



The Dragon and the Tigers China and Asian Regionalism

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Among the many costs of the Bush administration's obsession with the "war on terror" is the diversion of policymaking attention from developments in other parts of the world that may have even greater long-term consequences for American security. Nowhere is this more apparent than in Asia. While administration officials traipse about the globe like itinerant evangelists preaching the gospel of freedom, the People's Republic of China (PRC) is quietly but steadily expanding its influence in the Asia-Pacific region, particularly among the states on its southern border that make up the Association of Southeast Asian Nations (ASEAN).

The emergence of China promises to alter the strategic landscape of East Asia and the world in the twenty-first century. In barely more than a decade the PRC has become a global manufacturing hub for everything from textiles to computers, a magnet for foreign investment, the fulcrum of international economic growth, and a major buyer of U.S. debt. To speed domestic modernization, China has also actively promoted regional free trade. But regional integration will also make it easier for Beijing to leverage economic power in support of geostrategic ambitions that could seriously threaten U.S. interests in the future. Indeed, China is building a powerful military arsenal. With the help of Russia and Israel, among other suppliers, it has acquired the advanced air and naval platforms that will enable it to project power in the Western Pacific as well as in the South China Sea and across the Taiwan Strait.

The evolution of China's relationship with ASEAN and with its other neighbors in the Asia-Pacific region will depend in the main on the policies of President Hu Jintao and other leaders and on how their policies are perceived in the region. But it will also depend on how the United States responds to China. In an effort to help refocus policy attention on East Asia and what it may portend for American interests, this article traces the evolution of China's engagement with its periphery, examines the prospects of Asian regional integration, and analyzes the implications for the United States.

From Unilateralism to Multilateralism

The first phase of China's engagement with its periphery was triggered by the end of the Cold War and the bipolar world order, which transformed the structure of the international political system. Intent on filling the vacuum created by the collapse of the Soviet Union and the succeeding political and economic turmoil in post-Soviet Russia, the PRC set out to build friendly relationships with the states on its periphery, some of which did not even have diplomatic relations with Beijing. The initial diplomatic offensive included signing confidence-and-security agreements with the countries it bordered and, starting in July 1991, sending representatives to the ASEAN Post-Ministerial Conference, which China attended as a consultative partner.¹

Beijing expanded its association with ASEAN in the summer of 1994 through its participation in committees on trade and technology, and as a member of the Asian

Regional Forum (ARF), which was formed to discuss regional political and security issues, not least the disputed ownership of the sundry reefs and atolls in the Spratly Islands chain. Beijing, however, rejected all attempts to enter into multilateral discussions on the Spratlys or other island groups in the South China Sea, which it asserted (as it still does) were part of Chinese territory. To emphasize the point, in 1995 China erected military facilities on Mischief Reef, an island also claimed by the Philippines. Although its action initially provoked unanticipated criticism from ASEAN and discussions to resolve the issue, the facilities were never dismantled.

During this “first contacts” phase of relations, trade between China and Southeast Asia was relatively insignificant; two-way trade in 1991 amounted to some \$8 billion.² ASEAN, after all, which came into existence at U.S. urging in 1967 to protect the region from Communist penetration, remained suspicious of China’s motives, despite Beijing’s efforts to subordinate ideology to state-to-state relations. In addition, the preponderance of ASEAN’s trade was with the industrialized democracies, especially the United States, its security guarantor, and Japan, then by far the dominant economic actor in Asia and the stimulus, through its offshore manufacturing facilities and foreign assistance, for the post–World War II economic takeoff of Southeast Asia.

Stresses in Sino-American relations following the Tiananmen Square crackdown in April 1989 further impeded commercial ties between Beijing and Southeast Asia. The U.S. sale of F-16s to Taiwan in 1992 and growing cross-strait tensions triggered by President Lee Teng-hui’s growing support for Taiwanese autonomy, if not independence, increased Sino-American estrangement. Relations soured further in March 1996, when Beijing staged military exercises, including missile tests, in the Taiwan Strait, prompting the United States to despatch two carrier battle groups to the

area. Nevertheless, the Clinton administration adhered to its policy of strategic cooperation with Beijing in the belief that improved trade would moderate Chinese behavior.

Asia’s booming economic growth reinforced the Clinton administration’s trade-centered approach to statecraft. Rising capital and technology flows to the region magnified expectations of a nascent Asian Century in the United States and elsewhere. But those expectations faded in the summer of 1997, along with the luster of globalization. The flood of foreign investment, especially the short-term movement of capital, or “hot money,” left Asia awash in export goods, inflated currency values, and overwhelmed the capabilities of the poorly regulated and managed financial and banking system. In June 1997, the Thai government devalued the baht, setting off a chain reaction of beggar-thy-neighbor devaluations in other Asian countries. As a result of the currency crisis, Indonesia’s economy contracted by 14 percent, Singapore suffered its worst recession in 40 years, and Malaysia, Thailand, Taiwan, and South Korea all experienced varying degrees of economic stagnation.³

Given the growing intra-Asian trade linkages, weak central bank regulation, inefficient and indebted state enterprises, and a raft of nonperforming loans, the spread of the Asian contagion to China seemed all but certain. For a variety of reasons, including only partial convertibility of its currency, the renminbi, and the limited amount of external debt in short-term rather than long-term maturities, China weathered the regional storm. Even though export growth dropped from 20 percent to 0.5 percent in 1998 and foreign direct investment fell to its lowest point in two decades, Chinese GDP increased in 1997, 1998, and 1999 by 8.5 percent, 7.8 percent, and 7.0 percent, respectively.⁴

During the crisis, Beijing also extended financial support to Thailand and Indonesia, which starkly contrasted with the austerity

measures imposed by Western financial institutions and the United States. Moreover, in maintaining the value of the renminbi, the depreciation of which would have triggered further currency devaluations in the region, it demonstrated to the ASEAN community that it would not seek to exploit their economic misfortunes.

China's active role in the ASEAN-plus-3 process further enhanced its stature as a model of economic stability and responsible leadership. The formalized extension of luncheon meetings between ASEAN officials and the foreign ministers of China, Japan, and South Korea, ASEAN-plus-3 was instituted to limit the effects of the financial crisis in Asia and to avert future such calamities. But it rapidly developed into a framework to discuss regional cooperation, a goal that China actively set out to shape at the fourth group summit in 2000. As a result of its growing organizational leadership and more intimate bilateral relationships with ASEAN members, which included Vietnam, Cambodia, Laos, and Myanmar by 1999, China began to institutionalize its relationship with the states on its periphery.⁵

To be sure, Japan was just as keen as China to contain, if not to prevent, future economic dislocations. Indeed, it was Japan's Ministry of Finance that proposed an Asian Monetary Fund in the wake of the 1997–98 crisis, only to have its effort scuttled by the Clinton administration and the International Monetary Fund. Japan also figured prominently in the Chiang Mai initiative, which was announced at the ASEAN-plus-3 meeting of finance ministers in May 2000 to monitor capital flows and facilitate financial swap arrangements. Viewed from Southeast Asia, however, Japan was a fading star, immobilized by prolonged economic stagnation and political indecision. China, in contrast, was a rising success story whose leadership had taken concrete steps to affirm its interest in ASEAN's welfare.⁶

The PRC's support for ASEAN-plus-3 and for closer Asian integration was also subtly

instrumental. Strengthening ASEAN at a time it had been severely weakened by the currency crisis undeniably helped to overcome lingering mistrust of Beijing. Moreover, China increased its economic involvement without appearing to alienate Japan or the United States, which would have set off alarms in Southeast Asia. Its deft diplomacy clearly profited from ASEAN's disappointment with the United States during and after the Asian financial upheaval. Not only had Washington refused to assist Thailand following the devaluation of the baht and to support the proposed Asian Monetary Fund, the Treasury Department's invocation of anti-dumping measures retarded the resumption of pre-crisis Asian export levels. More significant, the onset of the U.S. recession in the spring of 2000 underscored the danger of Asia's dependence on the American export market and thus redoubled interest in regional cooperation as a kind of insurance policy against the vicissitudes of globalization.

China quickly seized the initiative. In November 2000, Prime Minister Zhu Rongji floated the idea of a free trade area at the fourth ASEAN-plus-3 meeting in Singapore. The proposed free-trade zone and the development of institutional links between Southeast Asia and Northeast Asia in such areas as transportation, information technology, and tourism were the "two big ideas" of the gathering, according to Goh Chok Tong, then Singapore's prime minister. China had not only stolen the show at the summit, it had begun to define an agenda of intra-Asian cooperation that assuaged the regional anxiety produced by the perceived collapse of the Asian miracle and that intimated future cooperation in political and security matters as well.⁷

Institutionalizing Regional Cooperation

Aided by its membership in the World Trade Organization (WTO), China's efforts to develop institutionalized linkages with Southeast Asia went into high gear after

2001. Four factors contributed to China's emerging leadership role. First, its economy continued to expand during a period of global recession. The PRC was becoming the new workshop of the world and a conspicuous investor in Southeast Asia. Second, its belated support of a code of conduct in the South China Sea, among other agreements, reaffirmed Deng Xiaoping's concept of "peace and development" and Beijing's acceptance of multilateralism.

Mending its fences with the United States after a protracted period of tension stemming from the Taiwan Strait crisis, the American bombing of the Chinese embassy in Belgrade in 1999, and the forced landing on Hainan Island of an American spy plane in April 2001 also improved its image. Recognizing that China was in no position to contest the United States militarily, President Jiang Zemin chose the path of least resistance and became part of the "coalition of the willing" in the war on terrorism, thereby ingratiating the PRC with the Bush administration and easing Southeast Asian worries about having to choose between Washington or Beijing. Finally, China's political assertiveness filled a leadership vacuum in Southeast Asia created by the post-1997 political and economic dislocations in Indonesia, including the ouster of President Suharto, and Tokyo's domestic self-absorption.

The key development of 2001 was the November 10-plus-1 summit in Brunei. Acting on Premier Zhu Rongji's proposed initiative of the previous year, China succeeded in winning the approval of the Southeast Asian leaders for a free trade agreement on the condition that preferential treatment would be given to ASEAN's new members. China's burgeoning economic growth unquestionably influenced the thinking of the heads of government, all of whom were still struggling to recover from the financial crisis. Its acceptance into the WTO the next month and its pledge to open its market and abide by the organization's

rules further enhanced its credibility as an economic partner.

At one level, the free trade agreement aimed to accelerate the institutionalization of Asian economic integration, which had become a forensic exercise in the Asia-Pacific Economic Cooperation (APEC) regional forum. At another level, it was a subtle riposte to U.S. unilateralism and a less subtle competitive challenge to Japan's economic primacy in the region. Indeed, Zhu's initiative prompted a frantic diplomatic blitz of Southeast Asia by Japanese prime minister Junichiro Koizumi in January 2002, during which the prime minister signed a basically cost-free free trade agreement with Singapore that excluded Japan's cosseted agricultural sector.

In November 2002, while world attention centered on Iraq and North Korea's nuclear ambitions, China quietly amplified the free trade agreement and the ten bilateral agreements it had signed with the Southeast Asian states at a summit in Phnom Penh. The centerpiece of the summit was the Framework Agreement on Comprehensive Economic Cooperation and an action plan that set concrete goals for regional integration, including free trade in goods between China and the original six ASEAN members by 2010 and by 2015 for the four new members. Beijing also signed the nonbinding Declaration on the Conduct of Parties in the South China Sea, although it refused to include language prohibiting new construction on the islets, and it endorsed cooperation in nontraditional security areas such as the drug trade, piracy at sea, and counterterrorism.⁸

At the Bali summit a year later, China acceded to the Treaty of Amity and Cooperation renouncing force in the resolution of disputes. The summit also produced a Joint Declaration on Strategic Partnership for Peace and Prosperity, which sought to broaden cooperation in security areas. Mindful of worries in the region that the PRC was monopolizing all foreign direct invest-

ment, Beijing declared its intention to make offsetting annual investments in ASEAN. During the summit, it signed new natural gas contracts with Indonesia, as an example, and offered credits to the government in Jakarta to build new electrical power stations and other infrastructure projects.⁹

As developments through the first quarter of 2005 have shown, the PRC is steadily carving out a leadership role in Southeast Asia. Even countries like Singapore, which have harbored major reservations about Chinese power and influence in the region, appear to have concluded that they stand to profit from Beijing's posture of peace and development. Their chastened image of China has doubtless been shaped by Beijing's careful cultivation of the ASEAN garden, which has alternated concrete concessions such as energy agreements with Vietnam and the Philippines and symbolic measures such as Hu's enthusiastic endorsement of Kuala Lumpur as the site for the first East Asian Summit.¹⁰

A Trajectory of Cooperation?

Judging from the aggregate trade statistics, the engagement between China and ASEAN has proved to be advantageous thus far to all parties. Since 1990, when China began to focus on its southern periphery, annual trade with ASEAN has grown by 20 percent. But much of that growth has followed the Framework Agreement and the establishment of the China-ASEAN free trade accord. In the 2001–03 period alone, trade increased from \$45.6 billion to \$78.2 billion, and it could reach \$125 billion in 2005. With an estimated \$1 billion in bilateral trade, which easily offsets the effect of U.S. import sanctions, China is the dominant economic presence in Myanmar. Its trade and investment presence has become more conspicuous as well in Cambodia, Laos, and Vietnam, as it seeks to tie those economies into the dynamic growth of its Pearl River Delta. Commercial activity with the richer ASEAN members is still more impressive.

Thai exports to China surged more than 87 percent from 2001 to 2003; imported Chinese goods and services grew by 53 percent. During the same period, Chinese exports to Malaysia rose by 90.7 percent, and Malaysian imports to China jumped by 125.6 percent. Two-way trade with Singapore, the Philippines, and Brunei has exhibited comparable or greater growth since 2001.¹¹

Without China's political and economic stimulus, it is a safe bet that regional economic integration would have remained hostage to special interests. To be sure, China has been forced to permit plenty of free trade exemptions in order to gain the support of Southeast Asia—restricting imported cars, for example, in Malaysia's case, or petrochemicals to satisfy the Philippines. But it has forced its southern neighbors to keep their eye on the ball of regional economic integration, and it has generally succeeded in overcoming ASEAN's congenital temporizing in part because renewed regional vitality offers protection from the insalubrious effects of globalization.

Economic integration has its share of detractors, of course. Thai farmers worry that cheaper agricultural imports from China (garlic and shallots, as examples) will force them to grow a new line of cash crops with which they have little historical experience. The president of the Thai Fresh Fruit and Traders Association contends that zero tariffs are an illusion; nontariff barriers from regional sales taxes to sanitation regulations will effectively bar the entry of agricultural imports into China. Although a free trade agreement may offer opportunities for resources-based industries, the Indonesian Chamber of Commerce groused, it works against the interests of the manufacturing sector, particularly labor-intensive businesses such as textiles producers (one of 398 items that will be excluded from initial tariff reductions until 2012, as opposed to 2005).¹²

Southeast Asian government leaders are hardly insensitive to the reactions of their concerned constituents. Indonesia's recently

elected president, Susilo Bambang Yudhoyono, and Malaysian prime minister Abdullah Ahmad Badawi have emphasized the importance of deepening ASEAN's integration to avoid being dominated by China and an emerging India, which also signed an economic cooperation agreement with ASEAN in 2003. Even so, government officials have waxed enthusiastic about the free-trade pact, which *The Nation*, Bangkok's independent English-language daily, characterized as the region's "preeminent diplomatic event," eclipsing in importance the ASEAN summit.¹³

Plying a steady course of economic reform is clearly critical to China's continued ascendancy in Asia. If the PRC were suddenly to flounder economically, its leadership image would surely suffer in Southeast Asia, especially if its difficulties, like those of Japan in the 1990s, became chronic. But China should experience high single-digit growth for the next decade, according to Nicholas Lardy of the Institute for International Economics and the *Economist*. The PRC will also have to maintain a statesman-like demeanor, an image it would surely damage if it forcibly tried to keep Taiwan tethered to the mainland, as the anti-secession law passed earlier this year authorized, or if it were judged to be responsible for escalating tensions with Tokyo. Beijing is hardly oblivious to its image. To lessen the political fallout from the anti-secession law, Hu promptly invited Taiwanese opposition leaders to Beijing in April. Foreign Minister Li Zhaoxing likewise intervened to terminate anti-Japanese demonstrations that were tolerated and probably abetted by the Chinese government before they became unmanageable.¹⁴

Assuming continued economic growth and international cooperation, China's goal of forging an Asian regional community can be expected to return large dividends. Signs are already evident. For one, the perception of China as a security threat has receded. The more that the Southeast Asian states can count on being beneficiaries of China's

continued economic dynamism, the more likely they are to repose their faith in Beijing's good intentions. Politically, China's embrace of multilateralism in Asia will also help to burnish its good neighbor image.

Cultural connections will further anneal the new status that China is forging. Through the spread of its language and films, and inveterate ties with ethnic kin, especially in the ASEAN business community, China exerts a regional influence that is unmatched by any other country. American technology, business techniques, and rock music may be admired, but they cannot compete with centuries of history and tradition. Similarly, Japanese clothing styles, comic books, and other contemporary fads may be ubiquitous in Asia, but they have not been able to overcome a historical legacy of military conquest and economic exploitation.

Second, Asian regionalism can be expected to broaden its charter and membership at some point and gradually to assume a political as well as a commercial character. Undeniably, China's proposed East Asian Community, like ASEAN-plus-3, tacitly establishes the same Asians-only club as the East Asian Economic Grouping advocated in 1990 by former Malaysian president Mahathir Mohammad. Still, Beijing has not excluded non-Asian states such as Australia and New Zealand from participation in a regional trading regime. Nor has it tried to circumscribe America's economic and security ties with the region. So long as President Hu and company tack to this moderate diplomatic course, Asian regional integration is likely to gain strength.

Asian integration is the operative term; for China has worked assiduously to build bridges with South Korea and India as well. China has recently replaced the United States as South Korea's largest trading partner, a remarkable development considering that the two countries had no diplomatic relations before 1992. In addition to the thousands of Korean companies that operate in

China today, throngs of tourists are visiting the Middle Kingdom, lured by its glittering new cities, cultural attractions, and a shared history, including the period from 1400 to 1800 when Korea was a vassal state of China. Furthermore, young Koreans are flocking to Chinese universities; according to the political scientist David Shambaugh, they accounted for half of China's growing student population in the 2002–03 academic year.¹⁵

The PRC is also normalizing relations with India, capped by the signing of a Declaration of Cooperation in 2003 between former prime minister Atal Bihari Vajpayee and Premier Wen Jiabao. In addition to efforts to reconcile long-festered border claims that led to war in 1962, a strategic dialogue has begun on such topics as globalization, nonproliferation, terrorism, and reform of the United Nations. Bilateral military exchanges have also increased since Defense Minister George Fernandes's visit to China in 2003, and last year India and China held their first joint military exercises in the waters off Shanghai. Stimulated by Indian petroleum minister Mani Shankar Aiyer's proposed consortium of Asian oil-importing countries, Beijing and New Delhi have further initiated talks on energy cooperation, the success of which would greatly ease competitive tensions between the two Asian giants as their economies expand and the demand for oil and gas increases.¹⁶

Mindful of its imperial history in Southeast Asia and, during the Cold War, its support for Communist insurgencies, Beijing has been meticulously attentive so far to the fears as well as the aspirations of its southern periphery. Based on its endorsement of the Treaty of Amity and Cooperation, its membership in the Asian Regional Forum and the Boao Forum of business and government leaders permanently based in Hainan province, and its leadership of the Shanghai Cooperation Organization, one could make the case that prosperity-driven cosmopolitanism is superseding the blinkered attitude

of Communist Party ideologues who distrust regional organizations as tools to constrain the PRC's power and influence. Perhaps. But China's inchoate multilateralism is not imbued with the idealism of the ASEAN community. Far from being an end in itself, Chinese multilateralism is a means to realize narrowly national goals: economic growth, job creation, and domestic order, all of which will presumably confirm the wisdom of the Communist Party and the ruling elite.

As was the case with Russia's perestroika, however, the intoxicating spread of liberal-capitalism, which is progressively creating fissures in Chinese society, may prove hard to contain. Hu, much as Jiang before him, is unintentionally aping Mikhail Gorbachev's strategy of reforming rather than transforming socialism. Like Gorbachev, he is in a race against time: he must provide opportunity and hope for those who have not yet participated in China's resurgence, particularly migrant workers from rural areas, so that their expectation of sharing in the benefits of modernization transcends their rage that they have been displaced in the new social order.

Third, simply because of its sheer size and growing wealth, China seems destined to extend its influence over Southeast Asia and probably Korea, much as the United States has done in Central America and, to a lesser degree, in the Andean region of South America. Even though its GDP is only around one-fourth the size of Japan's (but surpasses Japan in purchasing power parity), China is widely seen as the emerging economic hegemon of Asia. ASEAN's enthusiastic support for Beijing's free trade agenda is indicative of China's already considerable economic clout. As the state-influenced Malay daily *Utusan Malaysia* observed, Asia would now be able to meet the economic challenge of Europe and the United States and oppose outside interference in its regional affairs. South Korea's steadily rising trade with China is also implicit acknowl-

edgement of the latter's growing importance. Public opinion polls reveal that Japan too senses a shift in Asia's center of gravity, politically as well as economically.¹⁷

Embroidered with China over ownership of the Senkaku Islands (Diaoyu in China), a collection of rocks in the East China Sea sitting on potential gas fields, and increasingly concerned about a clash over Taiwan, Japan is understandably worried that China may turn out to be more than a voracious economic power. The People's Liberation Army's military modernization shows no sign of slowing down, and Beijing has not budged from its position, code of conduct or not, that the South China Sea is part of Chinese sovereign territory. There are also outstanding border issues with India and Russia to be adjudicated. Indian suspicions of China are deeply ingrained, and Beijing's recent charm offensive may be intended to inhibit Delhi from becoming a strategic competitor, much as its security and cooperation agreements with other states on its borders may have served until now to prevent the formation of a balancing coalition.

When all is said and done, China's multilateralist proclivities and its advocacy of economic integration may simply be tactics to leverage its longer-term strategic objective of regional domination: a sphere of influence at minimum or, as some scholars have fretted, a revitalized tribute system. This would hardly be unprecedented. The United States has actively promoted multilateralism in the Western Hemisphere since the late nineteenth century, and it still favors a regional free trade deal, but it has never had any intention of sharing power with other American states. Asia is coming "under China's sway," as a columnist for the *Manila Times* put it. The PRC is becoming Asia's "big brother," in part because the United States remains "engrossed with the war on terror."¹⁸

This view is even more pronounced in Northeast Asia, especially Japan, where the conservative press and center-right politi-

cians have urged political and security cooperation with the United States. China's emphasis on economic integration masks its larger political objectives, said the conservative *Yomiuri Shimbun*. The pro-U.S., anti-Chinese *Sankei Shimbun* referred to the PRC's political behavior as "high-handed," a view that intensified in official circles following Wen's defense of anti-Japanese protests in China. Across the Sea of Japan, the Korean reaction has been mixed, reflecting the conflicting attitudes of the government of Roh Moo Hyun and the conservative opposition. Some commentary pointed out the economic benefits that would accrue to South Korea from regional integration; but an article in the *Korea Times*, citing unnamed officials, attacked China for attempting to create an Asian economic bloc that it would dominate.¹⁹

Implications for the United States

Because China's intentions are shrouded by the opacity of Communist Party deliberations, forecasting developments in Asia is a dicey proposition at best. Will China's rise to great power status be peaceful, as Hu and company soothingly assure their neighbors, or will it be destabilizing, as was the case with Germany's and Japan's modernization drives of the nineteenth century? Whichever path China takes, the implications of its rise are likely to be profound for the United States and the West, as the global balance of power shifts to Asia.

First, China-led Asian economic integration is becoming a reality that can be expected to deepen and widen in the years ahead. Regional integration can no longer be ignored, as Asian experts have tended to do by catechismally reciting the ethnic, political, and religious obstacles to cooperation. The expansion of trade and investment between China and Southeast Asia promises to become the chrysalis of a broader East Asian Community, which will extend to Northeast Asia, the South Pacific, and possibly eventually to India. Although nothing

remotely resembling monetary union is likely to emerge from regionalism any time soon, closer cooperation to avert monetary crises is probably in the cards. ASEAN-plus-3 recently set up the Asian Bellagio Group, named after Europe's Bellagio Group, to stabilize regional currencies against the dollar.²⁰

Worried that China will eventually attempt to exclude the United States from Asian markets, the Bush administration has endeavored to make APEC the centerpiece of regional trade and development. This investment is likely to produce diminishing returns, however. While APEC will remain intact as one more discussion forum, its relative importance will eventually be eclipsed by China-centered regionalism. Nonetheless, in an interdependent international marketplace the United States and other APEC members from the Western Hemisphere can expect to maintain vibrant trade relations with the Asia-Pacific region, just as they do with the European Union.

Second, the divergence between regional economic linkages and U.S.-defined security interests is likely to increase. As is the case with the EU, increasing economic integration will unavoidably affect regional political relations and circumscribe political support for U.S. initiatives that are considered to be inimical to Asia's interests. Although the Southeast Asian states have steered clear of any involvement with such incendiary issues as North Korean nuclear arms or Taiwanese independence, one can expect a closer alignment with Beijing in the future as the PRC's economic leverage increases. The signs are already visible. Taken to task by Chairman Hu for visiting Taiwan before his inauguration last year, Lee Hsien Loong, Singapore's new prime minister, quickly kowtowed to the "one-China" line on the margins of the 2004 APEC summit in Chile and in his first speech as prime minister. Even Australia has expressed reservations about backing the United States in the event of a conflict between China and Tai-

wan. In an opinion poll published last March, 72 percent of the Australian public opposed siding with the United States in the event of cross-strait hostilities. More than two-thirds of those polled were favorably disposed toward China.²¹

Third, regional integration will over time weaken the integrity of the U.S.-centered hub-and-spoke framework of East Asian security. For the time being, of course, it is the U.S. military presence—the bilateral treaties anchored by American bases and the Seventh Fleet—that provides ASEAN with the security to engage its more powerful Chinese neighbor, and no one would be eager to see the United States leave, including the PRC. The balance of power aside, however, the "balance of influence," as a Singaporean official put it, is shifting in China's direction, a process that Beijing is carefully nurturing by its regional and bilateral trade agreements, and its diplomatic moderation within and without Asia.²² At some point, as the states on China's periphery become enmeshed in region-wide political and economic commitments, the bilateral treaties that were spawned by the Cold War will seem increasingly anachronistic. ASEAN members will still favor a regional balance of power, but they will most likely find it antithetical to their evolving economic and political interests to adopt measures that were patently aimed at circumscribing, much less confronting, China's regional influence.

Assuming that China adheres to its multilateralist orientation, America's bilateral security ties with Thailand, the Philippines, and Singapore are likely to gradually unravel. They could cease to exist altogether if an emerging East Asian Community were to adopt a cooperative security agenda that would obviate the need for continued American protection. The same can be said of South Korea, which is drawing closer to China economically, especially if the Korean peninsula is reunited. Although it is hard to imagine Australia jettisoning its alliance

with the United States, its integration in a regional trading area would call into question the durability of its treaty obligations. Australia has been a large beneficiary of China's insatiable quest for gas, coal, and iron ore, and it has begun to explore the prospects of entering into free trade agreements with ASEAN as well as China. Given the widening strains in Sino-Japanese relations, Tokyo's alliance with the United States, on the other hand, may well grow closer, a process that started in the mid-1990s with the Joint Declaration on Security and the Defense Cooperation Guidelines and that has intensified with the joint statement of February 18 explicitly identifying Taiwan as a security concern.

Bilateralism poses risks, however, for both Japan and the United States. If Japan remains aloof from regional integration, which it basically has until now, and thus unintentionally cedes Asian leadership to China, it could find itself uncomfortably dependent on the United States. This would make Japan even less of a "normal nation" than it currently is, and it would heighten nationalistic attitudes among conservative elements in society that wish to remove the military shackles imposed by the United States after World War II. Directly challenging China for regional supremacy would polarize the Asian community, and it could result in Sino-Japanese hostilities that would force the United States, by virtue of treaty obligations that are much more explicit than they are in the case of Taiwan, to come to Japan's aid. If, on the other hand, Tokyo decides to play a more dynamic part in regional economic integration—no easy task, given domestic protectionist pressures that obstruct free trade—it would surely lessen threat perceptions all around and help to solidify regional stability.²³

Fourth, in the future the United States may have to share power with China in the Asia-Pacific region. Assuming the continuation of China's economic growth and regional integration, it is utterly fatuous to be-

lieve, as many military officials do, that the United States will continue to exercise the same influence in 2020 that it wielded at the end of the Cold War. This is likely to be true even if North Korea were to remain a security threat for the foreseeable future, a condition Northeast Asia seems more prepared to live with than the United States, and in spite of the continuing political stand-off between Beijing and Taiwan, from which the rest of Asia, Japan excepted, remains politically detached. It is a virtual certainty that America's military presence will shrink, including in Japan, if tensions on the Korean peninsula are resolved and unification ensues and/or if some face-saving agreement can be worked out between China and Taiwan that, without rejecting the "one China" principle, eventuates in a cross-strait dialogue that gives Taipei a more or less equal status in the talks.

Fifth, China's ascendancy in East Asia presents a potential opportunity as well as a threat, and policymakers need to adjust their thinking to accommodate both possibilities. Peaceful development may be a ruse to deceive Asian leaders and the international community about China's long-term aim, which, as the Pentagon believes, is to supplant the United States in East Asia and challenge its global dominance. Or the Chinese may seek to become the cynosure of an economically integrated, politically stable Asia, which will work cooperatively with Washington to develop a new framework of American-East Asian relations. Because Beijing's long-term intentions are unpredictable, the United States will have to hedge its bets. The Bush administration should accordingly plan for the best and prepare for the worst.

Considering its uninterrupted defense build-up, it would be fanciful to discount the possibility that China seeks to become the dominant actor in Asia and to challenge the United States globally, a view that Secretary of Defense Donald Rumsfeld and CIA director Porter Goss expressed in February

2005 during hearings before the Senate armed services and intelligence committees.²⁴ With its acquisition of Su-27 and Su-30 fighter jets, Sovremenny-class destroyers, and Kilo-class submarines, among other assets, China has substantially improved its air and naval capabilities during the past decade. It has set up intelligence facilities in Myanmar to monitor Indian missile tests, and it has deployed some 700 short-range ballistic missiles along the Fujien Coast directly across the Taiwan Strait. The Chinese submarine incursion into Japanese waters last November may have been an accident, as Beijing insisted it was, but it may also have been intended to test Japan's surveillance capabilities.

The PRC's 12.6 percent hike in defense spending for 2005 ensures the continued flow of funds for modern weapons and training. China maintains that its defense budget of \$30 billion is lower than that of other major powers, but American military analysts believe that actual expenditures are anywhere from 40 percent to more than 100 percent higher. Moreover, the expansion of China's industrial and technological base will continue to underwrite qualitative as well as quantitative improvements in the military capabilities of the People's Liberation Army (PLA). Information technology, the deployment of space-based assets, and the integration of military platforms have become more prominent considerations in defense planning during the past several years, and they are likely to receive greater attention as force multipliers.²⁵

For at least the next decade, and probably longer, China will be in no position to challenge American supremacy in the Pacific, much less the larger international system, and its accommodation of the Bush administration following the U.S. response to the tragedy of 9/11 reflects its recognition of this inescapable reality. Like the mantra of peaceful development and regional economic integration, however, the rapprochement with Washington may be a deception;

Beijing may be hunkering down until it is ready to challenge the United States in Asia and elsewhere, although China's push into the Americas and Africa in search of natural resources suggests to some observers that the global contest may have already begun.²⁶

Historically, the appearance of an international rival has led to conflict, but the increasing economic interdependence of the international community may inhibit domineering tendencies and reduce the likelihood of a military clash so long as neither Washington nor Beijing overreacts. In an era of *mutualism*, both China and the United States may find that their shared interest in a productive, stable, and peaceful world may drive them to cooperate as well as compete with each other.²⁷ Clearly, the United States needs to hedge its bets against the possibility of a hegemonic China, but it needs to do so without engaging in a zero-sum game that forecloses options and ensures a worst-case outcome. This requires a two-pronged policy.

Overcoming Rigidities of Mind

Just as China endeavors to balance America's military might, the United States needs to guard against potential Chinese unilateralism in Asia. Shoring up the security alliance with Japan, as both the Clinton and Bush administrations have done, and developing closer military relations with India, as the United States is presently doing, are worthy initiatives so long as they are not obviously directed against China, which would undermine regional stability. This is particularly worrisome in Japan's case, where nationalism is on the rise and signs of a menacing rivalry with China have become more conspicuous in the past several months.

As Southeast Asian officials hasten to point out, regional cooperation will never materialize if China and Japan remain at odds with each other.²⁸ The end to anti-Japanese demonstrations in China and Prime Minister Koizumi's apology for Japan's past transgressions at the recent

Asia-Africa summit may have temporarily cleared the air, but tensions are not likely to recede so long as the specter of Japan's militarist past darkens the path to the future and forecloses a constructive dialogue between the two countries. Should threatening behavior on the part of China or North Korea prompt Tokyo to abandon or renounce its military strictures, Asia's fragile stability would be severely weakened, and all the more so if Japan were to develop nuclear weapons, which could lead South Korea and Taiwan to follow suit.

Thus far, the array of educational and cultural exchanges that are lumped under so-called Track II diplomacy have had little success in overcoming the residue of the past in both countries. Nor has the United States tried to build bridges between the two countries, in part because it probably sees Japan and South Korea as partners in the containment of China. Rather than continue this divisive approach, the Bush administration might consider brokering a *modus vivendi* between Tokyo and Beijing by convening a conference of respected historians and political scientists from China, Japan, and the United States to examine dispassionately but critically the record of the past so that the two parties might begin to reconcile themselves to it.²⁹ Acknowledgement and acceptance of past actions would help to reduce nationalistic tensions on both sides, improve the prospect of reaching some accord in the East China Sea, and serve as a model for the resolution of other territorial issues in the Asia-Pacific region. This would not undermine the U.S.-Japan alliance. Quite the contrary: that security relationship, plus the U.S. defense treaty with South Korea and the emerging security ties with India would serve as safeguards against possible Chinese hegemony and as building blocks of a future structure of political-security stability.

Given China's troubled history with Japan and India, the United States would have to exercise care to avoid exciting fears

of encirclement in Beijing. China's containment anxieties could be mitigated, however, if America's alliance with Japan and its budding security relationship with India were presented as a step toward the establishment of a cooperative security regime in East Asia, as retired admiral Dennis Blair, former commander of American forces in the Pacific, recommended four years ago.³⁰ Cooperative security would reinforce China's current multilateralist inclination without removing the United States from the regional security equation. Implicitly, Japan and India would form the nucleus of a balancing coalition, even as they engage in combined training exercises and broader military-to-military contacts, which could come into force if the PLA or Communist Party leaders showed signs of expansionist behavior.

Washington's support of regional economic integration, the second policy prong, would help to temper the fear of encirclement. More important, regional integration could also redound to American interests if it was accompanied by initiatives on Washington's part that buttress intra-Asian political and economic cooperation. An active American agenda in the Doha trade round, including leadership in reducing barriers to agricultural and textile imports from the developing world, would make Washington's free trade message more tangible and thus more credible. Rather than view Beijing's regional initiatives as a way of excluding the United States from Asian markets, the Bush administration might see them as an opportunity to enmesh China in a network of entangling agreements and obligations from which Beijing would materially benefit, and thus be reluctant to ignore or renounce, and to enhance the sale of American goods and services to the region.

Barring some domestic cataclysm, China will gain in wealth and power in the next 10 to 15 years. The challenge for American policymakers will be to manage China's rise

in such a way that it does not destabilize Asia or lead to conflict with the United States. Improving Sino-Japanese relations is critical to the preservation of Asian stability, a process that American diplomacy could help to jump start. Formulating a strategy that discourages Chinese domination of its neighbors without stifling Asian regional integration is no less essential to maintaining constructive relations between Washington and Beijing.

Because of China's ascendancy, the tectonic plates of the international political system are shifting for a second time since the end of the Cold War. In anticipation of the future that awaits us, the United States must develop new intellectual constructs that are relevant to the emerging global realities. To do so, we will need to liberate ourselves from the delusions of unipolarity and moral exceptionalism, self-congratulatory shibboleths that inhibit new thinking and conceptually separate the United States from the physical world with which we are inextricably entangled. Second, we will need to take a dispassionate but not uncritical view of China's rising power and how it may transform not only Asia but the larger international system as well. Abandoning the stereotype of China as an inevitable security threat to the United States is a good place to start lest we provoke the confrontational behavior we should be trying to discourage. Although Beijing must do its part to ensure that it does not become consumed with its own power, overcoming our rigidities of mind should at least make it possible to contemplate the construction of a stable Asian balance of power that will be in the mutual interest of China and the United States. ●

Notes

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2. Unless otherwise noted, all statistics are from the World Bank (www.worldbank.org) and the CIA (www.cia.gov/cia/publications/factbook).

3. Robert C. Fauver, "Prospects and Implications of Northeast Asia Regional Economic Integration," paper presented at State Department Conference on Northeast Asian Regional Economic Integration, Meridian International Center, Washington, DC, June 21, 2002; see also Paul Dibb, David D. Hale, and Peter Prince, "Asia's Insecurity," *Survival*, vol. 41 (autumn 1999), pp. 6–7; and R. William Liddle, "Indonesia in 2000: A Shaky Start for Democracy," *Asian Survey*, vol. 41 (January/February 2001), p. 218.

4. Shalendra D. Sharma, "Stability amidst Turmoil: China and the Asian Financial Crisis," *Harvard Asia Quarterly*, vol. 4 (winter 2000), p. 1.

5. The original five members of ASEAN are Singapore, Malaysia, Indonesia, Thailand, and the Philippines. Brunei became a member in 1984.

6. A currency swap is an agreement to exchange currencies on a short-term basis with the understanding that the exchange will be reversed at a specific time and price. Swaps are treated as foreign exchange reserves.

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13. Jane Perlez, "Southeast Asia Urged to Form Economic Bloc," *New York Times*, November 29, 2004; FBIS Media Analysis, www.harvard.edu, December 6, 2004.
14. Lardy made his comments at the American Enterprise Institute-National Defense University "China in Asia" seminar, April 21, 2005; see also Morris Goldstein and Nicholas R. Lardy, "What Kind of Landing for the Chinese Economy?" Policy Briefs, no. PB04-7, Institute for International Economics, November 2004; and "The Dragon and the Eagle: A Survey of the World Economy," *Economist*, October 2, 2004, p. 8.
15. David Shambaugh, "China Engages Asia: Reshaping the Regional Order," *International Security*, vol. 29 (winter 2004/05), p. 79.
16. Fang Zhou, "China, India Forming Strategic Ties," *China Daily*, February 18, 2005, www.chinadaily.com; Manjeet Kripalani, Dexter Roberts, and Jason Bush, "India and China: Oil Patch Partners?" *Business Week*, February 7, 2005, p. 53. India currently imports 70 percent of its oil, a figure that is projected to reach 85 percent by 2020; China presently imports of some 40 percent of its oil, a figure that is also likely to rise.
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18. FBIS Media Analysis, www.harvard.edu, December 6, 2004; Marvin C. Ott, "America and the New Dynamics of Asian Security," *Current History*, April. 2001, pp. 147–53.
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22. Shambaugh, "China Engages Asia," p. 66.
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