

[Introduction]

## Governance Problems of East Asian Economies

—As an Interface of Advanced Economic Analysis—

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This issue and the following issue of *The Kyoto Economic Review* include some of the papers that were presented at the international conference “Governance Problems of East Asian Economies,” held on September 18–19, 2007, at Kyoto University. This conference was organized by Kyoto University’s 21st COE Program “Interfaces of Advanced Economic Analysis,” in collaboration with the Shanghai Center of the Graduate School of Economics, Kyoto University. The aim of this conference was to examine the problems of East Asian economies that are in the process of integration from the viewpoint of “governance.” The conference dealt with a wide variety of problems including currency and financial cooperation, FTAs (Free Trade Agreements) and economic integration, the economic growth of China and its influence, ecological sustainability, corporate governance, and regional disparity as well as the cultural backgrounds of the countries included in the East Asian integration process. To clarify the aims of the conference, the organizing committee prepared a brief referential paper (reproduced as an appendix to this introduction). Nearly fifty researchers, including those from Germany, China, Taiwan, and Korea, participated in the conference that was held in the University Centennial Hall of Kyoto University, and twenty papers were successively read and discussed.

The most important topic to occupy the participants during the sessions on the first day was the evolution of the regional governance arrangement in East Asia. In his guest lecture, Prof. Masahiro Kawai (ADB Institute, Tokyo) revealed the shape of the emerging governance arrangements in this region based on the most recent data. The process of their establishment had begun with the severe experiences of the financial crisis of 1997–98. To achieve exchange rate and monetary policy

coordination in this region from the current uncoordinated state, he outlined a possible process that constitutes the following intermediary steps—progressing from informal coordination to loose coordination, and finally, to tight coordination. His lecture dealt not only with the evolutionary process of the formation of the East Asian governments' policy coordination but also raised substantial problems with respect to intra-regional trade and investment relations upon which the coordination is to be based.

Prof. Masahisa Fujita (Kyoto University and the Research Institute of Economy, Trade and Industry, Tokyo) theoretically discussed the substantial economic integration in this region within the framework of the new economic geography. The change in communication and transportation costs drastically affects the structure of the regional economy, and every nation has to adapt itself to this change in a flexible manner.

Prof. Woosik Moon (Seoul National University) presented his estimation of the proposed RCU (Regional Currency Unit) and argued that a RCU could initially be used as a divergence indicator for monitoring the exchange rates of Asian currencies, and subsequently as a parallel currency.

Prof. Hiroyuki Uni (Kyoto University) proposed an exchange rate regime based on multilateral coordination in order to shift the growth pattern of East Asian economies from export-led growth to welfare-oriented growth.

The policy of trade liberalization was critically discussed by Prof. Joung-Woo Lee (Kyungpook National University) and Prof. Dic Lo (People's University of China). Prof. Lee expressed his anxiety about the effect of the Korea-USA FTA, which might undermine the policy sovereignty of Korea with respect to the choice of its economic model. Prof. Lo's reflections on China's liberalization policy contained similar concerns. He inquired into a new model of economic development in which economic and social policies play a more significant role than they do in the one centered on a liberal market.

The discussion on the evolutionary development of policy coordination was also fruitful. Prof. Tetsuji Murase (Kyoto University) explored the economic surveillance in this region, paying special attention to its relationship with the IMF. On the other hand, Prof. Werner Pascha (Duisburg-Essen University) compared the functions of peer reviews in this region with those of Europe. Prof. Chi-ang Lin (National Chengchi University) discussed the institutional evolution of ASEAN and its contribution to the regional integration process from an institutionalist perspective. Prof. Hong Sheng (Unirule Institute, Beijing) questioned the shared recognition of the nations involved in the East Asian integration process and proposed a "cosmopolitan Confucianism" as a potential basis for the common cultural background.

Second, the governance problems of East Asian economies are, of course, not limited to the issues of international economic relations. The anxiety over globalization and liberal economic integration is also related to the problems that emerge with globalization, including environmental sustainability, and energy and social issues. Thus, it was natural that the sustainability problem became the conference's

second most important topic of focus. Prof. Kazuhiro Ueta (Kyoto University) discussed the emergence of the poverty-environmental degradation trap and suggested that it might become essential to empower the community through the support of an international network of civil societies in order to overcome this trap. Prof. Jong-dall Kim (Kyunpook National University) discussed the difficulties in the shift of energy resources in the East Asian nations. In clear contrast to most of the papers presented at this conference that stressed difficult tasks for the sustainable development in East Asia, the talk of Prof. Hiroshi Ohnishi (Kyoto University) was conspicuous for its optimistic view. He questioned the prevailing views with respect to the widening disparity in average incomes among the provinces in China and suggested the possibility of a temporal phenomenon occurring during the diffusion of growth and the catching-up process.

Third, the nature and evolution of corporate governance in East Asian economies was also a topic of discussion at the conference. Prof. Masahiro Shimotani (Kyoto University) discussed the alternatives to corporate integration through the formation of holding companies or outright mergers, which occurred in the business world in Japan after the revision of its anti-trust law in 1997. Prof. Ken Imai (Institute of Developing Economies, Tokyo) classified the governance structure of China's business groups, in which the share of the national and local governments is considerably large. The prevailing view of corporate governance based on the theories of transaction costs and property rights was resolutely criticized by Prof. Ping Chen (Peking University and Fudan University) from the perspective of evolutionary economics. In a quest for the moral background of corporate governance, Prof. Teyu Chou (National Chengchi University) compared the typical Western view of virtue expressed by A. C. MacIntyre with the Neo-Confucian view expressed by Wei-ming Tu. Prof. Hua Cheng's (People's University of China) presentation on the diffusion of electronic money was also related to governance problems in the financial area.

In the concluding session, Prof. Kazuo Hori (Kyoto University) provided a brief comment from the viewpoint of economic history. Prof. Hiromi Yamamoto (Kyoto University) added his proposal for a common agricultural policy in the East Asian region.

Thus, the conference included extraordinarily in-depth discussions, although many problems still need to be explored further. In this respect, it is noteworthy to add that we successfully organized under the same theme a workshop for young scholars from the various universities—People's University of China (Beijing), Fudan University (Shanghai), National Chengchi University (Taipei), Kyungpook National University (Daegue), Duisburg-Essen University (Germany), and Kyoto University—that sent their staffs to the conference. The academic world is a part of civil society and brings about the evolution of economic governance. Thus, an academic investigation into the governance problems of East Asian economies should be further advanced, absorbing fresh energy from the future academic generation.

## Appendix 1

### Governance Problems in the Process of Economic Development

Kiichiro Yagi (Kyoto University)

#### 1. Experiences of Rapid Economic Growth

All of the three East Asian nations have witnessed historic decades of rapid economic growth. Japan experienced it in the 1950s and 1960s; Korea, in the 1970s and 1980s; and China, since the mid-1980s. The economic development of each of these countries has transformed the structure of the world economy as well as the countries' own social structures and institutions. However, the ongoing Chinese experience of economic development differs from those of the Japanese and Koreans in three respects. First, China's development has been guided by a communist government that adopted a gradualist strategy toward reconstructing a viable market economy. Thus, the transformation process of Chinese institutions possesses the characteristics of both modernization and marketization. Second, China is a gigantic continental country with an extremely large population (over one billion people), with which the populations of Japan and Korea cannot be compared. This implies that compared to Japan and Korea, China requires a longer period of economic growth, which it will hopefully experience. Third, the international environment has changed drastically. During the period of Japan's and Korea's rapid economic growth, bilateral relations were the main pillars of the world economy, whereas nowadays, the weight of multilateral or global relations has increased significantly.

These traits have resulted in distinct governance problems that currently accompany the socioeconomic transformation of the Chinese economy. We can locate governance problems in diversified areas (economics, finance, and trade; environment; government and administration; and domestic and international security) as well as on multiple levels (corporate level, local and national levels, and regional and global levels). However, I limit this referential paper to providing a general remark on the nature of the governance aspect of socio-economic development.

#### 2. Governance Aspect

The term "governance" is difficult to define. Oliver Williamson, a pioneering researcher of governance problems in economics, adopted a very general view and expressed it as "good order and workable arrangements"<sup>1)</sup>. He proposed a triple-layered scheme consisting of the institutional environment, governance, and individuals. The state of governance is determined by the parameters of the institutional environment as well as by those of the behavioral attributes of individuals. At the same time, the current state of governance molds the preferences of individ-

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<sup>1)</sup> O. E. Williamson, *The Mechanism of Governance*, Oxford University Press: New York and Oxford 1996, p. 11.

uals. However, people can change the institutional environment through their strategic feedback based on their evaluation of the former state of governance.

Masaru Kohno<sup>2)</sup> separated the concepts of “governance as a function” and “governance as a state”; he defined the former as “the disciplining mechanism of the agents for the interest of stakeholders,” and the latter as “the state that provides public goods through its emergence.” According to Kohno, the concept of governance can provide a dynamic as well as a pragmatic perspective to the static and inward-oriented study of institutions.

By synthesizing the two conceptualizations of governance, we obtain the following unified concept: the mechanism or the state of governing that generate public goods based on the behavioral attributes and institutional environment of the interacting agents. I also agree with Williamson and Kohno’s view of building a bridge between positive and normative approaches to the institution studies.

### 3. Public Arena for the Formation of Governance

As suggested by the concept discussed in the previous section, each governance mechanism is embedded in a society. Every society has plural governance mechanisms, whose constellations give the society its distinctive features. Most decentralized governance mechanisms are of an evolutionary nature, since the emergence of variations, competition among the mechanisms, and diffusion are ongoing processes within them. However, if we consider the possibility of an institutional change, it is necessary to extend our perspective to the public arena, where conscious or unconscious collective decisions are made. I term this arena “civil society.” The discourse and actions in this arena are based on the living processes of the individuals in various types of communities.

Economic transactions in a market economy are regulated centrally by the government as the enforcement of existing laws, while they are often governed in a decentralized way through the reputation and the trust among agents. Civil society and the nonmarket social process influence the centralized governance mechanisms through politics, and the decentralized mechanisms through ethics. Even in the case of strategic feedbacks (institutional change) based on collective decision making, the formation of governance mechanisms possesses evolutionary traits, since the recognition of governance, its evaluation criteria, and the measures for reforms are developed gradually.

An understanding of the evolutionary nature of the governance mechanism does not necessarily lead us to nihilism with respect to policies. Since everything does not change simultaneously, the chance of integrating comparatively stable criteria still remains. The governance view suggests a middle ground between the design approach and the spontaneous approach to public policy problems.

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<sup>2)</sup> M. Kohno ed., *Seido kara Gabanansu he (From Institutions to Governance)*, University of Tokyo Press: Tokyo, 2006, p. 9f.

#### 4. Governance Problems of Economic Integration

A clear contrast is observed when we compare the process of economic integration in East Asia with that in Europe. The European integration has proceeded in the form of the enlargement of the European Economic Community and the deepening of its integration within this framework. On the other hand, the integration in East Asia has developed thus far through the dynamic formation of business networks, without any institutions being established to regulate this region. Several negotiations for the FTA or EPA are currently on the schedule; however, the concept of an economic community (East Asian Community) remains as an agenda item for the future.

However, the Asian financial crisis of 1997 taught Asian nations that the extension of financial networks under deregulation is vulnerable in rapidly changing economic and political conditions. Dynamic growth contains the risk of uncontrolled cycles and imbalances. Both centralized and decentralized governance need to be established for economic relations in this region.

Considering the lack of a solid mutual consensus and the resolute will among the politicians as well as the people, a functional approach that focuses on the urgent tasks such as monetary and financial collaboration and environmental collaboration may be more practical. However, neglect of the long-term necessities undermines the base for future collaboration. On the other hand, the current difficulty of European integration reveals the risk of causing antipathy among people if they feel they are not effectively represented in the project. In order to strengthen its integration, the EU introduced the following concept of governance to facilitate the understanding of its polity, which comprises supranational organizations, nation-states, regional and local self-governments, and various partners from economic, social, and cultural areas. Notably, the necessary elements for legitimate governance are contained within its definition.

“Governance’ means rules, processes and behavior that affect the way in which powers are exercised at the European level, particularly as regards openness, participation, accountability, effectiveness and coherence”<sup>3)</sup>.

In order to bring the governance problems that emerge in the process of East Asian integration to a true public arena, we need to widen the perspective of the establishment of “good governance” in this region, both in terms of its agenda as well as its actors. Although the prospect of a supranational polity in East Asia will not emerge in the near future, the principles for the legitimacy of its governance should be observed at each level of transnational cooperation.

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<sup>3)</sup> European Commission, *White Paper on European Governance*. COM (2001) 428 final, 2001.

## Appendix 2

### Conference Program

### Governance Problems of East Asian Economies —As an interface of advanced economic analysis—

September 18–19, 2007

University Centennial Hall, Kyoto University

**September 17 (Mon.)** Evening 19:00–20:30 Meeting Room IV (2F)  
Reception

**September 18 (Tue.)** Conference Hall III (2F)

- 9:30 Welcoming Address  
Prof. Morimune Kimio (Dean of the Graduate School of Economics, Kyoto University)  
Prof. Nishimura Shuzo (Vice-President, Kyoto University)
- 9:45 Opening Remark  
Prof. Shimotani Masahiro (Kyoto University)  
Prof. Yamamoto Hiromi (Shanghai Center, Kyoto University)
- 10:00–11:00 Guest Talk: Prof. Kawai Masahiro (ADB Institute, Tokyo)  
*Evolving Economic Architecture in East Asia*
- 11:15–12:45 SESSION 1: Regional Aspect of Asian Integration (1)  
Prof. Fujita Masahisa (Kyoto University and Research Institute of Economy, Trade and Industry, Tokyo)  
*Regional Integration in East Asia: From the Viewpoint of Spatial Economics*  
Prof. Werner Pascha (Duisburg-Essen University, Germany)  
*The Critical Role of Peer Review and Regional Monitoring in East Asian Integration Scheme*  
Prof. Sheng Hong (Unirule Institute, Beijing)  
*On the Constitutional Foundation of International Integration in East Asia*
- 14:15–15:15 SESSION 2: Regional Aspect of Asian Integration (2)  
Prof. Lin Chi-An (National Chengchi University, Taipei)  
*The Evolution of ASEAN (plus 3): A Recast of G. Myrdal's Asian Drama*  
Prof. Ohnishi Hiroshi (Kyoto University)  
*Expanding High Growth Area from Japan to China: From a Regional Perspective*
- 15:40–16:40 SESSION 3: Monetary and Financial Cooperation  
Prof. Moon Woosik (Seoul National University, Seoul)  
*Regional Currency Unit and Exchange Rate Coordination in East Asia*  
Prof. Murase Tetsuji (Kyoto University)

- Economic Surveillance in East Asia and Prospective Issues*
- 16:45–17:45 SESSION 4: Governance and the State  
Prof. Lo Dic (People’s University of China, Beijing)  
*China and Post-Crisis Globalization: Towards a New Developmentalism*  
Prof. Imai Ken (Institute of Development Economies, Tokyo)  
*State Corporate Governance in China*
- September 19 (Wed.)** Conference Hall III (2F)
- 9:30–11:30 SESSION 5: Societal and Environmental Sustainability  
Prof. Ueta Kazuhiro (Kyoto University)  
*Environmental Governance for Sustainable Development in East Asia*  
Prof. Kim Jong-dall (Kyungpook National University, Daegu)  
*Sustainable Development: East Asia’s Challenge for Energy Transition and Global Climate Change*  
Prof. Cheng Hua (People’s University of China)  
*The Private Money from the Perspective of Network Economics*
- 14:00–15:00 SESSION 6: Governance in Trade and Investment  
Prof. Lee Joung-Woo (Kyungpook National University, Daegu)  
*Trade, Investment, and Governance: The Case of Korea-U.S. Free Trade Agreement*  
Prof. Uni Hiroyuki (Kyoto University)  
*Export biased Productivity Increase and Exchange Rate Regime in East Asia*
- 15:15–16:00 SESSION 7: Governance in Business and Industry  
Prof. Shimotani Masahiro (Kyoto University)  
*Holding Company or Outright Merger?: Alternative Choices in Corporate Integration*  
Prof. Chen Ping (Peking University and Fudan University)  
*Limits of Transaction Costs Approach and the Evolutionary Perspective of Corporate Governance*  
Prof. Chou Teyu (National Chengchi University, Taipei)  
*Corporate Governance, Business Ethics, and the Revival of Contemporary Confucianism in Asia*
- 16:45–17:45 SESSION 8: History and Future of Institutional Transformation in East Asia (General Discussion)  
Prof. Sheng Hong (Unirule Institute, Beijing)  
Prof. Lin Chian (NCCU, Taipei)  
Prof. Lee Joung-Woo (Kyungpook National University.)  
Prof. Hori Kazuo (Kyoto University)  
Prof. Yamamoto Hiromi (Kyoto University)  
Prof. Wei Quanping (Fudan University)
- 17:50 Closing Remark  
Prof. Yagi Kiichiro (Kyoto University)