

## Challenges of an Asian Economic Bloc

A REPORT FOR ASIAN FORUM JAPAN

*Prepared for the tri-party meeting  
“Bridging Asia: Japan-United States-India Dialogue,”  
jointly organized by Asian Forum Japan and Hudson Institute,  
this paper presents a view from Hudson Institute on the  
Session II theme of trade and economics.*

The ongoing integration of Asia’s national economies raises a basic question: How will countries maintain their political independence and security relationships as they become increasingly dependent on others, economically, that do not share their outlook strategically? It also raises a question for the entire world if the seeds for global conflict are being sown by the emergence of powerful economic blocs.

The emergence of a large, increasingly integrated, economic bloc in Asia is a recent phenomenon. The Cold War had divided Asia as well as Europe, and China did not become an important part of the Japan-centered post-World War II booming Asian economy until about 1980. Since then, China has not only rejoined the Asian economy, it has become its center, and its sustained high growth

rates have made it the region’s economic driver. Whatever the similarities between the economic systems of India, Japan, and China, their differences in political philosophy and strategic outlook are profound. Before further lowering tariff barriers or entering into a free trade bloc with China, the governments of Asian countries need to consider the larger ramifications in these two arenas of ever-closer economic ties among these three Asian giants.

For Japan, which relies on a treaty with the far-away United States for its bedrock security, this may become a particularly acute problem. For decades, Japan has emphasized its economic development, relying for its security on the hands of its ally in the Western hemisphere. But the United States has now been replaced by China as the single

largest importer of Japanese goods. Does this imply that China will have an increasingly larger say in Japan's foreign and domestic policies? The rise of an Asian economic bloc as such could raise other problems in the Japan–United States security alliance. For but one example, would Japan's obligations as a member of an Asian free-trade area conflict with its commitments on export controls as part of the Japanese-American security cooperation?

India, with its history of political non-alignment, faces similar questions. India is part of the South Asian Association for Regional Cooperation, which connects it to seven other countries: Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka. It is currently pursuing a free trade agreement with ASEAN and already has established one with Thailand. How does this recent pattern of “choosing economic partners” fit into India's philosophical tradition of maintaining neutrality diplomatically and politically?

Our second major concern is the effect, globally, that an Asian economic bloc might have. Will Asian countries opt for a strategy that supports an ever-expanding Asian economic bloc, like the European Union, or will they focus on the World Trade Organization and the pursuit of global trade integration? If Asian countries decide to hedge against their over absorption into China's economy, is that best achieved by strengthening APEC, with its twenty-one members, including Russia, the United States, and other Pacific Rim countries? Is that the better and safer bet? Large countries like Japan and India may find that they have a greater capacity for independent decision-making if the scope of trade organizations is expanded globally, not regionally. Moreover, insofar as India and Japan are concerned, their constitutional democracies make them more naturally the partners of

countries like the United States and regional organizations like the European Union.

The longer-term consequences of an Asian economic bloc also need to be considered. In fact, a regional Asian economic bloc, following the pattern of the European Economic Community, could very well expand and become an Asian-Pacific economic bloc, even incorporating the United States. Other arrangements might emerge—a Eurasian economic bloc, incorporating Russia and Central Asia, for example. Or we might see the emergence of a United States free-trade agreement with the European Union, the emergence of a Free Trade Area of the Americas, or even some combination of the two.

The larger point is that the world is now on the verge of a substantial reorganization of its economy, a reorganization unprecedented in its scale and its likely consequences. Decisions made in Asia, the emerging center of gravity of the world economy, will thus be of historic importance. ▼

**HUDSON INSTITUTE**  
1015 15th Street, NW  
Sixth Floor  
Washington, DC 20005  
202-974-2400

[www.hudson.org](http://www.hudson.org)

Hudson Institute is a non-partisan policy research organization dedicated to innovative research and analysis.