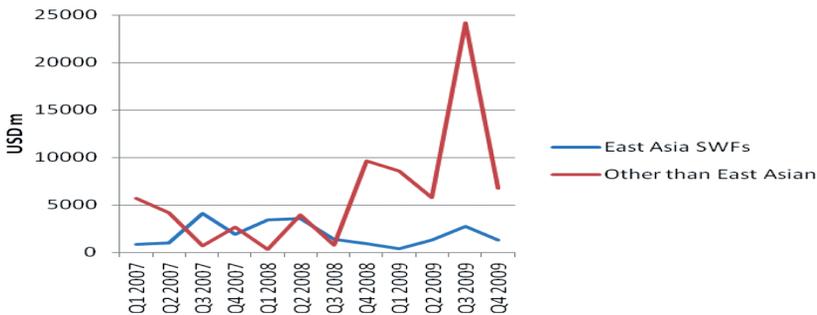


Figure 6. Quarterly Investments by East Asian SWFs vs. other SWFs in the EU in 2007–2009

Source: own calculations based on the SWF Institute Transaction Database.

Figure 6 highlights that East Asian SWF investments massively outnumbered other SWF contributions to Europe in some quarters of the 2007–2008 period, i.e. at the very onset of the subprime crisis. However, both images attest to a growing shift of gravity towards non-East Asian and away from East Asian SWFs (starting from 2009).

SWFs investing in Europe – comparison with other alternative asset managers

Besides the sheer composition of SWF funding for Europe, it is by far more intriguing to compare their exposure with other classes of alternative investment. These, in line with the methodology proffered by Maslakovic (2014) besides SWFs, encompass:

- *exchange traded products (ETPs)* – *de facto* index-based strategies combining avowed investment passivism with low fees and high liquidity;
- *hedge funds* – elitist investment strategies whose overriding objectives are non-conformism, absolute return delivery and fee structures skewed towards predefined success measures;
- *private equity funds* – activist institutions committing capital to non-public ventures and grooming them towards a profitable resale.

Such characteristics are particular to the three classes of alternative investment management are – to a large extent – responsible for demand factors (including the makeup of investment portfolios). These can be differentiated as follows:

- *exchange traded products (ETPs)* – their uptake is, on the one hand, a function of market development and sophistication, and, on the other, access to efficient capital markets offering exposure to tradable indices and baskets of investment assets;
- *hedge funds* – these institutions make recourse to state-of-the-art managerial talent, efficient capital markets and offshore tax planning, whereas their appeal is also determined by the abundance of high-net-worth individuals (HNWIs) – their natural catchment area;
- *private equity funds* – such investment vehicles largely depend on innovation (as a prerequisite for eligible deal-flow opportunities) as well as investment exits (active markets for initial public offerings, IPOs).

Since no reliable data on hedge fund investment activity in Europe are available (most sources depict hedge funds exclusively by their domicile), this study is limited to the other two classes of alternative investment management.

Exchange traded products

Exchange traded products (ETPs), as an increasingly compelling alternative to actively managed investment strategies, have gained global traction to a large part thanks to low costs and serviceability in helping diversify investment portfolios across ever-broader spectra of financial assets and instruments. ETPs have expanded particularly swiftly in the US, however, their propagation in Europe has also been palpable. Both regions are home to several relatively well-developed and efficient capital markets, which have increasingly called for exposure to infinitely more sophisticated investment opportunities (Figure 7).

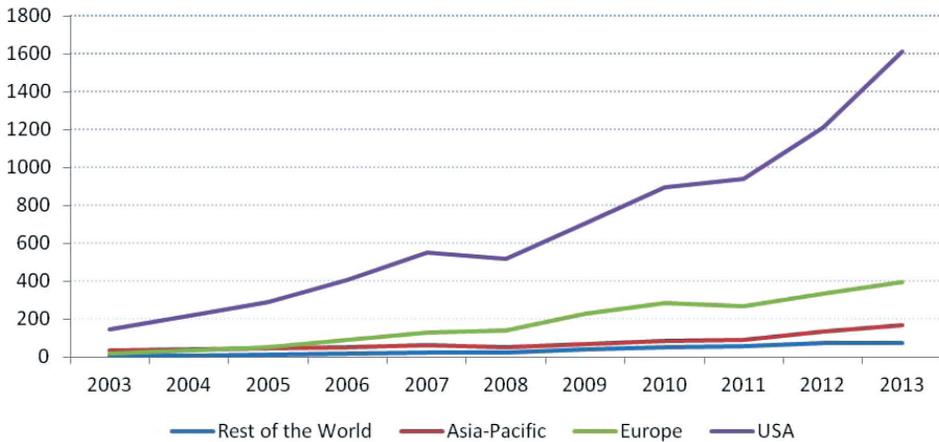


Figure 7. Exchange Traded Fund (ETP) Assets under Management in 2003–2013 (in USD billion)

Source: *ETP Landscape – Industry Highlights*, BlackRock, November 2014, available at: http://www.blackrockinternational.com/content/groups/international/site/documents/literature/etfl_industryhighlight_nov14.pdf [December 21, 2014].

As shown in Table 5, the leadership of the US market for ETPs can be explained by efficiency related aspects. With much more pressure on cost competitiveness than in other parts of the world (including Europe) and the legacy of disenchanting returns fetched by active investment strategies (notably during the last global financial depression), the American investment market has increasingly reoriented towards passive investment products (including ETPs).

Table 5. Exchange Traded Product (ETP) Assets under Management in 2003–2013 (in USD billion)

Region	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Rest of the World	5.8	7.9	12.1	16.1	24	21.3	42.6	51.6	54.2	73.7	75.4
Asia-Pacific	34.8	39.9	42.8	48.4	60.3	53.1	65.1	84.9	90.7	135.2	167.4
Europe	20.5	32.3	50	89.4	127.1	137.7	226.9	283.6	270.1	334.3	396.6
USA	144.1	217.4	292	404.5	548.8	516.3	706.3	893.3	939.3	1214.2	1614.4
Global	205.2	297.5	397	558.4	760.2	728.4	1040.9	1313.4	1354.3	1757.4	2253.8

Source: *ETP Landscape – Industry Highlights*, BlackRock, November 2014, available at: http://www.blackrockinternational.com/content/groups/internationalsite/documents/literature/etfl_industryhighlight_nov14.pdf [access: December 21, 2014].

Despite a lower scale than that of the US market, the stellar ascent of European ETP assets under management has been accompanied by an equally exponential proliferation in ETP fund numbers. Interestingly, both ETP assets and fund counts have defied downward volatility attributable to both recent crises: the global financial depression of 2007–2009 and ensuing turbulences in the Eurozone (Figure 8).

As comprised in Table 6, investment inflows into European ETPs have mirrored both country size as well as opportunities related to the efficiencies of local financial markets. Demand for ETPs has been concentrated on single-country strategies and European assets (rather than pan-European and Asia-Pacific products).

The industrial makeup of inflows into European ETPs has demonstrated relative emphasis on financials, consumer cyclicals, industrials and basic materials. These choices have on the one hand responded to investment portfolio needs of institutional and private investors, while on the other had have been a function of the structure of the European market for financial instruments (Table 7).

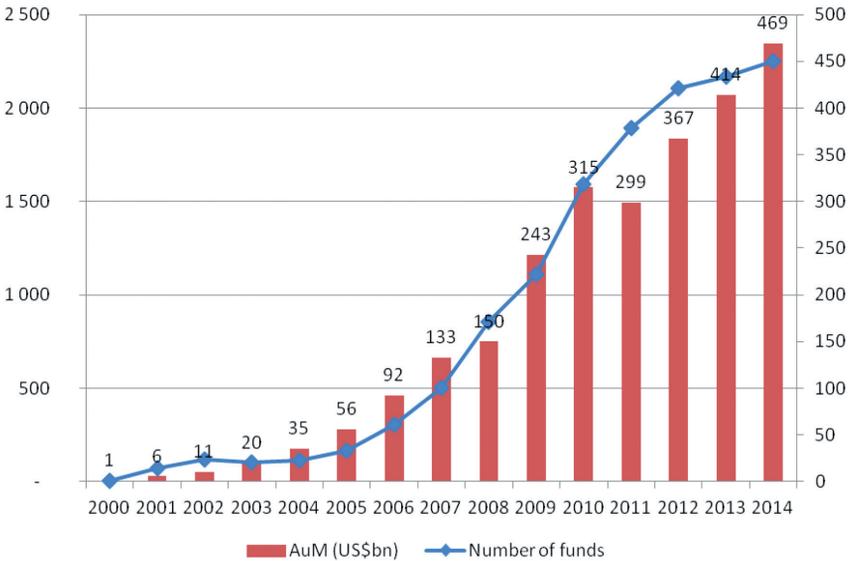


Figure 8. European Exchange Traded Product (ETP) Assets under Management and ETP Fund Numbers in 2000–2014

Source: *ETP Landscape – Industry Highlights*, BlackRock, November 2014, available at: http://www.blackrockinternational.com/content/groups/internationalsite/documents/literature/etfl_industryhighlight_nov14.pdf [December 21, 2014].

Table 6. European Exchange Traded Product (ETP) Flows by Geographic Exposure (to Equity) as of November 2014

Region		Assets (USD million)	Number of funds
Pan European Strategy		3 412.0	20
Nordic Regional		4.3	19
Pan European Total		83 378.3	317
Single Countries	Germany	25 385.4	57
	UK	18 330.6	54
	Switzerland	10 037.9	32
	France	5 324.6	19
	Sweden	2 175.4	12
	Italy	3 882.7	21
	Others	3 220.9	35
	Single Country Total	68 357.5	230
Europe Equity Total		151 735.8	547
North America		75 588.7	156
Asia-Pacific		25 669.4	105
Global		34 398.9	129
Developed Equity Total		287 392.8	937
Emerging Markets Equity	Broad	17 248.8	50
	Regional	3 761.6	31
	Country	13 435.5	101
EM Equity Total		34 445.9	182
Equity Total		321 838.7	1 119

Source: *ETP Landscape – Industry Highlights*, BlackRock, November 2014, available at: http://www.blackrockinternational.com/content/groups/international/site/documents/literature/etfl_industryhighlight_nov14.pdf [access: December 21, 2014].

Table 7. European Exchange Traded Product (ETP) Flows by Sectorial Exposure (to Equity) as of November 2014

Pan European Sector	Assets (USD million)	Number of funds	% of assets
Basic Materials	870.1	12	5.8
Consumer Cyclicals	428.6	19	2.9
Consumer Non-cyclicals	687.2	7	4.6
Energy	798.4	9	5.4
Financials	5 523.0	23	37.1
HealthCare	1 725.3	9	11.6
Industrials	614.3	18	4.1
Real Estate	2 536.8	9	17.0
Technology	233.7	7	1.6
Telecommunications	535.5	9	3.6
Utilities	541.7	8	3.6
Theme	410.4	6	2.8
Sector Total	14 905	136	100.0

Source: *ETP Landscape – Industry Highlights*, BlackRock, November 2014, available at: http://www.blackrockinternational.com/content/groups/international/site/documents/literature/etfl_industryhighlight_nov14.pdf [access: December 21, 2014].

Comparing the activity of ETPs to that of East Asian SWFs investing in Europe, the following observations can be made:

➤ *country differences*: the key country specific strategy for European ETPs is Germany, unlike the UK (the top destination for East Asian SWF investment);

➤ *geographical diversification*: most European ETPs are focused on regional strategies, single-country instruments are not as important, whereas SWF investments (and particularly East Asian SWF portfolios) are concentrated around a few European economies;

➤ *consumer goods and services*: consumer cyclicals and non-cyclical account for a similar proportion of European ESP and East Asian SWF portfolios invested in Europe;

- *innovation*: technology investments are similarly peripheral to both alternative investment institutions active in Europe;
- *real estate and infrastructure*: real estate investments rank high in the investment portfolios of both types of institutions, yet they seem to be more important to European ETPs than East Asian SWFs involved in Europe;
- *materials (commodities)*: investments in raw materials were marginal for European ETPs (5.8% of their portfolios for 2013), whereas they equaled 11.6% of East Asian SWF investments in Europe;
- *financials*: despite a relatively large proportion of East Asian SWF investments allocated to the financial services sector as of 2013 (15.8%), their significance for European ETPs was more than twice as high during that period (37.1%).

Private equity funds

Appendix 1 sums up private equity investment in Europe broken down by regions and individual countries in 2007–2013 (a period spanning both major crises to have affected Europe since the turn of the millennia). The European private equity industry is led by the UK (the most significant recipient of this funding) and the continental European heavyweights France and Germany) – denoting factors as related to an established private equity culture, as to the abundance of deal flow opportunities arising from economic scale, diversity and industrial innovation.

Although no detailed composition of Asian private equity fund exposure to Europe is available, aggregate figures demonstrate a marginal presence of this financing source in Europe. Throughout 2007–2013, despite the severity of the global financial crisis, recurring shocks in the Eurozone and resultant undervaluation of numerous European corporate targets, Asian (and Australian) private equity institutions accounted for less than a percentage of all funds engaged in European non-public companies (Appendix 2). The data appears to show that the European private equity industry is to an overwhelming degree self-reliant, however, clear reservations have to be made regarding *de facto* non-European funds having formal European domiciles (the so-called capital in transit).

Private equity investment coming into Europe in 2007–2013 has been primarily focused on consumer goods, retail, business and industrial products, life sciences as well as communications. High technologies

remained relatively under-represented in this ranking, proving that most of the capital focused on traditional industries. Such a composition underscores the need for sustained efforts aimed at incentivizing funding for innovation in Europe (Appendix 3).

Comparing the activity of this alternative investment class to that of East Asian SWFs investing in Europe, the following observations can be drawn:

➤ *the position of the UK*: evidently, the UK (and the City – London’s financial center) matters infinitely more to East Asian SWFs than to private equity funds or SWFs in general, although the UK tops all of the league tables;

➤ *geographical diversification*: the private equity business investing in Europe, although primarily driven by global funds, has access to domestic capital sources and is more diversified across individual countries, SWFs (especially those of East Asian provenance) target a limited number of European economies and is by definition “export oriented”;

➤ *consumer goods and services*: investments in defensive sectors (basic goods) represent a vital element of private equity funding in Europe, whereas their share in East Asian SWF portfolios is much lower (this attests to relative conservatism in private equity activity and routine behavior by SWFs which tend to focus on other long-term investments);

➤ *innovation*: despite the relative conservatism of private equity funds active in Europe (their investment in high technologies made up a paltry 9.3% of their portfolios in 2013), the European private equity industry still earmarks more for innovative industries than East Asian SWFs;

➤ *real estate and infrastructure*: for private equity, investments in real estate and infrastructure are secondary to the process of acquiring stakes in undervalued nonpublic companies, whereas for East Asian SWFs they serve as key investment classes;

➤ *materials (commodities)*: East Asian SWFs allocated some 11.6% of their assets to European commodities (as of 2013), while for private equity funds such investments were marginal (2.3% in the same year);

➤ *financials*: with 15.8% exposure to the financial services industry as of 2013, East Asian SWFs are far ahead of private equity funds operating in Europe (a meager 6.2% share in the same year).

Conclusions

Europe remains a tempting destination for East Asian SWFs. Almost a third of their investments have been committed to EU countries. Nearly all of the assets have been invested by Chinese and Singaporean funds. The investment policy of East Asian SWFs has significantly evolved over the past few years. Their financial commitments between 2008 and 2014 were carried out in a broader range of sectors than before, which leads us to believe that they endeavor to diversify their European portfolios in a similar way to other SWFs. However, in terms of target sectors, they are much more exposed to infrastructure and much less to industrials.

Stark contrasts are noticeable with regard to the exposure to the UK market. For East Asian SWFs, the UK is definitely the top destination, with 64% of all assets allocated to this economy. For other SWFs, notably from GCC states, it is also the most significant market, but they have held more diversified portfolios. The differences can be attributed to the strength of the traditional bonds between this top European financial center and both respective areas.

Despite the widespread belief that SWFs routinely espouse politically-biased agendas, evidence supporting hostile activities by Asian SWFs is scant. Investment diversification and behavioral patterns similar to other market players help downplay concerns over the motifs of Asian investments in Europe (particularly heightened in times of economic crises in the Eurozone (Meunier 2011, 2014)). Comparisons of East Asian SWF investments with other alternative asset managers (e.g. private equity funds and exchange traded products) demonstrate investor specific differences rather than a particular bias in the investment activity of such SWFs.

Our research on Asian SWFs thus generally supports the claim (Mezcapo 2009) that SWFs can be considered beneficial for target countries as they tend to be relatively large, highly liquid, long-term orientated, not significantly leveraged, and with a substantial appetite for risk-taking, while being less affected by market conditions (than other financial institutions). Thanks to these features East Asian SWFs should be perceived as market stabilizers rather than sources of market volatility.

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Appendix 1. Breakdown of private equity investment in Europe (by the regions and countries of target companies) in 2007–2013

All Private Equity	2007		2008		2009		2010		2011		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Amounts in € thousands	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Country														
Austria	905.5	1.2	326.2	0.6	178.3	0.7	703.0	1.6	321.8	0.7	282.3	0.7	539.9	1.4
Baltic countries	217.0	0.3	88.0	0.2	6.7	0	33.5	0.1	53.4	0.1	29.6	0.1	60.4	0.2
Belgium	2 323.3	3.1	700.8	1.2	1 168.2	4.6	972.4	2.2	977.3	2	1 408.4	3.7	1 029.1	2.7
Bulgaria	179.0	0.2	91.6	0.2	185.2	0.7	82.2	0.2	7.2	0	84.2	0.2	11.1	0
Czech Republic	181.1	0.2	423.0	0.8	1 358.0	5.3	228.8	0.5	143.9	0.3	105.9	0.3	134.3	0.3
Denmark	1 835.2	2.5	1 207.4	2.1	479.0	1.9	385.7	0.9	880.6	1.8	861.6	2.2	1 841.6	4.8
Finland	1 069.0	1.4	659.6	1.2	677.2	2.6	589.9	1.3	846.3	1.8	606.4	1.6	791.0	2
France	12 149.3	16.3	8 919.5	15.9	3 142.2	12.3	6 646.0	15	9 612.1	20	5 274.9	13.7	6 442.9	16.7
Germany	10 448.0	14	9 583.7	17	3 023.8	11.8	4 894.9	11	6 666.9	13.8	6 626.0	17.3	4 927.5	12.8
Greece	151.0	0.2	283.5	0.5	152.5	0.6	39.1	0.1	10.1	0	35.6	0.1	4.8	0
Hungary	222.7	0.3	464.0	0.8	213.6	0.8	65.0	0.1	194.8	0.4	103.0	0.3	56.8	0.1

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Ireland	528.9	0.7	313.1	0.6	510.5	2	751.6	1.7	314.3	0.7	265.5	0.7	170.6	0.4
Italy	3 520.8	4.7	5 350.2	9.5	1 893.5	7.4	1 609.1	3.6	2 221.0	4.6	1 339.2	3.5	1 538.2	4
Luxemburg	687.4	0.9	829.4	1.5	912.4	3.6	92.0	0.2	313.6	0.7	68.0	0.2	155.0	0.4
Netherlands	4 626.1	6.2	2 784.9	5	885.5	3.5	2 055.1	4.6	2 885.3	6	1 379.9	3.6	2 372.0	6.1
Norway	1 178.5	1.6	1 124.7	2	709.2	2.8	1 886.7	4.2	905.1	1.9	966.7	2.5	1 657.3	4.3
Other CEE*	163.8	0.2	82.5	0.1	128.3	0.5	47.1	0.1	38.9	0.1	138.0	0.4	49.4	0.1
Poland	434.2	0.6	635.7	1.1	274.6	1.1	652.7	1.5	678.4	1.4	473.0	1.2	380.0	1
Portugal	213.0	0.3	358.8	0.6	303.4	1.2	192.3	0.4	531.9	1.1	228.3	0.6	321.1	0.8
Romania	212.4	0.3	294.0	0.5	220.9	0.9	119.1	0.3	65.9	0.1	27.6	0.1	70.1	0.2
Spain	3 697.1	4.9	2 199.1	3.9	1 114.3	4.3	2 945.9	6.6	2 349.8	4.9	2 012.6	5.2	1 969.2	5.1
Sweden	3 085.3	4.1	2 288.3	4.1	1 112.1	4.3	2 766.5	6.2	3 354.3	7	2 527.3	6.6	813.7	2.1
Switzerland	1 522.6	2	876.6	1.6	582.7	2.3	1 345.0	3	1 185.0	2.5	1 840.2	4.8	755.1	2
Ukraine	261.7	0.4	353.7	0.6	38.2	0.1	96.2	0.2	63.3	0.1	43.3	0.1	18.9	0
United Kingdom	20 028.3	26.8	13 127.5	23.3	5 037.9	19.7	12 718.4	28.6	10 248.7	21.3	10 024.9	26.1	9 616.0	24.9
European-total	69 841.2	93.5	53 365.7	94.9	24 308.4	94.9	41 918.5	94.4	44 870.1	93.2	36 752.3	95.7	35 726.2	92.6

Asia & Australia	1 269.0	1.7	636.9	1.1	183.4	0.7	286.6	0.6	832.7	1.7	338.9	0.9	181.9	0.5
Canada	180.0	0.2	91.6	0.2	23.6	0.1	13.4	0	280.7	0.6	246.8	0.6	24.6	0.1
Israel	59.9	0.1	244.0	0.4	26.4	0.1	366.9	0.8	295.3	0.6	38.2	0.1	47.0	0.1
USA	3 130.4	4.2	1 843.6	3.3	998.0	3.9	1 315.8	3	1 838.1	3.8	960.8	2.5	2 584.8	6.7
Other rest of the world	221.9	0.3	74.1	0.1	81.1	0.3	516.3	1.2	24.7	0.1	65.4	0.2	27.7	0.1
Total rest of the world	4 861.2	6.5	2 890.1	5.1	1 312.5	5.1	2 498.9	5.6	3 271.5	6.8	1 650.1	4.3	2 865.9	7.4
Total	74 702.3	100	56 255.8	100	25 620.9	100	44 417.4	100	48 141.7	100	38 402.4	100	38 592.1	100

Source: *European Private Equity Activity Data 2007–2013*, The EVCA Yearbook 2014, available at: <http://www.evca.eu/research/activity-data/annual-activity-statistics/> [access: December 22, 2014]. *Other CEE consists of Ex-Yugoslavia & Slovakia. NB: The investments made in non-European portfolio companies include only transactions made by European offices of the private equity firms.

Appendix 2. Breakdown of private equity investment in Europe (by the regions and countries of private equity companies) in 2007–2013

AllPrivate Equity	2007		2008		2009		2010		2011		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Country														
Austria	393.8	0.5	214.3	0.4	140.2	0.5	129.6	0.3	124.1	0.3	154.9	0.4	88.0	0.2
Baltic-countries	71.5	0.1	40.3	0.1	6.5	0	27.9	0.1	28.4	0.1	20.5	0.1	17.7	0
Belgium	1 047.5	1.4	636.0	1.1	1 018.2	4	475.7	1.1	590.3	1.2	521.9	1.4	920.1	2.4
Bulgaria	39.1	0.1	15.0	0	6.3	0	4.6	0	11.0	0	65.1	0.2	1.6	0
Czech Republic	69.5	0.1	39.7	0.1	61.4	0.2	36.5	0.1	192.6	0.4	16.6	0	23.9	0.1
Denmark	1 334.2	1.8	512.1	0.9	452.5	1.8	439.2	1	421.3	0.9	693.6	1.8	1 458.2	3.8
Finland	381.4	0.5	486.5	0.9	370.5	1.4	441.7	1	436.8	0.9	483.2	1.3	531.5	1.4
France	12 724.8	17	8 551.1	15.2	3 456.8	13.5	5 958.5	13.4	9 264.1	19.2	5 247.3	13.7	5 943.9	15.4
Germany	8 082.8	10.8	7 115.1	12.6	2 618.6	10.2	4 825.7	10.9	4 439.4	9.2	5 315.3	13.8	5 908.4	15.3
Greece	89.6	0.1	233.7	0.4	39.2	0.2	15.0	0	9.3	0	0.0	0	1.1	0
Hungary	48.1	0.1	33.9	0.1	191.3	0.7	45.2	0.1	78.1	0.2	104.3	0.3	22.7	0.1
Ireland	321.1	0.4	75.3	0.1	59.0	0.2	48.4	0.1	64.8	0.1	92.6	0.2	94.0	0.2

Italy	2 838.6	3.8	3 399.6	6	1 384.7	5.4	905.2	2	1 210.9	2.5	1 191.9	3.1	1 078.7	2.8
Luxemburg	67.5	0.1	425.4	0.8	82.3	0.3	101.1	0.2	240.4	0.5	249.5	0.6	70.7	0.2
Netherlands	2 842.8	3.8	1 763.2	3.1	805.4	3.1	1 326.5	3	2 101.1	4.4	1 362.2	3.5	988.8	2.6
Norway	698.5	0.9	770.1	1.4	641.7	2.5	936.3	2.1	706.2	1.5	879.9	2.3	883.2	2.3
Other CEE*	43.9	0.1	29.7	0.1	31.0	0.1	14.8	0	16.6	0	39.4	0.1	31.3	0.1
Poland	435.2	0.6	727.3	1.3	482.2	1.9	504.4	1.1	692.2	1.4	540.6	1.4	351.5	0.9
Portugal	206.1	0.3	399.0	0.7	299.3	1.2	203.5	0.5	442.3	0.9	229.0	0.6	255.2	0.7
Romania	156.1	0.2	122.6	0.2	82.9	0.3	80.3	0.2	48.1	0.1	24.3	0.1	48.5	0.1
Spain	2 923.5	3.9	1 680.7	3	959.2	3.7	2 479.7	5.6	1 973.9	4.1	1 475.3	3.8	750.5	1.9
Sweden	3 010.3	4	3 330.3	5.9	1 337.1	5.2	3 134.9	7.1	2 166.4	4.5	2 021.8	5.3	1 545.9	4
Switzerland	969.6	1.3	1 083.6	1.9	717.6	2.8	1 555.2	3.5	640.5	1.3	661.8	1.7	611.4	1.6
Ukraine	48.5	0.1	141.9	0.3	12.3	0	94.3	0.2	60.0	0.1	67.0	0.2	19.8	0.1
United Kingdom	34 011.9	45.5	22 813.3	40.6	9 793.4	38.2	19 534.3	44	21 085.1	43.8	16 236.3	42.3	16 075.1	41.7
European-total	72 855.8	97.5	54 639.8	97.1	25 049.3	97.8	43 318.5	97.5	47 043.8	97.7	37 694.1	98.2	37 721.6	97.7

AllPrivate Equity	2007		2008		2009		2010		2011		2012		2013	
	Amount	%												
Amounts in EUR millions														
Country														
Israel	11.8	0	5.8	0	0.0	0	2.3	0	5.5	0	5.2	0	2.4	0
USA	1 140.8	1.5	1 281.1	2.3	525.9	2.1	471.1	1.1	881.0	1.8	607.9	1.6	742.1	1.9
Other rest of the world	201.3	0.3	73.2	0.1	7.9	0	48.5	0.1	0.0	0	0.0	0	0.0	0
Total rest of the world	1 846.5	2.5	1 616.1	2.9	571.6	2.2	1 098.9	2.5	1 097.9	2.3	708.3	1.8	870.5	2.3
Total	74 702.3	100	56 255.8	100	25 620.9	100	44 417.4	100	48 141.7	100	38 402.4	100	38 592.1	100

Source: *European Private Equity Activity Data 2007-2013*, The EVCA Yearbook 2014, available at: <http://www.evca.eu/research/activity-data/annual-activity-statistics/> [access: December 22, 2014]. *Other CEE consists of Ex-Yugoslavia & Slovakia. NB: The investments made by non-European private equity firms include only the European transactions.

Appendix 3. Industrial breakdown of private equity investment in Europe in 2007–2013

AllPrivate Equity	2007		2008		2009		2010		2011		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Amounts in EUR millions														
Sectorfocus														
Agriculture	437.4	0.6	163.2	0.3	92.7	0.4	171.3	0.4	133.1	0.3	115.2	0.3	755.2	2.1
Business &industrial products	9621.0	13.8	8953.4	16.8	2640.8	10.9	4173.6	10	6237.1	13.9	4721.2	12.8	5034.1	14.1
Business &industrial services	7542.4	10.8	4950.3	9.3	1919.6	7.9	3441.4	8.2	2929.9	6.5	3951.5	10.8	3356.7	9.4
Chemicals & materials	2624.4	3.8	2488.5	4.7	662.7	2.7	1022.5	2.4	1388.1	3.1	1859.2	5.1	827.3	2.3
Communica- tions	10053.1	14.4	6147.6	11.5	3231.1	13.3	4746.0	11.3	4913.1	10.9	3307.9	9	3198.4	9
Computer&- consumerelec- tronics	3434.0	4.9	3898.3	7.3	2052.8	8.4	3892.2	9.3	4457.3	9.9	2979.5	8.1	2647.1	7.4
Construction	3541.9	5.1	2328.3	4.4	439.5	1.8	587.0	1.4	1212.1	2.7	829.3	2.3	413.6	1.2
Consumer goods&retail	10211.5	14.6	6537.0	12.2	3011.9	12.4	8168.7	19.5	6692.5	14.9	5262.7	14.3	4937.3	13.8

AllPrivate Equity	2007		2008		2009		2010		2011		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Amounts in EUR millions	3370.5	4.8	2972.9	5.6	2320.1	9.5	2305.4	5.5	3424.1	7.6	1560.6	4.2	2214.7	6.2
Sectorfocus														
Financial services	6633.1	9.5	5042.4	9.4	3473.0	14.3	5805.6	13.8	4986.5	11.1	5426.1	14.8	4693.4	13.1
Life sciences	230.4	0.3	64.6	0.1	76.5	0.3	204.6	0.5	599.9	1.3	703.3	1.9	123.5	0.3
Real estate	3518.1	5	1294.3	2.4	667.2	2.7	2096.7	5	2215.9	4.9	755.1	2.1	1300.2	3.6
Transportation	326.3	0.5	288.8	0.5	269.4	1.1	31.7	0.1	19.6	0	112.6	0.3	421.5	1.2
Unclassified	69841.2	100	53365.7	100	24308.4	100	41918.5	100	44870.1	100	36752.3	100	35726.2	100
Total invest- ment	6249.2	8.9	4928.4	9.2	2730.8	11.2	3357.2	8	5215.4	11.6	3242.5	8.8	3316.4	9.3

Source: *European Private Equity Activity Data 2007-2013*, The EVCA Yearbook 2014, available at: <http://www.evca.eu/research/activity-data/annual-activity-statistics/> [access: December 22, 2014].

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Implications of the US Rebalance Strategy for the Security Architecture

In the Asia-Pacific

The Rebalance Strategy of the United States represents one of the major adjustments of its foreign and security policy initiated in order to cope with the challenges that an evolving strategic environment poses to the United States (US) and its allies. This paper will explore the impact of the Rebalance Strategy of the US on the security architecture in the Asia-Pacific with a special focus on the evolution of the US alliance system in the region.

The alliance system implemented in Asia after the San Francisco Peace Treaty (September 1951) was initially described by former US State Secretary John Foster Dulles as a hub-and-spoke security system. Since Josef Joffe's (1995) article, several scholars (e.g. Blair & Hanley 2001; Calder 2004) have analyzed the hub-and-spoke model and its impact on the regional security architecture, with the most extensive and significant contribution made by John Ikenberry and his colleagues (e.g. Ikenberry & Mastanduno 2003; Ikenberry 2004; Ikenberry & Inoguchi 2007; Inoguchi & Ikenberry 2013). Although military and security experts (e.g. Blair & Hanley 2001) already highlighted the need to upgrade and improve the alliance system in Asia in the early 2000s, the potential changes of the hub-and-spoke system have been described and analyzed since the announcement of the Rebalance Strategy (Cha 2011; Baker 2103; Baker & Glosserman 2013; Chubb 2013).

In line with the recent development of the US alliance system, this article will examine the Rebalance whilst shedding light on the potential implications that the strategy can have on the security environment of

the Asia-Pacific region. For this purpose, the article will be based on analyses of data gathered from the US and Chinese governmental documents, public speeches or press release relating to the Rebalance Strategy and regional security architecture, and on data provided by the SIPRI databases of military expenditures. Based on descriptive and comparative methods, the article will specifically discuss the change that the US alliance system undergoes by making use of the existent literature on this topic.

The paper will be divided into five sections. The first part will briefly review the origins and the three dimensions of the Rebalance Strategy –economic, diplomatic and security – as well as the motivations that lie behind such a recalibration of US policy. The second part will focus on the military aspect of the security dimension of the Rebalance in analyzing how the new strategy is leading to a transformation of the US alliance system from the traditional hub-and-spoke model that has been in place in Asia since the end of World War II toward a networked model of alliance, following the current situation of international relations. The third part will deal with China's response to the US rebalancing in emphasizing that China has adopted a three-dimensional approach which encompasses an advancing "charm diplomacy" at the bilateral and multilateral levels, increasing cooperation with Russia, and engaging in an action-reaction dynamic with the US and some of its allies. The fourth part will explore the question as to whether or not the US Strategy is contributing to reinforcing stability in the region or is degrading the regional security environment in leading to an escalation of tensions or arms race. Finally, the last part will summarize the main findings of this paper.

Dimensions and Motivations of the US Rebalance Strategy

The Rebalance Strategy, known also as the Strategic Pivot to Asia, is a comprehensive approach promoted by the Obama Administration that aims to address emerging complex issues for stability in the Asia-Pacific region. The strategic recalibration of the US policy was presented in November 2011 by then-Secretary of State Hillary Clinton (2011) in an article published in *Foreign Policy*. By highlighting the "need to pivot to new global realities," Clinton's article underlines the necessity for a readjustment of the US's foreign and security policy in accordance with the growing significance of the Asia-Pacific in world affairs.

Since its announcement, the Pivot to Asia has raised serious concerns among US allies and partners in Europe and especially the Middle East as it would imply not only a shift of the US strategic focus, but also a reduction of US military presence in these regions. Thus, the strategy was interpreted as a “pivot away” from the Middle East, given that it coincided with the full withdrawal of American troops from Iraq (in October 2011) and the beginning of the US drawdown in Afghanistan (July 2011). The anxiety of the Middle Eastern partners grew further with a reduction in energy dependence of the United States on oil imports from the Middle East following the increase of its own production. Note that recent developments in Europe and the Middle East, such as Russia’s annexation of Crimea and the expanding threat of the Islamic State (known as ISIL or ISIS) in Iraq, Syria, Libya and Afghanistan, may have a significant impact on the US strategy as it can increase the danger for the United States to become militarily overstretched in an attempt to fulfill all of its security engagements.

American officials (e.g. Clinton 2011; Hegel 2013) repeatedly underlined that the US Rebalance Strategy would neither imply its abandoning of commitments in other parts of the world, nor indicate the declining importance of the Middle East for the United States. Nevertheless, the Obama Administration rebranded the Pivot to Asia as the Rebalance Strategy seemingly in order to appease concerns of its Middle Eastern and European partners.

Although the Rebalance is most often seen as a strategy that seeks to counter or contain China and re-assert US military presence in the region, the motivations that lie behind the US rebalancing are based on a broader set of considerations. First of all, the United States has acknowledged the importance of the Asia-Pacific region as a driver of global economic growth, which can be interesting for the American economy, needing recovery and partnership. Second, the United States has recognized the need to reconsider diplomatic coordination by enhancing both bilateral and multilateral relations with Asia-Pacific allies and partners, as there is a high risk of incidental conflicts due to the existence of a number of flashpoints (see CSIS 2012, p. 14) and the spread of non-traditional security threats across the region. Finally, following China’s rapid economic development and military buildup with its increasing assertiveness over maritime territorial claims in the East and South China Seas, serious concerns and challenges for the freedom of navigation have appeared to the countries in the region. This has required a reassurance about the United

States' commitment toward its allies and partners in the region and a re-confirmation of the United States' determination to protect Sea Lanes of Communication (SLOC) (see Clinton 2011; Obama 2011; U.S. Department of Defense 2012b).

Accordingly, by promoting the multifaceted Rebalance Strategy, the Obama Administration aims to address complex economic, diplomatic and security issues in order to cope with a challenging strategic environment in the Asia-Pacific region.

At economic level, the United States encourages multilateral cooperation and economic integration through the Trans-Pacific Partnership (TPP) and the Expanded Economic Engagement (E3) with the Association of Southeast Asian Nations (ASEAN). The TPP, which is a comprehensive free trade agreement negotiated between twelve countries (Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam), encompasses trade, services and investments, but also aims to establish common rules on intellectual propriety, labor and the environment, as well as to enhance the compatibility between the regulatory systems of the participants. As the Asia-Pacific region covers 40% of the global GDP and 44% of the total US goods exports in 2013 (Office of the U.S. Trade Representative n.d.), a free trade partnership like the TPP can constitute a significant means to promote and expand the US presence in the region. Although some regard the TPP as a modality to exclude China given the "high standards" required by the agreement, the US National Security Advisor, Susan E. Rice (2013) has made clear that China is welcome to join as far as it can accept and fulfill the rules of the agreement.

At the diplomatic level, by promoting a "forward deployed diplomacy" (Clinton 2011), the United States has shown its intention to improve bilateral relations and diplomatic coordination with Asian countries and to enhance the strength of the regional multilateral institutions like ASEAN, Asia-Pacific Economic Cooperation (APEC) and the Asia Pacific Forum (APF), in order to provide a better response to common challenges.

Security – the third dimension of the Rebalance Strategy – goes beyond its military aspect and includes a wide range of elements, such as combating the proliferation of weapons of mass destruction, piracy, terrorism, organized crime, but also deals with cyber-security and natural disasters relief.

Since the announcement of the Rebalance Strategy by the Obama Administration, it has been received with mixed reactions. The strategy was

welcomed by some of US allies and partners, such as Japan, Australia, Singapore, as well as by states like Vietnam and the Philippines that have a territorial disputes with China. Meanwhile, some other countries, like Indonesia, Malaysia, Thailand and India, preferred a more cautious and reserved attitude (Sutter et al. 2013, p. 2).

Transformation of the US alliance system in the Asia-Pacific

The military aspect of the US rebalancing has been often over-emphasized and seen as a main driver of the strategy. However, an in-depth examination of the military aspect facilitates the identification of three major directions, as follows: foster military cooperation with Asia-Pacific countries other than China; enhance the US military presence in the region; and, balance and engage China.

Foster military cooperation with Asia-Pacific countries other than China

After the Second World War, the United States built a system of alliances in Europe as well in Asia, mainly in order to counter the expansion of the communist threat. While in Europe the United States supports a multilateral security arrangement (NATO), in Asia, it prefers a hub-and-spoke security system based on bilateral security arrangements (Ikenberry 2004, p. 358). The hub-and-spoke security system is built on five formal mutual defense treaties with Japan, Australia, the Republic of Korea (ROK), the Philippines and Thailand. Although the United States engaged in a defense partnership with Malaysia, New Zealand, Singapore, India and Vietnam, there are no mutual defense obligations between them and therefore they are considered partners of the United States rather than spokes of its alliance system. After the end of the Cold War, the Asian security system has not changed much in terms of members and features, contrary to NATO, which has been enlarged and redefined in order to reflect the international dynamics.

In the traditional hub-and-spoke alliance, the United States is the center (hub) of the system as the main provider of security. This system maximizes hub control over its allies by promoting a hierarchical relation-

ship and clear division of roles, with little interoperability and without cross linkages or integration between members. A comparison between spoke-countries will reveal an uneven development within the system. Thus, while Japan and Australia have a high degree of integration with the United States, that is not the case for the Philippines and Thailand. While the operational control of Thailand's forces, Japanese or Australian ones in times of war is assured by their own military, the war-time operational control of South Korean forces is still assured by the United States, at least until 2020 (Calder 2004; Baker 2013; Sisk 2014).

However, the Rebalance Strategy encourages US allies to enhance their military capabilities in order to better defend themselves, to assume more responsibilities and play significant roles in the regional security architecture. While the United States remains the main provider of security, its allies evolved from a status of a protégé to that of partner, from security beneficiary to security providers and from dependence to shared responsibilities. From this perspective, the Rebalance Strategy can be reminiscent of the Guam Doctrine (known also as the Nixon Doctrine or "Vietnamisation policy") and thus some scholars referred to it as the "Neo-Nixon Doctrine" (Ladwig, 2012). President Nixon initiated the Guam Doctrine in 1969 at a time when the United States was facing the danger of overstressing its military capabilities in order to fulfill its commitments (in a similar way to the current situation). The Doctrine implied that while the United States would meet its treaty obligations and provide a nuclear shield if necessary, it was expected in return that the US allies would improve their ability to defend themselves (Nixon 1969). A significant difference of the Rebalance Strategy from the Guam Doctrine is that it indicated that some of the US allies (especially Japan and Australia) might play a broader role within US strategy, not only by assuring their own defense, but also by taking over some of the US security burden at the regional level (e.g. the extension of Japanese patrols over the South China Sea).

In this regard, the recent efforts of the Abe Administration to reduce restrictions on the Japanese Self-Defense Forces (JSDF) and to allow them to exercise the right to collective self-defense should be understood as consistent with the US Rebalance Strategy and not as an expression of Prime Minister Abe's personal desire to revive Japanese militarism.

Moreover, facing the same challenges and security threats, some of the US allies will look to increase and diversify their bilateral cooperation, while some of the partners will try to enhance their cooperation with the United States and its allies. These changes may lead to a transformation

of US alliance patterns, giving rise to a networked model of alliance in which spokes become nodes (Blair & Hanley 2001). Such a transformation was seen necessary as early as 2001 by Admiral Dennis C. Blair, former Commander-in-Chief of the US Pacific Command. Blair argued for a modification of the US security mechanism from “wheels” to “open webs” in order to promote integration and cooperation (*ibid.*, p. 11).

While it is difficult to think that these changes will lead to a multi-lateral security agreement similar to NATO in the Asia-Pacific region, it represents a good framework for higher interoperability and coordination with the US forces. By allowing a “spokes joining” (Chubb 2014, p. 22) based on common interests and shared values, the “network-centric” model increases the spokes’ ability to carry out joint operations and to provide an efficient and coherent response to common challenges with or without the hub (Committee on Foreign Relations 2014, p. 19).

Moreover, the United States encourages the creation of security triangles that contribute to enhancing communication between allies and allies (US-Australia-Japan, US-Japan-ROK), allies and emerging partners (US-Japan-India) and facilitate the transfer of technology and knowledge from allies to partners (Japan-the Philippines-Vietnam). In such security triangles, Japan is playing a significant role by being actively engaged in providing military assistance to Southeast Asian countries and developing defense cooperation (in the form of equipment transfer and technologies, military education, joint training) with some US allies.

However, the transformation of the alliance system is not free of challenges. One of the most important challenges comes from the inside of the alliance and is related to the United States’ ability to manage its allies and partners. In this regard, the progressive normalization of Japan and the “proactive pacifism” promoted by the Abe Administration, while strongly encouraged by the United States, may raise concerns for other allies, especially South Korea. The persistence of collective memories about wartime, as well as the existence of the territorial dispute over Takeshima/Dokdo may disrupt the United States’ intention to improve their trilateral cooperation. Meantime, in the South and East China Seas, some of the US partners and allies are raising territorial claims not only against China, but also against each other (the Philippines-Vietnam-Malaysia), so that they may show a certain reluctance to work together.

In such a context, if security cooperation between allies and partners is backed by economic and diplomatic coordination, it may contribute

to increased mutual trust and confidence, to strengthen the links at the bilateral level as well as within a regional organization and, thus, to have a positive impact on the regional stability.

Enhance the US military presence in the region

In 2012, the former Defense Secretary, Leon Panetta, announced that the United States would enlarge its military presence in the Asia-Pacific region by force redeployments and force rotation. Accordingly, 60% of Navy assets and 60% of Air Force overseas-based forces will be located in the region by 2020 (including space and cyber capabilities). Annually, almost 7,000 service members will be deployed through rotation in Australia (2,500) and Philippines (4,500). Moreover, new port facilities for ship rotation will be used in Singapore (Changi) and Vietnam (Cam Ranh Bay) and new military bases will be established in South Korea (Jeju) and Australia (Darwin), while some old facilities will re-open in the Philippines (Subic Bay, Zamboanga City) (Pellerin 2014).

At first glance, it seems to be a massive deployment of forces that can have a significant impact on the military balance in the region, but in reality, 50% from Navy assets and 40% of Air Force overseas-based forces were already located in the region long before the announcement of the Rebalance Strategy (Gautam 2014, p. 70). Moreover, the US Pacific Command (USPACOM) whose area of operations is “stretching from the waters off the west coast of the United States to the western border of India, and from Antarctica to the North Pole” has assigned under its command 360,000 military and civilian personnel including those located in Japan and South Korea (USPACOM 2014). As Janine Davidson – former Deputy Assistant Secretary of Defense for Plans – has mentioned that the US Rebalance does not imply a deployment of troops from Europe or from the United States to Asia, but rather refers to a return of US personnel and assets from Iraq and Afghanistan to their military bases in Asia or Europe (Davidson 2014). Actually, facing personnel (80,000) and overall defense budget reduction (\$500 billion during the next decade), the Obama Administration tries to avoid significant expenditures by promoting a rotational deployment of forces and capabilities and by enhancing flexibility and mobility of US forces (Simeone 2014). Moreover, the United States attempts to ease its own financial burden by encouraging its allies and partners to boost their own capabilities and improve their cooperation. In this regard, some of

the US allies, for instance Japan or Australia, can positively contribute to strengthen the alliance system by providing financial and material assistance to less equipped and less prepared partners (Brar 2014).

Nevertheless, the United States tries to address some limitations and weaknesses of its defense system in Asia, both by reinforcing its own military capabilities and by developing new concepts. The US defense documents reveals that (U.S. Department of Defense 2012b, p. 7; U.S. Department of Defense 2014, p. 6) while the United States was deeply involved in the Iraq and Afghanistan conflicts, in Middle Eastern issues and the Global War on Terrorism, China identified niches and limitations of the US power projection and developed Anti-Access/Area Denial (A2AD) capabilities (defined as counter-intervention in Chinese), which can challenge the United States' ability to protect its allies and to assure the freedom of navigation keeping open the SLOC. Thus, the development and implementation of the Joint Operational Access Concept (JOAC) for the Asia-Pacific based on the Air-Sea Battle (ASB) – which implies an integration of air, land, naval, space and cyberspace capabilities that enhance the ability to project power and sustain operations and counterbalance the enemy's A2/AD capabilities – must be seen as a solution that addresses potential limitations of the US security system (U.S. Department of Defense 2012a).

This may lead to the conclusion that the military aspect of the Rebalance is focused on quality over quantity. Therefore, the rebalancing strategy does not imply a significant increase of the US presence, but rather a modest reinforcement of the existent forces, a diversification of the capabilities (by including satellite tracking and cyber capabilities) and a broaden distribution of the existent forces – from Northeast Asia towards Southeast Asia, from the Indian Ocean to the Western Pacific.

Balance and engage China

Although the military aspect of the Rebalance is seen mainly as a modality to counter Chinese growing military capabilities, it has in reality a dual character. On one hand, as mentioned above, the US tries to balance China by readjusting its strategy and upgrading its alliance system. On the other hand, the United States engages China over key security issues as terrorism and nuclear proliferation (Iran, North Korea, Afghanistan), by promoting military to military dialogue and encouraging Chinese participation in peacekeeping operations and joint exercises. Thus,

in 2012, the United States and China carried out their first counter-piracy naval exercise (Churchill 2012) and had defense exchanges at the level of ministers, while in 2014, China took part for the first time in the multinational joint exercise RIMPAC 2014 (U.S. Pacific Fleet 2014).

Nevertheless, the dangerous proximity in which Chinese, US and other Asian militaries operate in the region, especially around regional flashpoints, may increase the risk of unintended clashes, which can easily escalate into a conflict. Such a context raises a risk of entrapment for the US, which can be dragged into a confrontation with China following a more aggressive stance of one of its allies. In this regard, the US has initiated negotiations in order to establish mechanisms that can regulate behaviors and manage the tensions, like a Code of Conduct in the South China Sea.

Moreover, the US attempts to enhance the role of regional organizations, such as ASEAN, in order to provide a collective and efficient response to crises and to diffuse regional tensions. However, China refuses to involve any regional and international organization (the UN) in its territorial disputes and prefers to deal separately with each country. Such opposite positions lead to a split between the members of the regional organization and have a negative impact on their ability of conflict resolution.

China's Response to the US Rebalance Strategy

The hedging strategy promoted by the US has given rise to a multi-dimensional response from China. First of all, China is pursuing "charm diplomacy" by building its own network around the world and by proposing "a new regional security cooperation architecture" for Asia (Tiezzi 2014). In this regard, Chinese leaders have promoted a Silk Road Economic Belt in Central Asia and a Maritime Silk Road in Southeast Asia by seeking to enhance bilateral and multilateral cooperation in the fields of economy, energy and military. As a consequence, it is not surprising that during his official trip to Indonesia in October 2013, Chinese President Xi Jinping underlined the need to deepen economic integration with ASEAN countries, but also proposed a Treaty of Good Neighborliness, Friendship, and Cooperation between China and ASEAN in order to build a "community of common destiny" (Xi 2013). While the "ASEAN Treaty of Amity and Cooperation" – which is currently in force – is

open to all external partners that wish to adhere to it, the proposal of a new agreement solely between China and ASEAN is of extreme importance, as it may indicate the intention of China to limit the influence of the US or Japan on ASEAN. Moreover, the Asian Infrastructure and Investment Bank (AIIB), a multilateral financial institution created due to a Chinese initiative – for which Japan is a notable absentee, but New Zealand has officially decided to be a member and Australia is deciding its participation at the moment of March 2015 – can be seen as a modality in which China is setting up a parallel institution to an existing one, nothing but a process that aims to challenge the US-dominated order.

In its intention to counterbalance the US strategy, China has been trying to strengthen military ties with Malaysia, Thailand and Indonesia through joint training, military trade and defense exchanges, etc. Moreover, China has attached a great value to a bilateral relationship with several countries, by upgrading (during 2013 and 2014) its “strategic partnerships” to “comprehensive strategic partnerships” with Malaysia, Indonesia, Australia and New Zealand, countries that may play an important role in the US strategy.

The second major response to the Rebalance Strategy with considerable impact on security architecture is a potential rise of a China-Russia security partnership. Although many analysts doubt the viability of the Sino-Russian partnership which is deemed as a “axis of convenience” (Bobo 2008, p. 5), so far both countries managed relatively well their divergences and overlapping interests by permanently readjusting their relationship according with common interests (Parepa 2012).

While China and Russia showed a certain diplomatic coordination within the United Nations Security Council, their cooperation in energy and military fields are increasing not only at the bilateral level, but also at the multilateral level within the framework of Shanghai Cooperation Organization (SCO) and Conference on Interaction and Confidence-Building Measures in Asia (CICA). Since 2010, they have promoted a Joint Russian-Chinese Initiative on Strengthening Security in the Asia-Pacific Region and increase calls for a “new security concept” and “establishing a new security architecture in the Asia-Pacific,” which exclude the US. Moreover, the increasing number of joint defense exercises that imply a large mobilization of forces and military equipment may indicate a certain coordination of their actions in the region in order to increase pressure on the US allies and partners (Parepa 2012, p. 27).

Thirdly, the spread of US presence and the enlargement of its security partnership create for China the perception of a strategic encirclement,

leading it to take more assertive behaviors in international relations. Many of the Chinese security-related measures could be understood as an active response to the US, its allies and partners. China has chosen to enter into an action-reaction dynamic with the US, Japan, Philippines or Vietnam. For instance, one of the first reactions of Chinese leaders after the announcement of the US Rebalance, was to declare the intention to become a maritime power in the forthcoming decade and thus, to underline the need to accelerate the modernization of its naval forces and to increase their combat readiness (Xinhuanet 2012). One week after President Obama's visit to Asia (April 2014) and declaration of support for the Philippines and Vietnam, China has arrested Philippine fishermen and deployed an oilrig protected by maritime enforcement agencies in the South China Sea. Moreover, following the nationalization of the Senkaku Islands in September 2012 by the Japanese government, China has started to challenge the Japanese control over the islands by increasing the frequency of maritime and aerial patrols and by unilaterally declaring in November 2013 an Air Defense Identification Zone (ADIZ) that covers the disputed area. Such actions that have been defined as "reactive assertiveness" (ICG 2013) create the impression that China is ready for confrontation.

At the same time, they can reveal a certain perception of the Chinese leadership about China's status in the world. Empowered by growing economic and military power Chinese leaders may perceive a gap between the real status of China – as a great power – and the perception of China by other countries. In this regard, by promoting a proactive security policy and engaging in actions that can show its strength, China may try to achieve "recognition" as an important actor in international affairs, especially in the Asia-Pacific region, and to be treated like an equal by the US. In this sense, the proposal that President Xi Jinping addressed to his American counterpart to "build a new type of great power relationship" (Zhao 2014), as well as the observation that "the vast Pacific Ocean has ample space to accommodate two great nations" (Li et al. 2014) can reflect the Chinese self-perception of its status in the world.

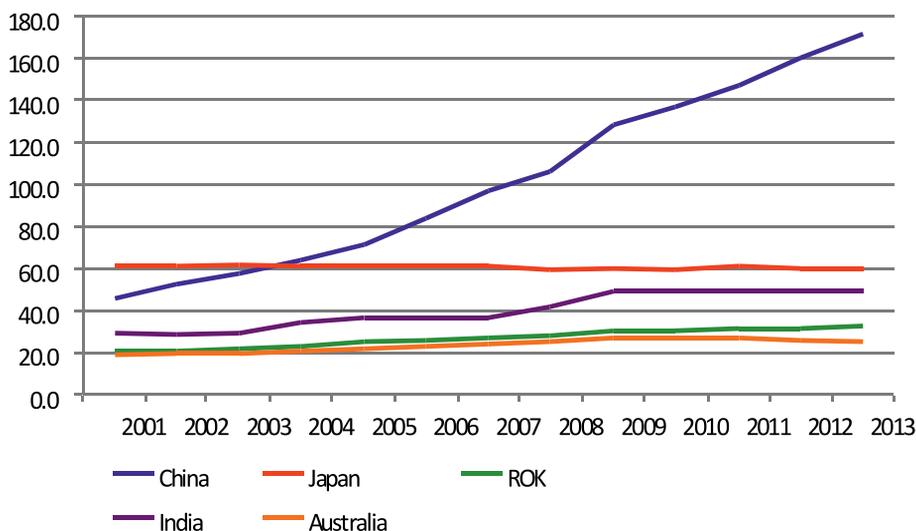
Arms race or military modernization?

The announcement of the Rebalance has created a heated debate among scholars: whether or not the US strategy is leading to an arms race in the Asia-Pacific region. An analysis of military spending in Asia

(based on data gathered from SIPRI databases – as region and by country, excluding China) before and after the announcement of the Rebalance Strategy will show that while spending preserves an upward trend, there is no a major increase between 2011 and 2013.

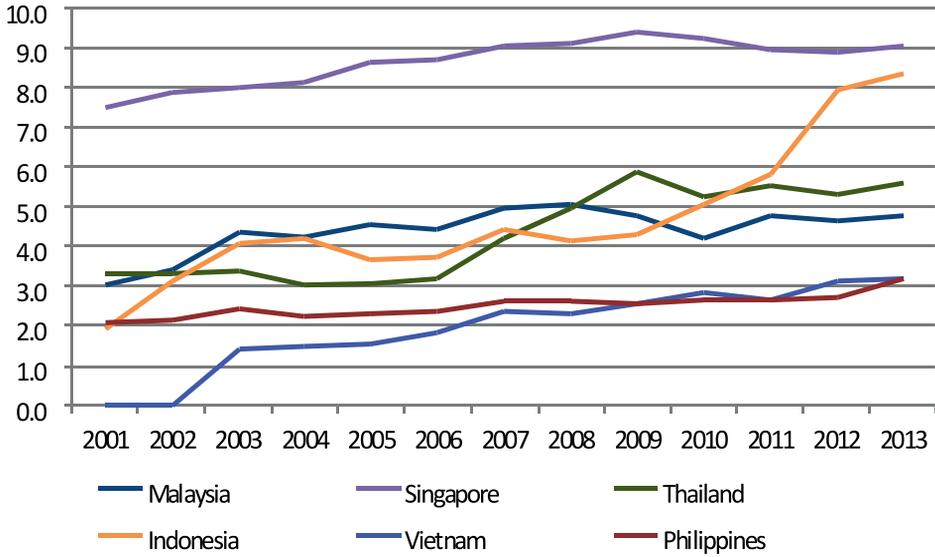
Actually, between 2001 and 2013, some Southeast Asian countries have been adjusting their military expenditures accordingly with the evolution of Chinese military spending. This will show a slow increase from 2001 to 2005 and a major increase after 2005 when China became the world's second largest military spender (Graph 1. and Graph 2.). Besides the Chinese rise in military spending (an increase of 170% from 2004 to 2013), the perception that the US has put Asia on a secondary stage in its foreign policy priorities, by focusing on the Middle East and Afghanistan, may have increased the fear of abandonment of its Asian allies and partners in contributing to a rise of their military spending.

According to SIPRI, the defense spending in real terms in Asia and Oceania increased just by 3.6% in 2013. While Japan's military expenditures remain stagnant, the defense spending in Australia felt, but Chinese military spending has increased by 7.4%. Meanwhile, the military expenditures in Southeast Asia increased by 5%, a trend being led by Indonesia, the



Graph 1. The evolution of military expenditures: China, Japan, ROK, India and Australia, 2001–2013 (USD)

Source: based on SIPRI databases.



Graph 2. The evolution of military expenditures: Malaysia, Singapore, Thailand, Indonesia, Vietnam and the Philippines, 2001–2013 (USD)

Source: based on SIPRI databases.

Philippines and Vietnam. However, such increases do not indicate an arms race due to the Rebalance Strategy, but are rather related to the military modernization programs that take place in some countries (Anjaiah 2014).

For 2014, China announced an increase of 12.2% (RMB 808 billion/ USD 132 billion), while some of the US allies decided to redirect their financial flows to military equipment acquisition and modernization. In this regard, Japan has announced an increase of 5% over the next five years, while Australia announced an increase of 6.1% for 2014–2015 (Perlo-Freeman & Salmirano 2014).

A comparison between China (which represents 11% of total world military spending in 2013) and the US (which is still the world largest spender, with 37%) may create the impression that China still lags far behind the US and will need a long time to reduce their gap. In this regard, some scholars assert that “the power gap between two countries [...] hasn’t been substantially narrowed” (Zhu 2012, p.3) and it is difficult to think that China may become soon the US’s “peer military competitor” (*ibid*, p. 9). In reality, a detailed analysis of their spending will reveal that the Chinese budget does not include expenditures related to research and development and equipment acquisitions and there is a significant gap between per soldier spending.

These factors may allow China to catch up with the US more quickly than expected, especially if the US continues its cutbacks in its overall defense spending (almost USD 500 billion in the next decade).

Generally, the data above shows that the increase of military expenditures in Asia started a long time before the announcement of the Rebalance Strategy and is strongly linked with China's rise and a perception of the US's disengagement from the region. While the announcement of the Rebalance has not led to a major increase of military spending without reducing a upward trend in Asia. However, this trend is explained by military modernization and did not escalate to an arms race in the region.

Conclusion

The Rebalance Strategy, which is one of the most significant developments of the recent US security and foreign policy, can be summarized as continuity, reinforcement, engagement and enlargement: continuity because it is based on established ties with countries across the region; reinforcement because it aims to strengthen the relationship with allies and partners; engagement because it seeks to actively engage China, but also other emerging powers such as India and Indonesia; and, enlargement because it diversifies relationship within multilateral institutions, such as APEC, ASEAN and APF.

Although the Rebalance Strategy is a whole-of-government approach for the US, the paper has mainly focused on the military dimension in emphasizing that one of the most notable aspects of the Rebalance Strategy is represented by the transformation of US traditional security system in Asia from hub-and-spoke toward a networked model of alliance. While the new model definitely eases the burden of the US as the main security provider, the greater responsibility required by the US to its allies will allow them larger autonomy and enhanced security roles at the regional level which may spark conflicts of interests, rivalry or bold actions. Therefore, it will be crucial for the US to proactively coordinate and manage its allies and partners in identifying and emphasizing common grounds, shared interests and values in order to maintain a stable regional security environment.

China's multifaceted response to the US Rebalance has shown a certain flexibility of new Chinese leaders to adapt rapidly to the changes in the security environment. By fostering the relations with Russia and by

expanding its own global network, China is steadily advancing on its path that aims to create a parallel international order that might be attractive even for some of the US allies and partners.

As to the initial question, whether or not the US strategy is contributing to maintaining the security and stability in the region or leading to an arms race, the discussions in this paper lead to mixed conclusions. On one hand, the US Rebalance contributes to security and stability by engaging China, providing security guarantees, reinforcing the US's commitment to allies and partners, promoting a stronger role of the regional organizations and encouraging cooperation between its allies and partners at various levels. On the other hand, by balancing China, by encouraging its allies to assume more security responsibilities in transforming the traditional security alliance, the Rebalance Strategy creates a perception of strategic encirclement of China. Such a perception gave rise to China's "reactive assertiveness" that can have a destabilizing impact on security architecture in the Asia-Pacific region.

Note that the increase of military expenditures in the region had started long before the US Rebalance Strategy, as a result of the perception of the US's weak engagement in Asia and the increase of Chinese military power. Nevertheless, some increases will potentially occur as a consequence of the Rebalance Strategy: on one hand, China will make use of it as a pretext for growing military expenditures and capabilities needed to continue its military development, and on the other hand, such Chinese behavior will provoke other Asian countries' reactions in terms of military build-up. Finally, unless the Rebalance Strategy of the US is carried out and managed in an appropriate way, it may have negative consequences for the regional and global security situation.

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Between Reality and Dreams: Russia's Pivot to Asia

Russia's pivot to Asia was proclaimed for the first time in 2010. Since then, however, it turned out to be more words than actions. This is supposed to change now, after the signing of Russia-China gas contract in May 2014. Moreover, the constant worsening of Russia-West relations due to the Ukrainian crisis further makes Moscow look eastwards. Russia now officially declares her turn to Asia. So far, however, these attempts have been half-hearted at best; it is likely that if there is to be any real Russian pivot to Asia, then it would be a pivot to China only.

This paper gives an insight into Russia's pivot to Asia and examines it from the neorealist perspective. It shows the ineffective attempts to develop the Far Eastern region of the Russian Federation, Chinese influence and agenda and Russian "pivot" discourse. Additionally, it presents Russian (mis)understanding of Asia and the consequences of the May 2014 gas contract with China. It concludes that Russia's pivot to Asia remains more in the sphere of dreams than in reality. Consequently, the outcome is Russia's marginalization in Asia.

Theoretical introduction

When researching Russian foreign policy one must use adequate theoretical and methodological tools, consistent with the tradition of political thinking in Russia and her political culture. Here the task is quite easy – one school of political thinking, realism, is unrivalled. Realism – no matter in which form, classical or neo – in political science believes that the nature of all politics is quite universal. Politics, like society in general,

is governed by objective laws that have their roots in human nature, the main one being the concept of interest defined in terms of power. Realism believes that the world, just as mankind, is imperfect and full of contradictions – opposing interests and conflicts. In this approach, the interests, not values, constitute the core of politics and – therefore – moral principles cannot be applied to the actions of states or other actors in their abstract universal formulation, but must be filtered through the concrete circumstances of time and place, which means that the moral principles cannot be fully realized. Realism, in spite of believing in any universal values, puts trust in a system of check and balances – “aims at the realization of the lesser evil than the absolute good” (Morgenthau 2006, 3).

Realism is an adequate theoretical form here as Russia’s ruling political elites have been “brought up in a realistic strategic culture that emphasizes the element of struggle in an often viciously competitive world, where power relations dominate at the expense of allegedly universal values” (Lo 2008, 176). In this approach, international systems are considered to be anarchic, based on power politics and, consequently, build on an “organized hypocrisy” rule. It is a place where logic of expected consequences prevails over the logic of appropriateness: “the stronger state can pick and choose among those norms that best suits their material interests or ignore norms altogether, because they can impose their choices on weaker states” (Krasner 1999, 9). International politics, therefore, are based on great powers and Russia is one – and certainly perceives herself as one – of the great powers. Her political behavior is based on traditional, 19th century *realpolitik* imperatives: national security, power projection, management of the strategic balance and emphasis on the primacy of state sovereignty. The only difference, although significant, is the discourse: “Moscow eschews its vocabulary, preferring to couch (her) objectives in more modern and inclusive language: soft power, interdependency, globalization, and ‘universal threats and challenges’ have displaced zero-sum calculus, the balance of power, and spheres of influence as the lingua franca of international relations” (Lo 2008, 176).

Russia’s pivot to Asia has been born out of realistic consideration: a balance of power (the rising Asia as a chance to balance United States (US) hegemony) and bandwagoning to a place where global commercial and political center is moving to. Moscow properly understood that her status as one of global powers depends on her position in Asia-Pacific region. To maintain her shrinking global position, Russia had to improve

her stand in Asia. The truer, when a global superpower – the US – has already pivoted to Asia. Russia could not be worse than the US – at least rhetorically – so proclaimed her own pivot, too.

The 2012 Asia-Pacific Economic Cooperation Summit and the Dilemma of the Far Eastern Region's Development

Russia's pivot to Asia was supposed to be coined in 2010. The stimulus for this was provided by a special meeting held in Khabarovsk on July 2, 2010, by the then president of Russia, Dmitry Medvedev. The general idea was formulated in the "Russian Strategy in the Asia-Pacific region" from 2010 (Rodkiewicz 2014). Russia's pivot was internationally declared during an Asia-Pacific Economic Cooperation (APEC) summit in Vladivostok in September 2012. This summit was aimed to symbolize the beginning of Russia's pivot to Asia and a more active Russian policy there. As Moscow Carnegie Director Dmitri Trenin wrote in his well-known article (and well-understood allusion to Hillary Clinton's article in Foreign Affairs) "Russia can pivot to Pacific, too." Trenin compared the present situation of Russia to that in the late 16th century and elaborated that "If Peter the Great were alive today, he would almost certainly leave behind the old Russian capital, Moscow (...) simply pack up and move his court and his administration to an already-built city, Vladivostok" (*Trenin, Russia Can Pivot...* 2012). As if to emphasize Trenin's comparison, Russia invested heavily in Vladivostok to stress the genuineness of her pivotal attitude and to show Asia her better face: the city's infrastructure (roads, bridges, buildings) underwent intensive investment, amounting to USD 21 million: this was the largest one time investment in Russian/Soviet history for any Russian city (Yu Bin 2012).

The main reason behind "pivot to Asia" had been the understanding of Asia's value to global position of Russia. It has both geostrategic and geo-economics goals: "Moscow wants to retain its strategic independence and not to wind up as a junior partner to either Washington or Beijing" (*Trenin, Russia Can Pivot...* 2012). Simply, Russia's primarily goal is to remain in the world game of powers. But to achieve it Moscow needs to develop its Far Eastern region: "the future of Russia on the East depends on what will Moscow do with her eastern provinces" (Civic Forum interviews, Moscow, September 2013).

So far, all attempts to develop the region have proved a failure. Not to mention the chaotic Yeltsin's years, even since 2000 Moscow has been constantly unable to create a strategy of development of this region. Although the Russian government in 2009 adopted a "Strategy of Social and Economic Development of Eastern Siberia and Russian Far East until 2025" (*Стратегия...* 2012), this document remains on paper only. The Far Eastern region remains one of the most backward regions of Russia; its economy is dependent on Chinese goods, services and labor; depopulation continues and "Moscow policy towards Russian Far East is barely more effective (state investments in economic and social infrastructure remains inadequate; Putin's centralizing political reforms have not significantly reduced corruption and misgovernment by local administration) than during the dismal Yeltsin years" (Lo 2008, 66–70). Russia's lack of ideas is evident in the return of Soviet-style big energy projects to help revive the region. Such projects are not labor-incentive, so their impact on regional unemployment is minimal. Moreover, these projects are often more virtual than real (e.g. the Korean Peninsula railway or pipeline) and even if they did materialize (ESPO oil pipeline), they are always dependent on present geopolitics (the power of the Siberian gas pipeline, see below) and usually the economic benefits go to Moscow. Therefore, these kinds of projects "make them a most unreliable basis for the region's economic revival" (Lo 2008, 67).

The basic dilemma for Russia – how to solve the Far Eastern Region's problems – remains unresolved until now. Russia, although aware of the importance of this issue is nevertheless unable to solve it. The result is concentration on half-way schemes, such as attracting people from Western Russia or lifting of Vladivostok for APEC summit. Since the fall of the Soviet Union, Russia has regularly proclaimed the urgency of counteracting the Russian Far East's decline and created elaborate bureaucratic institutions to challenge this threat. This applies to the special corporation for development of the Russian Far East, "comparable in its prerogatives probably to Soviet Dalstroy or British East India Company only" (Kaczmarek, Konończuk 2012) or to the Ministry for Russian Far East, established in May 2012 (*Вказ...* 2012). Although "the urgency of the need to spur development of the country's easternmost regions is correctly recognized," this is "not the most creative solution, surely" (Trenin, *Moscow...* 2012). These actions must be considered a typical bureaucratic sweeping the problems under the carpet by creating the illusion of action. The truth is that Russia is too poor to develop this region by herself. In the

conditions of worsening economic conditions, "Russia is unable to spend million-dollars investments into this underdeveloped for decades Russian Far East" and even if does invest there, "the until now experiences showed that sources allocated for investment haven't provided benefits and were used ineffectively, sometimes even defrauded" (*Rosyjski...* 2013).

The latest idea has been attracting foreign investments. Russians want to "catch the Chinese wind," as Putin himself wrote in the article "Russia and the Changing World" in February 2012 (Путин 2012). The aim is to turn this Russian "fortress" into "fortune," (Rozman 2000, 177–203) which is not a new idea, but the tools are new. It is based on the hope of attracting investors to the Far Eastern region from China, but not only – Japan and Korea are also targeted. The leitmotiv of the Vladivostok Summit and its final declaration, "Integrate to Grow, Innovate to Prosper" attested it (*Владивостокская...* 2012). The idea of attracting foreign investment, by the way, is quite new to Russia – so far the privileging mood here was that of suspicion and fear over dominance of external capital. The success of this new attitude, therefore, is uncertain at best: old habits die hard in Russia.

Is the Sinicization of the Russian Far East on the Horizon?

So far the only major attempt to develop the region on external capital – The Program of Cooperation between Regions of the Far East and Eastern Siberia and Regions of the Northeast of China for 2009–2018 – is a failure. The Program itself was adopted in 2009 and signed by the presidents of Russia and China in September 2009. It includes 205 joint projects in such spheres as: technology, energy, infrastructure development, and envisions setting up special economic zones, industrial and technological clusters with preferential conditions for foreign investors. The Project includes a Chinese share in: building a power plant in Amur Oblast; the management of coal deposits in Chukotka and Magadan Oblast; development of the forestry industry in Sakhalin; creating a tourist center in Baikal; and building a railway bridge on the Amur River, amongst others. These projects are estimated at USD 13 billion: 1.7 billion from the central budget and the rest from foreign investors (*Программа сотрудничества...* 2010).

Russia's acceptance of this project shows how the perception of China has changed within the Russian Federation. A few years ago Russians

were asking whether the Chinese have TV sets, now they see how powerful China has become (Ларин 2009: 237). When the Russians look at China today, they see “an economic giant; a financial power armed with the world’s largest foreign exchange reserves; a new science power and technology producer; and an increasingly capable military force” (Trenin, *Верные...* 2012). Russia, despite being anxious, decided therefore to bandwagon to Chinese success and attract Chinese investments into the Far Eastern region. By doing so, Moscow “made a virtue out of necessity,” because due to several reasons nobody else (Japan, South Korea, Taiwan) is willing to invest there.

Unfortunately, from the perspective of October 2014 the program cannot be considered successful. Only a few projects have been fulfilled, the rest remain on paper. This is due to the fact that – as one Russian expert euphemistically concluded – “the mechanisms of realization had not been included in the Program” (Кулешев 2010, 67). The general conclusion is that “the Program is not being implemented” (Ларин 2009: 19). The Chinese are not willing to invest en masse in the region due to several factors. First, the development model of Northeast China (*Dongbei*) has changed. Before, cooperation with the Russian Far East was believed to be the key to success. Now, this idea is being abandoned for an intensified cooperation with China’s southern provinces (far richer than the Russian Far East). Second, the Chinese are unwilling to invest into the Far Eastern Region, “they just want to take the resources and that’s all” (LEAM 2013, interviews, Lodz, June 2013). The Program therefore, in spite of being the motor of development for the Russian Far East, becomes another proof of the continuing slide of this region into becoming China’s raw material appendage. This policy of Russia contributes to the “region’s economic and financial dependency on Asian investors, particularly extensive Chinese companies interested in acquiring Russian resources” (*Rosyjski...*, 2013). Therefore, the present situation benefits first and foremost Chinese interests. Russia, on the other hand, agrees to the inevitable – cooperation with China only, on Chinese conditions – and considers getting something better than getting nothing.

Consequently, Russia’s regional dependence on China only increases, which may lead to a situation where cooperation with China becomes a vital necessity and inevitability. In these circumstances the Far Eastern Russians would not afford anti-Chinese actions (this would undermine the basis of their existence) and would accept the inevitability: Chinese dominance (China Institute of International Studies interviews, Beijing,

June 2010). They are already facing the realities where “revival and modernization are impossible without cooperation with China, which is interested in many forms of cooperation for her own development” (Ларин 2009: 317). Economic Sinicization of the Russian Far East, not its military annexation, therefore, seems the most probable future scenario, the more real, when the only alternative – mass central investments into the region – seems unlikely. Dmitri Trenin summarizes: “Russian leaders realize that the country’s most serious geopolitical challenge in the 21st century is in the east. Russians need to find a way to develop the country’s eastern provinces, and to integrate them better with the rest of the country. These provinces will then help to integrate Russia itself with the dynamic Asia-Pacific region. Failing that, Russia may not necessarily ‘lose’ those provinces in a formal way to China, but it will see them increasingly gravitate towards it. In another great reversal, the 21st century Khabarovsk, a Russian border city on the Amur, may look like the late 19th century Harbin, founded by Russian merchants and railway men in the middle of Chinese Manchuria: a foreign outpost in a neighboring country, and the centre of an expanding zone of influence” (Trenin, *Верные...* 2012).

Pivot to Asia. Russian discourse

Russia is perfectly aware of the far-fetched consequences of becoming too dependent on China. One of the main reasons of Russia’s pivot to Asia has been to contradict this scenario. The 2012 Vladivostok APEC summit was supposed to be a symbolic beginning of Russia’s new Asian policy, but then for a year almost nothing happened. Although since the APEC summit Putin has conducted several meetings with Asian leaders, Russian diplomacy activated itself on the Asian dimension, and Asian matters became more popular in everyday media, these steps “are in reality quite ritual, symbolic” (Лукьянов, *Мы ...* 2013). In autumn 2013 Russia’s pivot still remained “uncertain,” there was “no rapprochement with Asia – words only, no rapprochement,” and in general, Russia’s future in the East remained “uncertain at best” (Civic Forum interviews, Moscow, September 2013). Although Asia remained important for Russia, there was always something more important – Syria, Snowden, Ukraine etc. To achieve a genuine “pivot to Asia” Russia “requires much more than a facelift for Vladivostok” (Yu Bin 2012). So far, it has ended only up with this. Vladivostok, understood in a wider political and economic sense,

has quickly been forgotten. After the summit the enthusiasm evaporated and everything remained as always – without any idea for the long-term development of region. The state's efforts have been concentrated on another big event – Sochi. The results of Russia's pivot to Asia therefore, have been best summarized by a one Russian voice: "The Russia's pivot to Asia ended up on Russian Island" (The Russian island in Vladivostok is the place where the Summit was held) (LEAM 2013, interviews, Lodz, June 2013).

The Russian government came back to the idea at the end of 2013, and intensified this rhetoric after the Ukrainian crisis broke out. Although there is no policy paper on "Russia's pivot to Asia," the following documents/speeches can be considered representative: Russian World's (Русский Мир) document "Asia-Pacific Strategy of Russia" (*Тихоокеанская стратегия...* 2010); Putin's address to the Federal Assembly on December 12, 2013, where he proclaimed "Russia's reorientation toward the Pacific Ocean" and the development of Russian Far East "a national priority" (*Послание...* 2013); "Russia's Energetic Strategy until 2020," according to which 22–25% of oil and 19–20% of gas should be exported to Asia (*Энергетическая...* 2014); and National Council for Foreign and Defense Policy "21st Century Strategy," where the Asia-Pacific region is considered to be a key one (*Стратегия – XXI ...* 2014). Between Russian analysts/researchers the main supporters of pivoting to Asia are Fiodor Lukyanov, Dmitri Trenin and Alexander Larin.

The "Russian pivot" – as Lukyanov writes – is understood as a grand, comprehensive strategy towards Asia: a project coordinating domestic development (the Russian Far East) with foreign policy. The latter means positioning in the Asia-Pacific, enhancing and deepening ties with Japan, South Korea, India, Vietnam, Singapore and Indonesia, in such a way that cooperation with Asia-Pacific would not be limited to only China (Лукьянов, *Логичное...* 2014). Regional cooperation – away from "great politics" – plays a vital role here. The Great Tumen Initiative is a good example (*Overview. Greater Tumen Inicjative* 2014). In the domestic sphere the most important challenge is a "new colonization" of Siberia and the Russian Far East: intensification of exploiting these regions. Without doing so, "Russia cannot dream about playing important role in Asia." This "new colonization" cannot be done by mobilization methods. Russia needs to attract human capital into the Eastern part of the country, needs a comprehensive action plan of not only economic activities, but also of advertising this area: "it must cease to be associated as a depressing prov-

ince, but to become seen as a perspective territory" (Лукьянов, *Азия...* 2013). This "new colonization" should be stimulated by setting up twenty-five regional centers of development, "from Kaliningrad to Vladivostok" (*Стратегия – XXI...* 2014). Some even say that Russia needs a dynamic administration center in the Asian part of the country: "an actual capital in Siberia is very much needed" (although "implementation of this project remains in the realm of fantasy") (Лукьянов, *Азия...* 2013). This is combined with the necessity of developing Siberia and the Far Eastern region with infrastructural projects (Ларин 2014, 19).

In foreign policy Russia needs to use "dynamism of Asia" for the development of her Asian provinces. It is not only direct foreign investments (it goes without saying) but bringing about conditions where Siberia and the Russian Far East would become meeting places of Europe and America. The main goal is – of course – to maintain the major power position by Russia: "300 years old the major power status dependent on position in the Baltic and Black Seas, nowadays it depends on the position on Pacific Ocean" (Лукьянов: *Мы...* 2013). This is because "Russia is still a world power because of a long stretch of the Pacific coastline and what lies between the Pacific coast and the Urals: Siberia with its resources (...) Making full use of this potential is a passport to the future; failure to integrate the east would spell the demise of Russia as a major player" (Trenin, *Moscow...* 2012).

The ultimate success of the Russian pivot is nevertheless uncertain due to domestic reasons. As Lilia Shevtsova noted, "The elites are too busy worrying about day-to-day survival to draw up a consistent policy for relations with Asia as a region or with individual countries." This makes "The Kremlin's Asian policy for the most part imitation," and the "Asian pivot will most likely prove to be the same kind of Potemkin village that Moscow built for the 2012 APEC summit in Vladivostok: all façade and no substance." Shevtsova concludes plans for the Russian pivot in a devastating way: "It is no surprise that journalists joked that the summit looked just as absurd as a man in a bird suit flying with Siberian cranes (as Putin tried to do). Putin's Asian fling is likely to end in mutual estrangement, disappointment and perhaps even hostility" (Shevtsova, 2013).

Even the pivot's supporters note significant challenges facing its fulfillment. Alexandr Larin demonstrates that the favorite way of development, preferred by current political elites (grand energy projects), "cannot be applied as a successful model of Russian Far East's development, because the economic and social conditions of this part of Russia do not

favor it." In this outlook, a strategy based on energy resources slides the region into being a raw material appendage to China, so it perfectly serves the basic Chinese interest of reshaping this region into a raw material base (Ларин 2014, 19–20).

The mental factor is another obstacle. As Lukyanov claims, in time when the world's most important events are already taking place in Pacific and Indian Oceans, Russia remains a European country in her mental and axiological approach; therefore, "consciousness is most difficult task." Russians, as inhabitants of a European country, have traditionally orientated themselves to the West and see the world through a Western prism. Nowadays, however, a new situation emerges: the Russian system of values and mentality remains European, whereas the most important events are already taking place in Asia. Thus "the Russian eagle, although two headed, out of habit looks only to the West" (Лукьянов: *Мы...* 2013).

Moving Beyond China?

One of the main goals of Russia's pivot to Asia has been to diversify Russian policy in Asia, to go beyond China in other words. The key countries to achieve this goal have been India and Japan. The Korean countries, Vietnam and Burma (Myanmar) also matter here, as well as regional multilateral organizations. Although Russia indeed intensified her actions towards these countries, the results are modest so far.

For a long time India has been one of Russia's closest friends in Asia, her "most privileged strategic partner." Russia and India have no conflicting interests in international politics, while having converging regional interests (Central Asia, radical Islam). Moreover, they both perceive China's growing power as a problem in the long term. Their cooperation is developing smoothly, particularly in the military sector (Russia sells India products from the machine-building industry as well). India accounts for around 30% of total Russian arms exports, and is a united country, one of the very few ones whom Russia sells the most advanced military technology and a broad range of weapons (ranging from small arms to warships) (Rodkiewicz 2014). One of the most promising aspects of cooperation is energy. So far India has been importing only small amounts of Russian oil. This is supposed to change after the oil/gas contract between Rosneft and ESSAR were signed in December 2014. The fulfillment of this contract, however, is uncertain, and even if this materializes, this will not change

the general image of Russia-India relations. For both partners Russia-India relations are important, but not the most important.. For India, Russia is a useful tool, though one of secondary importance. As the relations with the US is the most important to India, the Indian government cannot move too close to Russia. For the Russian government, as long as India cannot balance China's importance, Russia's diversification in Asia will not be complete. So, in the Indian dimension, Russia has done a step forward, but this must be considered an improvement of the previous policy, not a decisive turn.

Russia's key to the real game in Asia-Pacific has always been Japan. The Japanese government has a surprisingly good image in Russia – Japan “stands as the epitome of the ‘good East,’ an East at once politically sophisticated, economically prosperous, technologically ambitious and strategically unthreatening” (Lo 2008, 121). Nevertheless, Russian-Japanese relations remained cold and have long been overshadowed by the unresolved territorial dispute over the Kuril Islands. Russia has adopted the method of “strategic patience,” hoping that Japan will sooner or later become ready to accept a compromise on this matter. Russia's move almost succeeded in April 2013, when it came to a “small breakthrough” regarding the disputed islands, followed by a 2+2 format meeting (ministers of foreign affairs and defense from both countries) in November 2013. Moreover, the economic relations seemed favorable and have been developing very dynamically, with Japan being the biggest Asian investor in Russia (Rodzinski 2014). At the turn of 2014 there were big hopes for a new Russia-Japanese opening, strengthened by Shinzo Abe's Sochi visit. These hopes, however, were dashed once the Ukrainian crisis broke out and Japan joined, albeit reluctantly, the Western sanctions on Russia. Since then Russia-Japan relations have stalled or even regressed, with no hopes in the short term. Therefore, the opportunities of the Japanese dimension of Russia's pivot to Asia remain unfulfilled.

The Russian approach towards the Korean Peninsula for long have illustrated Moscow's hopes for a concert of Asia – a 21st century equivalent of 19th century's concert of powers in Europe (Lo 2008, 123). Although Putin repaired Yeltsin's mistakes and equalized relations with both Korean countries (that gave Russian entry into the six-party talks) he has been unable to do more. South Korea, though important, has not become Russia's entrance into East Asia and rather will not be, given the close ties between South Korea and the US. South Korea is not particularly willing to invest in the Russian Far East and the future of Russian pro-

posed inter-Korean projects (pipeline and railway) depends on the unpredictable situation between the two Korean countries. As for North Korea, since Kim Jung Un's took power relations have accelerated, particularly in the Fall 2014. Russia cancelled North Korean debt, declared interest in modernizing North Korean railways and power plants and intensified her activity in Rason Port. In exchange, Kim Jung Un was invited to Moscow for the 70th anniversary of World War Two victory. All this looks good on paper, but fulfillment of these plans remain uncertain at best. It is questionable, for example, how Moscow would finance those undertakings given her economic condition under Western sanction. And even if she does, the results would come only after (many) years (Pietrewicz 2015). Taking into account even the most optimistic scenario, it is doubtful that a success in North Korea would prejudice the ultimate success of Russia's pivot to Asia (the very success itself here is uncertain). So far Russia did improve in this dimension but this doesn't make a big difference. A similar scenario appears in Vietnam. Here, as in the previous years, Russia successfully sells weapons, even the most sophisticated ones, but nothing more. Vietnam, having had strained relations with China over disputed islands, looks to the US more, and correctly so, given the fact that Russia cannot support Vietnam without risking damaging relations with China. Therefore, the options in Vietnam for Russia are limited. The same story goes with Burma. Here, again, Russia sells arms (sometimes in a way damaging to Chinese interests) but has little more to offer. Burma, like Russia, is a big energy exporter (not importer), and although the Burmese government is interested in balancing Chinese influence, the Burmese elites turn towards the US. As Burmese generals-turned-democrats try to maneuver themselves a place between China and the US, Russia is out of the picture here.

Finally, Russian efforts to join the multilateral regional organizations (or became a partner of them), like the APEC forum, the Associated South-east Asian Nations (ASEAN)–ARF Regional Forum, the Defense Ministers Meeting ASEAN+8, the East Asia Summit (EAS) and the “Asia-Europe” Forum). The idea behind these was that they would be another element of Russia's strategy aimed at reinforcing its position in the Asia-Pacific region. Unfortunately for Russia, either it is considered a “Beijing's assistant” (Rodkiewicz 2014) or has been unable to create any major initiatives to make Russia be seen as a “model citizen of the region” (Lo 2014, 21). The latter has to something with Russia misreading Asia. Generally, Russia has difficulties with understanding Asia (or the Asia-Pacific region).

Although Putin himself attends almost every important summit in Asia and Russia officially claims that it follows the "ASEAN Way," in the moments of truth – like the Ukrainian crisis – Russia always resorts to arms. This breaks almost all the principles of ASEAN and alienates her from Asia, where different methods of conduct are preferable. Russia gains respect as a powerful country, but at the same time it unwittingly confirms its bad stereotype in Asia as "a European power" that happened to be in Asia "through historical and imperialistic accident" (*Lo 2008, 126*). Sometimes Russia even fosters this stereotype. Choosing Vladivostok as the APEC summit center showed how Russia is out of touch with Asian reality. Making Vladivostok a center of Russian pivot was an unconscious reference to 19th century Russian imperialistic policy, best symbolized by Vladivostok's name ("the Ruler of East" in Russian).¹ Contrary to geographical benefits emphasized by Trenin ("it is within 60 to 90 minutes flying time of several key capitals: Beijing, Tokyo and Seoul. And places like Shanghai, Hong Kong and Taipei are also within easy reach," Trenin, *Russia...* 2012), it is precisely how it was interpreted in Asia, where Russia is still associated with the 19th century European colonial attempt: "For many Asians Russia had 'pivoted' to the region at least a century and half before when Russia got its 'Treaty of Aigun' (1858) in the wake of the second Opium War" (Yu Bin 2012). Russia misreading the Asian reality is even more obvious now, during the Ukrainian crisis. The 13th Shangri-La dialogue in Singapore (30.05-01.06.) showcased this. Russia sent a low-level delegation for this important Asia-Pacific event, headed by deputy minister of defense, Anatoiy Antonov. He made a speech about the need for Asia-Pacific to stand up to "color revolutions," which Russian portrayed as a Western plot to overthrow legitimate governments like Ukraine's previous one. Attendee Alexander Gabuev bitterly concluded:

"Antonov did not even mention most of the questions relevant for the audience, such as maritime security in the South China Sea, the role of U.S. military presence or the application of international law to maritime disputes in the region (...) most people remembered only the Ukrainian part of Antonov's speech. Given the fact that majority of the participants didn't accept Russia's actions in Crimea, for fear that they could be a possible model for China to settle disputes with its neighbors unilaterally,

¹ On the other hand, Khabarovsk was an equally bad choice, for its name comes from the Russian adventurer who is considered an occupant and invader by the Chinese; other cities in the Russian Far East are too small to be hosting such events. Probably the nearest possible "neutral" option would have been Irkutsk, but it is too far away.

this was not a good sign. Some Asian participants concluded that Russia completely lacks understanding of what is going on in Asia in terms of security architecture. Some were more blunt and even expressed their condolences to me" (Gabuev 2014).

To sum it up: all these Russian plans focus on liberating Russia from overdependence on China in Asia-Pacific region. Judging from the perspective at the beginning of 2015, one must conclude that despite its attempts, Russia fails to do so. This is mainly due to the situation in Ukraine. The Ukrainian crisis has overshadowed Russia's pivot to Asia and forced her to accept the inevitability: Chinese dominance.

May 2014 Gas Contract with China and beyond

The May 2014 gas contract with China is supposed to be a new beginning in Russia's Asia policy. The Russian commentators emphasize that since that summit "the pivot has just started" (*Поворот...* 2014) and that the Ukrainian crisis "catalyzed the Russian pivot to Asia" (Лукьянов, *Логичное...* 2014). The gas contract with China is supposed to be a beginning of true, long term cooperation, finally "acquiring truly strategic depth" (Trenin, *Gas...* 2012). If it would mean reorientation of Russian policy towards Asia, making the Asia-Pacific the main vector of foreign policy and connecting to a new global center, the Russian pivot would indeed be real.

The gas contract, however, is unlikely to make the pivot real for two reasons. First, it should be understood in geopolitical terms. Under the Ukrainian crisis circumstance it is more a clear signal to the West than the decisive turn in foreign policy. Reintegration of the former Soviet area remains Russia's top priority, not the pivot to Asia. Trenin's words are symptomatic here: the signing of the contract is supposed to "reshape and rebalance Eurasia, whose center of gravity will now move from Moscow to Beijing. Such an outcome would certainly benefit China, but it will give Russia a chance to withstand U.S. geopolitical pressure, compensate for the EU's coming energy re-orientation, develop Siberia and the Far East, and link itself to the Asia-Pacific region" (Trenin, *Russia...* 2014). Simply: China has concretes, Russia has plans. As one Polish, sarcastic commentator summarized: "Putin is like a gambler who leaves his savings in a Chinese pawnshop to play for higher stakes with the West" (Korejba 2014).

Second, the gas contract, in spite of reducing regional dependence on grand energy projects and decreasing Chinese influence, increases both.

It is, again, a grand energy project that is *not labor-incentive and its impact on reviving regional economics is unlikely at best. Furthermore, accepting this project* alienates Russia from other Asian countries. If the words of a Japanese analyst, Akio Kawate, turn true, then Russia's behavior in May 2014 "will largely determine her position in East Asia for years" (Akio 2014). And this means the deepening of asymmetrical model of Russian-Sino relations: this contract "being a further step towards intensification of Russian-Chinese economic co-operation, does in practice accentuate the asymmetric nature of this co-operation, consistently turning the Russian 'partner' into an 'energy vassal' of China" (*The Eastern...* 2014). Russia, then, instead of liberating herself from Chinese dependence, drains into it even further. Russia's pivot to Asia turns into a "pivot to China" (Trenin, *Russia: Pivoting...* 2014).

Conclusion

The outlined here state of affairs is causing that, despite Putin's engagement in Asia, "Russia's orientation in Asia is becoming more, not less, China-dependent" (Lo 2008, 129–131). The Chinese direction remains key in Russia's Asia policy, and "Russia has de facto surrendered to China and ceased to be an independent factor in Asian geopolitics" (Blank 2010). Therefore, the words of Bobo Lo, as those quoted above, look surprisingly accurate now: "Russia gains profile and the illusion of influence, while China obtains energy, natural resources, and arms. In short, the relationship works precisely because it is based on expediency, pragmatism, and no small degree of cynicism" (Lo 2008, 131). This means Russia's marginalization in Asian policy and becoming China's junior partner. The threat of sliding into being China's raw material appendage and economic Sinicization of the Russian Far East in spite of decreasing increases. Moscow nevertheless accepts these facts, albeit quietly, because Russian foreign policy vectors are concentrated on reintegration of the post-Soviet area. Without Chinese support, or at least not interfering and not disturbing, this dream is impossible to fulfill. Therefore, for dreaming this dream, Russians accept the drawback: marginalization in the Asia-Pacific region.

Therefore, in Fall 2014 Russia's pivot to Asia can be metaphorically summarized by paraphrasing Deng Xiaoping's words about Vladivostok. While negotiating with Henry Kissinger, Deng remarked that different names given to this city reflect different political goals. The original Chinese

name, *Haishenwai*, meant “sea cucumber bay” (or “sea cucumber cliff”), whereas in Russian it means “ruler of the East” (Kissinger 2014, 82). Today, despite Russian plans and dreams about pivoting to Asia, Vladivostok in the political sphere is more a “sea cucumber” than “ruler of the East”.

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Transitional justice and its impact on security and internal stability in South-East Asia – the case of Bangladesh

Introduction

Transitional justice dilemmas – how to reckon with past abuses, how to discuss over the past evils' legacy – are witnessed by numerous post-conflict, post-authoritarian or post-neocolonial states. Undoubtedly, when the *transitional justice* notion appears in the public discourse, it mostly refers to the cases of Latin American and Eastern European transitions in the 1980s and 1990s or African post-conflict efforts undertaken since the mid 1990s, with the most famous post-apartheid Truth and Reconciliation Commission in Republic of South Africa (Teitel 2000; Ambos, Large & Wierda 2009).¹ The South-East Asia region is located beyond the scope of the transitional justice debates, merely because of only a few comprehensive legal and social mechanisms applied *in* and *by* the post-violence countries and the limited involvement of the international community aiding in a process of pursuing justice in the region. The United Nations-backed retributive responses to the crimes of the past in Cambodia and Timor-Leste (Cryer 2005, pp. 65–71) remain the most significant legal measures implemented in order to achieve justice and – potentially –

¹ Transitional justice mechanisms contain: (I) criminal prosecutions; (II) truth-seeking and truth-telling processes (as symbolized by the work of different truth and reconciliation commissions); (III) reparations programs; (IV) vetting procedures (in the Central and Eastern Europe known as *lustration*); (V) institutional reforms. They can be classified either by judicial or non-judicial nature, or official and unofficial character of undertakings (such as collective memory preservation).

reconciliation in the given countries of the region. Nevertheless, one of the most interesting examples of post-conflict endeavors in South-East Asia brings around the case of Bangladesh, currently in a process of socio-legal evaluation of the 1971 genocide, struggling for fundamental justice for victims and their families more than 40 years after the commitment of those heinous crimes.

The post-conflict efforts of Bangladesh are symbolized by the work of the special *International Crimes Tribunal of Bangladesh*, the fully domestic court, established in order to prosecute and punish the most responsible wrongdoers - (international) criminals of 1971, the year of the national Liberation War of Bangladesh. The history of the Tribunal (which was formally created by the *Act of Parliament* of 1973), operating after a few decades, when crimes did happen is not out of the controversies and concerns raised by: (I) the international community and NGOs (mostly from the United States (US) and United Kingdom (UK)) over the international legal standards of the proceedings and death penalty; (II) radical Islamic angle of Bangladeshi society – gathered among *Jamaat-e-Islami* – at the same time, forming the biggest group of individually and collectively prosecuted persons by the Tribunal (claiming the purely political character of the court); and (III) Pakistan itself, especially since January 2014, when the Chief Prosecutor decided to open investigations against 195 (former) members of the 1971 Pakistani Army.

As a result, transitional justice strategies crafted by Bangladesh have a direct impact on the internal stability of the country (*vide* the boycotted parliamentary elections of January 2014 won undisputedly – no real political opponents left on the scene – by a ruling party the *Awami League*) and its external relations with neighboring states, underlining the social and political dimensions of legal choices.

The main question to be answered is whether states after the transition from war to peace or illiberal rule to democracy may make use of any mechanisms, irrespective of its legal or political nature, and to confront it with the international law framework. This article is to shed more light on the work of International Crimes Tribunal of Bangladesh, the central figure of the post-genocide measures applied by this Southeast Asian country. In the first part of the paper, the Author explores the Bangladeshi genocide of 1971, which may serve as a historical background and a direct reason of the subsequent establishment of the International Crimes Tribunal of Bangladesh to prosecute and punish the perpetrators of the 1971 massacres. The second part deals with the creation of the Tribunal in 1973

and the pursuit of justice barred for almost 40 years after the political shift to political Islam occurred in Bangladesh following the assassination of Mujibur Rahman, a symbol of the Bangladeshi independence in 1975. In the following part, the Author discusses the legal nature of the Tribunal (re-established in 2010), mainly the question of its jurisdiction and controversies raised by its work in the eyes of the international community. Furthermore, the Author presents the social and political consequences of the functioning of the Tribunal, mostly after the execution of Abdul Quader Mollah as a result of the Tribunal's judgment. Mollah's death led to riots across the country, political tensions and boycotted parliamentary elections of January 2014. The paper is based on field research conducted by the Author in December 2013 in Dhaka, at the invitation of the Office of the Prosecutor of the Tribunal.²

The historical background of transitional justice tools in Bangladesh: the genocide of 1971

Bangladesh became an independent country on December 16, 1971, after a bloody national Liberation War conducted by Bangladeshi freedom fighters against Pakistan. Even though the crucial turning point of the war was the military involvement of India that enabled to achieve the final victory over the Pakistani troops (13-day war), it was still a Bangladeshi triumph, aimed at establishing the fully independent state of Bangladesh.³

Prior to the brief description of war, crimes committed and bloody reign of terror, it is necessary to mention the historical background of the bilateral relations between Pakistanis and Bengalis (even though, legally speaking it was one country till the year 1971). After the partition of the post-colonial British Empire on the subcontinent in 1947, when India and Pakistan emerged as independent states, the area of East Bengal became an integral part of Pakistan, till then consisting of two, geographically separated parts: West Pakistan and East Pakistan (today's Bangladesh). The reason behind the partition of British India, which is very often invoked – the religious division of Hindus and Muslims and the necessity of pro-

² The field research and academic visit to the Tribunal was conducted between 9 and 23 December 2013. During the stay, I was able to take part in the court's hearings, the team of the prosecutor meetings and to make interviews with different prosecutors from the Office of the Prosecutor, alongside other officials of the Tribunal.

³ India recognized Bangladesh as a state on December 6, 1971.

viding them a safe place to live – shall be viewed as a fiction (to mention Sikhs as the other significant religious minority left alone). The partition itself was marked by bloody pogroms and enormous displacement (up to 14 million people were subjected to the enforced mass migration) (Brass 2003, pp. 71–101).

From the beginning the West Pakistani policy was to subordinate the eastern wing of a country, e.g. by refusing to recognize *Bangla*, spoken by the people of East Pakistan, as an official state language, claiming *Urdu* as the one official language. This decision directly led to the creation of the “*Bangla Language Movement*,” a political effort of students and intellectuals to protect the native language, spoken by almost the entire population of Bangladesh (98%) (Ahamed 2013, p. 34). On February 21, 1952, students of the University of Dhaka commenced protests, sacrificing several of themselves during fighting with police in order to preserve the native language.⁴ To mark the day and keep the memory of the *Bangla* fighters, UNESCO named February 21 as UNESCO’s International Mother Language Day in 2000 (UNESCO n.d.).⁵

The independence movement was strongly accelerated, since the first direct, democratic elections, held by Pakistan in December 1970 were won by the *Awami League*, an openly pro-American party, led the Sheikh Mujibur Rahman, “the father of the nation.” In fact, the frustration of the Bengalis resulted in the subsequent *Awami League* victory, which was rooted in the devastating outcome of the cyclone that had struck East Pakistan just one month before the election. According to the words of one of the officers of the US Consulate in Dhaka: “the cyclone was the real reason for the final break” (Saunders 2014, p. 36). The proposal of the establishment of a coalition government consisting of Rahman and his followers alongside Zulfikar Ali Bhutto, elected by the Western Pakistani voters, failed. General Yahya Khan, the military President of Pakistan, postponed the first gathering of the National Assembly (scheduled for March 3, 1971), causing the general strike (*hartal*), launched by Bengalis living in East Pakistan. The subsequent events – the banning of the *Awami League* by General Yahya, arrest of Mujib Rahman – led directly to war

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⁴ *Saheed Minar* is a sculpture based close to the University of Dhaka area in the capital of Bangladesh, installed in remembrance of the martyrs of the *Bangla Language Movement* of 1952. It is worth mentioning the policy of collective memory as one of the possible transitional justice mechanisms, having a social and psychological character of keeping the national history as one narrative and as a mean of reconciliation of the post-violence society.

⁵ Read more on <http://www.unesco.org/new/en/education/themes/strengthening-education-systems/languages-in-education/international-mother-language-day/>.

and the idea of the total extermination of the Bengali nation by Pakistan (the campaign of violence was named as “Operation Searchlight”).

Genocide was a part of Pakistani policy to annihilate the Bengali intellectuals (the biggest murder occurred on December 14, 1971, just two days before the independence of the country (Chowdhury 2013, p. 2)) and subordinate Bangladesh to West Pakistan for generations. The reign of violence seemed to become the “forgotten genocide,” as it was soon after called by numerous experts and politicians, and if it had not been for Anthony Mascarenhas, the world would have remained silent over the mass murders that occurred in East Pakistan. Mascarenhas, who was the Pakistani journalist travelling with the Pakistani Army (at their invitation), wrote an poignant article, entitled simply “Genocide.” Mascarenhas’ report was published by the English *Sunday Times of London* on June 13, 1971 (Mascarenhas 1971). Soon after the Pakistani journalist moved his family to England and then himself, trying to avoid “the revenge of his motherland.” Pakistani soldiers and their Bengali collaborators, *Razakars*, slaughtered Bengali Hindus as well as Muslims, together with everyone, who opposed the Pakistani policy of keeping East Bengal tied with Pakistan. Mascarenhas invokes memories of trucks loaded with human bodies, pogroms of towns and villages, lists of people to be liquidated (belonging to the Mujib movement of independence) – needless to say, these are just observations of one man, moreover, limited to a certain time and space extent.

The Pakistani plan was to rapidly crush the enemy and take control over the territory – in the course of achieving the abovementioned goals they found assistance of the radical, fundamental parties, such as *Jamaat-e-Islami* (Hoque 2013). The indiscriminate killing of the inhabitants of Dhaka and other regions of East Bengal (mostly unarmed civilians), started on March 26, 1971, and lasted for almost 9 months, resulting in 3 million people murdered, 10 million refugees (who fled to India) and up to 400 thousand women raped (although the death toll varies, according to different sources) (Muhith 1992).

Mascarenhas’ article shocked the UK and the international community, nevertheless, in spite of diplomatic efforts undertaken, e.g., by US authorities (notably by Henry Kissinger, the main architect of US foreign policy in the 1970s), no decisive military response was conducted. This situation lasted until India interfered in December 1971. Considering Kissinger’s involvement in Bangladesh and other South Asian countries, the International Crimes Tribunal of Bangladesh (ICT-BD) Chief Pros-

ecutor's team deliberates over opening inquiries against Dr. Kissinger's potential crimes committed, at present.⁶

Even after many years have passed, we can still say that the "forgotten genocide" does not attract the attention of scholars of genocide studies, neither historians (Beachler 2001, p. 31), nor lawyers (Robertson 2006), as other examples of exterminations of nations in the 20th century, starting with the most crucial one – the Holocaust. One hypothesis touches upon the possibility of a lack of political interest – too little political capital potentially gained from sympathizing with victims of a particular cleansing – of main actors on the international scene, including the US. Thus, the common knowledge of the functioning of the main, criminal response to past evils – the ICT-BD must appear as very limited. Undoubtedly, the Tribunal in Dhaka remains on a margin of international community interest (besides the UK), not only because of geography, but also because of a lack of awareness of its existence.

The International Crimes Tribunal of Bangladesh (ICT-BD) – a domestic response to international crimes: challenges and limitations

Just after the Liberation War led to the independence of the country, Bangladeshis seemed to be determined to craft a strong, retributive response to the crimes of 1971, adopting the Statute of the International Crimes Tribunal of Bangladesh, by the *International Crimes (Tribunal) Act* of Parliament of July 20, 1973 (The Parliament of Bangladesh 1973).⁷ It is necessary to underline that the Statute was drafted by two renowned international scholars, experts on the (at that time) emerging discipline on international criminal law, Professor Hans-Heinrich Jescheck and Professor Otto Triffterer, during the "dark times" of international justice.

Doubtlessly, since the Cold War efficiently barred the establishment of any international tribunal (or domestic ones, but dealing with international crimes), the ICT-BD Statute remains one of the first, factual efforts in the framework of international criminal law to fight against impunity of the most responsible wrongdoers after the post-war International Military

⁶ Personal interview with one of the prosecutors of the ICT-BD.

⁷ To underline, the first set of laws – the *Bangladesh Collaborators (Special Tribunals) Order* 1972 – was proclaimed on January 24, 1972.

Tribunal in Nuremberg and its Far East equivalent in Tokyo. Moreover, the adoption of the ICT-BD Statute in 1973 stayed in line with international efforts undertaken to establish the first, permanent international criminal tribunal, emphasized by the Third International Criminal Law Conference, held in Dhaka in December 1974 (Kibria 2002). Even though the creation of the International Criminal Court (ICC) was “completed” during the Rome Conference of 1998 (24 years after the conference in Dhaka took place), Bangladesh maintains (or would like to maintain) its position of one of the first countries – especially beyond the sphere of the traditional main actors of international law and international relations – standing on the frontline of international justice. Needless to say, Bangladesh was, again, one of the first states in the Southeast Asian region that ratified and became a party to the Rome Statute of the ICC on March 23, 2010. Certainly, Bangladesh serves as a positive example on this “ocean of reluctance” showed by other Asian states (including China, which ultimately opposed the adoption of the ICC Statute) towards the international (criminal) mechanisms (Freeland 2013, pp. 1029–1057).

The process of pursuing justice for victims of the 1971 genocide was suspended for almost 40 years due to the assassination of Mujibur Rahman on August 15, 1975, the decisive turn of Bangladesh to political Islam (martial law was introduced, which remained in power for the next 15 years) and amnesty laws barring prosecutions being adopted. The return of Bangladesh to parliamentary democracy in 1991 launched the time of the political duel between the *Bangladesh Nationalist Party* and *Awami League*, winning and again losing power to the main rival. Eventually, the latter won the general elections of December 2008, assumed in power in January 2009 and has remained in that position until the time of writing.

The ICT-BD recommenced functioning, this time factually, on March 25, 2010 (as a consequence of the 2009 amendments to the Act of 1973).⁸ Two years later, the Bangladeshi government established the so-called *International Crimes Tribunal – 2* (ICT-BD2) (with separate rules of procedure, but the same jurisdiction as the first one). Nevertheless the creation of the ICT-BD2 may be compared to the establishment of the second chamber in an average court, when the complexity and huge number of cases do not allow to smoothly adjudicate them.⁹ From the first days of

⁸ The day of the notification of the establishment of the ICT-BD in the Official Gazette of Bangladesh.

⁹ Whenever there is a need of constituting “the next Tribunal” (like ICT-BD3, 4 or 10), it is possible to create one according to the Statute (Article 6).

its “new life” the Tribunal faced the huge criticism raised by the Western states and the prominent nongovernmental organizations working in the field of human rights protection and promotion, like Human Rights Watch. At the same time, with the exception of *Jamaat-e-Islami* members or supporters, claiming the Tribunal to be a highly politicized instrument in the hands of the *Awami League* (and the government), most Bangladeshi society stands for the ICT-BD.

ICT-BD – the legal nature of the Tribunal

Concerning the legal aspect of ICT-BD – in fact the primary one – we have to underline a few crucial issues. Firstly, the ICT-BD as any other criminal court, either international or domestic, deals solely with the *individual responsibility of a perpetrator*. As a result, the Tribunal addresses crimes committed only by individuals, group of individuals or organizations (jurisdiction *ratione personae*), but not by states. Thus, Pakistan as a state entity cannot be found responsible for its campaign of terror and genocide before the Bangladeshi Tribunal.

The Office of the Chief Prosecutor did commence its inquiries on prosecuting the nationals of Bangladesh, potential wrongdoers of the 1971 crimes. Most of them belonged to paramilitary units aiding and instigating the Pakistani forces, such as *razakars*, *al-badr* or *al-shams* (that may be classified as auxiliary forces). However, the statute in the Article 3 (1) makes it legally possible to accuse anyone irrespective of his or her nationality, stating the mandatory condition of the crime committed on Bangladeshi soil. In January 2014 the Chief Prosecutor decided to open investigations against the 195 Pakistani former prisoners of war, previously moved beyond the scope of criminal justice on a basis of the *Simla Agreement of 1972* and *Tri-partite (Delhi) Agreement of 1974* (Mustafa & Gill 2014, pp. 114–118).

Secondly, it is the jurisdiction *ratione materiae* of the Tribunal. The ICT-BD is entitled to investigate and adjudicate the cases of (Article 3 (2) of the *Act*): (I) crimes against humanity; (II) crimes against peace; (III) genocide; (IV) war crimes; (V) violations of the Geneva Conventions of 1949 (international humanitarian law infringements); and (VI) any other crimes under international law. These crimes belong to the specific group of *international (core) crimes*, the most heinous crimes, against the whole of humankind. That is why, the name of the court

incorporates the adjective *international*, in spite of the fully domestic character of ICT-BD.

As stated before, the Statute of the Tribunal was tailored by the most renowned experts of their era, thus the jurisdictional matters are drafted in the compliance with international law. On the other hand, the 40-year time gap between the creation of the Statute and the Tribunal itself left an imprint on this legal text. Crimes against peace are known today as crime(s) of aggression, what is more, most probably, genocide as the “crime of crimes” would be mentioned first in the list before any other crime, as it is experienced by modern international criminal tribunals. Does it have to affect the evaluation of the ICT-BD as being the “out-of-date court”? Not necessarily, however, this argument serves quite often the opponents of the Tribunal, challenging its legal value as well (to underline it very clearly, this statement is a very weak argument against the ICT-BD).

The third big question touches upon the issue of temporal jurisdiction – *ratione temporis* – of the Tribunal and the possible interference of the ICC postulated by some commentators (although, definitely not lawyers). The International Crimes (Tribunal) Act states that the ICT-BD is entitled to adjudicate anyone who committed crimes listed in the Tribunal’s Statute “whether before or after the commencement of this Act” (Article 3 (1)). However, this term concerns solely crimes of 1971, even though, from the formal point of view, the temporal scope of the ICT-BD jurisdiction is much broader.

With regard to the potential inclusion of the ICC in the Bangladeshi genocide reckoning, it must be stressed that the ICC does not have jurisdiction to deal with Bengali case. The Hague can try cases concerning crimes committed only after entry into force of its Statute, i.e., July 1, 2002. What is more, with reference to a particular state, the time boundary shifts to the day of the ratification of the Statute (March 23, 2010, in the case of Bangladesh), preventing the ICC from getting involved in the adjudication of crimes that occurred during the Liberation War of 1971. Additionally, Bangladeshi authorities ensure that even if the ICC interference concerning *ratione temporis* was possible, since their capability and will to try offenders, Bangladesh complies also with the complementarity principle, the basic rule of the functioning of the ICC (Rahman 2012, pp. 14–15).¹⁰

¹⁰ The ICC system is based on the principle of complementarity – the Hague’s Tribunal is a court of the last resort. The Court may interfere only, if a national jurisdiction fails or does not want

Having in mind the problem of time and the possible argument of retroactivity of criminal punishment,¹¹ it is necessary to emphasize that any statute of limitations, barring the potential prosecution because of time passing, does not apply to the situation of international crimes.¹² The ICT-BD deals only with international crimes, thus the prohibition of retroactivity of criminal law enforcement shall be abandoned. Moreover, it is clear that states can prosecute wrongdoers for international crimes committed *even before* the prosecuting state was created – the *Eichmann* case held by the court in Jerusalem, but also Bangladesh, can serve as the most pertinent examples (Willis 2014, p. 432).

Eventually, probably the most problematic issue – especially for the international NGOs, working in the field of human rights protection and promotion is the death penalty, one of the sanctions issued by the Tribunal. It is true that none of the United Nations (UN) courts (including the ICC) incorporates the death penalty in their “legal constitutions.” Nevertheless, the international law itself does not prohibit the death penalty (only encourages to abolish it).¹³

Social and political implications of the post-genocide Bangladeshi Tribunal

The December 2013 execution of the first convict – Abdul Quader Mollah (The Supreme Court of Bangladesh), known as “The Butcher from Mirpur,” one of Jamaat-e-Islami’s biggest figures, dramatically increased the political tensions and riots across the country. Mollah’s trial was in fact the ninth completed court case (others concerned such perpetrators as Ghulam Azam, Delowar Hossain Sayedee or Salahuddin Quader Chowd-

to proceed trials to prosecute and punish those responsible for international core crime occurrence.

¹¹ The prohibition of retroactivity was formed to secure that no one will be punished for acts or omissions not penalized during the moment of particular conduct.

¹² Rule governed by the international customary law, embodied in the Convention on the Non-Applicability of Statutory Limitations to War Crimes and Crimes Against Humanity of 1968. Available at: https://treaties.un.org/Pages/ViewDetails.aspx?src=IND&mtdsg_no=IV-6&chapter=4&lang=en.

¹³ For instance, Bangladesh is not a state party to the Second Optional Protocol to the International Covenant on Civil and Political Rights, aiming at the abolition of the death penalty of 1989. Available at: https://treaties.un.org/Pages/ViewDetails.aspx?src=IND&mtdsg_no=IV-12&chapter=4&lang=en.

hury). However, since the ICT-BD previous life sentence was raised by the Appellate Division of the Supreme Court of Bangladesh to death penalty, it echoed not only in Dhaka, but also in London and Washington D.C. – sending a huge amount of critical views against the Tribunal. Mollah's conviction and execution led to the general mobilization of his followers and supporters (gathered mostly around the dissolved Jamaat-e-Islami), announcing hartal across the whole country. Immediately after Mollah's hanging, the Pakistani parliament issued a resolution condemning the ICT-BD verdict (Chowdhury 2013).

The headlines of English-language Bangladeshi newspapers (e.g., *The Daily Star*, *The Independent*, *Dhaka Tribune*) of those days proclaimed: "Jamaat-Shibir Goes Berserk," "PM urges opposition to stop killing, hindering academic life" or "Another AL man killed by Jamaat" reflected the social flame of mind – the majority being under strong physical and socio-political pressure of the minority. The people of Bangladesh generally accept the ruling party and the work of the ICT-BD – as a response towards the Jamaat-e-Islami hartal, numerous peaceful demonstrations were held in Dhaka, in order to show their support for the process of pursuing justice (Huque & Oette 2009, pp. 51–72). Nevertheless, Mollah's death exerted a powerful influence on the outcome of the general elections of January 2014. The biggest opposition party, the Bangladesh Nationalist Party decided not to take part in voting, boycotting the elections. As a result the Awami League took 232 of 300 elected seats, but it could not stop the post-election violence, directed notably against ethnic and religious minorities. A large number of Western diplomats, alongside the UN officials, expressed huge concerns over the condition of democracy in Bangladesh, as well as the internal stability of the country (Barry 2014).

The stream of critical views against the ICT-BD may be observed mostly on the international scene, however, some voices of discontent are heard also in Bangladesh itself (obviously raised by the Tribunal opponents). The ICT-BD adversaries in Bangladesh or region (Pakistan, in particular) talk about "the political vendetta" via the use of a judicial tool, underlining human rights violations, lack of guarantees of the accused before the Tribunal (Abdul Jalil 2010, pp. 114–116). International commentators, GOs and NGOs (e.g. the International Commission of Jurists (2013), Bar Human Rights Committee of England and Wales (2012) and Human Rights Watch) or official state organs (The British Parliament 2012) invoke the argument of not abiding by the "international standard of proceedings." For instance, we have to emphasize the Tribunal's oppo-

nents' allegations: the retroactive application of the amendment allowing the Prosecutor to appeal a life sentence and seek the death penalty as in the case of Mollah; a lack of witness protection mechanisms; insufficient evidence gathered for the criminal conviction of an individual; the death penalty and large politicization of a "one-sided court" established for the particular interests of the Awami League (in fact most of indicted persons were members of Jamaat-e-Islami, others represent the Bangladesh Nationalist Party) (Sen 2012, pp. 33–43).

Conclusion

Bangladesh is one of only a few Asian states that implemented at least one of the transitional justice mechanisms in order to reckon with past abuses – the genocide of 1971. Genocide itself does not attract people's minds across the globe, thus the level of knowledge or awareness of the post-1971 trauma and the work of the ICT-BD is limited.

The Bangladeshi Tribunal should be treated as an unique example of domestic, criminal response to international crimes, established without any help of the UN or any other (regional) organization. At the same time, the Tribunal is hugely criticized by international actors. Undoubtedly, the ICT-BD is not the crystal, "academic" example of special criminal court, although these voices claiming the dissolution of the Tribunal as a political court, serving just one party cannot prevail over the reasonable evaluation of its work. Most probably, the Tribunal should be more open for visitors coming to Dhaka to challenge its functioning, as well as for the active participation in the serious international debate on the issues of international criminal justice. Being permanently on the margin of interest does not help the ICT-BD in the positive promotion of its involvement in post-conflict Bangladesh – to emphasize the predominant support of the common people of Bangladesh.

It is necessary to underline that other transitional justice measures, especially considering truth-telling processes (like truth and reconciliation commission) are not welcomed in Dhaka, since they are perceived as ineffective in the specific context of Bangladesh (Afroz & Baul 2014) (although in the neighboring Nepal a truth commission is being established at present (The President of Nepal, 2013)). Another non-judicial mechanism, for instance reparations programs, cannot be broadly implemented, since the economic situation of the country does not allow to craft widespread compensation projects.

What is interesting, Bangladeshis treat the ICT-BD, undoubtedly a retributive instrument, as a remedy for all possible transitional challenges – with the inclusion of the *right to truth* of the nation as well (Afroz & Baul 2014). As it seems, the criminal trial does not represent the best forum for disclosing the whole truth of what factually occurred during the time of the genocide (court's truth, actually narrowed by charges formed by the prosecutor). The ICT-BD Statute does not include the possibility of victim participation in proceedings (contrary to ICC regulations), thus victims may take part in trials *just* as witnesses – in fact victims of the 1971 crimes do not have any legal power to interfere in the transitional justice strategies in Bangladesh, tailored solely by the state officials. Collective memory is secured by the work of the National Liberation War Museum in Dhaka, established in 1996, while the social awareness of the genocide legacy remains at the relatively higher-than-average level.

To conclude, the Tribunal in Dhaka should be viewed from the perspective of the constant development of international criminal justice system, seeking more often for the domestic, strong institutions to assist the ICC in pursuing justice. The ICT-BD is an example of the *peace v. justice debate*, where in a view of most Bangladeshis, justice cannot be substituted by any other – soft – mean of transitional justice. Moreover, bearing in mind a special context of numerous Asian states that due to political reasons have never reckoned with past crimes, the Tribunal should serve as an interesting socio-political laboratory of backward-looking justice – ready to implement or modify. For instance, in today's China, "the transition" can be viewed *only* from the perspective of "power transition at the central level," without the real change of political route of a country – the commencement of the process of democratization in particular (Mierzejewski 2010, pp. 2–3), although we cannot exclude the future desire of the nation to hold accountable those responsible for the 1989 "Tiananmen Square massacre," even though it sounds impossible at the very moment. Simultaneously, the auto-isolation of the court, combined with the low understanding of the local context of Bangladeshi transitional dilemmas beyond the region, *decrease the value* of socially, internally accepted post-conflict mechanisms *at the level* of the international community awareness.

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New Dynamics of Power Transfers – the Ukrainian Crisis 2013–2014¹

The contemporary international environment is a complex hub of inter-crossed connections between various entities located on various levels in different parts of world. This network is a backbone for the international environment, and serves as a framework for transmitting power, information and commodities, as well as “midst, turmoil and tribulation.”

One of the recent examples of international focal points is the Ukrainian crisis, sparked by events in Kiev in late 2013. It was located within the jurisdiction of this particular nation-state, however, due to a network of transnational connections, the events in Kiev, Crimea and subsequently Donbas have gravely influenced the architecture of global power flows on three major fields. First is the drastic acceleration of power transfers, which occurred around the particular crises. Second is connected with the architecture of power flows, not only within the direct vicinity of area of conflict, but also in distant parts of world like Asia and the Pacific. Third, within the framework of major crises the opportunity arose to re-configure the global institutional network.

The main aim of the following chapter is to present and analyze the ripples caused in global power flows by the Ukrainian Crisis. In this case major global national and non-national actors perceived this event as a challenge and possibility to achieve particular objectives, sometimes motivated by geopolitical principles, moral judgment or even personal grievances. Thus power, contrary to the neorealist approach, tends to be-

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come a subjective and flexible international phenomenon, dynamically shaped by context and the actors in which it is used. The main thesis of this chapter is that the Ukrainian Crisis is a multidimensional event responsible for altering contemporary power transfers, thus is furthermore pushing forward the evolution of the contemporary international environment towards a post-Westphalian shape.

His chapter will be composed of four parts. First will be dedicated to the brief presentation of reasons, timeline and analysis of the contemporary situation in Ukraine. It will be incomplete due to the fluent nature of those events, still unfolding to the full extent of their scope. Second will be dedicated to defining the nature of those events when it comes to the power of various actors in two dimensions: within the sphere of relative capabilities and the capability of binding the international political dialogue towards a particular point of view. The third part will consist of projected reactions and repercussions of Ukrainian crisis on participants, as well as other actors, such as BRIC states, excluding Russia. The final part will consist of possible scenarios of the effects on the international system as a whole, particularly on Asia and the Pacific area.

The Ukrainian Crisis – causes, timeframe and consequences

The Ukrainian Crisis, as it should be labeled currently, is the event connected with the dramatic loss of authority and legitimacy connected with the refusal of signing the association agreement between the European Union (EU) and Republic of Ukraine by President Victor Yanukovich. However, the real reason for the revolt, and the current aftershocks in Crimea and Donbass, is the attempt displayed by the majority of the Ukrainian population to sway the Eastern European balance of power, especially among Ukrainians in favor of a loose connection with the West, rather than cooperation with Russia, preferred by the Yanukovich administration since his electoral victory in 2010. This desire was the effect of the transitions of power within Ukraine as well as its international surroundings.

There could be pinpointed two major internal reasons for triggering this crisis. First is the development of a Ukrainian society heavily affected by influence of *normative power* deployed by the EU and its daughter

institutions, programs and agendas. This notion, present within the nation (Manners, 2002), was expressed by surveys regarding the political activities of the society: according to them, between 2009 and 2014, the supporters of Ukraine EU membership grew from 20–34% (Retman 2009) to nearly 63.6% (*Nearly 40% of Ukrainians ready to demonstrate if authorities do not fulfil promises*, 2014), and it was expressed by a growing discontent with the functions of authority (Motyl, 2014b: 52–58). The second tendency is strongly connected with the national environment marked by the growing disappointment with the Yanukovich government. It was really remarkable to analyze the path of the former president which evolved from a person charged with the duty of sorting national affairs after the period of collapse and conflict among the Orange coalition. But instead of development and progress, his administration preserved only partially reformed corrupted state structures and oligarchical managed economy. However, the gravest of his errors was not the preservation of an ineffective structure, but as is usual in similar cases, lack of discretion in the consumption of wealth by government officials coupled with attempts to block constitutionally built-in safety switches, like liberty of the press and demonstrations, especially in the early days of Euromaidan revolution (*Ukraina: parlament ogranicza wolności obywateli. “Wprowadza dyktaturę”*, 2014). Summing up, what started as an ambitious attempt of reconciliation of major factions of Ukrainian society ended up as force opposing the ambitions of nearly the whole society. Both factors created the situation in which the rejection of an EU Association Agreement on November 21, 2013, worked as a detonator and resulted in an outburst in Kiev, and the preemptive escape of Yanukovich from Ukraine with Russian assistance (Motyl, 2014a: 46–51).

The international surroundings created an environment vulnerable to distortions, especially in Eastern Europe, which is clearly visible from the October 2014 perspective. The main reason of such a coincidence was the transfer of power between two power centers: the West in general and Russia. What should be pointed out is that this stream is one among many others affecting the global landscape, however, the case of the Ukrainian Crisis is the most important. The power flow constantly promotes the Western side, however, due to the heavily developed addiction of exporting energy resources, the Russian Federation managed not only to stop, but to some extent reverse the degeneration of the recent incarnation of the former empire. The La Grange balance point was located in Ukraine, which was considered a neutral buffer zone between Russia and the West. A shift

in popular support, embodied with the Accession Agreement, sparked a violent reaction as it was perceived as a threat to Russian security and to some extent its ambitions. The main problem is that Russian activity is connected with the so called *rising powers*, gathered in the semi-formal organization by the name of the BRIC states. This perspective indicates, that due to its outcome the Ukrainian Crisis will be considered as a prototype of new strategies which will be adapted by other contestants of Western supremacy. Summing up, the general power flows within the international environment promotes non-Western entities, which ascend to the role of challengers of Western hegemony and which seek new ways to conduct more assertive foreign policy; and non-state entities, which due to technical progress gained the opportunity to act independently from host governments. Within the state, power flows are more unstable, primarily due to the exhaustion of major powers by the financial crisis of 2008 as well as their entanglements in *new wars* (Kaldor, 2007) which nation-states were ill-prepared for waging, like Afghanistan, Iraq or Caucasus. However, the outcome of the power transfer in the Ukraine Crisis is still to be determined.

During the recent year, the Crisis passed through four major stages. In each of them, the dynamics of power transformed the capabilities of engaged parties and the construction of those coalitions, composed of different actors present within Ukraine, such as political parties, components of military and paramilitary forces, espionage networks, foreign agents, as well as radical and criminal group. The first stage lasted from November 21, 2013, to February 21, 2014, and could be labeled as the Euromaidan Revolution. Power flows within this stage of crisis were limited only to the Ukrainian interior. Their direction promoted, in general, the scattering of government potential, especially when it comes to *soft power* in the case of government legitimization. The external environment became aware of the situation, and was capable only in undertaking limited actions, like declarative and financial support for protesters by Western powers and an alleged special assistance unit for the Berkut. The power flows pointed in favor of the opposition, however, the government kept control over enforcements and managed to nearly crush the protesters, which eventually preserved enough capabilities to redeploy and survive the assault. At the end of this stage, President Yanukovich was ousted from power by a coalition of protesters and defectors from his own camp, and ran to the Russian city of Rostov with the assistance of Russian intelligence (*Putin zdradza kulisy uciezki Janukowycza. "Zrobiliśmy to, o co*

prosil'", 2014). This stage of conflict ended with weakening the government's power in both spheres, further undermined by Yanukovych's legal claims to presidency. The second stage can be called the Crimean Crisis. It took place between February 23 to March 19, 2014, when elements of the 76th Guard Air Assault Division of Pskov, with the support of Garrisons of the Black Sea Fleet station in Sevastopol coupled with defectors from the Ukrainian Berkut, gradually took control of the Crimean Peninsula. Within this stage two directions of power transfers can be identified. The first is the attempt to reclaim legitimization and capabilities distributed on sub-national actors, such as former protestors of Maidan and the Russian minority as a whole. The process was complicated by the actual fractures between the three major poles of Ukrainian society: pro-Western protesters of the North and Western edges of the state, pro-Russians societies of the Southern and Eastern edges and center-fold provinces centered around Kiev. The situation was complicated by neutrality towards the new government of oligarch members, and the question of allegiance of many high ranking state officers, such as the former commander of the Ukrainian Navy, Denis Berezovsky, on March 2, 2014, with most of the staff and other units (*Crimea forms its own fleet as Ukraine Navy chief sides with region*, 2014). Those defections proved, that legitimacy had to be quickly restored. The second factor was the involvement of the Russian power element, primarily on the basis of *soft power* on the foundation of minority members, legal reservation towards the new government and information warfare conducted, aimed at undermining public support within and outside Ukraine. What is more worrying, is the gradual ascension of the military factor within the crisis, with at that time a concealed military presence, referred to as the *Little Green Men*. This stage ended with the secession of Crimea on basis of a vaguely conducted referendum. As it will be essential for the next stages, it appears that the referendum concept was the breaking point after which Russian *soft power* capabilities started to erode not only in relation to Ukraine, but also in relation to other actors within the former Soviet space. The third stage is located between March 19 and May 11. Within this period of time, the power-base and legitimacy freshly reclaimed by the new government was challenged on three major fields. Firstly, due to allegations of former President Yanukovych conducting unconstitutional acts and thus lost his office. Secondly, the fading *soft power* mechanisms ignited counter-Maidan revolts in many major cities, especially in regions with a significant presence of Russian speaking populations in the South and South East, such as Odessa,

Mariupol, Donetsk and Luhansk. Thirdly, the supplementation of those influences was the deployment of *hard power* by the Russian Federation in two dimensions. One, the deployment of special forces and regular troops with the task of supporting separatist tendencies. The other, by economic leverage, especially with export of energy resources such as gas and oil. Fortunately for the Ukraine, due to the dynamics of power present in the framework of the late-Westphalian international environment, Russian activities applied in parallel proved to be counterproductive. Instead of affecting the state as a whole, Russian power was met with stiff resistance. This kind of *war without fighting* fiddled with bizarre scuffling between police forces and rioters, tricks, subversion as well as a limited bloodshed, with the gravest incident occurring in Odessa. Summing up, the power of the new government was successfully recollecting with growing transfers coupled with the power dispersal of Russian institutions, and reluctant, declarative and moral support of Western institutions. Within this period, the Ukrainian Crisis was becoming recognized by other international actors, especially those aspiring to change the traditional flows of power in the contemporary international landscape. Fourthly, and as far final stage of the conflict, is the civil war in the East with a gradually more proactive foreign intervention. This stage was commenced by the independence referendum conducted in Luhansk and Donetsk Oblasts on May 11. The conduct of this stage is similar to the mechanisms of *new wars* described by Mary Kaldor. This stage could be subdivided into phases, dependent on the tide of battle. When it comes to power flows within this stage, the three power circuits should be underlined. First is the growing ineffectiveness of Russian influence, measured paradoxically by growing military involvement that was especially visible in late August 2014 when the Russian army officially engaged Ukrainian forces, and inevitably pushed them away from the border and major cities in the region (Dahl, 2014). Second is the growing involvement of third parties, mainly on two fields. Firstly is the declarative and normative support of Ukrainian government. Secondly is the condemnation of Russian activities coupled with economic sanctions aimed at Russia and its government officials. The third, and the most important is the perception of this Crisis by third parties, especially by Russia's counterparts in BRIC. On this field, the challenge for Western institutions posed by Russia and its strategic ambitions is seen as a prototype of new mechanism for countering Western power capabilities on the field of *hard* and *soft power*. Thus the success of Russia will accelerate the evolution of the international environment, by providing the global contestants of new means of power projection.

This Crisis is still ongoing. However, there can be underlined four major paths of consequences for international environment, especially altering the power transfers. The first path is connected to relations between Russia and Ukraine. Just after the collapse of the Soviet Union, Russia took control over three quarters of former Soviet capabilities, while Ukraine was the biggest shard of former Soviet power, with crucial plants constructing also advanced weapons systems, such as radar, and components for missiles, especially ballistic missiles. Thus, relations with Ukraine, cordial at least, were considered to be a cornerstone for the reconstruction of Russian power. The turning point was 2006 and the Orange Revolution – the first and failed – attempt to fundamentally change Ukrainian politic course. The electoral victory of Yanukovich supported the thesis of abandoning this process, but the events of 2013 and 2014 restored this course. Forceful and more desperate Russian reaction is severing those ties even more. Thus power circuits are becoming reoriented: instead of mutual connections, both nations are developing connections with different entities: Russia is reorienting itself towards the East – the Muslim world and China, while Ukraine wants to join Western institutions. The second path is the erosion acceleration of the so-called post-Soviet space. This region was composed of actors created after the collapse of Soviet Union, with the central management hub located in Russia. However, in times of crisis the biggest and most capable actors, such as Belarus and Kazakhstan have articulated opinions not supportive for Russia's position (Eckel, 2014). However, opinions of its collapse seem to be exaggerated – those processes are at the moment overwhelming Russian-imposed integration. The third path was generated purely within the framework of the Crisis and is connected with the entanglement of Russian power in a protracted conflict with the most powerful post-Soviet actor. This circuit will consume and disperse the majority of only recently acquired capabilities of global power. Thus, Russia will be unable to achieve a more assertive stance in its foreign policy outside the declarative layer. Furthermore, the conflict in Ukraine – hot or cold – will remain an open circuit for third parties, such as the United States or EU to amplify their capabilities in relation to Russia for fairly little dispersion of resources. The final alteration of power affecting the global circuit is connected with the legal layer of power. The Ukrainian Crisis legal framework is about undermining the two basic pillars of the international environment: the notion of sovereignty and the notion of territorial integrity. Those principles were questioned before, for instance in Kosovo, but as in international law

foundations, those events were sanctioned by Western institutions. This time those principles were questioned against the judgment of those institutions, by the Russian government which managed to collect a decent amount of international support. This is the first instance that non-Western power challenged those institutions with a decent chance for success. That is why other actors, such as India, China and Brazil, seem to wait for an outcome. If Russia will manage to score a success and acquire at least moderate success, it will lead to sanction mechanisms of the Ukrainian Crisis as a new, effective power deployment.

Summing up, the Ukrainian Crisis have amplified the uncertainty and altered the transfers of power on three basic levels: bilateral Russian-Ukrainian relations, regional relations in the post-Soviet space and the global framework of the international environment.

Ukrainian Crisis – international reactions and consequences

The spiraling development of the Ukrainian Crisis is affecting a wide spectrum of international actors, not those only directly or indirectly involved in it, but also those entities that perceive it as a forge in which a new mechanism of power display is being made and tried out. Thus most of those actors, represented primarily by the BRIC states, excluding Russia, tend to adapt Fabian tactics, delaying siding with a particularly engaged coalition. However, there some distinctions could be spotted, primarily on two levels. The first is the inevitable evolution of the international legal landscape, especially within the notion of sovereignty and international integrity, or rather their limits and sanctioning mechanisms. During the two recent decades, Western-based institutions such as the United Nations (UN) have managed those questions, such as in the recognition case of Slovenia and Croatia in 1992. However, recent developments within them, mainly internal reconfigurations of the UN, connected with the reformation of this entity, proved fading the Western perspective, and the growing assertiveness of others, with China in the lead. The second is stemming from a more classical balance of power, modified by constant flows of power between major players. This framework is unstable, suffering violent changes primarily due to discharges of power in international relations, which is connected primarily with taking actions in international environment.

Summarizing, those fields ignited nuanced responses of so-called emerging global powers, especially China, India and Brazil. This part will be subdivided into two sections. The first will be composed of a brief analysis of the attitudes towards the Ukrainian Crisis of the abovementioned actors. The second will be devoted to investigating the power flows and their effect on the global landscape.

Case study: the People's Republic of China

First of all, every single member of the BRIC group adapted Fabian tactics, and waited for the eventual victory of one of involved parties. However, each of them have a different rationale. China for instance, as a world global economy (Druś, 2014) is interested in developing a balance within the framework of international law dominated by Western perception. Thus, China with its media supported Ukraine's territorial integrity and encouraged a "consultation and dialogue" within the international community to resolve this conflict.

When it comes to power transfers, the People's Republic of China aims at affecting two major circuits. The first is located in the *soft power* legal layer and embraces the mechanisms of conflict solution. Thus media and official declarations underline the need to solve this problem with the mutual respect for interests and values of both parties. What those declarations stressed is the need to withdraw the involvement of third parties, especially Western powers, but in general those voices appreciated efforts to contain the conflict (*Rising powers respond to Crimea Crisis*, 2014). What is not said, is that the solution and successful reintegration of Ukraine may be a role model for the solution of the Taiwan question, accordingly to reinterpreted international law, which is among the top priorities of China's foreign policy (Fish, 2014). The second is located in the geostrategic sphere of the *hard power* network. China reluctantly suggested a challenge which arose in the context of binding resources of major powers, especially of Russia and the US, in a localized conflict will create a power vacuum in other regions of the world, such as in China's vicinity. Thus, China is adapting a more proactive stance especially on three fields. The first is closing the gap between the People's Liberation Army and US military, especially by moving the power balance into the open ocean. The second is undertaking actions aimed at securing the sea lines in the South China Sea, even if it requires antagonizing its neighbors (Rajagopalan, Torode, 2014). The third

is securing the sources of energy for growing economy. This objective is achieved by a threefold action. Firstly, the gas contract signed with Russia, which is seen by part of the academic community as a sign of alliance between those two powers. Secondly, in the growing activity of Chinese entrepreneurs in Central Asia and Africa (Yun Sun, 2014). Thirdly, by acquiring undersea deposits located on the continental shelf of East Asia.

Summarizing, despite the neutral stance and abstention in voting of the UN General Assembly Resolution 68/262 of March 27th 2014 (GA/11493, 2014), China is actively involved in redesigning the architecture of power transfers within the late-Westphalian international framework. Despite disputes around the gas deal, it is not a sign of commitment, but strategic necessity, exploiting the strategic vulnerability of the Russian Federation, desperately looking for international support other than her client states. In fact, the main point of interest is supplementing the existence of the classical notion of international law as territorial integrity, which would help in regards to the Taiwan question. What is more important is the mutual entanglement of Russia and the West is perceived of China as a opportunity to improve its position in international institutions.

Case study: India

India adapts a similar posture, but emphasizes different dimensions of conflict solution. While China aims at creating new circuits of balanced power transfer, India seeks the preservation of the existing landscape, thus avoiding international shocks capable of damaging the fragile balance of South Asia. Contrary to their Chinese counterparts, India seems to be unable and unwilling to expand their sphere of influence. This opinion stems from three factors. The first is the Hindu philosophy giving importance to the notion of balance and harmony (Zajączkowski, 2008: 59). The second is the tremendous demand on internal development of the Indian society, from critical infrastructure to the societal development (Szumowski 2013: 257). Third is the mutual entanglement with surrounding powers: mainly Pakistan but with growing challenge posed by China.

The Indian perspective, stemming from its complex situation is composed on a paradox. On one hand, Indian media and decision-makers are valiantly condemning Russian aggression since the annexation of Crimea and warning global powers about the approaching danger of reigniting the Cold War. On the other, India is distancing itself from Western attempts to

contain or even repulse those actions. The most visible notion in India's attitude towards the Ukrainian Crisis is moral critique of both belligerent coalitions. The conflict is seen as an effect of ambitions aimed at restoring former empires or mistakes made in the past. Therefore it should be solved by a joint effort of the international community with the tools already in its possession. The preferred outcome is creating a so-called "road map" for Ukraine's future (*Rising powers respond to Crimea Crisis*, 2014). The greatest fear is called "unilateralism" on both sides. Therefore India desires to curb those attempts and promote cooperation, but without constructing an alternative route for power transfer in international landscape. The main rationale behind it is the rarely mentioned fear of China's operations, which are increasingly visible in the situation of other powers involved in distant focal points, like Ukraine and Syria. Those tensions, amplified by the difficult relations with Pakistan, are making the Indian government uneasy in its closest neighborhood.

The main objective pursued by India is to maintain stability of the international system, which requires halting the advancement of transforming the international environment. Paradoxically, India desires seizing the Cold War stability and tools, but derived of Cold War tensions and divisions. This particular attitude may indicate, that India will seek means to limit and neutralize the spread of the conflict. Contrary to China, it seeks its position within the actual international framework.

Case study: Brazil

The Brazilian attitude towards the Ukrainian Crisis is a derivative of two major tendencies. First is the lack of strategic interest in the events in Eastern Europe, primarily due to its limited global perspective. Second, is the devotion to the so-called Latin American School of International Relations (Ayoob 2004: 109), which draws a path between sovereignty and national interest and demands on a foreign superpower, in this case – the US.

Therefore the Brazilian attitude is similar to the stance of India, with the exception of the strategic vulnerability of a competitive power such as India. Thus, Brazil is less interested with the preservation of the contemporary shape of the power transfer network. The most concerning factor of the Crisis is rather the possible renewal of old tensions and struggles similar to "very old and unhappy precedents" (*Rising powers respond to Crimea Crisis*, 2014). The events in Donbas can be seen

not as a perspective mechanism of power management but rather as a classical means of Westphalia, strongly connected with military power projection. The main challenge is the possibility of conflict escalation, while the Russian Federation will look for a way to overcome the effects of Western sanctions.

All researched case studies are considered to be the future major actors in the late-Westphalian international environment

The Ukrainian Crisis – new dynamics of power flows and prospects for future

The notion of power is among the most significant notions of the science of international relations. However, due to the dynamics of the late-Westphalian international environment, the proper evaluation is becoming difficult, if at all possible. This evolution is synchronized with the evolution of the international environment on three levels: subjective structure, objective scope of power and internal logic. This process is affected by random events such as the Ukrainian Crisis. In this case power transfers suffer shifts on three basic levels.

The first issue is the redeployment of *hard power* capabilities within the geopolitical network. The direction of this flow is heading primarily in the direction of dispersal of remaining capabilities, from classical centers of this system towards its peripheries. It affects actors directly involved in the Crisis, such as the EU, US and Russian Federation, but has also indirect impacts on secondary areas like Asia, the Pacific Region or the Middle East – particularly Syria. For instance, the US were caught in the middle of a major redeployment of their resources in the process called the Asian pivot (Garamore, 2012). Thus President Obama seeks to supplement his capabilities by proxies located in Europe, such as the United Kingdom, Poland and the Baltic States in order to counter Russian advantages. However, due to time demands this process is doomed to fail at least at the beginning, and the US will face a dilemma, whether to continue the pivot and make a compromise with Russia, or risk a reversal of the whole process. Either way, some portion of the US' power will be lost and dispersed between actors doomed to replace the US in their former roles of regional stabilizers, whether in Europe or the Asia-Pacific. When it comes to the EU, this actor is considered to be a *soft power* or even a *normative power* (Manners, 2002), therefore

it heavily relies on the international recognition of its status. The main reason for the Ukrainian Crisis, the rejection of Association Treaty by Yanukovich, and the subsequent outrage within Ukrainian society is undeniable proof of the EU's *normative* influence. However, a lack of capabilities to deploy assistance for Ukraine, mainly in economic and military terms, creates a dilemma: attempts to carry on with only a *normative* attitude will lead to loss of international recognition, but the EU does not have the capabilities to mount a significant relief for the belligerents. Either way its power will suffer a serious drawback. A possible solution may be acquiring allies with desirable capabilities, but it is a time consuming process. The last direct participant of the Ukraine Crisis is Russia. It is the least capable actor involved, but simultaneously the most aggressive. From the perspective of November 2014, it seems that Russia suffered the heaviest blow to her capabilities. What started as a surprising reaction to seemingly neutral to Russia association attempt, is about to turn into the biggest Russian failure since the collapse of the Soviet Union. There are three major power transfer which are responsible for this process. First is the consumption of *hard power* capabilities to support a failing rebellion. It seems that without a more direct approach, forces of the Anti-Terrorist Operation would have eventually wiped out the rebel forces. What turned the tide was a direct military intervention of the Russian army, however, the full scope and effectiveness is yet to be determined. The future prospects would require further investment of the resources required on other regions and for the global game. Second is the growing isolation of Russia in the international community, mainly due to Western sanctions and lack of support from its major BRIC counterparts. But the most damaging issue may be the deliberate disruption of energy resources market, on which the Russian economy heavily depends. Third is the disruption of established mechanisms of managing the post-Soviet space, established after dissolution of the Soviet Union. However, it is too early to say that the post-Soviet space is gone, the application of those mechanisms has become much more costly. Summing up, the major actors involved in the Ukrainian Crisis scored a major power dispersion.

Second, the most interested power transfer is located within the *soft power* sphere, especially in the normative discourse. It seems that it is the transfer that sparked the biggest interest of other international actors, such as China. The general direction of this flow is based on the dynamic balance between the Western center of the international environment towards

rising non-Western alternatives. It may be seen that the centerpiece is not the change of international values and legal mechanisms, but those interpretations, according to their respective point of view. In the context of the Ukrainian Crisis, the three major focal points are identified by Marc Weller (*Analysis: Why Russia's Crimea move fails legal test*, 2014), Stefan Talmon and Otto Luchtenhandt (Ignatzi, 2014). First, is the interpretation of treaties and international agreements, which were effectively broken. Both sides underline that the other is to blame, Ukraine because of the fascist regime being installed which harasses Russian minorities, Russia for its illegal involvement in internal affairs and violation of territorial integrity. Second is the innovative interpretation of the principle of protecting citizens, traditionally connected with their evacuation from a conflict zone. Today this responsibility is connected with the dilution of Ukrainian control over a large swath of its territory. Third is the balance between the notion of national sovereignty and the self-determination of minorities. This principle was weakened edprimarily through the unilateral actions of Western powers, primarily in former Yugoslavia, the most recent case being Kosovo. But this is the first case in which the constrains of the UN were openly defied. In previous cases, this organization served as a tool for acquiring a declaration of support even afterward. In this case, the UN was excluded from the solution. Summarizing, in this transfer the general tendency is ascension of non-Western alternatives. However, in case of the Ukrainian Crisis those transfers have only a secondary impact, because of recent Russian activities which may indicate an acceptance of failure.

The third important power transfer is considered to be less dependent on the conduct of the Crisis. In this case, the capabilities, with particular emphasis given to the new quality of actor wielding the capabilities for violence. This war for the most part was fought by non-state entities such as, for the pro-Russian part: local militias, the Night Wolves biker gang, Neo-Cossack militias from Southern Governorates of Russia, and even some of the Chechens associated with the Kadyrow clan; and for the pro-Ukraine part there could be identified many volunteer battalions of the National Guard, such as the (in)famous Aidar regiment. Those entities are supplementing the Ukrainian forces participating in the NATO not only with additional manpower, but also are considered to be determined units for hazardous tasks, and suffered many casualties in the August offensive. They were also used for activities which may have a negative impact on the governments soft power, like tortures and ethnic cleansing, similarly to their Russian counterparts. However,

they also present a challenge for both states. Their independence and mutual enmity may ignite a spiral of unending violence, thus recent developments may indicate that this threat is creating serious challenges for the belligerents – Ukrainian, as per the recent declaration by Kiev's Attorney General underlining capabilities of Aidar for staging a coup d'état (Kijów boi się własnych bojówek. „Ajdard może zrobić przewrót wojskowy”, 2014), as well as Russian, where some hints may indicate that the government wants to increase the level of control by injecting loyal government elements and eliminating troublesome ones as Igor Biezler dubbed “Bies” (Sharkov, 2014). Summing up, the power transfer in this field indicates a growing relevance of those entities despite attempts to curb them by host states and other nations. The critical events such as the Ukrainian Crisis only accelerate this flow.

Instead of a conclusion, perspectives for solution of this Crisis will be drawn. As for a departing point one should be mentioned. Repeating rumors and declarations on both sides, separatists of creating three Ukrainian assault groups in order to secure the state border, as was said by Igor Striekov in his internet speech, and Ukrainian declarations of the growing presence of Russian troops, may indicate that both belligerents are decided to solve this dispute militarily. However, recent elections held in Ukraine (presidential and parliamentary) as well as in separatist territories or rather reaction on them – especially Russian “respect” rather than “recognition” (Rosja odmówiła uznania wyborów w ukraińskim Donbasie, 2014) – may hint that with the failure to create an effective political organization capable of operating on its own, Russia is attempting to cool this conflict, but not below the level of solving it. The path of checks and balances between the Ukrainian government and rebel-held territory is the optimal solution is delaying the solution, but because a military solution seems to be outside the reach of both states. What is most intriguing, is the effect that this Crisis is having on the international environment as a whole. It seems that the most interested parties, the BRIC states, particularly India and China, will utilize the open avenue within the network of international connections. However, the probable failure of Russia's attempt, primarily into forcing its own interpretation of existing international legal norms and mechanisms indicate that China, the most probable challenger of Western hegemony will adapt a different, less aggressive power composition.

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