Institutional economic integration in East Asia: Evolution, assessment, and prospects

The processes of regional economic integration are one of the most important trends in the contemporary world economy. In the area of East Asia, these kind of activities are also present, but they are essentially bottom-up in nature, based on spontaneously developing economic ties. However, there are also initiatives which increasingly involve East Asian countries at the institutional level. The aim of the article is to present the evolution of East Asian regionalism, evaluate it and indicate the prospects for its development. The author concludes that contemporary East Asian countries are engaged in the development of the process of regionalism, which shows characteristics that distinguish it from the initiatives undertaken in other geographical areas. The author underlines the key importance of China in this process – its involvement will influence the further development of East Asian regionalism. The research methods used in the paper included mainly a critical review of the literature, descriptive method and, to a limited extent, method of statistical analysis.

Keywords: regionalism, East Asia, APEC, Asian financial crisis, China

JEL classification: F15

Instytucjonalna integracja gospodarcza w Azji Wschodniej – ewolucja, ocena i perspektywy

Procesy regionalnej integracji gospodarczej stanowią jedną z najważniejszych tendencji występujących we współczesnej gospodarce światowej. W obszarze Azji Wschodniej również zaobserwowano ten rodzaj działania, zasadniczo mają one jednak charakter procesu oddolnego, opartego o spontanicznie rozwijane powiązania ekonomiczne. Niemniej występują także inicjatywy w coraz większym stopniu wiążące kraje na poziomie instytucjonalnym. Celem artykułu jest przedstawienie ewolucji, ocena oraz wskazanie perspektyw rozwoju regionalizmu wschodnioazjatyckiego. Autor stwierdza, że współczesne kraje Azji Wschodniej zaangażowały się w rozwój procesu regionalizmu, przy czym proces ten ma cechy odróżniające go od inicjatyw podejmowanych w innych obszarach geograficznych. Podkreślone zostało kluczowe znaczenie Chin w tym procesie – ich zaangażowanie wpływać będzie na dalszy rozwój regionalizmu wschodnioazjatyckiego. Wykorzystane metody badawcze obejmowały głównie krytyczny przegląd literatury przedmiotu, metodę deskryptywną oraz, w ograniczonym zakresie, metodę statystyczno-analityczną.

Słowa kluczowe: regionalizm, Azja Wschodnia, APEC, azjatycki kryzys finansowy, Chiny

Klasyfikacja JEL: F15
Introduction

The processes of regional economic integration are one of the most significant trends in the contemporary world economy. In the region of East Asia such processes exist, but they are essentially bottom-up in nature, based on spontaneously developing economic ties (de facto regional integration)\(^1\). However, there are also initiatives that increasingly bind countries at an institutional level (de iure integration). A presentation of the evolution process of East Asian regionalism is the main objective of this study. In addition, the author will make an assessment of the process; also, the prospects of de iure regional integration will be indicated. The main thesis, which the author will endeavour to verify, is as follows: institutional regional integration in East Asia will not resemble European integration, and its scope and intensity will depend on the commitment of key stakeholders, especially China. In an attempt to meet the goal of the paper, the author primarily conducted a critical review of the literature, applied descriptive method and, to a limited extent, method of statistical analysis. The time scope of the study covered the period from the second half of the 1980s.

1. Theoretical aspects of regional economic integration

For many years and in a number of ways scholars have been attempting to define the term ‘economic integration’. Although they had first defined it in the 1950s and 1960s, their nowadays efforts to formulate new definitions are characterized by equal eagerness. The content of the definition of economic integration depends on an individual approach of the author: of how the essence of integration is presented, what elements are considered to be the most important (motives, purpose, scope of integration, mechanisms of functioning, model, effects, creation of common institutions and new international order), and whether the definition contains all or only selected elements [Mucha-Leszko, 2012].

According to the classic definition by Bela Balassa [1961], economic integration should be considered both as a process and as a state. In the first case, the term encompasses measures which are designed to abolish discrimination between economic units that belong to different national states. An economic integration viewed as a state of affairs can be represented by the absence of various forms of discrimination between national economies. The author draws a distinction be-

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\(^1\) The area of East Asia in this study includes: ten ASEAN member states (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam) as well as China, Japan, and South Korea.
between the concept of cooperation and integration. Cooperation is aimed at reducing discrimination (e.g. through international agreements on trade policy) and integration uses the measures aimed at eliminating certain forms of discrimination (e.g. reduction of trade barriers). A similar definition of economic integration was proposed in 1967. In this perspective, economic integration is ‘the process of removing progressively those discriminations which occur at national borders’ [Hosny, 2013]. The developed definition of economic integration was proposed by Polish scientist Zbigniew Kamecki, for whom the term means ‘to produce, on a base of a single economic structure, a certain organism which includes a group of countries’ [Kamecki, 1967]. Furthermore, the author complements that the said organism, ‘because of the high degree of internal economic relations and achieved internal economic cohesion – is separated from the whole world economy’ [Ładyka, 2001]. As mentioned, the interest in defining economic integration continues to the present. One of the newer definitions of an international economic integration is found in the work of Peter Robson [1998]. According to him, international economic integration may be defined as the institutional combination of separate national economies into larger economic blocs or communities. This definition, however, describes only one aspect of economic integration, concerning the concept of regionalism; there also exists a second aspect, referred to as regionalization.

The latter division, differentiating types of regional economic integration, is important from the point of view of this study. In this sense, international processes of regional integration can be seen primarily as initiatives undertaken at the institutional level, yet also as market-deepening economic ties between countries [Pietrzyk, 2009]. This first approach can be described as regionalism, and the second as regionalization [Breslin, Higgott, 2000]. Regionalism exposes the institutional and instrumental component, while the real economic actor component is exposed in regionalization [Misala, 2005]. A manifestation of **de iure** regional integration is the growing number of economic agreements, and the real (**de facto**) component is formed by the intensification of economic interdependence on a regional scale, resulting from the bottom-up (market) strengthening of trade, capital, and production ties [Misala, 2005]. If there is a predominance of instrumental and institutional components over the real ones, we are faced with the implementation of the concept of a politically driven regional integration. Otherwise, if the predominant component is the real one, integration is being stimulated by economic factors (it is economically driven).

The distinction between regionalism and regionalization becomes relevant in the context of analysing the processes of regional economic integration in East Asia. In fact, the past experiences of the region are based on the market behaviour of economic entities. This contrasts strongly with the politically motivated integration processes observed in Europe [Beeson, 2014]. However, in East Asia the de-
veloping processes can be seen as *de iure* regional integration, which is of interest to this study.

2. Stages of development of *de iure* integration in East Asia

Regionalism in international relations has evolved. By the end of 1980s, the so-called traditional regionalism was prevailing. The end of the cold war, integrational changes in the European Union and North America (NAFTA) are just some of the factors that contributed to the intensification of regional and institutionalized cooperation between the countries since the 1990s. This so-called new regionalism can also be observed in East Asia, which means that the processes occurring on a global scale are also reflected in this geographical area. The countries of the region (the ASEAN, China, Japan, and South Korea, among others) began to seek mechanisms to improve their competitiveness on a regional and global scale [Skulska, 2011]. Looking at their commitment to the development of economic cooperation, a domino effect can be observed. The countries of the region, monitoring the initiatives in other regions, try to imitate them [Baldwin, 1993].

East Asian regionalism is a relatively new phenomenon, as it began to be implemented on a larger scale only in the 1990s [Rana, 2006]. Until then, the East Asian countries were favourable to the multilateral framework of economic cooperation, directing their attention mainly to countries outside the region [Klecha-Tylec, 2012]. Before 2000, except for the ASEAN Free Trade Area founded in 1992, no East Asian country had signed a significant bilateral or plurilateral agreement [Plummer, 2006]. Later the situation changed fundamentally. Already relatively highly developed economic links began to form a broader framework of cooperation. Asian countries started to realize that the deepening and market-driven economic integration requires greater cooperation, particularly in the area of trade, finance, and macroeconomic management, as well as in terms of social and environmental matters [ADB, 2008].

There are several categories of reasons that promoted the East Asian countries’ institutional regional integration [Munakata, 2004]. First, regionalism treated progress as a defensive response to an external pressure (integration in Europe and North America). Secondly, regionalism was to reveal the region’s desire to have an effective mechanism for cooperation and promotion of *de facto* integration and to deal with common challenges. Thirdly, one of the drivers of regionalism was the intraregional competitive dynamics. The East Asian economies compete with each other for inward FDIs and the export markets.
Just as there are a number of factors favouring the development of regionalism in East Asia, so are there also factors limiting the scope and dynamics of this process. First, the region is characterized by a lack of consistency, which is reflected in the high level of diversity of economic development and political systems, as well as cultural and religious diversity. Secondly, the region is strongly dependent on external influences, especially of the United States. The US policy, which consists of individual relations with a number of countries in the region (hub-and-spokes policy), discouraged the Asian countries from contacting each other in another way than through the United States [Beeson, Stubbs, 2012]. Thus, historically developed relations of the region with the United States require consideration of the US position to the process of regionalism. Nevertheless, the East Asian countries increasingly prefer to pursue their policy individually and independently from the US in this regard. Thirdly, some limitations to de iure regional integration in East Asia result from the ambiguous attitudes of the countries concerned. On the one hand, they show growing activity in terms of signing economic agreements (see Table 1); on the other hand, they do not show a strong commitment to shaping regional institutions.

Since the 1980s, the regionalism in East Asia has gone through four specific phases of development: 1) the period of numerous initiatives competing against each other (1985–1992); 2) the period of APEC’s leading role (1993–1997); 3) the period after the Asian crisis; 4) the period of China’s leading role [Munakata, 2004].


According to Richard Edward Baldwin, up to the early 1990s there was hardly any coordinated action of integration within the Asian countries [2007]. While economic ties were intensifying, this was mainly a result of the countries’ individual decisions. The second half of the 1980s was the period of rampant unilateralism – individual countries were making unilateral reductions of trade barriers in the competition for investment and jobs related to the development of what can be called ‘factory Asia’. However, contrary to the position of Baldwin, since the mid-1980s, symptoms of institutional cooperation in East Asia could be observed.

The first impulse of institutionalized integration in East Asia in the 1980s came from the United States, as the country informally submitted a proposal for talks on establishing a free trade zone with ASEAN [Munakata, 2004]. However, ASEAN was not ready for this step. Since 1967, ASEAN acted as an organization focused mainly on the implementation of political and security objectives. It was only in the early 1990s when an economic area of cooperation began to develop. During this period, the United States pursued its policy of hub-and-spokes and conducted unofficial bilateral talks with Japan, South Korea, and Taiwan. Japan and Australia have promoted regional cooperation, but while Japan wanted the
United States and Canada to attend the process, Australia preferred that the integration did not involve countries from North America. This situation meant the beginning of the perception of the regional integration process as an internal initiative of the East Asian countries.

As it turned out, East Asia was not yet ready for such self-reliance, but first attempts to build an East Asian community had been made. In December 1990, the Prime Minister of Malaysia, Mahathir Mohammad, proposed the establishment of the East Asia Economic Grouping (EAEG) composed exclusively of Asian countries [Dent, 2010]. This group was conceived as a counterweight to the more advanced European (the EU) and North American (NAFTA) initiatives. In addition, unlike APEC, EAEG was to be able to pursue the interests of East Asia in the global arena. The document concerning the EAEG contained plans for a preferential trade agreement. Due to the strong opposition to this initiative from the part of the United States and evasive answers of most of the other Asian countries, Malaysia has reformulated its proposal. In October 1991, a proposal of a more informal initiative – East Asian Economic Caucus (EAEC) – was put forward. It was to be a forum to discuss international economic issues relevant to the countries of East Asia and a starting point for the construction of the East Asian community. The US again objected to the creation of EAEC, effectively discouraging other countries in the region.

2.2. The period of APEC’s leading role (1993–1997)

Asia-Pacific Economic Cooperation (APEC) was proposed in 1989 by Australia. A key role in this initiative was played by the United States. While its representatives were arguing that the development of the Pacific community is needed, they still claimed that regionalism is a secondary solution to multilateral trading conducted on the GATT basis. At the same time, the country wanted to maintain a close relationship with selected countries on a bilateral basis [Dent, 2010]. APEC’s main objective was to promote sustainable economic growth and prosperity in the Asia-Pacific based on cooperation in three areas: 1) trade and investment liberalization, 2) business facilitation, and 3) economic and technical cooperation (eco-tech) [Dent, 2010].

The Malaysian proposal to establish EAEC formulated at the end of 1991, and the establishment of the ASEAN FTA in 1992 caused a rapid response of the United States [Nawrot, 2008]. According to Baldwin, the US was adopting a strategy of undermining the preferential trade agreement by proposing a larger one [2007]. Since 1993, when the first summit within the framework of APEC was held, the organization began to work more intensively. Advocated by the United States, the idea of establishing a free trade zone among APEC countries did not gain recognition. In 1994, the so-called Bogor Goals were adopted, which aimed to pursue
the idea of establishing an area of free trade and investment in Asia and the Pacific. Lack of progress in achieving the Bogor Goals contributed to further change in the concept. This time, it relied on selecting industries which were first to undergo liberalization (Early Voluntary Sectoral Liberalization – EVSL) [Dent, 2010]. According to the developing Asian countries, this system has promoted the interests of the United States, Canada, and Australia, which discouraged them from supporting the leading role of the US in APEC [Klecha-Tylec, 2012]. In addition, the European Union, concerned about the growing influence of the US in Asia, led to the establishment in 1996 of a new interregional cooperation forum – ASEM (Asia–Europe Meeting). On the one hand, the ASEM initiative constituted a counterweight to the US role in the region, and on the other, the Asian countries were given the opportunity to meet among themselves, to contribute to the development of intra-Asian cooperation [Dent, 2010]. Before the second ASEM summit, in December 1997, ASEAN countries and China, Japan, and South Korea met for the first time in such a group to discuss the issues of the region. This initiative was named ASEAN+3 (APT). In 1996–1997, the Asian countries have begun to build a regional community with increasingly converging objectives.

2.3. The period after the Asian crisis

There are many reasons why the Asian crisis can be regarded as a catalyst for the processes of East Asian regional integration. According to Michael G. Plummer [2006], they included the following: 1) a contagion relationship between the countries of Asia, 2) disappointment with the US and IMF reaction to the crisis, 3) APEC’s lack of substantial progress in achieving closer trade, financial and development assistance cooperation (ecotech), 4) Japan’s offer to create the Asian Monetary Fund during the crisis gave the impression that Japan wanted to adopt a proactive approach in the region, 5) the PRC decision not to devalue the RMB during this period, 6) the New Miyazawa Plan launched in October 1998, and 7) the policies promulgated by the IMF to solve the crisis were deemed inappropriate, giving greater credibility to the ‘Asian approach’. In addition, several external and internal factors also contributed to the development of Asian regionalism: an increase in popularity of regionalism in other parts of the world, which could have had a negative impact on the region (the EU, NAFTA), the success of the Single European Market project, as well as stagnant WTO trade talks.

The Asian currency crisis influenced many economies in the region and reminded the countries of East Asia of their high contagion risk [Yusuf, 2001]. In addition, the decline in self-confidence in Asian economic dynamism and the growing concerns about the negative impact of external integration initiatives resulted in the Asian countries encouraging the establishment of deeper interregional relations with countries not touched by the crisis [Klecha-Tylec, 2012]. Moreover, in the face
of the negative assessment of the IMF and the effectiveness of the US policy towards the region, the East Asian countries have begun regional decoupling of decisions of international institutions and third countries. The desire to avoid problems in the financial markets as well as a high surplus of foreign exchange reserves of China and Japan led to the development of financial links within the region. This period of regionalism in East Asia can be described as financial regionalism. The manifestations of this process included: the unrealized, although significant Japanese initiative to establish the Asian Monetary Fund; the creation of swap agreements and their multilateralization (Chiang Mai Initiative); laying the foundations of development and cooperation in the bond markets – Asian Bond Markets Initiative (ABMI) – as well as the creation of the concept of a single currency.

2.4. The period of China’s leading role

The Asian crisis did not substantially affect the economy of China. The economic stability of the country gave it an advantage in the competition for new productive investment and job creation resulting from the development of the production chain in Asia. A reliable behaviour of the country during the crisis, as well as its accession to the World Trade Organization confirmed the increasingly strong position of China in the region. In the situation of the weakening economic role of Japan, China grew as the main economic centre of East Asia, and the activities undertaken by this country have a significant impact on both the economy of the region and the integration processes.

In November 2000, during the ASEAN–China summit, the Chinese Prime Minister came out with the initiative to establish a free trade area between the two parties [Baldwin, 2007]. China proposed to cover the liberalization of all trade areas, including the agricultural sector. The final agreement on the China–ASEAN Free Trade Area entered into force on January 1, 2010, contributing to a significant increase in the economic exchange between the partners.

This initiative had a significant impact on the integration processes in Asia. It caused a domino effect and soon new economic agreements were forged by the Asian countries. At the moment, a number of agreements are in force of both bilateral and multilateral scope. Thus, it can be said that the East Asian countries, albeit with a delay, began to participate in the global development trend of regionalism, focusing on cooperation within as well as outside the region. Table 1 illustrates the growth of interest in free trade agreements in East Asia.

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2 Due to the limited length of the paper, those initiatives will not be described further. For more details on this see, among others: [Kawai, 2006].
Table 1. East Asian countries’ involvement in FTAs (as of February 2016)

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Source: Own elaboration based on: [ADB, 2016].

The data show that all the countries are intensively engaged in the process of regionalism. The country that was involved in the largest number of economic agreements was Singapore (29), followed by Korea (24), Japan (23), China (23), and Viet Nam (22). At the same time it is worth noting that all the countries under consideration are currently negotiating new agreements. The dynamic growth in the number of agreements between different countries caused the creation of a network of ties called a ‘spaghetti bowl’. In the opinion of many researchers, economic ties in East Asia are extremely complex, and their coordination is a difficult task. In addition, this situation hinders the emergence of a leader who would be able to manage the region’s numerous economic links.

3. Assessment and perspectives of institutional integration in East Asia

As said, contemporary East Asian countries are already taking a part in the global trend of development of economic regionalism. Still, it is worth noting that Asian regionalism reveals some peculiarities in comparison to the processes that are taking place in other geographical areas. The following characteristics of East Asian regionalism can be identified: 1) the principle of non-interference in the in-
ternal affairs of other countries, 2) resolving problems in unofficial talks, 3) high degree of informal relations, 4) low level of institutionalization, and 5) primacy of government over society [Klecha-Tylec, 2012]. Moreover, in terms of its scope, East Asian regionalism covers three areas: trade and investment, money and finance, and infrastructure and associated software. Additionally, in terms of geographical coverage, it has been mainly bilateral or subregional (except for the area of money and finance). Quite a large number of projects were initiated from the bottom up, in a narrower group of countries (areas of growth) [Rana, 2006].

In contrast to the classic institutional model of integration of the European Union, in East Asia a more pragmatic approach dominates. This became particularly evident after the financial crisis of the late 1990s. Since that time, financial integration in East Asia has developed, based on specific initiatives aimed to protect the Asian countries against the effects of potential crises. On the other hand, they are not interested in a deeper integration, which would have to reduce their sovereignty. Currently, this kind of integration is certainly not acceptable for most East Asian countries.

In addition, it is worth pointing out that East Asian regionalism is based on a rather fragile system, which is also the cause of further tensions. The fragility of the system stems from the high interdependence of the Asian economies. An extensive network of trade, investment and production makes the situation in one country affect the international competitiveness of the other. The spaghetti bowl effectively eliminates any mechanism for system management in the region, making it difficult to build regionalism.

Another issue to be addressed in relation to East Asian regionalism is leadership. Antagonisms that exist among the countries in the region do not allow for the unconditional support of one country in its function as a leader. Their political and economic size and importance suggest that the role of the leaders of regionalism could be granted to Japan and China. Analogies to the process of European integration suggest that the cooperation between the two countries (as in Europe between Germany and France) would be a stabilizing factor for the development of institutional conditions for economic cooperation in East Asia. In the current stage of relations between Japan and China, this does not seem likely. The waning role of Japan and the waxing role of China do not incline these countries to cooperate but rather to compete. Japan is still unable to work out an appropriate strategy under conditions of its declining role in the region and in the world. China, in turn, wants to pursue its own policies towards third countries, aiming not to strengthen its position as a regional leader, but to become the world power. This will result in putting the individual interests of China first, at the expense of integrational initiatives. China is developing bilateral initiatives and it engages to a lesser extent in multilateral relations. A lack of its involvement in regionalism will cause any regional initiative to be defunct.
Conclusions

Up to the 1990s, the East Asian countries exhibited no interest in the development of institutional forms of economic cooperation. According to Balassa, with regard to the development of regional institutions, in East Asia cooperation has priority over integration [Beeson, Stubbs, 2012]. Significant differences of political, cultural, historical, social, and economic nature were not conducive to the building of a regional community spirit. In contrast to the processes taking place in Europe, regional integration in East Asia took the form of market (*de facto*) integration, which consists of a bottom-up development of trade, investment and production links. It turns out, however, that even without the institutional framework for cooperation and with their highly complex political background, the Asian countries were able to achieve a high level of intra-regional exchange [Wojtas, 2013].

However, the processes of *de iure* integration start to be more visible in the area of East Asia, and the countries there increasingly undertake cooperation activities. An analysis of the development of integration processes showed several distinguishable phases. In the first stage, many initiatives were competing against each other, but they did not have any major impact on the integration of the East Asian countries; next, the APEC framework dominated, and the so-called open regionalism emerged. At that time, the United States, traditionally present in the policy of Asian countries, exerted a high degree of influence on East Asian regionalism. The outbreak of the financial crisis was an important turning point, marking the beginning of the next period of regionalism – financial regionalism. The Asian countries became more aware of the community’s interests and initiated a series of pragmatic measures to protect themselves against the effects of financial crises in the future. In the 21st century came the fourth stage of Asian regionalism, with large-scale free trade initiatives and a proliferation of economic agreements. The leading country is China, but other states of the region do not remain passive. The result is the spaghetti bowl effect, which complicates the capacity to effectively manage the processes of regionalism.

It is worth noting that Asia is now not only the most dynamic economic region of the world, but it also designates certain trends in global trade policy. In Asia, there is still an ongoing rivalry between internal regionalism and open regionalism, i.e., the establishment of closer contacts with external partners. On the one hand, the members of ASEAN+6 lead discussions in the Regional Comprehensive Economic Partnership (RCEP), and China, Japan, and South Korea resumed their prior negotiations on a free trade zone; on the other hand, on February 4, 2016, 12 countries, including the US, Japan, Australia, and New Zealand, signed an agreement crowning negotiations on the Transpacific Partnership (TPP). This agreement does not include China.
Such immense dynamics, multi-dimensionality, and complexity of the process of regional economic integration in East Asia justify further study of these issues. They will be the subject of the author’s research in the future.

References

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