

# *Regionalism, Alliance, and Domestic Politics: The Benelux Model and Northeast Asian Cooperation*

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## **Abstract**

Most of the literature in International Relations stresses the central role of large states in international affairs. Yet smaller states too can at times play a role more than commensurate with their economic and geo-political scale. This paper explores the potentially important role of smaller states in regional economic integration, explicating the historical role of Benelux in European integration, and extrapolating implications for Northeast Asia. Particular attention is given to the prospectively important role of Korea, and of what the Benelux precedent suggests about what that Korean role in Northeast Asian regional integration processes might prospectively be. The comparative analysis devotes special attention to the incentive structure of key sub-national interests, and to how their aggregation through democratic political processes in turn affects broader regional integration prospects.

**Key Words:** Benelux model, Northeast Asian regionalism, regionalizing coalition, Pacific Alliance, San Francisco System

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## **Small States as Catalysts in Regional Integration: Can Korea be Northeast Asia's Benelux?**

“Regionalism” and “alliance” were largely unrelated concepts until the middle of the Twentieth Century, although they have been in persistent tension since then. This paper explores the deepening conflict between these ideas, and their strategic manifestations, in an area of pre-eminent political-economic importance: Northeast Asia. Addressing concretely the prospective contradictions between the concepts, with special reference to Korea, it considers the particular relevance of the “Benelux model” from Western Europe as a means of resolving them, against the background constraints of domestic politics.

The “Benelux model,” presented later in further detail, is postulated to include five core elements:

- A catalytic role is played by a cohesive group of *smaller nations*, with strong, self-interested reasons for group cohesion.
- The smaller nations shape policy outcomes through key roles in *agenda setting* and *mediation* among larger powers which are otherwise mutually antagonistic to one another.
- Leaders in the smaller nations have strong *transnational networks* that magnify their influence in regional integration processes.
- Regional integration is initially seen by the small catalysts as a *survival strategy*, but this objective progresses over time into a proactive *affluence-maximizing* approach.
- Regionalism under this approach is accepted as being *compatible with alliance*, and with *globalism* as well.

## **Evolution of the Tension between Regionalism and Alliance**

At the dawn of modern global diplomatic history, regionalism was a moot concept, as inter-regional relations were virtually non-

existent. Indeed, from the beginning of the nation-state system following the Peace of Westphalia (1648), until World War I, the concert of key powers was almost exclusively European. The United States was largely detached from the global alliance system: George Washington warned his countrymen sharply of foreign entanglements in his Farewell Address, and for a century and a half they largely complied. Asia's classical structure of international relations was likewise isolated from the broader world.

The Anglo-Japanese Naval Treaty of 1902, and the 1940 Axis Pact of Steel, to be sure, were exceptions to the more general pattern. Transcending regionalism, and indeed cultural differences as well, those alliances linked the West with the emerging military-industrial powerhouse of Asia, Imperial Japan, across great distances, in a provocative, unprecedented fashion. Yet both alliances proved fragile, and each disintegrated within a generation. The first half of the Twentieth Century was not congenial to trans-regional partnerships.

The post-World War II alliance pattern has been more durable—indeed, remarkably so. To be sure, the Sino-Soviet alliance, following the pre-war global pattern, ruptured less than fifteen years after its consummation in early 1950. Yet the other major alliance structures of both the Pacific and the Atlantic have persisted for remarkable periods of time. Both NATO and the “San Francisco System,”<sup>1</sup> in particular, continue in existence more than half a century after their respective foundations.<sup>2</sup> Indeed, the half century following World War II could well be considered an “era of alliance,” in which regionalism presented relatively few challenges.

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<sup>1</sup> On this concept, see Kent E. Calder, “Securing security through prosperity: The San Francisco System in comparative perspective,” *The Pacific Review*, Vol. 17, No. 1, March 2004, pp. 135-157.

<sup>2</sup> NATO, of course, was founded in 1949. The US-Japan Mutual Security Treaty was signed in September 1951, while the US-Korea MST was forged in 1954.

## Embedded Pacific Alliance Structures

The San Francisco System is the integrated network of political-economic relations that has prevailed in the Pacific since the September 1951 peace treaty with Japan. It has had five defining features: a dense structure of bilateral alliances, including US-Japan, US-ROK, US-Australia,<sup>3</sup> US-Philippines, and for many years US-Taiwan, US-South Vietnam, and US-Thailand; an absence of multilateral security mechanisms; strong asymmetry in alliance relations, with respect to both in security and economics; special precedence to Japan; and liberal trade access to American markets, coupled with relatively limited development assistance, compared to the trans-Atlantic pattern. These arrangements linked Asian nations in a “hub and spokes” framework with Washington, DC, across traditional cultural and ethnic barriers. The System was consolidated through asymmetrical understandings that rendered its provisions both remarkable, and prospectively vulnerable as well.

On the security side, the San Francisco System committed the United States to the defense of many East Asian nations around the perimeter of China, without obligating these countries explicitly, in most cases, to reciprocal support of the United States. The main support that Asian allies were obliged to provide was generally bases for American forces on their own soil. In the extreme case of Japan, the host nation to US forces was not even committed to collective self-defense in support of those forces, due to restrictions imposed by the local “no-war” Constitution.

On the economic side, the San Francisco System provided, as suggested above, extensive benefits to security allies of the United States, that were *fundamental* to the attractiveness of the System itself

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<sup>3</sup>Originally ANZUS, including New Zealand, but New Zealand effectively fell out in the mid-1980s due to its defiance of the US “no confirm or deny” approach to nuclear weapons.

to them. Those benefits did not, to be sure, come in the form of the direct reparations from Japan for which most of the Allies had hoped. This omission provoked many prospective US allies in the vicinity of Japan, such as the Philippines, to explicitly reject ratification of the San Francisco peace treaty, or to make serious formal reservations.

The economic incentives provided by the System were largely embodied in bilateral Treaties of Commerce and Navigation, offering open access for Asian firms to a US market that was close to 40 percent of the global total. Although these treaties were nominally reciprocal in character, provisions for reciprocity were rarely enforced. The System thus established a political-economic framework offering economic opportunities to East Asia that were highly lucrative, under *two critical conditions*: as long as the US remained economically pre-eminent; and as long as the system remained effectively preferential in favor of US allies in the region.

Apart from these main institutional features, ambiguous, unsettled boundaries were a major additional element of the San Francisco System within Northeast Asia, arguably willed that way by its major architect, John Foster Dulles. These territorial issues had been dormant, of course, for the half century prior to 1945, during which Japan ruled the entire region in unified fashion, without meaningful boundaries of any kind. Since the San Francisco Treaty disposed of territorial issues concerning both the home islands of Japan and its former colonies, however, that treaty had the potential to either clearly define the post-war contours of the various Northeast Asian jurisdictions, including Korea and Taiwan, or to leave them in ambiguity.

The ambiguities that Dulles fostered helped to make Northeast Asia the “Arc of Crisis” that it has been, in security terms, ever since—a region in which geo-political differences make regional unity—and even moderate dialogue—consistently difficult.<sup>4</sup> Lack of clarity in the

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<sup>4</sup> On this concept, see Kent E. Calder, *Pacific Defense* (New York: William Morrow, 1996), pp. 13-42.

treaty over what constituted the Kuriles estranged Japan and the Soviet Union, for example. Similarly, ambiguity as to who held sovereignty over Tokdo, in the middle of the East Sea, complicated Korea-Japan relations. Lack of clarity regarding whether the Senkaku/Diaoyutai Islands were part of Okinawa or Taiwan likewise estranged Japan and China. The treaty also failed to resolve the North-South territorial division in Korea, not to mention relations across the Taiwan Straits. It thus enhanced prospects for future intra-regional conflict along multiple geo-political dimensions.

The intra-regional conflicts among Northeast Asian nations provoked by treaty ambiguity ultimately enhanced the geo-political leverage of the United States, particularly with an anxious and defensive Japan. Japan was surrounded by prospective adversaries, and heavily dependent economically on the US market. This situation served the geo-strategic purposes of John Foster Dulles, given his fears of Japanese revanchism. It likewise helped neutralize the potentially adverse long-term implications for US diplomacy of his indulgent approach to Japanese economic recovery. Yet the territorial ambiguities also impeded regionalism, in a part of the world where it had once been very strong.

### **Alliance Durability: The Key Role of Economic Interest**

The distinctive *incentive structure* of the San Francisco alliance system bears re-emphasis here, as that incentive structure was at once the source of the System's short-term attractiveness in East Asia and its prospective long-run vulnerability. Unusual political-economic incentives, centering on preferential US market access, rendered the System particularly *attractive* to allies, *as long as* the US economy was strong and discrimination in favor of allies prevailed. Those discriminatory provisions also, however, rendered the System vulnerable to the emergence of a fully non-discriminatory global

economy, and to the rise of alternative economic growth centers, within Asia, that could ultimately spur the emergence of stronger regionalism.

The San Francisco System at its outset was thus a creature of American political-economic power, in a world where there were few alternative power centers. To explain the San Francisco System's remarkable durability, it is wise to remember both how *fragile* that system seemed at its origin, and how substantial the political-economic *benefits* conferred by the System to stabilize it soon came to be. There have, however, been substantial changes in the terms of the embedded bargain since this alliance system's foundation that affect its longer-term prospects, and that are sharpening the tensions with regionalism, as we shall see.

As noted above, virtually all major Asian nations, apart from Japan itself, either directly opposed the San Francisco peace treaty, or at least lodged formal reservations. The strong dissenters included not just China and the Soviet Union, but also India, Indonesia, Burma, and South Korea. Even the Philippines protested bitterly, mainly against the lack of reparations from Japan. Key Anglo-Saxon allies of the United States, like Britain and Australia, were ambivalent about the treaty, as was much of the US Congress. Ultimately it was mainly Latin American support, reflecting US pressure, that garnered the treaty its large overall ratification figures, and hence international legitimacy.

Since the precarious origins of the San Francisco System, amidst the Korean War, its political-economic environment has also sharply changed. Japan's economy, for example, was only one-twentieth the economic scale of the US in 1950, when negotiations on the San Francisco treaty began.<sup>5</sup> It is now close to half as large.<sup>6</sup>

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<sup>5</sup>Jerome B. Cohen, *Japan's Postwar Economy* (Bloomington, Indiana: Indiana University Press, 1958), pp. 12-13.

<sup>6</sup>In 2002 the US economy comprised 32.3 percent of global GDP, and Japan 12.3 percent. See Asahi Shimbun (ed.), *Japan Almanac*, 2004 edition (Tokyo: Asahi Shimbun Sha, 2004), p. 56.

Yet the System has expressed a remarkable ability to flexibly accommodate such massive change in the economic magnitude of key participants, together with numerous other challenges.

### The Importance of Sub-National Incentives

Why should the San Francisco alliance system have proven to be so durable, despite apparent fragility at its inception? Some have recently stressed the “constitutional” character of the rule-based American political economy, which reduced the implications of *winning* in the international system, and hence locked weaker players, who feared losing, into an order that they could not control.<sup>7</sup> Others—hegemonic stability theorists—have simply stressed the continuing pre-eminence of American power.<sup>8</sup>

This analysis suggests the need for dipping *deeper* into the *domestic systems* of key nations for an explanation of system persistence than international relations theorists are prone to do. Neither the rules of the international order—often disregarded—nor the fluctuating power position of the United States can explain the persistence of the Pacific order, its process of transformation, or the resolution of prospective tensions with regionalism. The overlapping *preference structures* of *domestically dominant groups* have been the key sustaining element of the San Francisco System, this analysis suggests. It is argued that those are critically dependent on the economic returns provided by the System, and are by no means immutable. An Asia-centric alternative regional order could potentially provide many of the same benefits.

A two-level analysis—understanding both *domestic* interest-

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<sup>7</sup> John Ikenberry, *After Victory* (Princeton: Princeton University Press, 2001), p. 32.

<sup>8</sup> Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987).



group structure and showing how it alternately constrains or sustains *international* relationships—is crucial to grasping both the durability of the San Francisco System and its potential for change.<sup>9</sup> In particular, the willingness of domestic interest groups in the US to trade off marginal economic costs to themselves in return for perceived security gains to their nation was critical to the stability of the San Francisco System in its early days. The openness of the system then gradually gave birth to new organized interests, such as large-scale distributors and multinational manufacturers, that helped sustain that trade and financial openness from the 1970s on.

American labor unions such as the AFL-CIO<sup>10</sup> were willing, for example, to accept some marginal domestic job losses from import competition much more substantial than the major European powers were willing to accept, as the necessary price for eliciting security cooperation from America's Asian allies during the 1960s and 1970s. It was only in the 1980s, under a Republican Reagan Administration, with whom the unions deeply differed on many grounds, that they came to see these losses as unjustified even by national security imperatives.<sup>11</sup> By then, new transnational interests had arisen that countervailed their rising disaffection from the liberal international economic order.<sup>12</sup>

Meanwhile, in Asia, the central political priority—for both the elite and, to a large degree, for the broader citizenry as well—was consistently economic. If the United States offered open markets and some economic aid through the San Francisco System, few worried

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<sup>9</sup> Robert Putnam, "Diplomacy and Domestic Politics," *International Organization* (Spring 1998), pp. 427-460.

<sup>10</sup> Literally, American Federation of Labor-Congress of Industrial Organizations (AFL-CIO), the largest American labor-union confederation.

<sup>11</sup> On the emerging criticism of national-security rationales for the San Francisco System, see Selig Harrison and Clyde Prestowitz, "Pacific Agenda: Defense or Economics?" *Foreign Policy* (Summer 1990), pp. 56-76.

<sup>12</sup> I.M. Destler and John S. Odell, *Anti-Protection: Changing Forces in United States Trade Politics* (Washington, DC: Institute for International Economics, 1987).

about the constraints to sovereignty or to nationalistic sensibilities that inevitably flowed from US pre-eminence in the military area. From very different domestic origins, Japan, South Korea, and Taiwan all smoothly evolved, with little resistance over the 1960s and 1970s, into commercially oriented trading states, all operating under the US security umbrella.<sup>13</sup>

The approach of America's Northeast Asian allies to the economics-for-security trade-off implicit in the San Francisco System was, in its emphasis on economics, highly complementary to the security bias of the United States. Yet it was based on the interests of dominant local political actors, rather than any particular respect for clear rules *per se*. The prominent role of bureaucrats in East Asian political economies, intensified the lack of transparency and the "case-by-case" orientation. Indeed, the frequent disrespect for liberal trading rules—both through non-trading barriers and "orderly marketing arrangements"—has been a persistent feature of trans-Pacific trade throughout most of the post-war period.

The relative weakness in Asia of local nationalist groups antagonistic to the security dimensions of the System also helped sustain the symbiotic trans-Pacific political-economic trade-off. Left-oriented labor unions and Communist parties, for example, have never been strong in post-World War II Northeast Asia, in contrast to patterns across much of Western Europe. The nationalistic far right has also had trouble gaining traction in Asia. Indeed, Asian Gaullism has never really emerged to challenge the region's uniquely asymmetric security bargains with the US, despite insistent predictions that this could happen.<sup>14</sup>

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<sup>13</sup>Richard Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World* (New York: Basic Books, 1986).

<sup>14</sup>Herman Kahn, *The Emerging Japanese Superstate* (Englewood-Cliffs, New Jersey: Prentice-Hall, 1970); Harold Malmgren, "Coming Trade Wars," *Foreign Policy* (January 1970), 1125-43; Isaac Shapiro, "The Risen Sun: Japanese Gaullism," *Foreign Policy*, 41 (Fall 1981), pp. 62-81.

Gradual regional transformation within the US domestic political economy also aided this symbiosis between East Asian economic development and a US-centric system of regional security.<sup>15</sup> Over the course of the 1960s and 1970s, the Sunbelt states of the South and West steadily gained influence, as the leverage of the Midwest-Northeast Snowbelt slowly declined. In 1963, for example, California became America's most populous state, eclipsing New York. By 2001, California's population was 82 percent greater than New York's. Texas, rather than New York, had become America's second most populous state.<sup>16</sup> Economically, California had become larger than all but five nations on earth.

In both the Congress and the Electoral College, Sunbelt representatives became correspondingly more numerous and powerful as well. The three largest Sunbelt states—California, Texas, and Florida—now provide over 41 percent of the electoral votes required to elect an American president. Although George W. Bush lost California in both 2000 and 2004, he carried Texas, Florida, and a broad range of other Sunbelt states in both elections, which provided the core for both of his narrow electoral college victories. At the White House, John F. Kennedy was the last president elected from a Snowbelt state, nearly half a century ago. Since then, two other Snowbelt candidates from Massachusetts—Michael Dukakis and John Kerry—have both been clearly defeated by Sunbelt Republican coalitions.

The politically emergent Sunbelt, and its Plain and Mountain States analogues, have weak unions, vigorous agricultural and construction sectors, and little heavy industry competitive with Asia. Indeed, to this day there is no integrated steel mill in the Sunbelt. The only auto plant, at Fremont, California, is a General Motors-Toyota

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<sup>15</sup> Kent E. Calder, "The Emerging Politics of the trans-Pacific Economy," *World Policy Journal* (Fall 1985), pp. 593-623.

<sup>16</sup> US Bureau of the Census, *Statistical Abstract of the United States*, 2002 edition, 2001, pp. 22-23.

joint venture.

The Sunbelt, reflecting its economic complexion and interests, has exhibited a relatively moderate trade, financial, and investment orientation toward Asia, both in Congress and at the state-government level. Heavy inbound direct investment since the mid-1980s has further disposed US authorities—both state and federal—to be moderate in their approach to Asia. Consumers and distributors have also benefited from trans-Pacific interdependence, and been generally supportive of the open trading regime inaugurated under the San Francisco System.<sup>17</sup>

Despite rising US trade imbalances with Asia—reaching levels of 2:1 and 3:1 in favor of Asia by the 1980s, and stubbornly persisting ever since—there has hence been remarkably little support in the US for radical shifts in the status quo. This pattern has been especially pronounced in the Sunbelt. Conversely, across Asia, exporters, rather than consumers, have dominated local political processes, persistently reinforcing the asymmetrical bias of the San Francisco System even into the 21<sup>st</sup> century, despite its origins in an earlier, more hierarchical age. Both in Asia and in US internationalist circles, the clear common economic benefits of an open trade and financial system across the Pacific have thus been sustained by tacit, domestically rooted mutual political acceptance, rather than any clear, formalized constitutionalist bargain.

The security elements of the San Francisco system, forged in blood and crisis during the Korean War, in sharp contrast both to pre-war patterns and early post-war expectations, have likewise proven mutually acceptable on both sides of the Pacific, although there was never a clear “constitutionalist” bargain on security matters either. US bases, and the “hub-and-spokes” network of alliances within which they are embedded, largely maintained regional stability—international

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<sup>17</sup>Destler and Odell, *Anti-Protection*.

stability, as well as domestic one-party conservative dominance in key nations until the late 1990s. And stability has been vital to economic prosperity. That has become particularly true since levels of transnational investment and other forms of interdependence began spiraling rapidly throughout the Pacific Basin during the 1980s and 1990s.

### **Northeast Asia's Regionalist Past**

In the post-World War II Northeast Asian political-economic world, the United States has loomed massively large, like Gulliver among Lilliputians, and economic dependence on America has been heavy. Yet it was not always so. Before World War II, particularly during the 1930s, Japan, Korea, mainland China, and Taiwan traded mainly with one another. Northeast Asia made up the heart of Japan's colonial empire, and its wartime Greater East Asia Co-Prosperity Sphere. As noted in Table 1, eighteen percent of Japanese exports went to China alone during the mid-1930s, and 39 percent to Northeast Asia as a whole. This share dwarfed the 16 percent of exports flowing to the United States.

Pre-war Japan was traditionally dependent on China for key raw materials and food, as well as for export markets. This dependence became especially pronounced in the 1930s, as Japanese political-military involvement on the continent steadily deepened. By 1934-1936, for example, fully 71 percent of Japan's soybeans, 68 percent of its coking coal, and 34 percent of its iron ore were imported from China.<sup>18</sup> Overall, as Table 1 indicates, 36 percent of Japanese imports flowed from its Northeast Asian empire, as opposed to only 25 percent from the United States.

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<sup>18</sup>Jerome B. Cohen, *Japan's Postwar Economy* (Bloomington, Indiana: Indiana University Press, 1958), p. 182.

Table 1. Trans-War Patterns of Interdependence in the Northeast Asian Political Economy

(Unit: Percent)

	Japanese Exports		Japanese Imports	
	1934-36	1956	1934-36	1956
United States	16	22	25	31
China	18	3	12	3
Korea/Taiwan	21	6	24	2
South/SE Asia	21	6	24	2

Source: Ministry of International Trade and Industry data, presented in Jerome W. Cohen, *Japan's Postwar Economy* (Bloomington, Indiana: Indiana University Press, 1958), p. 153.

Japan, in short, had a history of deep economic interdependence with China, as did Korea and Taiwan as well, based on underlying complementarities. China had labor and raw materials, while the others had capital, technology, and managerial expertise. Their symbiosis was, to be sure, temporarily suppressed by the Cold War and inhibited by the political-economic uncertainties on the mainland typical of the Maoist years.

Yet the latent complementarity, of course, never disappeared. China has, for two thousand years and more, been looming as a potential colossus over the lands to the east, with economic traits potentially synergistic with their own, yet with potentially hegemonic political potential as well. It was the more powerful political-economic magnet of the San Francisco System in the post-war years, and the corresponding weakness and isolation of China, that pulled Korea and Japan into the historically distinctive new trans-Pacific orbit that was the San Francisco System.

### Shifting Economic Interests: Asian Regionalism Revived?

There are thus two possible poles between which the Northeast

Asian political economy of the future can potentially oscillate, or evolve: the classical San Francisco System of asymmetric political alliance with the United States, accompanied by asymmetric, discriminatory benefits for American allies; and a Sino-centric western Pacific regional prosperity sphere, excluding the United States. Regional profiles seem unlikely to assume either form precisely. Yet their proximity to either pole will likely be influenced profoundly by changing economic interests, which could in turn create dilemmas for security, and rising geo-political tensions.

Although the classical San Francisco System has persisted to a remarkable degree, half a century beyond its foundation, some important emerging divergence from that pattern is now at last discernable. Moreover, attempts to paper over the divergence with American strategic interest, as through the strengthening of APEC, appear ineffectual. The tension between regionalism and alliance in Northeast Asia is clearly deepening.

The United States, to be sure, still looms very large in the Northeast Asian regional equation, as it obviously does in the global scales as well. The US in 2004 comprised nearly 29 percent of global GDP, in nominal terms, and China only four percent.<sup>19</sup> In addition, in 2004 US trade with Japan, China, and Korea combined totaled more than \$507 billion, or nearly double of the total trade of these nations with one another (\$313 billion).<sup>20</sup> Yet the marginal changes are occurring rapidly, driven by China's sustained growth from a small base, and may well prefigure important future political-economic transformations in the structure of regional affairs.

First of all, on the economic side, intra-regional trade in Northeast Asia is growing substantially faster than trans-Pacific trade. As is clear

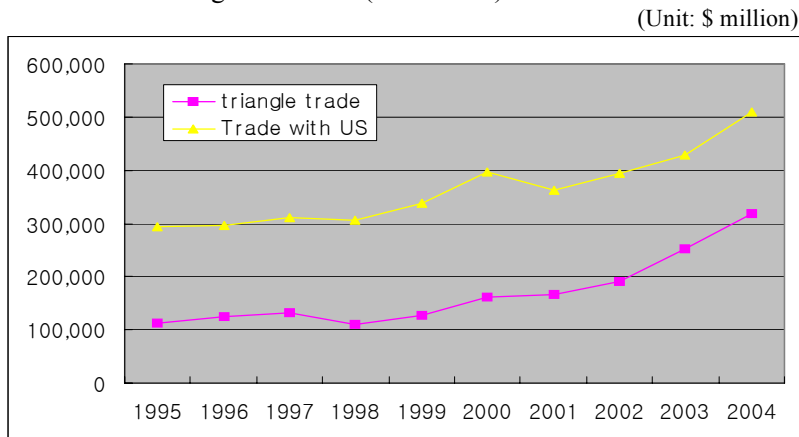
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<sup>19</sup> Asahi Shimbun Sha (ed.), *Japan Almanac*, 2006 edition (Tokyo: Asahi Shimbun Sha, 2006), p. 101.

<sup>20</sup> OECD, STAN Bilateral Trade Database Vol. 2006 release 01, available at OECD website: <http://www.oecd.org>.

from Figure 1, the gap between the scale of overall trans-Pacific and overall regional trade within Northeast Asia has recently narrowed significantly. That narrowing trend seems likely to proceed still further, given the continuing expansion of the Chinese economy, and the ultimate likelihood of substantial revaluation of the Chinese renminbi.

Figure 1. The Rising Relative Importance of Northeast Asian Intra-Regional Trade (1995-2004)



Source: International Monetary Fund, *Direction of Trade Statistics*, 1995-2005 editions.

Bilateral trade indicators document, in particular, the explosive recent expansion of both Korea-China and Japan-China trade, as suggested in Table 2. China has become the largest export market in the world for South Korea, and the largest import market in the world for Japan. Indeed, over 20 percent of Japan's total imports now come from China—compared to less than 14 percent originating in the United States.<sup>21</sup>

<sup>21</sup> In 2004 20.7 percent of Japan's imports came from China, and only 13.7 percent from the United States. See Asahi Shimbun Sha (ed.), *Japan Almanac*, 2006 edition, p. 134.



Table 2. The Explosive Expansion of Northeast Asian Trade with China  
(Unit: \$ million)

	K-C trade	K-J trade	J-C trade
1995	16,562	49,658	46,079
1996	19,933	47,219	57,408
1997	23,689	42,678	65,124
1998	18,428	29,078	63,198
1999	22,551	40,004	63,772
2000	31,253	52,294	78,021
2001	31,493	43,139	91,349
2002	41,154	44,999	101,750
2003	61,319	53,883	135,036
2004	79,348	67,845	168,252

Source: International Monetary Fund, *Direction of Trade Statistics*, 1995-2005 editions.

A second latent pressure for change in the political economy of the San Francisco System, which also threatens to deepen regional geo-political tensions, flows from the declining relative benefits of the System to allies of the United States, as opposed to outsiders, notably China. Until the early 1970s, as is well known, the United States embargoed trade with the Chinese mainland, and conversely offered preferential access to products from allies like Japan, South Korea, and Taiwan. After ending the embargo, as it improved relations with Beijing, the United States moved to actively promote economic relations with China, even where Chinese products proved competitive with those of allies.

By 2004, as indicated in Table 3, the US was importing more than \$200 billion a year from China. Those American imports were more than half as large as those from Japan, which had an economy four times the size of China's, and more than six times the amount that the US exported to China. Of course, China's underlying competitiveness, rather than political favoritism, was the principal factor driving this trend. Yet the statistics suggest at a minimum that the United States of

late is *not* discriminating in favor of its allies, and against China, in the way that it clearly did during the 1950s and 1960s. To that extent, the discriminatory provisions of the San Francisco system *favoring allies* appear to have eroded, and an alternate system of either allowing markets to work or favoring China appears to have taken its place.

Table 3. The Rising Importance of China Trade for the United States  
(Unit: \$ million)

	Export China	Import China	Export Japan	Import Japan	Export Korea	Import Korea
1995	11,754	45,543	64,343	123,479	25,380	24,184
1996	11,993	51,513	67,607	115,187	26,621	22,655
1997	12,862	62,558	65,549	121,663	25,046	23,173
1998	14,241	71,169	57,831	121,845	16,486	23,942
1999	13,111	81,788	57,466	130,864	22,958	31,179
2000	16,185	100,018	64,924	146,479	27,830	40,308
2001	19,182	102,278	57,452	126,473	22,181	35,181
2002	22,053	133,490	51,440	124,633	22,596	36,910
2003	28,419	163,255	52,064	121,233	24,099	38,346
2004	34,721	210,526	54,400	133,339	26,333	47,814

Source: International Monetary Fund, *Direction of Trade Statistics*, 1995-2005.

A third pressure for change in the San Francisco System, which could sharply accelerate future regionalist tendencies in Northeast Asia, is the prospect of US dollar depreciation. As noted in Table 2, recent US trade imbalances with Asia, as with the energy producers also, are large and rising. Accumulated US debt is substantial, and the debt-service burden is also rapidly expanding. The dollar has already fallen substantially against the Euro since the beginning of 2004, and many specialists project that these trends will continue. They of course rapidly depreciate the relative economic scale and importance of the United States for other nations of the North Pacific, and indeed the world.

A fourth pressure for change in the status quo is of course the rise of China. This has two dimensions: China's rapidly rising economic scale—albeit from a much smaller base than generally appreciated; and the rising pragmatism and subtlety of Chinese leaders in their dealings with the outside world. Until late 1999, for example, China rejected the notion of regionalist financial collaboration with Japan and other East Asian powers. Its shift in stance, at the late 1999 ASEAN Hanoi Summit, paved the way for the landmark Chiangmai swap-quotas agreement of May 2000.

Because the rising role of China in global political-economic affairs over the past five years has been so rapid, there is a tendency to single it out as the catalyst, or principal driver, for deepening regionalist tendencies in Northeast Asia. This is clearly an *over-statement*. As noted earlier, the Chinese economy remains relatively small: only between a third and a quarter the size of Japan's, and only one eighth that of the United States. Additionally, many other forces are at work in fueling regionalism, as we have seen, than simply the rise of China.

Yet the fact that China, with which the US has major political differences, is the primary catalyst for the new regionalist developments, rather than US allies Japan or South Korea, may well intensify both the geo-strategic tensions implicit in regionalism, and the difficulties of achieving a compromise resolution to the "alliance" vs. "regionalism" dichotomy. An exclusive regionalism centering on China, with which the United States is not involved, could potentially be, depending on its configuration, a national-security challenge to the United States. Moreover, achieving a compromise through an expansion of the functions of APEC is rendered problematic for China by the reality that APEC is the one Pacific regional grouping that includes the adversary Beijing continually and obsessively seeks to ostracize—namely Taiwan.

## **The Emerging Profile of Change: Deepening Tensions between Regionalism and Alliance?**

It is important to be clear about what is really changing in Northeast Asia, from what embedded points of departure, and what is not changing. The United States still holds the dominant position in both the political economy of the Pacific, and in its security order. That can only slowly change, especially if US-Japan interdependence remains strong. Northeast Asia thus continues to need stable relations to the United States.

Although Asia's integration within global institutions remains strong, the marginal institutional movement toward regionalism since the Asian financial crisis has been substantial.<sup>22</sup> This trend has been especially pronounced in Northeast Asia, because there was virtually no systematic policy networks or routinized policy consultation before 1997. During the Asian financial crisis of 1997, for example, the Japanese and Chinese governments engaged in virtually no bilateral consultation, and China's failure to support Sakakibara's Asian Monetary Fund proposal in the fall of 1997 was a major factor behind its failure. The two countries both thought and acted in almost exclusively global and trans-Pacific terms, as did Korea also. Those patterns are now rapidly changing.

The catalyst for new policy networks and regional policy-planning consciousness has been the "ASEAN plus Three" policy process, initiated by Singapore Prime Minister Goh Chok Tong at the fifth ASEAN Summit in Bangkok, during December 1995.<sup>23</sup> He suggested that ASEAN members should invite the three Northeast

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<sup>22</sup> For a good survey of developments from a constructivist perspective, see Takashi Terada, "Constructing an 'East Asian' concept and growing regional identity: From EAEC to ASEAN+3," *The Pacific Review*, Vol. 16, No. 2, 2003, pp. 251-277.

<sup>23</sup> *Ibid.*, pp. 262-264.

Asian countries to its informal summit meeting within one or one-and-a-half years, and this was realized at the 1997 Kuala Lumpur ASEAN summit. Japanese Prime Minister Obuchi saw the ASEAN +3 process as useful, and proposed both a trilateral Northeast Asian leaders dialogue among Japan, China, and South Korea before the ASEAN+3 meeting, and to hold a separate ASEAN+3 Foreign Ministers' meeting to support the implementation of the leaders' groups' deliberation.

These decisions for top-level consultations inspired the development of networks and planning processes embedded deeper in the respective national bureaucracies and intellectual establishments of the key nations. That institutional evolution has in turn both produced concrete policy proposals for regional collaboration, and also given birth to much more systematic planning and research processes within Northeast Asia than had ever existed before. Japan's NIRA, Korea's KIEP, and China's DRC, for example, have been tasked to provide research support for the ASEAN+3 summit meetings. They, together with other governmental and semi-governmental bodies, have been doing systematic research on the viability of free-trade agreements, expansion of the Chiangmai financial swap-quotas agreement of 2000, the Asian bond market concept, and other policy options. These analytical steps are increasing the prospect of tangible movement toward deeper regional integration, especially should inadequate Western response to any intra-regional crisis within Asia, as in 1997, give further momentum to such regionalist initiatives. Yet Northeast Asian integration—like that in Europe half a century ago—could still benefit greatly from the efforts of a diplomatic catalyst.

The need for mediators and catalysts in Northeast Asian regional integration is enhanced greatly by deepening geo-political tensions among the larger powers—especially between Japan and China. Despite territorial disputes, conflicts over energy resources, and diplomatic competition that is intensifying, the two nations did not

hold a single summit conference in the five years after mid-2001. Differing interpretations of wartime history and contrasting aspirations regarding the region's future add to the combustible mix.<sup>24</sup>

### **National Response to Regional Transition: Emerging Contrasts**

There are naturally important differences of opinion within Northeast Asia regarding the prospect and advisability of deepening regionalism, especially since it implicitly involves deepening political-economic dependence on mainland China. For Taiwan, regionalism presents a stark dilemma: at once a major economic opportunity and a troubling security threat. For Japan, it is also a mixed prospect: potentially expanded markets and lucrative potential investment opportunities, balanced by troubling geo-political interdependencies and economic competition from the continent, as noted above. Given Japan's insular character, it tends to detach itself from issues of regional integration that excite the continent much more intensely.

China and Korea are clearly the players for whom regionalism holds greatest attraction, and for whom alliance is arguably least attractive. This generalization holds clearly in the case of China: it increasingly sees the benefits of regionalism, as long as it is embedded within global structures such as the World Trade Organization (WTO), and it has always been skeptical about alliance. As the apparent threat of North Korea toward the South continues to wane, many in Seoul are coming to a parallel view, although South Korea remains deeply divided on the merits of alliance in the Northeast Asia now emerging.

At a minimum, the economic rise of China, coupled with the PRC's increasing political pragmatism, greatly complicates Washington's basic

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<sup>24</sup> For more detail on recent Sino-Japanese frictions, see Kent E. Calder, "China and Japan's Simmering Rivalry," *Foreign Affairs* (March/April 2006), pp. 1-11.

strategic design for Northeast Asia. During the late 1990s that blueprint was based on the imperative of a solid US-Japan-South Korea cooperative triangle, as expressed in the TCOG trilateral consultative process, and for many years the KEDO agreement. Relations between Tokyo and Washington, to be sure, are generally stable and cooperative.<sup>25</sup> However, domestic political pressures in South Korea, coupled with important differences between Washington and Seoul in policy priorities regarding North Korea, have so complicated ties between those two nations as to make the overall triangular TCOG process of decreasing coherence and utility. The so-called “six-party process,” among the US, Japan, China, Russia, and the two Koreas, has not yet effectively taken its place, despite some initial success during the fall of 2005 in getting the DPRK to formally entertain the prospect of dismantling its military nuclear program. Both the US-ROK bilateral alliance and broader multilateral dialogues within Northeast Asia are arguably in a state of drift.

### **Compromise Prospects for Northeast Asia’s Future? The Benelux Analogy**

Clearly, as America’s political-economy wanes, Japan’s stagnates, and China’s rises in the constellation of influence in Northeast Asian affairs, the dangers of a turbulent balance of power dynamic in this volatile corner of the world are rising. Japan and China are distinctly wary of each other, especially with their respective strengths finely balanced, and with uncertain future prospects on both the Korean Peninsula and the Taiwan Straits. Deepening rivalry is a dangerous prospect, given the high level of armaments, including nuclear,

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<sup>25</sup> See Kent E. Calder, “The Outsider Alliance: US-Japan Security Ties in Comparative Perspective,” *The Korean Journal of Defense Analysis*, Vol. XV, No. 2 (Fall 2003), pp. 31-56.

chemical, and biological weapons, within the region. Some new creative means need to be found to defuse the deepening tensions between regionalism and alliance in Northeast Asia.

Early post-World War II Western Europe provides a useful analogy. For nearly two centuries, the continent had been plagued by the instabilities of balance of power politics, including a string of bitter conflicts among Great Power rivals, especially Germany and France. Even in the shadow of the most destructive of those conflicts, World War II, there was no clearly apparent road forward, out of the morass of conflict among the major powers.

The conventional wisdom is that it was Franco-German reconciliation that was the primary engine driving European integration forward. Yet this interpretation runs counter both to the expectations of realist international relations theory—that major nations maximize their interests defined in terms of power—and of important historical facts. France, for example, rejected the European Defense Community agreement of 1954, precisely due to the significant prospective defense role that it gave to Germany. The largest European powers remained deeply suspicious of one another, throughout the early days of regional integration, limiting their ability to play proactive leadership roles.

Ultimately a central role, disproportionate to their political-economic scale, was played by the Benelux countries (Belgium, the Netherlands, and Luxembourg), in close cooperation with one another. Although small, these nations had strong common interests in regional integration that coincided with those of the European continent as a whole. They were also blessed with a few enlightened leaders, such as Paul-Henri Spaak, long-time Belgian Foreign Minister, and subsequently Secretary General of NATO. Ultimately these cosmopolitan figures, with broad personal networks transcending both national origin and party affiliation, were able to provide a catalyst for compromise—both within Europe, allowing regionalism,



in the form of the European Union ultimately to rise, and also in trans-Atlantic alliance relations, allowing NATO to simultaneously grow stronger.

The Benelux history of mutual cooperation had venerable historic origins. The Belgium Luxembourg Economic Union (BLEU) was founded in 1922 to pool tariff negotiation authority and create a single customs area. After World War II, Belgium, Luxembourg, and the Netherlands deepened their cooperation as a survival strategy, to obtain raw materials and to aid their recovery from the war. After the formation of their own customs union in 1948, these nations played a key role in forging the Treaty of Paris, leading to the European Coal and Steel Community, founded in 1951. In 1955 it was again Benelux that proposed expanding ECSC in terms of both member states and fields of cooperation, leading to the Treaty of Rome (1958), and the birth of the European Economic Community (EEC). Later, Benelux were also a catalyst for financial integration, culminating in the Treaty of Maastricht in the early 1990s.

The Benelux nations succeeded in mediating among nationalist, regionalist, and alliance-related pressures because they had strong stakes in stable integration, but few provincial interests impeding them from a concern for the whole. They were open economies, so of necessity were pragmatically free-trade oriented.<sup>26</sup> Due to their radical dependence on the global economy, and the associated need to stay competitive, they could not easily allow clientelistic interest-group politics, especially protectionist varieties, to develop. Other factors conducive to their mediating role between “regionalism” and “alliance” were: *geography*, including a central location among France, Germany, and Britain that made broad access to all the large nations far superior to special relationships with any one; *size*, which

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<sup>26</sup> On their striking degree of openness, compared to other original EEC members, see Han, Seung Soo, *The Growth and Functions of the European Budget*, p. 152.

made trade access to other markets crucial to them; a related *conviction*, related to size, that security and prosperity were inter-related; and a strong mutual *understanding* that regional integration needs to be driven by national interest.<sup>27</sup>

Korea stands in a strikingly analogous position to that of the Benelux nations within the political economy of Northeast Asia. Like Belgium, the Netherlands, and Luxembourg in the European context, it is a relatively small nation—actually, becoming a loose agglomeration of two distinct political systems, those of North and South Korea, for whom the BLEU, or Belgium-Luxembourg Economic Union, might someday be considered an apt model. The Koreas, like Benelux, are heavily dependent on the broader regional and global economies, and hence have strong stakes in both regional political stability and in dynamic regional economic integration.

Like Benelux, Korea thus has powerful stakes in the resolution of the natural emerging tensions between “regionalism” and “alliance.” As for Belgium in the era of Paul-Henri Spaak, who played such a historic role in the foundation both of the European Union and of NATO, the imperatives for Korea today are for activism, moderation, and foresight: both in working to stabilize the Korea-US alliance, which has guaranteed the ROK’s security for more than half a century, and simultaneously in encouraging the Northeast Asian integration process to continue to move forward, with a suitable role for the United States. The Six-Party Talks are certainly one of many prospective vehicles through which that needed Korean activism could be expressed.

Although Benelux is a provocative prescriptive model for Korea, the tensions in the analogy should be noted. Korea is obviously

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<sup>27</sup> On Benelux calculations in the regional and alliance consolidation processes, see Erik Jones, “The Benelux Countries: Identity and Self-Interest,” in Simon Bulmer and Christian Lequesne (eds.), *Member States and the European Union* (Oxford: Oxford University Press, forthcoming).

larger—physically, economically, and militarily—than the Benelux nations, although it remains relatively small compared to Japan and China—just as the Benelux nations are, relative to Germany and France. The Korean political economy of the late 20<sup>th</sup> and early 21<sup>th</sup> century is also developing in a volatile global system subject to intermittent financial crises that can jeopardize national values like economic security and even democracy.<sup>28</sup> The global environment of the 1950s, as the Benelux nations were adopting their internationalist stance, was far less threatening. Korean domestic politics since democratization in the late 1980s are also arguably much more populist than those of Benelux two generations earlier. This may also dispose Korea toward a narrower version of regionalism—one more inconsistent with globalism—than was true of Benelux in the 1950s.

Building on the Benelux-Korea comparison, one may also speculate about the emergence, in the Korean case since 2003, of a “*regionalizing coalition*” that is internationalist enough to find liberalization in a regional context congenial, but that eschews globalization. The analogy here would be to Mercosur, in the Southern Cone of South America, during the 1990s. Brazilian industry and labor, in particular, wanted the opportunities of expansion into congenial markets like Argentina, without the rigors of competition with American multinationals that would be implicit in more global, or even hemispheric accords. Similarly, some Korean firms, labor unions, and NGOs appear to desire access to rapidly growing China under regionalist arrangements. What implications such regionalist proclivities might have for alliance relationships, if consummated, in such areas as third-country security commitments, remains to be seen.

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<sup>28</sup> On these potential implications of globalism, see Chung-in Moon, “In the Shadow of Broken Cheers: The Dynamics of Globalization in South Korea,” in Aseem Prakash and Jeffrey Hart (eds.), *Responding to Globalization* (London: Routledge, 2000).

## In Conclusion

“Regionalism” and “alliance,” as noted at the outset, were concepts with little relationship to one another from the origins of modern diplomacy in the mid-Seventeenth Century until after World War II. Since then, however, the empirical realities that under-gird them have come into fateful tension with one another. While the global alliance structure remains trans-regional, centering on the United States, local economic ties within Europe, the Southern Cone of South America, and Northeast Asia, in particular, have been rapidly rising in importance.

These economic changes matter for security, we have argued, because post-World War II security alliances, unlike their more evanescent predecessors, have an important *political-economic* dimension. They provide not only for security, but for prosperity as well. Indeed, it is that second, political-economic function that has arguably enabled post-war alliances to be so remarkably durable in the short-run, despite changing political exigencies and in the face of rising local nationalism.

International relations in the Pacific Basin for the past half century have been dominated, as we have seen, by a “San Francisco System” dominated by political-economic asymmetries. The United States has provided security, and received exclusive basing access, while Northeast Asian allies have received preferential economic access to the US market. Although many aspects of the System quite remarkably persist, half a century after their conception by John Foster Dulles, the System’s dynamics have been fundamentally altered by the rise of China, in the context of a globalization that has extinguished many of the original benefits of alliance with the United States.

In a world of rising regionalism driven by the political-economic scale and considerable pragmatism of China, the response of nations in the region has varied with local political-economic characteristics

and national interest. Korea, like the Benelux nations of Europe, has a particularly strong national interest in the stable progress of both “regionalism” and “alliance.” It can profit from the example of Belgium, Luxembourg, and the Netherlands half a century ago, in the urgent task of finding a stable resolution of tensions between those two contrasting vehicles for stability in the troubled world that is Northeast Asia today.

The Benelux states were by no means the largest nations in Europe, but they nevertheless had a powerful impact on both the terms and the timing of European regional integration. The essence of their approach was moderation in regional affairs, including the preservation of positive ties with both larger intra-regional neighbors and with trans-oceanic partners as well. Yet the possibility that the volatility of global markets, combined with populist domestic political forces, may blunt the Benelux analogy, radicalize Korean politics, and leave the way open for “regionalizing coalitions” with a more restricted vision, cannot easily be ignored.