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# The Impact of Geopolitical Factors on the Future Economic Integration of ASEAN +3

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The Impact of Geopolitical Factors on the Future Economic Integration of ASEAN +3  
By Michael Corrigan

Spring 2016

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**Abstract:**

East and Southeast Asia have benefited greatly from China's growth and are gaining significantly more economic and political power in comparison to the West. The growing interdependence in this region has led to the continuing economic integration of the ASEAN Plus Three countries. The research paper analyzes the geopolitical factors that impact this integration, such as historical tension, regional security conflicts, social, cultural and economic differences, as well as economic rivalries. In addition, the strategic agendas of the main actors, including the U.S., are analyzed to provide a comprehensive argument concerning the impact these geopolitical factors will have on future economic integration. The paper concludes that the pragmatism that the ASEAN Plus Three countries have shown to separate political and economic issues will allow for further extensive economic integration to continue, but this will be limited by social and cultural factors, such as countries' refusal to cede any sovereignty. The best way forward for economic integration lies in the creation of an ASEAN Plus Three Free Trade Agreement and an expansion of current institutions.

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**Introduction:**

East and Southeast Asia, as well as Asia in general, are growing significantly economically and politically in power and are expanding their influence within the region and globally. However, the many historically unresolved tensions and conflicts in the region seem to not only hamper further economic integration and development, but also threaten the stability of the region. The economic integration in Southeast and East Asia has been a relatively slow process and many geopolitical factors account for the inability for comprehensive economic cooperation. One of the main factors is issues in the political realm. Social and cultural differences, varying degrees of economic development, and competition for resources among the countries also contribute to tension that has affected regional cooperation.

The international order is currently transitioning as China continues to grow both in economic and political global influence. The transition does not end here, but instead begins; the development of China has witnessed a correlating development and rise in economic influence by the rest of Asia. As of 2014, Asia accounted for about 40% of the world gross domestic product (GDP) and 60% of the global population.<sup>1</sup> This is especially evident in ASEAN (Association of Southeast Asian Nations).<sup>2</sup> The regional organization ASEAN Plus 3 incorporates ASEAN countries, China, Japan, and South Korea. ASEAN Plus 3 is currently the largest economic zone in the world and represents over 28% of the world GDP.<sup>3</sup> The West is heavily invested in trade with Asia and with ASEAN Plus 3 in particular. Regional stability and having both a political and economic presence is critical to the West as evident by United States' pivot to Asia in 2011 and then followed by the European Union's. Yet,

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<sup>1</sup> HV, Vinyak, Fraser Thompson, and Oliver Tonby. "Understanding ASEAN: Seven Things You Need to Know." McKinsey & Company, 2014. Web. 26 Apr. 2016.

<sup>2</sup> ASEAN is a multilateral regional organization in Asia that includes 10 members from Southeast Asia. This includes Indonesia, Thailand, Singapore, Brunei, Laos, Cambodia, Myanmar, Malaysia, Vietnam and the Philippines.

<sup>3</sup> The World Bank. "Gross Domestic Product Ranking Table." *Data*. The World Bank. 2016.

East and Southeast Asia while in the midst of unparalleled economic growth are also characterized as the region with the most unresolved conflicts. The economic future of the region is unknown due to this and several other factors.

The integration of the members of ASEAN Plus 3 - both economically and politically - has been a long process that does not resemble the Western integration or other such structures like the European Union. Politically, East and Southeast Asian countries have had difficulty working together and creating a strong regional organization; countries value national interests over regional interests and are wary of ceding any of their sovereignty.<sup>4</sup> Multilateral organizations such as ASEAN, ASEAN Plus 3, and the ASEAN Regional Forum serve to create a system of political and economic cooperation, but they are hampered in their effectiveness by limited power and few strict legal binding agreements.<sup>5</sup> While politically countries in East and Southeast Asia remain relatively autonomous, there has been significant economic integration since the 1997-98 Asian financial crisis, such as the recently created ASEAN Economic Community.

This paper will look at the geopolitical factors that will affect future economic integration between ASEAN +3 countries, especially the volatility of the economic and political relationships. Current and past economic integration and increasing security issues of ASEAN Plus 3 will be examined. The problem is not just a regional one however and instability in this region has far spreading global effects. The U.S. have much invested in the region and have put in place policies to ensure economic stability and growth in these countries, regional security, and prevention of the creation of a unipolar region dominated by China. The paper will analyze the strategic

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<sup>4</sup> Cohen, Benjamin J. "Finance and Security in East Asia". *The Nexus of Economics, Security, and International Relations in East Asia*. 2012.

<sup>5</sup> Klose, Stephan. "Institute for European Studies." Personal interview. 8 Mar. 2016.

aims of ASEAN +3 members as well as the U.S. to form a comprehensive analysis of the geopolitical situation of the region. In conclusion, potential scenarios for the future will be discussed.

### **Literature Review:**

Political and economic integration in Asia is a topic that has been at the forefront of research on Asia since at least the 1997-1998 financial crisis. The rise of China and the economic growth of the region, and the likewise integration of the region, has created a wealth of literature on the subject. The literature varies drastically as the topic can be analyzed via several geopolitical factors, different countries perspectives, different multilateral organizations in Asia, through a Western perspective, and through both qualitative and quantitative data.

Research organizations throughout the world constantly write about the geopolitical situation in Asia and examine new events that have occurred or new predictions for the future of Asian regionalism. Dr. Hans Roth's paper, "The Dynamics of Regional Cooperation in Southeast Asia", for the Geneva Center for Security Policy, provides a comprehensive examination of the social and cultural differences between the West and Asia, as well as the differences among ASEAN countries. He argues that these innate differences culturally as well as social norms have a significant impact on the form and degree of regional integration.

The paper includes a variety of factors that affect economic integration among ASEAN Plus 3 countries. Much of the literature focuses singularly on these issues and provides in depth analysis of each factor. The Asian Development Bank Institute details in several papers the evolving global economic architecture, as well as East Asia's, and how economic integration relates to this changing economic structure.

Economic growth is becoming more important both regionally and globally and literature is increasingly analyzing the nexus of economics and security. Benjamin Cohen's chapter on "Finance and Security in East Asia" in the book "The Nexus of Economics, Security and International Relations in East Asia", examines the economic integration of East Asian and the security issues that impact it. Cohen incorporates security tensions, nationalistic tendencies, domestic politics, and international agendas to form a complete discussion of what has hindered the progression of East Asian economic integration.

### **Research Methodology:**

Economic integration and security tensions in East Asia are issues that have garnered much attention by experts over the past several decades. The primary data used for this paper is secondary sources from experts in fields such as Asian regionalism, East Asian economic integration, ASEAN dynamics, and the nexus of security and economics. The vast amount of literature made it important to research broadly at first on topics such as Asian regionalism, to garner a better understanding for Asian integration and specify further research based on findings.

The more dated research on economic integration in Asia, even as far as a decade ago, proved to still be relevant to the current situation today. It provided perspective on how integration was predicted to change compared to the real evolution over the years. This allowed for a analysis of why these predictions were incorrect and what factors had an impact. Qualitative data is important for this topic to display trade relationships and economic growth. The data from many secondary sources had to be updated by current statistics to provide a more current view of the issue.

Interviews served as main primary sources and are an important way to gain knowledge on the most current information and theories concerning geopolitics in East and Southeast Asia. The geopolitical situation is ever changing and academic secondary sources cannot always keep up with all the current developments. The interviewees all work for or are periodic contributors to research organizations all around Europe and have expertise in varying topics of regionalism and geopolitics in East and Southeast Asia. The interviews were especially helpful for the current strategic aims of the main actors and how these related to the geopolitical situation.

### **Analysis:**

#### **Evolution of ASEAN Plus 3 Economic Integration:**

The economic integration among ASEAN +3 dates back several decades and has increased as the countries become more economically interdependent. The process of economic regional integration in East Asia is generally believed to have begun in 1985 with the Plaza agreement between the U.S. and Japan.<sup>6</sup> The agreement called for the depreciation of the U.S. Dollar to facilitate better trade between the U.S., West Germany, France, Britain, and Japan.<sup>7</sup> A major result was the appreciation of the Japanese yen. Greatly increased foreign investment by the Japanese in East Asia followed and created more economic interdependence among ASEAN countries and Japan.<sup>8</sup>

The 1997-98 financial crisis was what ultimately spurred the original structure of economic cooperation in East Asia. “The major factor that ignited the interest of East Asian countries towards regional monetary and financial integration was the virulent contagion of the East Asian financial crisis and the policy mistakes made by

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<sup>6</sup> Roth, Hans Dr. "Geneva Center for Security Policy." Personal interview. 21 Apr. 2016.

<sup>7</sup> Frankel, Jeffrey. "The Plaza Accord, 30 Years Later." *Currency Policy Then and Now: 30th Anniversary of the Plaza Accord*, Baker Institute for Public Policy, Rice University, October 1, 2015.

<sup>8</sup> Ibid

the International Monetary Fund (IMF) in managing it.”<sup>9</sup> As a result, Japan proposed the Asian Monetary Fund (AMF) during the crisis to build a \$100 billion dollar financing facility to support regional economies in the crisis. The Japanese effort collapsed however, under the collective weight of outright opposition by the U.S. and support for the U.S. by China and ASEAN, both out of a sense of caution as well as mistrust of the Japanese.<sup>10</sup>

The idea of the AMF though prompted the creation of the Chiang Mai Initiative (now called the Chiang Mai Initiative Multilateralization) in 2000 between the ASEAN Plus Three countries. The initiative would “finally give East Asia a crisis management capacity it could call its own” and especially provides help with emergency liquidity assistance.<sup>11</sup> This initiative consists of a network of bilateral swap arrangements that tighten financial and monetary relations between the countries involved. The initiative now has over \$240 billion available to help a member country through an economic crisis.<sup>12</sup> A flaw of the CMIM is that if a country requests more than 20% of the money it committed, it must get the remaining funds from the IMF; a mandatory review of the countries economic policies and structures will also follow.<sup>13</sup> This dated structure is a result of the countries being hesitant to have a regional oversight system. But, none of the ASEAN Plus Three countries want the involvement of the IMF either to that degree and as of now, no funds have been requested. The CMIM is still an important structure and step for

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<sup>9</sup> Downling, J., Rana, P. “Asia and the Global Economic Crisis: Challenges in a Financially Integrated World.” Palgrave Macmillan. 2010. pg. 214

<sup>10</sup> Cohen, Benjamin J. “Finance and Security in East Asia”.

<sup>11</sup> Ibid p.43

<sup>12</sup> Downling, J., Rana, P. “Asia and the Global Economic Crisis: Challenges in a Financially Integrated World.”

<sup>13</sup> Cohen, Benjamin J. “Finance and Security in East Asia”.

economic integration in Asia and could be the basis for further economic integration. But as of now, “the value of the CMIM lies mainly in its symbolism”.<sup>14</sup>

The CMIM is not the only medium in which ASEAN and East Asian countries have cooperated economically. After the financial crisis in 1997-1998, the other two main areas that were targeted for cooperation, besides liquidity assistance, were the development of capital markets and currency management. The Asian Bond Market Initiative and the Asian Bond Fund are the main ways that ASEAN +3 sought to develop capital markets. The goal of these two initiatives was to protect from vulnerabilities in the private sector that were very much evident in the 97-98 crisis. The ABMI sought to stimulate local financial development by improving the general financial infrastructure in the hopes of a regional capital market. The goal of ABF coincided with ABMI and created more liquidity in the capital markets via regional central banks that bought government bonds. But due to the dependency on short-term bonds, which don't create long-term market stability or instill confidence in investors, and minimal financial contribution by member countries, the initiative has not been very successful.<sup>15</sup>

Currency management has been one of the least successful initiatives and has led to very little progress. The issues lie not with the economic willingness of countries or the lack of ideas but instead the inherent focus on countries national self-interests. “Governments show little interest in anything that might force them to reconsider their policy preferences”.<sup>16</sup> This is a problem that is pervasive amongst economic and political integration in East Asia. The top priority for East Asian countries is national self-interest and none are willing to reassess and change policies for a greater regional benefit or even just for a potential long-term national benefit.

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<sup>14</sup> Ibid p.45

<sup>15</sup> Ibid

<sup>16</sup> Ibid p.42

This is a main reason for the current structure of ASEAN; the organization is much more flexible, especially compared to the EU and rarely puts in place strict legal binding rules.

ASEAN was initially created in 1967 via the Bangkok Declaration for political purposes but by 1992 it created the idea of the ASEAN Free Trade Area (AFTA).<sup>17</sup> The creation of the economic portion of ASEAN came at an important time, as the similar ASEAN economies struggled to diversify and compete both regionally and globally. At the time of creation, many of the ASEAN countries were recovering from World War II and the Pacific War, as well as the effects of decolonization. The colonial system, valuing raw materials and natural resources, left many of these countries with undeveloped, agricultural economies.<sup>18</sup> Economic integration has helped develop ASEAN economies and AFTA. This is where ASEAN has been the most successfully as a multilateral organization, including creating Free Trade Agreements (FTAs) with six other countries.<sup>19</sup> The integration of ASEAN economies into East Asia via the Plaza agreement, the desire to keep Western powers out, develop their economies, and the lessons learned from the 97-98 crisis created the ASEAN structure seen today.

The newly formed Asian Economic Community (AEC) is an important step in ASEAN integration. The new system incorporates free trade and free movement of labor, goods and services.<sup>20</sup> The AEC is another step in unifying the ASEAN countries economically. It is also important to see if there is a correlating increase in ASEAN's budget, only \$17 million per year, and increasing power in its institutional

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<sup>17</sup> Roth, Hans Dr. "The Dynamics of Regional Cooperation in Southeast Asia". The Geneva Centre for Security Policy. *Geneva Paper – Research Series n°14*. (2015):

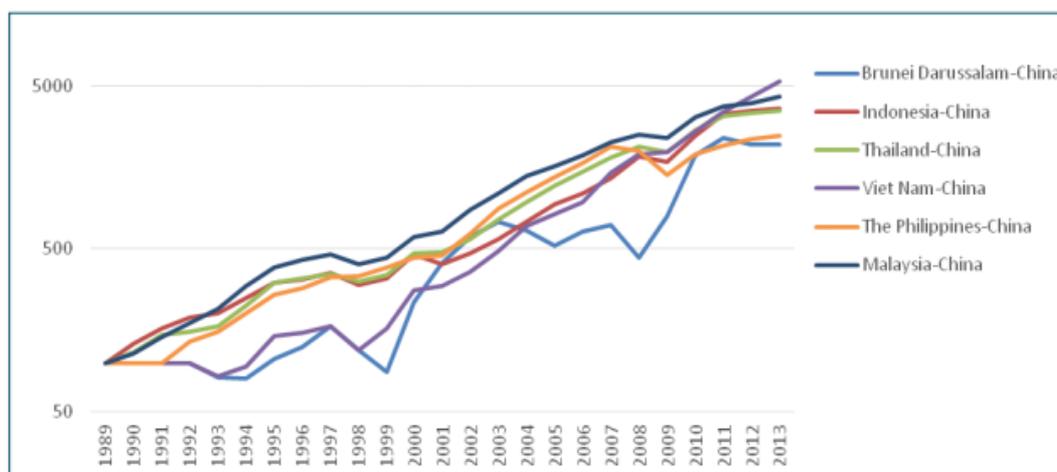
<sup>18</sup> Ibid

<sup>19</sup> Hellendorff, Bruno. "Group for Research and Information on Peace and Security." Personal interview. 8 Mar. 2016.

<sup>20</sup> Sellier, Elodie. "The ASEAN Economic Community: The Force Awakens?" *The Diplomat*. 12 Jan. 2016.

structure. The AEC will be an effective test of ASEAN's current structure and a potential instigator of further integration.<sup>21</sup>

The ASEAN-China Free Trade Agreement (ACFTA) is an example of more recent economic cooperation between ASEAN and China. This agreement was created in 2010 and is the largest Free Trade Area population wise and the third largest in terms of GDP.<sup>22</sup> While the ASEAN countries are dependent on trade with China with China being its largest trading partner (14% of trade), there is a mutual dependency as ASEAN is China's third largest trading partner.<sup>23</sup> The result of this Free Trade Agreement is a lowering of tariffs for goods exported to ASEAN from around 12.8% pre-agreement to about .6% percent currently. Goods exported to China saw a similar dramatic decrease in tariff rates, from 9.8% to .01% percent currently.<sup>24</sup> The trade between ASEAN and China is expected to amass over \$500 Billion USD in 2015.<sup>25</sup> The increase in trade by country is reflected below. It exemplifies how important and immense intraregional trade has become.



UNODC. "Protecting peace and prosperity in Southeast Asia: synchronizing economic and security agendas."

<sup>21</sup> Ibid

<sup>22</sup> UNODC. "Protecting peace and prosperity in Southeast Asia: synchronizing economic and security agendas." United Nations Office on Drugs and Crime. Feb. 2016.

<sup>23</sup> Ibid

<sup>24</sup> Ibid

<sup>25</sup> Ibid

ASEAN also has individual FTAs with Japan and South Korea. The FTA with Japan was signed into effect in 2008. This comprehensive economic partnership eliminates 92% of Japan's trade tariffs and 90% of ASEAN's, establishes a dispute medium, and further free trade in goods, services, and investments. ASEAN trade with Japan is the second highest in Asia, valued at almost \$229.1 billion in 2014.<sup>26</sup> The FTA improves Foreign Direct Investment (FDI) from Japan to ASEAN and benefits the manufacturing sector in ASEAN countries and Japanese corporations. The FTA with South Korea, formed in 2005, follows similar agreements, including significant reduction of tariffs on 90% of traded goods between the two.<sup>27</sup>

### **Geopolitical Factors:**

#### **Security Threats and Tension in Asia:**

The economic cooperation described above between ASEAN Plus 3 is continually growing but is hampered by security tensions and conflicts in the region. The conflicts focus on territorial and resource disputes, but the basis of many of the tensions, especially concerning Japan, is an inherent historical distrust. "East and Southeast Asia is the region with the greatest number of unresolved international disputes in the world, some of them so volatile that the possibility of armed clashes cannot be excluded".<sup>28</sup> The disputes between Japan and China in the East China Sea are examples of territorial claims exacerbated by Chinese nationalism fueled by distrust and dislike of the Japanese. ASEAN countries are similarly cautious of Japan, mostly politically, and are likewise wary of China because of its increasingly aggressive policy in the South China Sea coupled with an unknown overall agenda.

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<sup>26</sup> Invest in ASEAN. "ASEAN-Japan Comprehensive Economic Partnership." *Establishing Free Trade Areas*. ASEAN.

<sup>27</sup> Invest in ASEAN. "ASEAN-South Korea Free Trade Area." *Establishing Free Trade Areas*. ASEAN.

<sup>28</sup> Stanzel, Volker. "Danger on the High Seas: The East Asian Security Challenge." *Brief Policy*. European Council on Foreign Relations.

South Korea has limited involvement in the tensions in the area, besides its issue with North Korea, and has closer ties with China now than before.

China and Japan are the two most powerful countries in Asia and have a significant amount of influence on regional cooperation, both political and economic; China and Japan are the second and third largest economies in the world, respectively. Yet, relations between these two countries are civil at best. Since 2010, relations have turned for the worse due to the dispute over the Diaoyu (Chinese name) or Senkaku (Japanese name) islands, which has resulted in several maritime confrontations.<sup>29</sup> The tensions between the two countries are not new as China is still angry over Japan's actions during the Second World War. Each side has taken aggressive actions in the conflict that have not helped relations, but have also not lead to any significant conflict.

South Korea has similar problems with Japan and still holds Japan responsible for its actions during World War II and for its lack of contrition. South Korea and China also have had several bilateral conflicts on issues such as territorial claims as well as different approaches to how to deal with North Korea. South Korea vehemently disagrees with Chinese policies and economic support to North Korea. Currently South Korea and China both claim Socotra Rock, which experts believe may lie on a reef with considerable natural gas and oil resources.<sup>30</sup> South Korea has built a new naval base near the rock and currently South Korea, China, and Japan all include this area in their air defense identification zone.<sup>31</sup> The conflicts have hurt bilateral relations, but have made trilateral relations between Asia's most influential powers almost impossible the past few years.

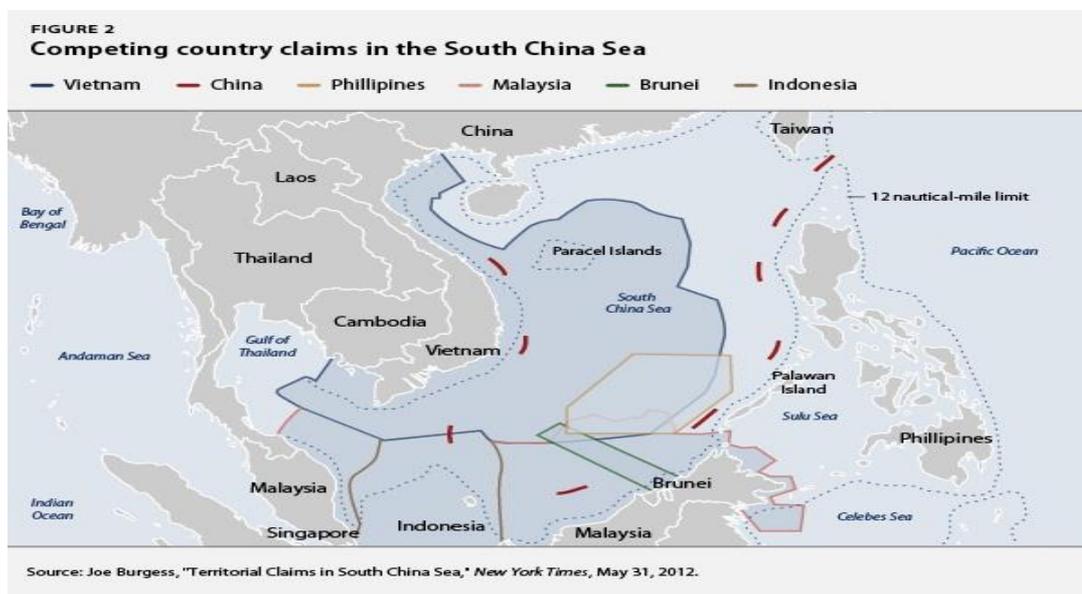
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<sup>29</sup> Lowy Institute. "China-Japan Relations." The Lowy Institute for International Policy.

<sup>30</sup> Suk-Hee, Han. "South Korea Seeks to Balance Relations with China and the United States." Council on Foreign Relations. Web. 22 Apr. 2016.

<sup>31</sup> Ibid

The South China Sea is rife with conflict not only between ASEAN and China, but between ASEAN members as well. Each country has conflicting claims on different islands and territorial boundaries and parties in those conflicts are reluctant to compromise. China makes the situation more difficult, as its nine-dash line territorial claim encompasses the entire South China Sea. China's power in the region and ASEAN's inability to form a consensus due to competing national self-interests make it difficult to find a solution to the situation.<sup>32</sup>



Joe Burgess, "Territorial Claims in the South China Sea." *New York Times*, May 31, 2012  
The importance of the South China Sea lies primarily in the economic

interests of the Asian countries competing for territorial claims. Most importantly, the South China Sea serves as a vital shipping lane for oil and Liquid Natural Gas (LNG) to countries such as China, Japan, and South Korea.<sup>33</sup> It is the second busiest shipping lane in the world, accounting for over a quarter of all shipping, a third of global crude oil and around 80-90% of Japan and China's oil and LNG are transported via the

<sup>32</sup> Buszynski, Leszek. "Rising Tensions in the South China Sea: Prospects for a Resolution of the Issue." Institute for Regional Security.

<sup>33</sup> EIA. "The South China Sea is an important World Trade Route". *Independent Statistics & Analysis*. U.S. Energy Information Administration.

South China Sea.<sup>34</sup> The Strait of Malacca provides access for African and Persian Gulf suppliers to Asian consumers, which constitutes 60% of the global population. As Japan continues to reduce its reliance on nuclear energy after the Fukushima nuclear power plant crisis, it will only become more dependent on a free trade route for LNG.<sup>35</sup> China is dependent on cheap energy and therefore dependent on the trade routes through the Strait of Malacca and the South China Sea. It views the trade route as an integral external security manner that it is dedicated to protecting. This has dictated many of China's abrasive actions in the South China Sea, especially the build up of islands and the creation of artificial islands on coral reefs.<sup>36</sup>

Trade routes are only part of the economic importance of the South China Sea; natural resources, most notably oil reserves and rich fishing waters, are just as important to the other Asian nations claiming territorial waters. The United Nations estimates that the South China Sea alone, accounts for approximately 10% of global fisheries production.<sup>37</sup> China estimates that the Spratly and Parcel Islands potentially contain as many as 105 billion barrels of oil. While many believe that this is an overestimation, even the 28 billion barrels of oil estimated by the U.S. Geological Survey would provide a significant financial incentive to own the islands and waters in which these oil reserves are located.<sup>38</sup> Low oil prices currently make this less economically feasible, but development has already begun and will possibly be more profitable in the future.

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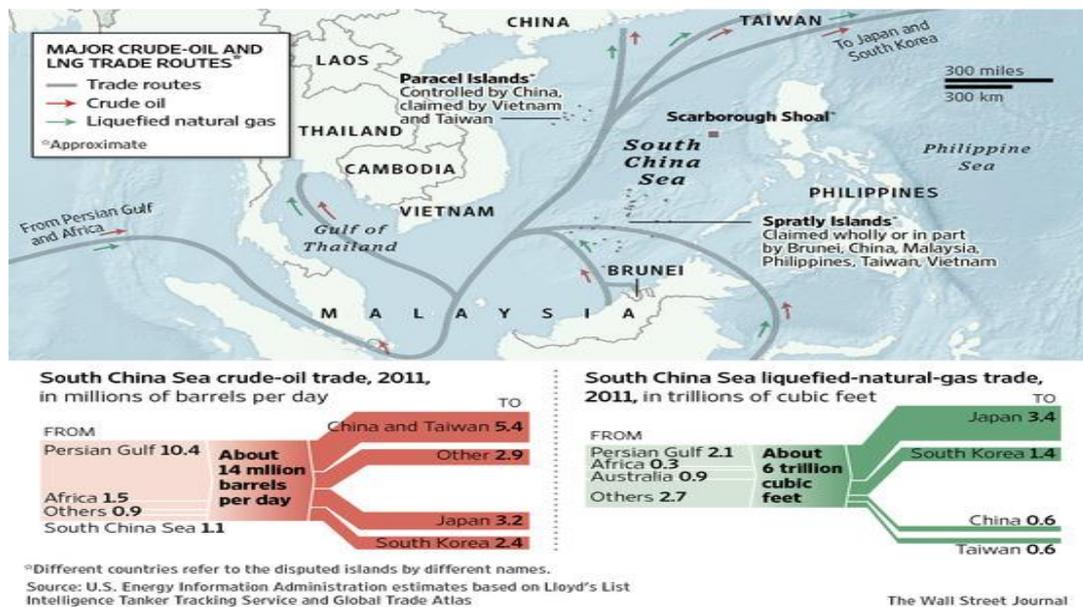
<sup>34</sup> Ibid

<sup>35</sup> Ibid

<sup>36</sup> Buszynski, Leszek. "Rising Tensions in the South China Sea: Prospects for a Resolution of the Issue." Institute for Regional Security.

<sup>37</sup>EIA. "The South China Sea is an important World Trade Route". *Independent Statistics & Analysis*. U.S. Energy Information Administration.

<sup>38</sup> Rowan, Joshua P.. 2005. "The U.S.-Japan Security Alliance, ASEAN, and the South China Sea Dispute".



Wall Street Journal News Graphics <http://t.co/3SPmAGf3AF>

If tensions in the South China Sea or East China Sea were to escalate into direct conflict, this would have a significant impact on future economic integration both due to the economic importance of both seas and the escalation of political tensions. But the ASEAN +3 countries understand how interdependent they are after the 1997-1998 crisis and the creation of a more integrated system. The realization of how interdependent they are has led to an increase of economic integration and a shared understanding of the consequences of conflict between them on their respective economies. This is precisely why significant conflict is unlikely to happen. Economic integration and interdependence acts as an effective deterrent against conflict and also provides a multilateral medium where issues can be worked out if bilateral negotiations are not successful. Even as individual countries promote their own nationalistic agenda, the economic risk to each country in promoting conflict is highly likely to halt any significant conflict before it begins.

### **Social and Cultural Differences:**

The security tensions between the ASEAN +3 countries certainly do not help economic integration but these tensions do not serve as a serious hindrance to the integration. Part of the reason for this is the cultural and social norms in Asia. Even as

they continue to dispute territorial claims and long past grievances, these countries have a practiced pragmatism that enables them to see a larger picture and separate political issues from economic ones.<sup>39</sup> These countries have shown an ability to work together economically and create successful bilateral and multilateral relations while disputing significant territorial claims at the same time. While this pragmatism has helped integration, Asian countries also insist on a higher degree of autonomy and culture and social norms of the region this will play a major role in further economic integration.

While ASEAN +3 countries geographically are in very close proximity, their cultures do not necessarily share this closeness. Each country is defined by different cultural norms, religions, political structures, and the development degree and focus of their economies. Asian societies place much more focus on specific groups, whether that be family, community or state, but most of all “the state is still regarded as the body responsible for the well-being of society.”<sup>40</sup> Citizens of Asian countries have fierce nationalism that permeates political and economic decisions that ultimately put national-self interest above all else. “The rule-based, legalistic Western ways are not Eastern ways. Asian societies are functioning in much more pragmatic ways, the institutional set-up is loose and only provides help in cooperation efforts.”<sup>41</sup> The regional structures reflect this cultural attitude, as ASEAN and ASEAN +3 integrate up to the point before countries are ceding sovereignty. For these multilateral organizations to succeed, a flexible structure is a necessity to entice countries to participate.

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<sup>39</sup> Roth, Hans Dr. "Geneva Center for Security Policy." Personal interview. 21 Apr. 2016.

<sup>40</sup> Roth, Hans Dr. "The Dynamics of Regional Cooperation in Southeast Asia". p.14

<sup>41</sup> Ibid p.16

### **Economic Differences:**

There are significant differences between some of the ASEAN +3 countries in terms of economic development and size of the country and thus its market, as alluded previously. This makes it more difficult for economic integration when countries Laos have GDP per capital three times lower than China's and almost six times lower than Japan's.<sup>42</sup> In some cases "government capacity is simply inadequate to handle the demanding complexities of financial cooperation."<sup>43</sup> Some governments do not have the capacity to handle so many FTAs and find it difficult to compete regionally.

Though the degree of development can vary drastically between ASEAN countries and ASEAN+3 countries, it is still beneficial for all these countries to be part of a multilateral economic organization. Integrating economically helps decrease barriers to regional trade, increase ability for FDI to enter the developing countries and develop their economies, and diversify economies to dilute competition in the region. Small countries being a part of a group like ASEAN also help them significantly in negotiating with more powerful countries like China and Japan and having more leverage.

Difficulties do remain though. Until many of these countries such as Laos, Cambodia, and Myanmar develop further, the governments will favor domestic groups and keep strict controls on foreign intervention in the economy. An ASEAN +3 FTA though will help developing countries immeasurably in their ability to deal with FTA's. It will give these countries less financial rules, regulations and agreements to manage.<sup>44</sup>

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<sup>42</sup> The World Bank. "Gross Domestic Product Ranking Table." *Data*. The World Bank. 2016.

<sup>43</sup> Cohen, Benjamin J. "Finance and Security in East Asia". p.46

<sup>44</sup> *Ibid*

### **Strategic Aims of ASEAN Plus 3 Members:**

#### **China:**

A major impediment to further economic integration and finding solutions to security problems within ASEAN Plus 3 is that the strategic intentions of China are unknown. The certainty with China though, is that it will act in its political and economic interest above all and no other factors will influence this.<sup>45</sup> China will continue to expand economic integration in the future with ASEAN and the other countries as long as it is the most beneficial option.

The long-term future for economic integration between China and its neighbors is difficult to predict because of China's aggressive policies and unknown and unrepentant strategic ambitions. But for the foreseeable future it is in China's economic interest to expand its efforts in economic integration with ASEAN especially, and Japan and South Korea as well. "When it comes to Asian regionalism, Beijing's preferred cooperation framework is ASEAN Plus Three. China sees this type of configuration as an unavoidable stage of Asian regionalism."<sup>46</sup> Of the many different multilateral groups in Asia, ASEAN +3 is the one with which China will most likely integrate further economically.<sup>47</sup> Further integration with ASEAN +3 presents China with the best opportunity to continue its economic growth and ensure its prosperity.

The mutual interdependence between China and ASEAN will certainly lower the likelihood of any serious conflict and confrontation in the South China Sea.

Currently, ASEAN combined provides a market of over 629 million consumers for

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<sup>45</sup> Aris, Stephen. "Institute for European Studies." Personal interview. 28 Apr. 2016.

<sup>46</sup> Wan, Ming. "The Great Recession and China's Policy Toward Asian Regionalism". *Asian Survey* 50.3 (2010): pg. 521

<sup>47</sup> Ibid

Chinese goods and it has the third highest GDP growth over the last fifteen years.<sup>48</sup> This combined with a young population is predicted to give ASEAN the 4<sup>th</sup> largest GDP in the world by 2050; the market for Chinese goods and investment is only increasing and China will naturally use this to its advantage to continue its own economic growth.<sup>49</sup> In addition, China is heavily dependent on many of the ASEAN countries for their raw materials and energy resources.<sup>50</sup> China will also look to increase integration as another way to counteract U.S. influence and competition in the region.

Further economic integration and increasing regionalism will continue and China will play an important role in it. “Chinese policy elites simply do not see how Asian integration could hurt China in any meaningful way”.<sup>51</sup> This will not change over the next twenty-thirty years and China will continue variations of its current policies. This includes attempting to limit both Japanese and American political and economic influence in the region, expanding the economic relationship and joint resource extraction in the South China Sea with ASEAN, the build up of its naval power, and asserting its claims in the South China and East China Sea. “Today states are relying more on economic means to achieve power.”<sup>52</sup> China’s greatest strength is its economic power and growth and geo-economics is becoming more and more important concerning China. It will not risk its growth and development by direct conflicts in the South and East China Sea but instead will focus on soft power in areas such as bilateral diplomacy and economic integration to achieve its political goals.

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<sup>48</sup> HV, Vinyak, Fraser Thompson, and Oliver Tonby. “Understanding ASEAN: Seven Thing You Need to Know.”

<sup>49</sup> Ibid

<sup>50</sup> Arase, David. “Non-traditional Security in China-asean Cooperation: The Institutionalization of Regional Security Cooperation and the Evolution of East Asian Regionalism”. *Asian Survey* 50.4 (2010): 808–833

<sup>51</sup> Wan, Ming. “The Great Recession and China's Policy Toward Asian Regionalism” pg. 524

<sup>52</sup> Cini, Jonathan. "Geo-economic competition: global disruption from the new frontline". The Geneva Centre for Security Policy. *Strategic Security Analysis – no.6* (2015)

### **Japan:**

Japan is currently attempting to redefine its role in Asia and reassert its influence in the region. After its “Lost Decade”, Japanese economic growth has recovered and it is attempting to find its place in the region with expanding China hegemony.<sup>53</sup> Japan’s ultimate goal is to “exist securely without being either too dependent on the United States or too vulnerable to China.”<sup>54</sup> One of Japan’s strategies to do this is to create and expand relations with other actors, both regional and global. This includes Japan’s attempts to expand both economic and security relations with ASEAN countries, reconciling with South Korea, and working on building its relationship with the EU. The other is increasing its military capability even as it enjoys U.S. protection, and to increase military spending and joint-exercises with South Korea and ASEAN countries.<sup>55</sup>

Japan has had much difficulty expanding its relations with countries in Asia as there is an inherent distrust of Japan by many of these countries since its aggression during World War II. There is significant historical tension that Japan is trying to overcome and has not had much success. Economically, however, Japan has built productive relations, especially with ASEAN countries. Japan has a FTA with ASEAN but is the only country of the Plus 3 to have an individual FTA with each member of ASEAN.<sup>56</sup> Japan since the 1980’s has been an immense source of investment and Japan continues to fill this role to both better its economy and to integrate more with ASEAN countries. Japan has also begun to build relations with India and Australia to further its economic influence in the region.<sup>57</sup>

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<sup>53</sup> Pejsova, Eva, Dr. "European Union Institute for Strategic Studies." Personal interview. 10 Mar. 2016.

<sup>54</sup> Cohen, Benjamin J. "Finance and Security in East Asia". p.51

<sup>55</sup> Pejsova, Eva, Dr. "European Union Institute for Strategic Studies." Personal interview. 10 Mar. 2016.

<sup>56</sup> Aris, Stephen. "Institute for European Studies." Personal interview. 28 Apr. 2016.

<sup>57</sup> Pejsova, Eva, Dr. "European Union Institute for Strategic Studies." Personal interview. 10 Mar. 2016.

Japan continues to worry about trade routes, particularly as it concerns security for its energy supply. The trade routes through the South China Sea are of increasing importance to Japan, which cannot afford to lose access to these trade routes. Around 80-90% of Japan's oil and LNG is transported via the South China Sea.<sup>58</sup> Japan's shift away from nuclear energy after the Fukushima crisis, makes Japan more openly dependent on a free trade route for LNG.<sup>59</sup> Success in the South China Sea for China will also only extend its territorial ambition in the East China Sea with Japan.

Increased economic integration among ASEAN +3 is a plan that Japan supports. Japan's best relations with these countries through its economical relationships and it wishes to expand these and hopefully mend its political relations via this medium. Japan is also the country that initially proposed the Asian Monetary Fund and increased economic integration. While Japan and China are still in a very intense political relationship, the economic interdependence is crucial to both economies and ASEAN +3 provides a multilateral forum where negotiations among the two will be more productive than bilateral. Further integration also will most likely lead to more stability in the region and the easing of tensions. Stability in the South China Sea will protect Japan's trade routes, energy supplies, and its position in the East China Sea.

#### **ASEAN:**

ASEAN is currently the most important facilitator of further economic integration. It is the most successful multilateral organization in Asia and has already shown its ability to work well together economically as seen in the creation of the ASEAN Economic Community this past year. The creation of the AEC was a goal

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<sup>58</sup> EIA. "The South China Sea is an important World Trade Route".

<sup>59</sup> EIA. "The South China Sea is an important World Trade Route".

that many experts did not believe that ASEAN would reach by the end of 2015 due to tensions between members and difficulties agreeing in multilateral negotiations on the extent and direction of the AEC. This provides optimism for a similar system with ASEAN+3.

ASEAN will need to integrate further with ASEAN+3 because it has the greatest interdependence in the region with China and is also very interdependent on Japan for FDI. South Korea is also an important trade partner and may help to serve as a facilitator between China and Japan. The best progression for ASEAN countries economically is a free trade agreement among ASEAN +3.

ASEAN has shown an impressive ability to overcome political tensions and difficulties to form a strong strategic partnership. While member countries differ on political relations with China and opinion on the South China Sea situation, all realize the importance of trade with China. United, ASEAN is much stronger in negotiating economic agreements and organizations with China. Bilaterally, the countries lose almost all the leverage, as countries are “always on the back foot with China.”<sup>60</sup> Furthering economic relations with not only China, but Japan and South Korea as well will give ASEAN more power and influence, which they can use to maximize their benefits.

#### **South Korea:**

Economic prosperity and integration is important to South Korea, but its main strategic agenda concerns North Korea. Containing North Korea and attempting to limit its weapons capability is the most important goal for South Korea. It hopes to enlist more Chinese support in implementing sanctions against withholding supplies

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<sup>60</sup> Chakravarti, Suddha Dr. "Geneva School for Diplomacy." Personal interview. 28 Apr. 2016.

from North Korea in hopes of the forcing North Korea to abandon its nuclear weapons program.

South Korea wants regional stability and opposes any significant conflict in the East China Sea. South Korea tries to act as the facilitator between Japan and China. It is attempting to create a trilateral forum and agreement between the three of them to prevent any conflict between the two and potential entanglement of South Korea in the conflict. South Korea earlier this year hosted the first tri-lateral summit since 2012 and hopes to have them annually with the next one schedule to be hosted by Japan next year.<sup>61</sup> The Joint Declaration for Peace and Cooperation in Northeast Asia that came out of the summit stated a goal of “expanding economic and social cooperation for co-prosperity.”<sup>62</sup>

Further economic integration among ASEAN+3 fits South Korea’s President Park Geun-hye’s plans for further regional integration, both economically and politically that will ultimately lead to a “Eurasia initiative” which will create “one continent, creative continent, and peaceful continent.”<sup>63</sup> Part of the reason for this is South Korea’s desire to drive its economy to the “innovation-driven phase” of economic development.<sup>64</sup>

### **United States’ Pivot to Asia:**

The United States made Asia its main priority in 2011 via its “pivot” from the Middle East to Asia.<sup>65</sup> Economic growth in Asia has led the U.S. to characterize it as the most important region for the future both economically and politically. The U.S.

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<sup>61</sup> Tiezzi, Shannon. “With Trilateral Summit, China-Japan-Korea Cooperation ‘Completely Restored’.” *The Diplomat*, 03 Nov. 2015. Web.

<sup>62</sup> Ibid

<sup>63</sup> Ibid

<sup>64</sup> A Taehwan, Kim. “Beyond Geopolitics: South Korea’s Eurasia Initiative as a New Nordpolitik.” *The Asan Forum*. The ASAN Institute for Policy Studies.

<sup>65</sup> Hellendorff, Bruno. “Group for Research and Information on Peace and Security.” Personal interview. 8 Mar. 2016.

pivot to Asia is a strategy to compete with China and counteract China's growing influence and control of the region. The U.S. has significant trade interests in Asia, both in the form of markets and trade routes through the South China and East China Sea. It also has several military alliances in the East and Southeast Asia, such as with Japan and the Philippines. The ultimate goal for the U.S. is to minimize China's hegemonic control of the region and guarantee political and economic stability in the region.

American geopolitics in Asia is referred to as the "Great Game". This references U.S. competition with China in Asia and the balancing act in the region between economic and political interests with China and the rest of Asia.<sup>66</sup> The U.S. wants further economic integration in Asia, especially Southeast and East Asia, if it leads to a more stable market. The more stable economies are in the region and the faster the growth is, the better off that the U.S. will be. Currently, the strategy of the U.S. has focused on economic relationships, diplomatic relationships, and military presence. The U.S. currently has troops in Japan, South Korea, and Taiwan. As well as having good political and security relations with these countries, the U.S. also has extensive trade with them and with India. The Trans-Pacific Partnership is an important part of U.S. strategy as it is an economic agreement that solidifies American influence in the region and at the same time excludes China.<sup>67</sup> The key for the U.S. is to further its relationship with ASEAN both politically and economically and have influence in how they deal with China. It is pivotal because the U.S. has influence all over Asia and around China, as described above, and Southeast Asia is the "last key" to the U.S. foothold in Asia.<sup>68</sup>

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<sup>66</sup> Chakravarti, Suddha Dr. "Geneva School for Diplomacy." Personal interview. 28 Apr. 2016.

<sup>67</sup> Ibid

<sup>68</sup> Ibid

The U.S. position on further integration by ASEAN +3 is unclear. Originally, in 1991, the U.S. opposed the creation of the precursor to ASEAN +3, the East Asian Economic Caucus (EAEC), due to concerns of U.S. exclusion and limiting the effectiveness of the Asian Pacific Economic Community (APEC).<sup>69</sup> But currently, the U.S. is more concerned with continued economic and political stability. A FTA agreement between ASEAN +3, as well as other means of further integration, provide a great way to strengthen stability and relations in the region. The increasing stability may limit U.S. opposition to ASEAN +3, even though it is a way for China to counteract U.S. influence and create closer relations with ASEAN without any U.S. intervention.

The U.S. will most likely not oppose the further integration. The U.S. and its Western Allies will focus more on the geostrategic and political factors instead and will continue to focus on strengthening the political and security side of ASEAN, protecting trade routes against Chinese aggression in the South and East China Sea, and expanding its own trade and investment in Asia. These strategic aims are still intrinsically intertwined with economic integration, especially that of ASEAN+3.

#### **Future of ASEAN Plus 3 Economic Integration:**

ASEAN PLUS 3 will most likely never realize a monetary and common currency policy like European Union. But, “The lack of support is not due to a lack of will for cooperation. It is due to a more down to earth, pragmatic attitude of collective East and Southeast Asian cultures.”<sup>70</sup> The Shanghai Cooperation in Central Asia admitted that the EU model is great, but it is simply not fitting for Asia.<sup>71</sup> The future economic integration lies not in emulating a EU type system, but in expanding the

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<sup>69</sup> Kawai, Masahiro. “Evolving Economic Architecture in East Asia.” *ABD Institute Discussion Paper No.84*. Asian Development Bank Institute. (2007)

<sup>70</sup> Roth, Hans Dr. "The Dynamics of Regional Cooperation in Southeast Asia". p.17

<sup>71</sup> Aris, Stephen. "Institute for European Studies." Personal interview. 28 Apr. 2016.

structures and agreements that ASEAN+3 currently has. The best way forward is incorporating an ASEAN +3 FTA agreement and increasing the power of the CMIM.<sup>72</sup>

The creation of an ASEAN +3 FTA is an essential first step to increase cooperation among the members and most importantly make the economic relationships more efficient. This would not put any stress on the current flexible structures and would align with all countries national interests. “The ASEAN+3 leaders agreed that the establishment of an ‘East Asian Community was a long-term objective and affirmed the role of ASEAN +3 as the ‘main vehicle’ for this eventual establishment.”<sup>73</sup> A FTA agreement is an important steppingstone toward the future goal of creating an EAC. Members have acknowledged that a FTA and trade and investment institutions for regional cooperation are a necessary building block to an EAC.<sup>74</sup> This is the future of economic integration among ASEAN +3, but a major factor in this will be how the well ASEAN Economic Community functions over the next few years. A successful AEC will help lead to EAC. It will demonstrate whether this degree of economic integration requires further political integration because of agreements like free movement of labor potentially becoming important domestic political issues.<sup>75</sup> Too much political integration will hamper an EAC, as China will not join any multilateral organization that has too much political power and influence.

Another way for future for economic integration is through the creation of an Asian Monetary Fund, as the Japanese suggested in 97-98. The AMF would help “supplement IMF resources for crisis prevention, management, and resolution.”<sup>76</sup> For an EAC, it is necessary for the CMIM to be expanded by increasing the amount of

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<sup>72</sup> Kawai, Masahiro. “Evolving Economic Architecture in East Asia.”

<sup>73</sup> Ibid p.21

<sup>74</sup> Ibid

<sup>75</sup> Chakravarti, Suddha Dr. "Geneva School for Diplomacy." Personal interview. 28 Apr. 2016.

<sup>76</sup> Kawai, Masahiro. “Evolving Economic Architecture in East Asia.” p.18

money pledged by member countries while simultaneously pulling away from IMF oversight in favor of an Asian version and the expansion of the ASEAN+3 Macroeconomic Research Office.<sup>77</sup> These improvements will help provide a foundation for the AMF as well, but whether it will be implemented depends on the strategic plans of the members. As geo-economics becomes more powerful and interdependence grows among these countries it is possible the AMF is realized due to the decreasing affect of geopolitical factors.

### **Conclusion:**

The geopolitical tension and conflict in East and Southeast Asia is a predictor for a bleak future for regionalism and further integration. But these historical tensions have not led to minimal actual conflict over the past several decades. In fact, no actual military confrontation has occurred since 1954 between the ASEAN +3 countries.<sup>78</sup> Skirmishes in the past decade have been minimal and have primarily served as claims for propaganda victories to inspire nationalism and support for domestic governments.<sup>79</sup> It is evident that none of these countries, as of this moment and predicted for the next several decades, have anything to gain from conflict and regional instability. The economic growth and development of ASEAN +3 and the resulting growing interdependence is only stabilizing the region more, even though the political issues are not directly addressed. The main actors have demonstrated an ability to act pragmatically and not threaten economic stability for political conflicts. If anything, it is possible that further economic integration will coincide with political integration as well.

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<sup>77</sup> Kawai, Masahiro. "Evolving Economic Architecture in East Asia."

<sup>78</sup> Khan, Feroz Hassan. "The independence-dependence paradox: stability dilemmas in South Asia." *Arms Control Today* Oct. 2003: 15+. *General OneFile*.

<sup>79</sup> Aris, Stephen. "Institute for European Studies." Personal interview. 28 Apr. 2016.

Geo-economics is increasingly becoming more important on the regional and global scale. Economic power becomes more and more powerful of a tool as countries in regional and global economies become more interconnected and interdependent. “The fragmentation of global trade can also have the effect of forcing a country to make a strategic decision with regards to which trade alliance it should join...All which can complicate a country’s geopolitical surroundings.”<sup>80</sup> China is in a strong position geo-economically and its position, as well as that of the other members of ASEAN +3, is only improving. Economic development has led to the growth of power regionally and globally for China and it will fuel the re-emergence of Asia influence in the international realm as predicted by Kishore Mahbubani and many other experts.<sup>81</sup> The continued growth of ASEAN +3 geo-economically will only be increased through regional integration and this provides the greatest incentive for further cooperation.

Overall, the future of economic integration between the ASEAN +3 countries depends on the national self-interests of these countries. One of the highest priorities of ASEAN countries, China, Japan, and South Korea is to secure current and future economic prosperity. While all factors discussed above play a role in the degree and direction of economic integration, the ultimate deciding factor is whether further integration will definitely enhance and improve member economies’ development and growth. The system will most likely continue to be flexible and without significant legal binding terms. Economic integration is, currently and for the next few decades at least, in all members’ interests to expand economic prosperity and the question of future integration is not whether it will happen, but how and to what degree.

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<sup>80</sup> Cini, Jonathan. "Geo-economic competition: global disruption from the new frontline". p.5

<sup>81</sup> Chakravarti, Suddha Dr. "Geneva School for Diplomacy." Personal interview. 28 Apr. 2016.

**Abbreviations:**

**ABF**- Asian Bond fund

**ABMI**- Asian Bond Market Initiative

**ACFTA**- ASEAN-China Free Trade Agreement

**AEC**- Asian Economic Community

**AFTA**- ASEAN Free Trade Area

**AMF**- Asian Monetary Fund

**AMRO**- ASEAN Macroeconomic Research Office

**APEC**- Asian Pacific Economic Community

**ARF**- ASEAN Regional Forum

**ASEAN**- Association of Southeast Asian Countries

**ASEAN Plus 3**- Association of Southeast Asian Countries Plus China, Japan and South Korea

**CMIM**- Chiang Mai Initiative Multilateralization

**EAEC**- East Asian Economic Caucus

**FDI**- Foreign Direct Investment

**FTAs**- Free Trade Agreements

**GDP**- Gross Domestic Product

**IMF**- International Monetary Fund

**LNG**- Liquid Natural Gas

**TPP**- Trans-Pacific Partnership

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