DISCUSSION PAPER

Asia and Europe: Engaging for a Post-Crisis World

Despite long-established engagement between Europe and Asia, there is a widespread sense that the relationship has started to lose momentum. This paper is intended as background for discussion to explore the extent to which the recent financial crisis has created in Asia and Europe a sense of the need to better respond to shared challenges. The paper is in five parts, each setting out a different perspective on the relationship between Asia and Europe. The first puts forward the argument that greater coordination between Asia and Europe is essential. The paper then suggests that European integration offers a valuable template for the countries of Asia. The third section puts forward the case, often heard within Asia, that lack of purpose from Europe limits the potential for deeper engagement. The next section explores the lack of single institution within Asia capable of representing “Asia” in dialogue with Europe. The final section sets out the arguments that Asia increasingly wants to “go its own way”, and that the Asian Century will see Europe left behind and increasingly sidelined.

I. **Global challenges need global solutions**

The arguments for better engagement between Europe and Asia are clear-cut. Shared global challenges require cooperation, and a coordinated response. In response to the global financial crisis, European Commission President José Manuel Barroso noted that “we have to face serious challenges which don’t respect any borders because they are global... no one in Europe or Asia can seriously pretend to be immune”. Europe and Asia must ‘swim together’, in Barroso’s words, during times when ‘unprecedented problems’ create a need for ‘unprecedented cooperation’. Along with economic crises, issues such as climate change and disease require a collective global response. Demographic changes and migration similarly require coordinated action and resource scarcity will affect both Asia and Europe.

Yet while there is significant interaction in some fields between Europe and Asia, it is not institutionalised and frequently occurs on a case-by-case basis, in response to crises (avian flu, global financial etc) or in an ad hoc manner. The Aceh peace process, for
instance, was implemented by the EU, Norway, Switzerland and five countries from ASEAN. The EU and Indonesia have recently concluded their partnership and cooperation agreement; in May 2010, a number of European and Asian countries signed their first declaration focusing uniquely on climate change; and there are potential free trade deals between the EU and India, Singapore, Malaysia and Vietnam in the pipeline.

There is clearly plenty of scope to strengthen these interactions and the need to do so is increasingly self-evident. Globalisation exposes the world to new types of problems that require globally integrated responses. The relatively recent arrival of these challenges, however, means the existing global architecture is often insufficiently geared to deal with them. Consequently, Asia and Europe must not only work together, but must implement new ways of doing so.

The failure of 2009’s Copenhagen climate change summit to deliver a deal reflected some of these infrastructural failings. The summit made clear that better cooperation is needed to ensure future climate security. If efforts to keep global warming within the IPCC’s limits of two degrees are to succeed, the level of trust between Europe and Asia must improve and more coordinated climate change reduction efforts must begin. Many countries in Asia are already suffering from volatile climatic conditions. For rapidly industrialising nations within Asia, the IPCC’s limits represent a huge challenge that cannot be overcome without international support. At the same time, it is in the interest of industrialised nations to help these nations to decarbonise, if only to ensure climate security for their own citizens. The level of coordinated efforts currently being made by industrialising nations in Asia and industrialised European states are too small and dispersed to hold sufficient political and environmental impact.

A Chatham House report has argued that Low Carbon Zones (LCZs) are a potential means through which current modes of climate security cooperation between Asia and Europe may be transformed. The implementation of these zones would take responsibility for carbon emissions down to the regional level within China, where particular regions would set and manage their own carbon limits, below the national average, and provide examples of practical models of sustainable industrial growth. Europe’s role would be to encourage the development of the LCZs by offering enhanced support for them – support that would come in the form of institutions and governance, high technology FDI and carbon finance. The Chinese government has expressed an interest in the creation of these zones (with a roadmap for one particular region – Jilin City – having already been created) and the creation of several pilot areas has been discussed. The widespread implementation of such strategies across Asia would help to decentralise its climate change reduction policy while also ensuring external support from Europe.

Past global financial crises have highlighted the need for a more integrated response. The Asian financial crisis broke out in 1997, the year after ASEM was launched. This proved a trigger for enhancing cooperation within the region, and highlighted the failed response of several key multilateral institutions – in particular, the way in which the IMF dealt with the crisis and the delay of the WTO’s Doha Round. In contrast to the reactions of these institutions, the crisis was able to demonstrate how Asia and Europe could successfully cope together. For example, the coordinated efforts of the two regions enabled the creation of an ASEM Trust Fund to serve as a safety net for affected countries in Asia.

With the most recent financial crisis, Asia and Europe have once again proved the value of cooperation. The shared response by leaders at the ASEM7 Summit in Beijing in November 2008 gave Asia and Europe the opportunity to build up a common position on tackling the financial crisis, as well as providing the impetus for convening the G20
Summit in the UK in 2009. The success of past Asia-Europe initiatives serves only to highlight why better cooperation between Asia and Europe in the future is necessary, particularly as we are likely to see more problems that are global in nature.

II. The European model offers a template for Asia

The European project – binding together countries with a recent history of conflict – holds lessons for Asia. Like Asia, Europe is marked by contrasting languages and cultures. But definitions of Asia (whether in think-tanks or government departments) vary. The broader the definition of Asia, the greater will be the diversity of opinion. The admission of Australia, New Zealand and Russia to the ASEM8 Summit in Brussels in October 2010 is a case in point.vii

And there are dramatic changes within Asia. Over the past decade, China and India have emerged as key global actors. Countries like Vietnam have benefitted from China’s growth. But other countries, such as Burma and East Timor, have been left behind. Not unlike Europe in the 1950s and 60s, Asia’s economic disparities make it appear more like a patchwork of contrasting nations than a unified and coherent whole.

For China and India, recent economic success has brought with it a new sense of rivalry. Their need for resources affects other countries in Asia and beyond. The global ambitions of both nations have created a number of overlapping regional interests that have increased competition between the two. Both countries face domestic social pressures. This, in turn, has encouraged rising nationalism making peaceful cooperation increasingly challenging. Several commentators believe that competition for markets, resources and influence will intensify these challenges.viii

In economic terms, China and Japan cooperate. But deep-rooted tensions exist, despite efforts to build a mutually-beneficial relationship. Mutual mistrust, both in policy and practice, remains strong.ix China blocked Japan’s application for a permanent seat on the UN Security Council in 2005, and disputes in the South China Sea, affecting a number of countries, persist. With China now having replaced Japan as the world’s second-largest economy, efforts to balance mutual dependence and competition will remain difficult.

Political stability in Asia is not a given: Relations between Pakistan and India are strained, and complicated by Indian concern over perceived Chinese “ambitions” in South Asia. Taiwan and Mainland China are currently enjoying a rapprochement, but this relationship continues to oscillate. And North Korea remains a concern. As the recent hostilities between Thailand and Cambodia demonstrated, long-standing border disputes have the potential to erupt.

The European “project” has overcome similar tension within the member states of the European Union. The European experience – transforming war-torn Europe to one of the world’s most stable regions in a matter of decades - can work as a model for better Asian integration. Despite criticism of the sluggish nature of European decision-making and its lack of unity, the ratification of the Lisbon Treaty allows the EU to better articulate a clear voice. This ability to promote a stronger self-image and more readily implement intra-regional coordination should enable it to deepen its relationship with Asia.

The European Union already provides inspiration to a number of Asian governments advocating greater regional cooperation. Former Japanese Prime Minister Yukio Hatoyama spoke of his vision for an East Asian Community. China, too, has called for greater regional cooperation.
Although inter-Asian relations have been marked by deep cultural divides and competing ambitions, these new regional aspirations reflect a new vision of regional politics, characterised by greater pragmatism. Asia can look to Europe for lessons regarding its own method of integration. It could look to internalise some of the EU’s governance principles, including subsidiarity, its engagement with smaller member states, the use of both majority rule and consensus and a more open method of coordination. \(^x\) ASEAN’s commitment to establish a free trade zone by 2015 will undoubtedly have lessons to learn from European monetary union.

Globalisation has not benefited all of Asia equally. But in parts of Asia, a new generation has grown up knowing only growth. Whether subsequent triumphalism is expressed through “Asian-ness” or through national identity varies between countries. Asia is “still being shaped by the push and pull of politics and economics and rivalries among Asians”.\(^{xi}\) The emergence of an “Asia” will stem from this internal interaction; increased engagement and cooperation between Asia and Europe will be of mutual benefit.

III. **European weaknesses hinder engagement with Asia**

European weakness further limits its impact on, and relevance to, Asia. The notion of Europe and, in particular, the EU, continues to baffle Asian policy makers; for many Asians, the EU is regarded as little more than a ‘free trade zone’.\(^{xii}\) Those who recognise the political aspects of EU often view it as a ‘stagnant’ entity – increasingly marginalised by a persistent failure to create common positions on behalf of all of its member states.\(^{xiii}\) The air traffic chaos from the Icelandic volcanic eruption and the Eurozone crisis following the collapse of the Greek economy demonstrate the inability of EU institutions to coordinate the most crucial policies and policy-making of the lowest common denominator.

The EU’s common defence policy further adds to Asian disregard: without a coordinated military power, many find it hard to comprehend Europe’s global significance. Despite some recent advances, European security and defence policy remains predominantly characterised by conflicting national policies and persistent allusions to national sovereignty. If the EU is to escape from its stigma as a non-military power and become more influential in Asia, it will need to form a clearer sense of its security priorities. “Europe will remain unable to represent its interests on the global stage if it continues to follow its [current] approach of selective cooperation,”\(^{xiv}\)

Although European integration is frequently referenced as a prime example of regional integration, the European experience is not necessarily compatible with that of Asia. European and Asian histories enjoy fundamental differences: in Asia, the colonial legacy has created nations that are still in the process of building national identities. This, rather than regionalism, is their prime focus. Another difference lies with the lack of rules that govern Asian institutional membership. While the EU requires its members to be democratic and to abide by EU law in relation, for instance, to market economies and movement of peoples, the standard approach to decision-making within Asia is rather more \textit{ad hoc} and the process is often as important as the outcome. While Asia may wish to mimic the political stability and prosperity of Western Europe, at present its approach to regionalism is far removed.
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In recent years, the EU has started strategic dialogues with the largest Asian countries, Japan, China and India. These bilateral relationships seem to overshadow a more generic EU-Asia relationship. The primacy of the EU-China relationship is particularly evident (and demonstrates that no single European country is strong enough to influence China). But China’s economic weight ensures that it is able to hold sway over the EU. Its readiness to disregard the EU was illustrated in 2008 when it cancelled the EU-China summit at the last minute, in response to French President Nicolas Sarkozy’s plan to meet with the Dalai Lama.

Where China has been influenced by Europe in the past – for example, regarding nuclear proliferation – it has been in reaction to coordinated efforts which have brought together both the EU and its most influential members. If Europe’s political weight is to match its economic standing, it will have to start showing a more coherent front. And Europe must recognise its own imperfections. Many in Asia are baffled by Europeans’ criticism when Europe still has its own problems to address. It is imperative for Europe to recognise both its own failings and the determination of other countries to resist European attempts at influence.

For many in Asia, the EU’s power is declining. The rise of Asia in recent years means that the West faces genuine competition for global economic and political supremacy. If Europe wishes to remain a significant player, it needs to adapt. It must speak with a more united voice to increase its legitimacy within Asia and provide a counter-perspective to emerging Asian power-houses. The ratification of the Lisbon Treaty may well leave the EU better equipped to do this, although this will not eliminate all of the weaknesses in its political and economic structure. Similarly, remodeling the European monetary union and creating a more coherent common defence policy would provide Europe with greater leverage on Asia. But progress is likely to be slow. Considering Asia’s economic growth, it is likely to take more decisions regardless of Europe’s input.
IV. An alphabet soup of regional institutions in Asia

In part, the lack of a single over-arching regional institution within Asia is a key impediment to engagement. While Europe may appear to lack direction, Asia lacks the necessary strong institutions to manage external shocks, internalise regional spillovers or provide effective regional public goods as the EU is successfully able to do and is far from being a homogenous unit itself. The rise of the G20 adds yet another alternative to a host of pre-existing institutions as a means of dialogue and policy response.

How does the emergence of the G20, rather than the G7, as the pre-eminent forum to address global challenges affect the broader relationship between Asia and Europe? While six “Asian” countries are represented in the G20 (including Australia), Indonesia is the only member of ASEAN represented in the forum. Europe has four individual members, and the EU is itself the 20th member of the G20. While ASEAN has been invited as a representative of a regional grouping to several meetings, it is yet to gain a permanent presence. The G20 members represent 80% of global GDP, and if it continues to grow in importance, it may start to challenge other global governance bodies, such as the UN.

There is clear concern about the implications of the G20 in smaller countries. Speaking at APEC in 2009, the Prime Minister of New Zealand, John Key, suggested that the G20 might establish a regional outreach mechanism for those within the Asia-Pacific region not already represented. These concerns are reflected in the establishment of the informal 3G grouping (the acronym stemming from its alternative title, the Global Governance Group). Its 28 members include Singapore, Malaysia, Brunei, the Philippines, New Zealand and Vietnam, and the grouping is intended to channel the voices of smaller states into issues being addressed within the G20. Whether Asian support for the 3G grouping would decline in the event that ASEAN secured regular participation in the G20 is unclear.

The G20 is but the latest in a plethora of regional organisations and fora, each with different strengths and weaknesses both of themselves, and in relation to dialogue with Europe. The most important pillar of Asian regional architecture is clearly ASEAN. ASEAN has an advanced security dialogue with several Asian and non-Asian partners; its mandate covers social and cultural pillars in addition to economic cooperation and its smaller member states play a role in agenda setting.

In 2007, the EU and ASEAN established a partnership and joint plan of action to enhance the relationship between the two organisations. However, divergent attitudes towards Myanmar (Burma) continue to undermine the relationship. The emergence of China and India as multi-polar pillars has also diverted European attention. ASEAN in turn is increasingly concerned with maintaining the region’s distinct identity rather than be submerged into the story of China’s economic growth.

Nonetheless, ASEAN clearly has greater impetus than some of the other regional groupings. APEC has been criticised for lacking mid- to long- term growth strategies; its decisions are not legally binding and some criticise it for being overly-dominated by the US. The ARF brings together the EU and a number of Asian countries but, 15 years after its creation, still lacks a vision statement. Some observers argue that the EAS, which includes all major regional players, has the potential to provide a strong integration impetus beyond economic issues. Its top-down approach (heads of state meet with no prior preparatory meetings) makes it distinct from other regional meetings.
The Shanghai Cooperation Organization plays an increasingly important role within Asia, but as a forum for interaction with the EU faces challenges. It rejects the European norms of human rights, political liberties, good governance, and the right of international intervention when a state engages in internal abuses, and is geared toward the interplay of its own members’ interests rather than seeking external input.

If there is a single representative of “Asia”, it is probably ASEAN, China, Japan and South Korea, or ASEAN+3. This forum has discussed a range of issues, including South China Sea disputes, though in that case without success. ASEAN+3 stems from the vision of an East Asian community, and while thus far the grouping represents a talking shop, this talk of itself is working, gradually, towards the promotion of a new consciousness of (East) Asia.

Other groupings exist, but each has specific concerns. In South Asia, the progress of SAARC is constantly undermined by tension between India and Pakistan. The Six Party Talks may encourage the emergence of a broader arrangement of regional security cooperation from the initial shared goal of a non-nuclearised Korean peninsula. But the talks highlight the continued pre-eminence of the US, rather than Europe, in Asia.

V. **Asia wants to go its own way**

As global economic growth has shifted towards Asia, Europe’s role on the world stage has been increasingly questioned. The recent financial crisis has enhanced this feeling: the swift economic recoveries in Asia have pushed the economic balance of power even further away from Europe. The severity of the crises experienced by numerous European countries has led to questions over the supremacy of Western economic models. Debate over an “Asian century”, and calls for Asian to “go it alone” are likely to increase.

The West has dominated the international system both politically and economically over the past two centuries. However, this hold has declined over the past two decades, with a gradual shift of strategic and economic influence towards Asia. Since 1995, Asia’s GDP has grown twice as fast as that of Western Europe and the United States. In terms of purchasing power parity, Asia’s share of global GDP grew from 18% in 1980 to 34% in 2009. Asia’s financial weight has also grown steadily and the region’s stock markets now account for 34% of market capitalisation – compared with 33% for the US and 27% for Europe. Asian banks now hold two-thirds of foreign exchange reserves and, in 2009, China overtook Germany to become the world’s largest exporter. Furthermore, with Asian nations having demonstrated the most resilience to the global financial crisis, recovering from recession much faster than countries in the West, this trend will continue.

These advances are fully reflected in intra-Asia economic activity. The sharp rise in Asia’s proportion of world trade from 21% in 1990 to 34% in 2006 can largely be accounted for by increased intra-regional trade, which grew almost nine times over the same period. The lesson many Asian countries have taken from the global financial crisis has been that they should not over-rely on external demand from Europe and the US for domestic economic growth. The unprecedented 12% drop in the volume of global trade in goods in 2009 had a severe impact on the export-oriented economies of Japan, Malaysia and Thailand, all of whom suffered recession. China, India and South Korea also experienced major, if temporary, slowdowns.

Over the past decade, Asian economies have also become more reliant on exporting to China, which is now the region’s largest export market (displacing the US). Asia is consequently relying more and more on China for sustained growth and prosperity.
and, although European markets remain important to Asia, their significance is weakening. As the fastest growing global markets, Asia is increasingly important to Europe. Claims that Europe has more to learn from Asia (in particular its pragmatic and flexible pattern of industrial development) than vice versa are growing. The role of research and development within Asia has brought with it greater productivity and competitiveness, as well as the idea of ‘open regionalism’ – a type of regionalism that promotes the least discriminatory impact for non-members.xxxiv

As Asia continues to come together as an inter-connected economic bloc, these trends will continue. Asia is shifting from a belief that “the region has no single, strong and enduring history of unity and accepted commonality, whether in polity, culture, language or religion”, xxxv Whereas the United States has dominated a disunited Asia since World War II, the region is now coming together on its own. Asia has seen the creation of a number of regional institutions in recent years, all of which are growing in weight. The meetings of APEC, SAARC and the EAS are seen as important global events, although it is perhaps ASEAN and its affiliate groups that have come to dominate global interest in Asian affairs.

Through ASEAN, Asia has started to develop its own distinct security architecture to ensure peace within the regionxxxvi and it now also has plans to implement a free trade area by 2015. Unlike the EU, ASEAN has strongly upheld the principle of state sovereignty and non-interference among its member states. While countries in Europe have taken the lead condemning Myanmar’s military regime and forthcoming ‘elections’, ASEAN has called for “constructive engagement” with Myanmar. This demonstrates the stronger role that Asian institutions have started to play in the world and the increasingly independent track they have started to take.

If Europe wishes to maintain its global influence, it must recognise its weakened position in future relationships with Asia. Europe and the EU must also learn to speak with a more united voice if they are to maintain a sense of legitimacy within Asian policy circles.

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