CHINA AND THE EMERGING ASIAN REGIONALISM

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The “rise of China” has been a persistent theme for well over a decade, entrancing serious analysts as well as the global public. One area where China’s rise has been underappreciated, but which will potentially have profound effects, is China’s success in taking a leading role within the new Asian regionalism. In the years since the Asian financial crisis, the countries of East Asia¹ have become more formally and informally connected to one another through a mixed process of regionalism and regionalization. China has been at the vortex of these complex processes leading to a substantial increase in its influence within the region. As a lengthening Chinese shadow is cast across the region, particularly within new regional institutions, China gains ever more leverage in shaping political, economic and strategic relations, particularly, but not exclusively within East Asia, well into the future.

THE CHANGING NATURE OF ASIAN REGIONALISM

When the economic tsunami swept across much of the region in 1997-98, there were virtually no effective regional institutions capable of heading it off, or dealing with its devastating after effects. Since that time, a series of governmental push backs have begun to mobilize regional resources in collective ways designed to make any future crisis less likely. As a result the entire nature of East Asian regionalism has changed.

Three major changes in the nature of East Asian regionalism should be stressed. At the end of the 1990s, the overwhelming majority of links connecting East Asia were

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¹ East Asia is here defined as the thirteen counties that are members of the ASEAN Plus Three as well as North Korea (DPRK) and Taiwan. Russia and Mongolia are periodically relevant to this discussion as are the United States and several Central Asian Republics, along with Australia and New Zealand and India, but all of those countries are essentially defined out of “East Asia” as the term is being used here.
first, economic, rather than political, in nature and they were heavily dominated by firms headquartered in Japan. Second, the few formal institutions that existed over and above these economic and corporate linkages, most notably the Association of Southeast Asian Nations (ASEAN), the Asia-Pacific Economic forum (APEC) and the ASEAN Regional Forum (ARF) were very thinly institutionalized and played limited roles in linking the region’s various states to one another. Third and finally, Asian regional ties were far from geographically “Asian;” instead most involved important ties across the Pacific to important but distinctly non-Asian countries. American markets and American military ties were particularly critical components in pre-crisis Asian regionalism. The result was such regionalism as existed was highly porous in its outer boundaries, and distinctly pan-Pacific in character. That has all changed. Today, East Asian regionalism is as much governmental and political as it is economic. A bevy of new institutions have been created across Asia, particularly in the area of finance. And the new regionalism is more China-centric and exclusively “Asian” than it was before.

For most of the 19th Century and the first half of the 20th Century East Asia was a severely fragmented slice of the globe. Colonialism, the Cold War and the problems of nation-building ensured that few governments in the region would be anxious to build close ties with one another; region wide cooperation was minimal. Political and business leaders’ eyes were instead focused more single-mindedly on domestic problems and domestic markets. The one noteworthy exception was ASEAN, created in 1967 and this was but a sub-region of the broader East Asia. The absence of regional linkages changed as the result of successive waves of foreign direct investment (FDI) unleashed first by the rising value of the Japanese yen (with major upticks in 1971 and 1985) and then
subsequently similar moves abroad by companies headquartered in South Korea, Taiwan and eventually Hong Kong and Singapore. Corporate investments however were largely driven by individual business decisions, rather than government agreements (Hamilton 1996; Katzenstein and Shiraishi 1997, 2006; Pempel 2005, inter alia). Throughout the 1970s and with increasing speed in the 1980s and early 1990s, ever-increasing amounts of foreign direct investment—substantial portions of it East Asian in origin—wove a dense and criss-crossing mesh of transnational production networks, investment corridors, export processing zones, and growth triangles across the region. These in turn generated substantial increases in intra-regional trade and an escalation of regional economic interdependence. As noted, however, it was markets, investments and corporations that served as the key drivers of these regional ties, leaving formal institutionalization quite thin and top down government commands rather few. (Grieco, 1997).

Several formally institutionalized bodies including ASEAN, APEC, and the ASEAN Regional Forum (ARF) did operate in pre-crisis East Asia, but all were minimally legalized, thinly staffed, and consequently constrained from exerting binding control over governments in any efforts to resolve disputes involving member states (Kahler 2000a).

Within this emerging network Japanese corporations and capital held gargantuan positions. A mixture of foreign aid, bank lending, technological prowess, foreign direct investment, and dominance within the Asian Development Bank (ADB) as well as the pervasive belief throughout much of Asia that Japan’s economic model provided a replicable alternative to laissez faire Anglo-American capitalism, combined to position
Japan at the unquestionable top of the regional hierarchy (MacIntyre and Naughton 2005). Without question, Taiwan, Hong Kong and South Korea were becoming significant exporters of capital across the region, contributing to the density of the region’s various production networks. But such activities by non-Japanese firms were limited, relegating them to roles orbiting the core position occupied by Japan.

Since new economic policies were begun in 1979, China’s economic growth had been phenomenal, making it the second largest economy in Asia, but Japan’s GNP remained still ten times larger and its per capita income was roughly ninety times greater than that of China when the crisis struck. China was not then a member of the WTO and found it difficult to take any leadership in economic developments in the region (Pempel 1999a: 72). Asian regional ties reflected Japan’s preeminence.

A third pre-crisis attribute was the Asia-Pacific nature of most regional bodies involving East Asia. The two most emblematic examples of “open regionalism” were APEC (the Asia-Pacific Economic Cooperation forum) and the ARF (ASEAN Regional Forum). APEC has twenty-one member “economies” including two non-states, Hong Kong and Taiwan, as well as several states geographically “outside” East Asia including the US, Canada, Mexico, and Russia. The security-oriented ARF, meanwhile, has twenty-four members, most of them also in APEC. Unlike APEC, however, ARF includes the otherwise rarely regionalized DPRK and the geographically distant European Union, while excluding unmistakably East Asian Taiwan. In contrast, ASEAN (the Association of Southeast Asian Nations) with ten Southeast Asian member states was Asia’s earliest regional body (formed in 1967) but in today’s context it is best viewed as “sub-regional” since it had no member countries from Northeast Asia. Equally salient was the fact that
different regional institutions had porous and non-overlapping memberships. The outer boundaries of many of East Asia’s regional institutions were thus heavily trans-Pacific while different institutional orientations generated quite distinctive and non-overlapping memberships.

THE CRISIS AND ITS REGIONAL AFTERMATH

The Asian economic crisis struck the region with tidal wave force and speed, catching most officials and existing institutions unprepared. Certainly, the IMF and the US were slow to respond to the first signs of crisis in Thailand and neither APEC nor ASEAN acted at all. In contrast, Japan, at the instigation of Sakakibara Eisuke then Vice Minister of Finance for International Affairs, sought to take the lead in generating a regional mobilization of financial resources with his proposal for an Asian Monetary Fund (AMF). This AMF would draw on resources to alleviate the liquidity crisis from across East Asia, with Japan playing by far the leading role. Much to Japan’s chagrin, collective opposition from the US, China and IMF quickly derailed that effort (Amyx, 2004). However, once the political and economic dust had cleared, many Asian governments remained interested in reinvigorating the proposal in hopes of finding a regional mechanism to mobilize Asia’s extensive financial resources and to forge deeper financial ties across Asia.

Relatedly, Asian governments also became more anxious to forge new institutions that might afford them greater control over the conditions within which their economies functioned, now that Asian economies had come to occupy much larger shares of global
GDP. Additionally, given US actions during and after the crisis, a preponderant bias emerged for a response that was “Asian” rather than “Asian-Pacific.”

The changes that resulted shifted the nature of regional ties on all three fronts. Economic linkages across Asia deepened and expanded. Yet, while Japan’s financial and manufacturing presence had anchored the expanding production networks during the pre-crisis period, its decade of domestic economic slowdown combined with China’s continued trajectory of high growth and active regional engagement eroded Japan’s once unchallenged regional preeminence. Equally, Southeast Asia became less attractive as a destination for investment capital while China quickly gained pride of regional economic place in many global production chains. As Table 1 makes clear, East Asia (sans Japan) accounted for some 37 percent of the growth in world GDP in 2006 and of that number fully 29.4 percent was accounted for by growth in China. (Japan, in contrast, accounted for a mere 2.6 percent of world growth).

Intra-East Asian trade continues to swell as economic ties expand, rising from about 43 percent in 1996 to 55.3 percent in 2005. But as John Ravenhill (2008) makes clear, much of this trade represents a re-direction of production networks in response to China’s rapid economic expansion and its capacity to attract new investments at the expense of its neighbors. Since the crisis, China has become even more attractive than it once was as a target for incoming regional investment; it is now East Asia’s most active processing center taking imports from many parts of the region and exporting them to the richer countries of the region as well as abroad. Regional economic linkages have also begun to expand beyond trade and into finance and other areas.
Formal institutions and overt governmental actions to shape them began to characterize the region. No longer are Asian regional ties preponderantly the byproducts of bottom-up market connections. Instead, since the crisis, most Asian governments have taken collective and individual steps to enlarge their economic activities, including the more active embrace of an enhanced and integrative regional architecture. As well, all major governments have been boosting their foreign reserves by massive amounts. China now leads the world with reserves of over $1 billion. Bilateral and mini-lateral FTAs, virtually non-existent in Asia at the time of the crisis, have become a favored state instrument for providing political control over trade and for improving intra-regional trade ties (Aggarwal, 2006; Pempel and Urata, 2006). As well, governments have
created or reinvigorated a diversity of regional processes and bodies including the
ASEAN plus Three (APT) process, the Chiang Mai Initiative (CMI), the Asian bond
market initiative (ABMI), the Shanghai Cooperation Organization (SCO), the East Asian
Summit (EAS) and the Six Party Talks (SPT) to cite only some of the most immediate
manifestations (Pempel, 2005a, 2005b). In short, governments have become more active
and more regionally institutional in their approach to the region as a whole (Pempel,
2005, 200).

With a few noteworthy exceptions, the ASEAN Plus Three (APT) process has
been the predominant model for much of the subsequent regional architecture. The APT
format began in mid-1995 when ASEAN joined with China, Japan and South Korea
offering an Asian counterpart to meet with the European Union to forge the Asia-Europe
Meeting (ASEM). But starting in 1997 at the height of the crisis, the ASEAN
governments pressed to bolster the independent role of APT, shifting it from being
simply a loose series of meetings among senior officials to becoming regularized
meetings of finance and economic ministers and eventually to creating an annual meeting
of heads of state. In this way, ASEAN’s policies of what Evelyn Goh (2007-2008: 121)
has called “omni-enmeshment” This thirteen nation summit has since become the major
engine fostering regional cooperation on a variety of regional problems.

Finally, the new dynamism in East Asian regionalism has shifted from
preponderantly “open” and Asia-Pacific ties to links that are more “closed” with
memberships more often restricted to “Asians only.” Pan-Pacific APEC became rather
moribund following the crisis; ARF has been incapable of creating anything approaching
a regional “security community” beyond limited confidence building measures. In
contrast, since the crisis, it has been predominantly the APT countries that have been at the core of new regional ties. APT was the driver behind CMI and the EAS; the eleven countries in EMEAP (Executives’ Meeting of East Asia-Pacific Central Banks) that drove the ABMI exclude any on the eastern shores of the Pacific (e.g. the US, Canada and other APEC members). CMI was also the mechanism that triggered the track-two Network of East Asian Think Tanks (NEAT) forged in the wake of the financial crisis. The most noteworthy exception to this model of Asian exclusivity has been the FTAs: many of these have been exclusively East Asian, but almost as many involve ties between East Asian and non-East Asian states. In addition, but clearly unrelated to the crisis per se, the Six Party Talks dealing with the nuclear program of the DPRK represents one new regional process that does include the US.

On balance, then, the regional architecture of East Asia has become unmistakably more comprehensive, dense, and state-dominated than it was before the crisis struck.

CHINA AND THE REGION

The crisis had a particularly strong impact on Chinese leaders. As Steinberg shows (2008), one of the major conclusions they drew was the need to speed up the moves away from state socialism and toward closer integration with global economic processes. Equally importantly, they were quick to show a new enthusiasm for regionalism in the wake of the crisis. For most of the postwar period, China had been skeptical of any approaches to “the region” as a collectivity, instead favoring advancement of Chinese interests through a combination of bilateral relations and global
institutions. With the economic crisis and China’s accession to the WTO in 2002 however, the country begin to recognize explicitly how much regional strength could enhance China’s influence. Edward Friedman (2006, 126) argues effectively that China’s embrace of regionalism was due largely to having seen the US block Japan’s effort to create an Asian financial mechanism to cushion such crises. The CCP, Friedman concludes, determined that regional financial cooperation could check American hegemony, as well as warding off the influence of Japan. Since then China has been an active proponent of the CMI, the Asian bond market, and the East Asia Summit. It has also been exceptionally active in a variety of Track II diplomatic ventures such as CSCAP and NEACD—typically lobbying hard behind the scenes to shape the agendas and concluding reports of both. It has also been the primary organizer of NEAT—the Network of East Asian Think Tanks, begun as a result of the EAVG report to APT.

China’s enhanced economic muscularity has allowed it to play an influential role in shaping regional economic institutions. (Schambaugh 2005: 7) More than half of China’s total trade volume is within the East Asian region. The country is well positioned as a principal export platform of final-demand goods to North American and European markets. Of late it has been the sole locomotive of intraregional trade and the major recipient of intra-regional FDI. As well, most of China’s incoming FDI originates in East Asia while China is also increasingly becoming an exporter of FDI to the rest of the region.

One of China’s most important successes in combining its economic power with its regional strategy came with its proposal at the 2000 ASEAN Summit for an ASEAN-China FTA. This proposal helped convey the image that China’s rise might generate a
win-win economic cooperation with Southeast Asia in what would potentially be a market of some 1.7 Billion people. Quite importantly, Chinese negotiators offered an “early harvest” of lower tariffs for agricultural goods from Southeast Asia coming into China. Since agricultural exports are so critical to the growth strategies of most countries in Southeast Asia, particularly its newer members, the Chinese move was particularly deft politically. Japanese Prime Minister Koizumi, at the same meeting was caught flat-footed and could only proposed ‘discussions’ about a comprehensive ‘economic partnership,’ which was not put into place until 2007 (and which excluded any concessions on agricultural liberalization by Japan). China’s deft move bore immediate results as ASEAN trade with China leaped almost 60 percent in 2005 over 2004 (Weatherbee, 2006: 275). In addition, it also underscored the extent to which Japan, the United States, and Korea, though much richer, were constrained from making similar gestures due to the power of their domestic farm lobbies within democratic political systems.

Outside of Southeast Asia, one of China’s biggest successes has come in forging intra-regional ties with the ROK. Despite China’s longstanding friendship with North Korea, it normalized relations with the south in 1992, announcing a “comprehensive cooperative partnership.” Since then, and with accelerating speed since the crisis, the two countries have cooperated on trade, investment, tourism, educational and cultural exchanges as well as other areas. In 2003 China surpassed the US and South Korea’s largest export market and was the number one destination for outgoing Korean FDI.

Equally important has been the growth of linkages between Taiwan and the PRC. Today, China buys about 40 percent of Taiwan’s exports; and since 2002 more than one
half of Taiwan’s FDI has been sunk into China (Ross 2006, 143). Roughly one million Taiwanese now live on the mainland and the two economies are becoming increasingly interwoven. It is important to note that these are largely bilateral, rather than regional in character, although products from Taiwanese-owned factories in the PRC frequently make their way into other Asian markets. But the policies of both governments have been at least as critical to deepening this integration as have generic market forces.

Such enthusiastic Chinese support for economic and financial regionalism has been largely in the context of an “Asians only” regionalism that would operate to limit US regional influence. Thus China has favored APT and EAS over pan-Pacific bodies such as APEC.

But equally importantly, China has held back from supporting any regional bodies that might do either of two things—challenge its sovereignty on defense and security, and in a related way, allow Taiwan to join any regional bodies.

China has favored only Confidence Building Measures within ARF but it has resisted moves by Southeast Asian countries to expand ARF’s activities toward preventive diplomacy or conflict resolution. At the same time, China’s ready agreement to a Code of Conduct in the South China Seas and a generally more forthcoming engagement in the ASEAN Regional Forum and other frameworks have lessened the tensions that once marked security relations between China and Southeast Asia (Tay 2006, 7).

In addition, China has been adamant about preventing Taiwanese governmental or NGO participation in regional (and global) bodies, a distinctively “anti-regional” position. With even greater vigor since the crisis and the electoral success of the DPP in
Taiwan, China has sought to isolate Taiwan from any and all international and regional fora, even those that do not require statehood for membership, in addition to opposing Taiwanese regional assistance on matters of public health and disaster relief (Friedman 2006, 129-30).

Two other regional bodies, both in the security, rather than in the economic arena, owe their existence, and a large measure of any successes they have achieved, to China. First, the Six Party Talks designed to deal with the nuclear crisis on the Korean Peninsula has been under China’s chairmanship since its inception. The decision to address the nuclear problem through the Six Party Talks was a signal victory for multilateralism over bilateralism and for negotiation over confrontation. Even though the early stages of the talks saw little real negotiation, the signing of the Joint Statement of the Fourth Round of the Six Party Talks in Beijing on September 19, 2005 provided a major breakthrough in the long-stalled process and laid out the basic framework for an eventual resolution of the problem. The multilateral process that had begun in August 2003 appeared to be yielding positive results in softening the mutually confrontational stances of the US and the DPRK. The process also gained traction when the US demonstrated (in response to pressures from both Japan and China) an explicit willingness to reverse its prior stance of obdurate adherence to its demand that the DPRK surrender all nuclear weapons capabilities as a precondition to actual negotiation and instead engaging the North in a substantive give-and-take.

Then in early July, 2006 the DPRK tested a series of missiles that led to a strong U.N. Security Council resolution of condemnation. On October 9, the DPRK carried out an actual nuclear test and in less than a week, the United Nations Security Council
unanimously passed an even stronger resolution (#1718) condemning the DPRK’s actions. The DPRK promised a second test soon after. By mid-Fall, 2006, the complicated and overlapping alignments among the Six Parties that had characterized the preceding three years of negotiations had shifted into a five versus one line up, with the US, China, Japan, the ROK and Russia all supporting the resolution and agreeing to impose varying degrees of sanctions against DPRK trade, travel and transportation. (In addition to the formal sanctions on trade in a host of technological and luxury goods, my confidential interviews with participants indicate that China apparently suspended certain military assistance to the DPRK, not visible in typical trade statistics, as a way to telegraph its discontent with the North’s behavior.)

Recent events suggest real movement toward the eventual resolution of the many problems that the talks have addressed. Numerous sticking points could easily derail them from achieving their eventual goal of the complete and verifiable denuclearization of the Korean Peninsula and the normalization of relations between the DPRK and its neighbors (including the US) and related bilateral relationships including those between Japan and the DPRK as well as the DPRK and the ROK. But the participants have all been quick to signal that China’s nimble and sometimes forceful leadership has been critical to whatever success they have so far achieved.

One other regional security forum deserves mention, namely the Shanghai Cooperation Organization (SCO), even though it is geographically outside “East Asia.” But with Russian and China as two of its core members it is worth at least noting briefly. SCO began in 1996 (as the Shanghai Five) and was officially launched with its current six members on June 15, 2001. SCO has internal military security as its primary focus.
The military forces of the six members have held joint exercises annually while there has also been agreement on economic cooperation, particularly within the energy field. (SCO website at http://www.sectsco.org/html/00026.html).

The SCO is primarily concerned, like the Six Party Talks, with security problems, specifically identified as terrorism, separatism and extremism. Its charter explicitly states that it is “not an alliance directed against other states and regional and it adheres to the principle of openness.” Nonetheless, it also has the consequence of making it more difficult for the US or NATO countries, now engaged militarily in Afghanistan, to think so easily about further actions in Central Asia. It also provides a potential response to US advances in the deployment of its missile defense systems.

Both the Six Party Talk and the SCO provide examples within the security arena of China taking bold multilateral institutional initiatives to resolve potential problems of concern to it, but also of concern to neighboring (and not so proximate) countries. And in combination with the various activities in which it has engaged in finance and trade, it seems clear that China is anxiously staking out a leadership position within the East Asian region.

CONCLUSION

This essay has sought to examine the changing regional architecture in East Asia since the crisis of 1997-98 and the role China has played in those changes. It has stressed the important moves toward regional institutionalization in economics and finance as efforts to mobilize collective regional assets to ward off any repeat of the earlier crisis.
Following the crisis, and largely in response to what were perceived to have been excessive IMF interventions, the governments of Asia took a series of steps designed to prevent any recurrence. Many of these moves were more symbolic than market reshaping: the CMI, the ABF, and the ABMI, for example. In addition governments including China’s have vastly expanded their foreign reserve holdings and begun a series of bilateral and mini-lateral trade arrangements, many of which are exerting significant market impacts. And at least as importantly, Asian governments have begun to meet regularly in these and other new fora, such as the EAS, to explore ways to cooperate on financial and other matters. All of this suggests considerable potential for future regional institutionalization. For the most part, these new regional initiatives have excluded participation by the US (though this is not true for some of the FTAs, nor for existing regional organizations such as ARF and APEC). In all of these China has been an active and regular agenda-shaper and its actions have gone a long way toward enhancing its role as a regional (and occasionally such as the Six Party Talks, global) leader.

China’s rise has been rather steady and steep. That it has opted for largely peaceful, regional and multilateral approaches toward its neighbors is largely to be applauded. To date, China has shown little desire to force its way on its neighbors, frequently acceding, for example to ASEAN’s nominal leadership, or downplaying its ability to influence the behavior of the DPRK. While such behavior by no means guarantees similarly benign actions a decade or two into the future, those who worry about a rising China anxious to upset the global order or to move toward military advancement of its interests can perhaps take heart from its current trajectory.
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