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China's Regional Strategy and Challenges in East Asia

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ABSTRACT: China has rapidly developed a sophisticated regionalism strategy in East Asia. Minimising the region's "China threat" perception has been a significant consideration in this strategy. Unfortunately, the ongoing escalation of tension concerning territorial disputes over the Diaoyutai / Senkaku Islands and the South China Sea, initiated by a series of high-profile naval exercises in the latter half of 2010, has reinforced the "China threat" perception and bolstered the hedging strategies of countries in the region. China is aware of its relative disadvantage, and it has been keeping its options open while allowing ASEAN to maintain the initiative.

KEYWORDS: Regionalism strategy, "China threat" perception, territorial disputes, sub-regional economic cooperation, hedging strategies, ASEAN Plus Three.

In 1993, when the ASEAN Regional Forum was about to be established, China was hesitant to join the multilateral regional organisation. There was a concern that China might become a target or come under pressure within the organisation. China ultimately participated after deciding that it would be better off influencing the forum from within than staying outside. In the early 1990s, China became involved in sub-regional economic co-operation projects such as the Tumen River Development Programme and the Greater Mekong Sub-region (GMS) Co-operation Programme; but its participation has markedly increased only in the last decade. By 2001, when the Shanghai Co-operation Organisation was formed, Chinese leaders were fully convinced that multilateral regional organisations were significant mechanisms for China to articulate its interests, strengthen its influence, cultivate its soft power, and promote multipolarity. In less than a decade, China was transformed from a passive, defensive participant to an active organiser with a well-defined agenda and strategy.

Meanwhile, China has been gradually moving away from the low-profile foreign policy line suggested by Deng Xiaoping in the wake of the Tiananmen Incident⁽¹⁾ towards the role of a "responsible stakeholder" in the international community⁽²⁾ while pursuing the status and influence of a major power. Deng Xiaoping's advocacy of peace and development is nevertheless still emphasised by the Chinese leadership today.⁽³⁾ China needs a peaceful international environment in order to concentrate on its economic development, and this in turn requires good relations with its neighbours. To this end, China wants to minimise the "China threat" perception among its neighbours.⁽⁴⁾ Active participation in regional organisations obviously helps to realise these objectives as minimum goals.

The Asia-Pacific financial crisis in 1997–1998 offered an important opportunity for China. The failure of the World Bank and the International Monetary Fund to help facilitated the establishment of the ASEAN Plus Three (APT) mechanism. China's refusal to devalue the RMB also impressed ASEAN countries, which saw China as a responsible major power that respected their interests. The APT mechanism and later the East Asia Summit demonstrate that enthusiastic participation in regional economic co-operation by major powers within the region contributes to a strengthening of regional identification.⁽⁵⁾

East Asia certainly feels pressure from the expansion of the European Union (EU) and the proposed establishment of the Free Trade Area of the Americas. In November 2007, ASEAN leaders signed the ASEAN Charter, which was declared to be in force in December the following year following completion of the ratification process by its members.⁽⁶⁾

China's regional strategy in East Asia is probably still taking shape; and this strategy is being pursued in an attempt to ensure that China will still be perceived as a "status quo power." China has been eager to convince the international community that it has no intention of being a "revisionist power" in the era of economic reforms and opening to the outside world.⁽⁷⁾ Its economic achievements demonstrate that it has benefitted from the existing international economic order, and its rising international status and influence have greatly reduced its incentive to challenge the existing international political order, despite concerns that the Western world still wants to "contain" China.

On the other hand, the world is becoming increasingly sceptical of China's peaceful rise. Since 2010, China has become considerably more assertive in

1. In the aftermath of the Tiananmen Incident, Deng Xiaoping released a number of guidelines for Chinese foreign policy; see Joseph Y.S. Cheng, "China's Foreign Policy in the Mid-1990s," in his edited work, *China in the Post-Deng Era*, Hong Kong, The Chinese University Press, 1998, pp. 225–226.
2. Robert Zoellick, "Whither China: From Membership to Responsibility?", speech made on 21 September 2005 in Washington, DC, available at www.state.gov/s/d/former/zoellick/rem/53682.htm (not accessible on 20 March 2013).
3. Deng Xiaoping, "The International Situation and Economic Problems," in *Selected Works of Deng Xiaoping, Vol. III (1983–1992)*, Beijing, Foreign Languages Press, 1994, p. 341.
4. Herbert Yee and Ian Storey (eds.), *The China Threat: Perceptions, Myths, and Reality*, New York, RoutledgeCurzon, 2002, pp. 1–19.
5. Walter Mattli, *The Logic of Regional Integration: Europe and Beyond*, Cambridge, Cambridge University Press, 1999, pp. 42–43.
6. See Hiro Katsumata, "The ASEAN Charter Controversy – Between Big Talk and Modest Actions," in Yang Razali Kassim (ed.), *Strategic Currents – Emerging Trends in Southeast Asia*, Singapore, S. Rajaratnam School of International Studies, Nanyang Technological University and Institute of Southeast Asian Studies, 2009, pp. 11–14.
7. Alastair Iain Johnston, "Is China a Status Quo Power?," *International Security*, Vol. 27, No. 4, Spring 2003, pp. 5–56; and Joseph Y.S. Cheng, "China's Asian Policy in the Early Twenty-first Century: Adjusting to Its Increasing Strength," *Journal of Asian Public Policy*, Vol. 1, No. 3, November 2008, pp. 237–266.

territorial disputes with Japan over the Diaoyutai (Senkaku) Islands as well as with Vietnam, the Philippines, etc., over the Spratlys. There have been many minor incidents and frequent confrontational naval manoeuvres and exercises. Meanwhile China's development of modern weaponry, including the imminent launch of two aircraft carriers, has also spurred military modernisation on the part of China's neighbours. Their adoption of hedging strategies has led in turn to strengthening their security ties with the US, facilitating the "return to Asia" policy of the Obama administration. There is a clear understanding on the part of the Chinese leadership that the country's external environment has been deteriorating.

There has been much academic discussion of a *status quo*-oriented foreign policy, especially within the school of classical realism. Hans J. Morgenthau holds that its objective is to maintain the existing distribution of power within a specific historical era.⁽⁸⁾ China's foreign policy researchers observe that a *status quo*-oriented foreign policy does not object to all changes; it only opposes significant changes such as the transformation of a first-rank power into a second-rank power. They tend to perceive *status quo* as an order that involves both power factors and institutional factors. A change in *status quo* cannot be achieved simply by altering the existing distribution of power; it is definitely accompanied by a change in international institutions. A new order can only be established through the establishment and acceptance of new institutions in which China will play a much more active and hopefully constructive role.

Alastair Iain Johnston's study of Chinese foreign policy has been followed by many think-tank researchers in Beijing's foreign policy establishment. Johnston argues that it cannot be demonstrated that China is a revisionist power operating outside the international community; instead China has become increasingly integrated with the international community and has been more and more co-operative.⁽⁹⁾ Despite the rhetoric, it is still unclear whether China has been actively grooming itself as a counterbalance to the predominance of the US in a unipolar world. China obviously has been joining an increasing number of international organisations; its level of participation is higher than those of other countries with a similar level of development.

There is no denying that China has been pursuing the status of a major power.⁽¹⁰⁾ It has spared no effort to protect its sovereignty and territorial integrity, with an emphasis on independence and unification, and to realise its modernisation goals. At the same time, it has embraced globalisation and is prepared to be more integrated with the international community through more active participation in international institutions. This development model has elements of power politics as well as of institutional co-operation. The former involve the gradual strengthening of China's military power, ranging from the development of a credible second strike nuclear force to that of a blue-water navy to protect its trade routes and territories in dispute. The latter refer to an emphasis on co-operation and economic benefit from China's external economic relations, striving to maintain a peaceful international environment on a long-term basis to allow China to concentrate on modernisation through the establishment of and participation in various bilateral and multilateral institutions and mechanisms. This participation has to be facilitated by strengthening mutual trust between China and its neighbours as well as delivering public goods to the regional and international community. Unfortunately, this mutual trust has been considerably compromised by China's recent assertiveness in regional territorial disputes. Beijing is aware that China's socio-economic development level is still very far behind that of developed countries, and hence China

needs much time and space for development without conflict. In concrete terms, this means normal if not cordial relations with all major powers, especially the US, friendly ties with China's neighbours, and the avoidance of wars and military conflicts. China will attempt to realise these objectives on a long-term basis.

China's optimal strategy at this stage would be to seek gradual, limited change while maintaining its "*status quo* power" image.⁽¹¹⁾ This change should ideally be secured through active participation, coalition-building and even leadership in international institutions. In its formal pronouncements, the Chinese leadership has been articulating the objective of building a new international order for decades. In 1996, Vice Premier Qian Qichen proposed a "new security concept" that was further elaborated by President Jiang Zemin in 1999, advocating principles of mutual trust, mutual benefit, equality, and co-operation to promote the concept of common security, mutual security, co-operative security, comprehensive security, and collective security as the foundation of a new international order.⁽¹²⁾ On the economic front, Chinese leaders have also indicated that China would adopt a responsible attitude toward participating in the co-ordination of international and regional economic policies to secure a fair and rational new order. From an offensive realism point of view, China is perceived as exploiting participation in international institutions and international co-operation to establish its major power status and image, and to secure the initiative in enhancing regional cooperation in East Asia.⁽¹³⁾

In the foreign policy section of his report at the Sixteenth Party Congress held in November 2002, Jiang Zemin elaborated on China's "periphery diplomacy," indicating that China would uphold the principles of "*yu lin wei shan, yi lin wei ban* (do good to neighbouring countries and treat them as partners)" and strengthen regional co-operation, pushing exchanges and co-operation with China's neighbouring countries to a new level.⁽¹⁴⁾ The following October, Premier Wen Jiabao addressed the first ASEAN commerce and investment summit and enunciated the principle of "*mulin, anlin, fulin* (maintaining good relations with China's neighbouring countries, offering them security and prosperity)."⁽¹⁵⁾ It was in this context that a revised Foreign Trade Law was implemented in July 2004. In addition to the previous emphasis on the principle of equality and mutual benefit, the revised law aimed

8. Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace*, New York, Alfred A. Knopf, 1956.

9. Alastair Iain Johnston, *op. cit.*

10. Deng Yong, "Better than Power: 'International Status' in Chinese Foreign Policy," in Deng Yong and Wang Fei-ling (eds.), *China Rising: Power and Motivation in Chinese Foreign Policy*, Lanham, Maryland, Rowman & Littlefield, 2005, pp. 51–52.

11. Randall Schweller divides major powers into four categories: status quo powers not accepting any changes; status quo powers accepting limited reforms; revisionist powers with relatively limited objectives; and revolutionary revisionist powers; see Randall Schweller, "Bandwagoning for Profit: Bringing the Revision State Back In," in Michael Brown (ed.), *The Perils of Anarchy: Contemporary Realism and International Security*, Cambridge, The MIT Press, 1995, pp. 251–270. As to how China fits into the categorisation, see Michael D. Swaine and Ashley J. Tellis, *Interpreting China's Grand Strategy: Past, Present and Future*, Santa Monica, California, The Rand Corporation, 2000, p. 231.

12. Information Office of the State Council, *China's National Defence*, Beijing, Information Office of the State Council, 2000, p. 8.

13. On offensive realism, see John J. Mearsheimer, *The Tragedy of Great Power Politics*, New York, W.W. Norton, 2001, p. 21. On China's exploitation of its participation in international affairs to enhance its international influence, see Richard Bernstein and Ross Munro, *The Coming Conflict with China*, New York, Alfred A. Knopf Inc., 1997, p. 53.

14. For the text of his report, see "Full Text of Jiang Zemin's Report at 16th Party Congress", *Renmin Ribao*, Beijing, 10 December 2002, www.english.peopledaily.com.cn/200211/18/eng20021118_106983.shtml (accessed on 20 March 2013).

15. For the text of his speech entitled "China's Development and Asia's Rise" (中國的發展和亞洲的振興), enunciated on 7 October 2003, see Ministry of Foreign Affairs of the People's Republic of China, www.fmprc.gov.cn/ce/ceindo/chn/xwdt/t86916.htm (accessed on 8 May 2013).

to include: "conclud[ing] or participat[ing] in agreements on customs alliance, free trade area agreements and other regional economic and trade agreements, and participat[ing] in regional economic organisations."⁽¹⁶⁾ Finally, at the Seventeenth Party Congress in October 2007, Hu Jintao indicated that China would "implement a free trade area strategy, strengthen bilateral and multilateral economic and trade co-operation."⁽¹⁷⁾ By then, China was clearly defining its regionalism strategy in diplomatic and economic terms.

This article intends to examine the objectives of China's regionalism strategy in East Asia, its options, challenges, and difficulties. The soft power aspects of this strategy will also be studied, as well as the strategies of other major powers in the region and their impact on the Chinese strategy. The policy measures adopted in pursuit of China's regionalism strategy will be carefully analysed to consider its strengths and weaknesses.

Options for China's regional strategy in East Asia

At this stage, China aims to strengthen its participation in all major regional organisations and will avoid making its long-term strategy explicit. China needs a peaceful international environment to concentrate on its modernisation; and since in many ways China is still a regional rather than global power, East Asia serves as the basis for it to seek the status and influence of a major power.

Asia-Pacific Economic Co-operation (APEC) forum

China's emphasis is on an East Asian regionalism excluding the US rather than an Asia Pacific regionalism, as reflected by its continued emphasis on the "ASEAN Plus Three" approach in regional economic co-operation. Naturally adjustments have to be made in view of the Barack Obama administration's "pivot" toward Asia strategy. Its objective is to promote multipolarity and reduce the predominance of the US as the sole superpower globally and regionally. In contrast, the US prefers institutions set in the wider Asia-Pacific context in which it has more allies sharing common values. But these institutions, including APEC, are perceived as complementary diplomatic instruments to its system of bilateral military alliances, especially its core alliance with Japan. Institutions in which the US participates are not perceived to pose a threat to its leadership in the region but rather to consolidate it.⁽¹⁸⁾

According to the analysis of Zhang Wei, deputy head of the Afro-Asian research department of the research institute affiliated with China's Ministry of Commerce, APEC and Asia-Europe Meeting (ASEM) are forum-type co-operation, as opposed to the two other types of economic co-operation in the Asia-Pacific region, i.e., co-operation based on certain definite mechanisms such as ASEAN Plus Three and the GMS economic co-operation programme, and co-operation based on concrete preferential arrangements such as the China-ASEAN Free Trade Area (CAFTA) and the bilateral free trade agreements (FTA) between China and Chile and between China and New Zealand.⁽¹⁹⁾

Apparently China wants to downgrade the importance of APEC. Chinese leaders would like APEC to continue to operate as an economic co-operation forum and not move towards a binding-type co-operation; it should concentrate on promoting economic and technological co-operation as well as trade and investment liberalisation in a balanced manner.⁽²⁰⁾

The Chinese leadership is aware that the Obama administration will inevitably focus on the Middle East and the war on terror followed by North Korea's nuclear weapons. The fall from power of the Tunisian and Egyptian governments and the regional political unrest have absorbed some of the Obama administration's attention. Hence APEC for a while was not a priority concern, and this seemed to be in line with China's interests. But East Asia has been accorded prominent priority by the U.S. now. Beijing also understands that the rise of China has become an over-riding issue for US foreign policy, but it has no intention of confronting the US in APEC.⁽²¹⁾ Although Chinese leaders have been reluctant to involve APEC in the global war on terrorism given their overt expectation of its role as a forum, they made no attempt to resist the diplomatic efforts of the Bush administration. China will remain active in APEC, and will maintain its *modus operandi* to ensure that APEC stays on the desired course.

New organisational initiatives

So far, China has offered few significant initiatives concerning institution-building in the Asia-Pacific or East Asia region. It appears to have an open mind. In response to the Asia Pacific Community proposal from then Australian Prime Minister Kevin Rudd, a spokesman of China's Ministry of Foreign Affairs indicated that China would adopt an open attitude regarding any proposal advantageous to the objective of realising common development, mutual benefit, and a win-win outcome for the Asia-Pacific region. The spokesman further stated that China considers enhanced regional co-operation a trend of the times, and that it hopes that all concerned countries in the Asia-Pacific region will work together to promote exchanges and strengthen mutual trust politically.⁽²²⁾ However, China's academic experts believe that China, at this stage, will concentrate on co-ordination with the ASEAN countries and respect ASEAN's guiding role in regional co-operation, and that it will support ASEAN Plus Three as the main channel for the promotion of regional co-operation.⁽²³⁾ With new leaders taking power almost simultaneously in China, Japan and South Korea in 2012, adjustments are expected on the part of the parties concerned; the expansion of the Trans-Pacific Partnership (TPP) and the Code of Conduct for the South China Sea also present new challenges for Beijing.⁽²⁴⁾

16. See Long Anshan et al., *Zhongguo-Dongmeng ziyoumaoyiqu jianshe: Lilun, shijian, qianjing* (The construction of the China – ASEAN Free Trade Area: Theory, practice and prospects), Shanghai, Shanghai Academy of Social Sciences Press, December 2008, p. 231.
17. For the text of Hu Jintao's report, see www.china.org.cn/english/congress/229611.htm (accessed on 20 March 2013).
18. Barry Desker, "APEC – Time for Second-Best Options," in Yang Razali Kassim (ed.), *op. cit.*, p. 86.
19. International Relations Department and Economic Diplomacy Research Centre, Tsinghua University (eds.), *Zhongguo Jingji Waijiao 2008* (China's Economic Diplomacy 2008), Beijing, China Economic Publishing House, December 2008, p. 208.
20. Lu Jianren, "Ping yataijinghezuzhi Lima huiyi" (On the APEC summit meeting in Lima), in Zhang Yuyan (ed.), *Yatai diqu fazhan baogao 2009* (Annual report on development of Asia-Pacific 2009), Beijing, Social Sciences Academic Press (China), 2009, p. 127.
21. Richard K. Betts, "The United States and Asia," in Ashley J. Tellis, Mercy Kuo, and Andrew Marble (eds.), *Strategic Asia 2008-09: Challenges and Choices*, Seattle and Washington, DC, The National Bureau of Asian Research, 2008, pp. 40–68.
22. "Zhongguo dui cujin yatai diqu gongtong fazhan chi kaifang taidu" (China adopts an open attitude regarding the promotion of common development in the Asia-Pacific Region), *Xinhuanet*, 5 June 2008, www.news.xinhuanet.com/newscenter/2008-06/05/content_8317484.htm (accessed on 20 March 2013).
23. Han Feng, "Aodaliya 'Yatai Gongtongti' jianyi" (The Australian proposal of the Asia Pacific community), in Zhang Yuyan (ed.), *op. cit.*, p. 186.
24. Mark J. Valencia, "What the 'Zero Draft' Code of Conduct for the South China Sea Says (and Doesn't Say)", *Global Asia*, Vol. 8, No. 1, Spring 2013, pp. 72–78.

Another potential initiative is the Six-Party Talks on the North Korean nuclear issue. The negotiations began in 2003, involving the US, China, Japan, Russia, and the two Koreas with China probably playing the most important role. When the Six-Party Talks made some progress, there was optimism that the negotiations might become a permanent security forum for East Asia. In April 2009, Pyongyang declared that it was pulling out of the Six-Party Talks in response to international criticisms of its controversial long-range rocket test.⁽²⁵⁾ In May that year, North Korea conducted its second nuclear explosion, and tension escalated in the Korean peninsula. Under such circumstances, there was no more suggestion of turning the talks into a permanent security forum. It is now amply clear that China's influence on Pyongyang remains limited, and that North Korea is more interested in direct negotiations with the US. Pyongyang's nuclear test in 2013 is embarrassing for Beijing; and there are suggestions that the Chinese leadership may have to re-think its policy towards North Korea.

In the initial stages of the Six-Party Talks, however, Beijing had indicated considerable enthusiasm for its institutionalisation. In November 2003, when then Chinese vice minister of foreign affairs Dai Bingguo visited Japan, he reportedly argued that institutionalising the Six-Party Talks would be the only way to make them sustainable in view of the lack of confidence and trust among the countries involved. Moreover, it would facilitate better implementation of the agreements reached, and might eventually strengthen the chance of building a security regime based on multilateralism and regionalism in East Asia.⁽²⁶⁾ Beijing's interpretation of institutionalisation was to transform the Six-Party Talks into a permanent regional security dialogue through the establishment of a "special small group" consisting of representatives of the six countries at vice minister or bureau director rank.⁽²⁷⁾ This would then act as the Six-Party Talks representative group. Beijing's position demonstrates that it supports an institutionalised regional security dialogue for Northeast Asia, especially when it holds the initiative.

On the financial front, the establishment of the "Asian dollar" is a very distant possibility, though Beijing has some success in promoting the use of the *yuan* in bilateral trade settlements. In May 2009, the finance ministers of China, Japan, and South Korea reached a consensus on the establishment of a regional foreign exchange reserve within the ASEAN Plus Three framework. China and Japan would offer US\$38.4 billion each and South Korea US\$19.2 billion, together constituting 80% of the reserve, which would begin operation at the end of the year. This was a response to the present global financial crisis, and it aims to maintain the stability of regional currencies in a financial crisis, reducing regional states' dependence on the International Monetary Fund (IMF). This reserve obviously may serve as the foundation for the establishment of an "Asian Monetary Fund" and even an "Asian dollar" as the regional currency.⁽²⁸⁾ The reserve was built on the Chiang Mai Initiative (CMI) initiated in 2000 by the ASEAN Plus Three in response to the Asia-Pacific financial crisis in 1997–1998; and it was basically a series of bilateral currency swap arrangements between countries of the group. It was the first step in regional financial co-operation in Asia but was linked to an IMF programme; it was further handicapped by the shortage of available funds and the lack of a central body.⁽²⁹⁾

China's Ministry of Commerce had earlier stated that an Asian currency unit would enhance the Chinese RMB's status and influence in Asia, and would strengthen the co-operation between China and other Asian countries.⁽³⁰⁾ It is certainly in line with Beijing's proposal for an international reserve currency in the long term, put forward in 2009 in the aftermath of the global financial crisis, and with the objective of weakening US influence

in Asia, but development will take a great deal more time. Meanwhile, China will concentrate on wider use of the RMB in international trade in preparation for it eventually becoming a hard currency.

ASEAN Plus Three

The IMF and, to a lesser extent, the World Bank's clumsy handling of the Asia-Pacific financial crisis in 1997 made Southeast Asian countries realise that they needed a regional mechanism that could react to an impending crisis in a timely manner; this realisation led to the emergence of the CMI and its later developments.⁽³¹⁾ The discrediting of the Washington consensus,⁽³²⁾ the inaction on the part of APEC, and US opposition to the establishment of an Asian Monetary Fund all provided impetus to the establishment of the ASEAN Plus Three mechanism, and persuaded the countries concerned to downplay earlier hesitation to implement the East Asia Economic Group proposal initiated by then Malaysian Prime Minister Mahathir Mohamad in December 1990.⁽³³⁾

By then, members of ASEAN Plus Three all appreciated the development of international production chains linking them together, and the demand for further regional economic integration to facilitate the freer flow of goods, services, and investment on the part of multinational corporations. There was also awareness that East Asia's regional economic integration was very much behind the progress of the EU and the North American Free Trade Agreement (NAFTA). Meanwhile, the stagnation of the Doha round of trade negotiations encouraged the proliferation of a multitude of bilateral and regional free trade agreements, and ASEAN Plus Three was a timely response to this development.

China apparently found the ASEAN Plus Three arrangement highly satisfactory; the exclusion of the US was an obvious factor. The fact that it emerged partly as an outcome of dissatisfaction with the IMF and APEC was interpreted as a decline in US influence in the region. In December 1997, the leaders of ASEAN and China held their first informal summit (ASEAN Plus One) and released a Joint Statement on the establishment of a partnership of good neighbourliness and mutual trust towards the twenty-first century. The partnership was subsequently upgraded to a

25. Hyung-jin Kim, "N. Korea Criticizes US Nuclear Protection of South," Associated Press Worldstream, 21 June 2009.
26. Aaron L. Friedberg, "Ripe for Rivalry: Prospects for Peace in Multipolar Asia," *International Security*, Vol. 18, No. 3, Winter 1993–4, pp. 1–56.
27. "Spokesman of MOFA: I hope to see the six-party talks institutionalised," *Renmin Ribao (Beijing)*, 25 February 2004. For scholarly points of view, see Jiang Xiyuan, "DPRK Nuke Problem and New Framework of Multilateral Security Co-operation in Northeast Asia," *SIS Journal*, Vol. 10, No. 4, November 2003, pp. 24–37; Pang Zhongying, "Building Regional Security System," *China Daily*, 26 March 2004; "Building a Regional Security Mechanism," *PacNet (Pacific Forum CSIS)*, No. 13A, 5 April 2004; and Jaewoo Choo, "China's Plans for a Regional Security Forum," *Asia Times*, 17 October 2003.
28. Jiang Yiqing, "'Yayuan' chengli zhi kexingxing fenxi" (A feasibility study for the establishment of the 'Asian Dollar'), *Asia-Pacific Peace Studies Monthly* (Taipei), Vol. 1, No. 6, June 2009, pp. 12–14.
29. Sun Jie, "ASEAN-China Financial Co-operation in the Asian Bond Market," in Saw Swee-Hock (ed.), *ASEAN-China Economic Relations*, Singapore, Institute of Southeast Asian Studies, 2007, pp. 176–178.
30. Jiang Yiqing, *op. cit.*, p. 13.
31. Tang Shiping, "East Asian Identity – After the Crisis," in Yang Razali Kassim (ed.), *op. cit.*, pp. 78–79.
32. John Williamson, "What Washington Means by Public Reform," in John Williamson (ed.), *Latin American Adjustment: How Much Has Happened?*, Washington, D.C., Institute for International Economics, 1990, pp. 8–19.
33. Richard Stubbs, "ASEAN Plus Three: Emerging East Asia Regionalism?," *Asian Survey*, Vol. 42, No. 3, May–June 2002, pp. 440–455.

strategic partnership for peace and prosperity in October 2003.⁽³⁴⁾ Between 1998 and 2000, China signed framework documents on bilateral relations or announced co-operation programmes with each of the ten ASEAN member states.⁽³⁵⁾ By 2005, a total of 46 mechanisms at various levels in 16 fields, including 12 at the ministerial level, had been established between China and ASEAN. In comparison, only 15 similar mechanisms existed between the US and ASEAN, despite the fact that the US was the most significant supporter of ASEAN at its birth in 1967.⁽³⁶⁾

In 2001, ASEAN and China identified agriculture, information technology, human resource development, mutual investment, and Mekong River Basin development as the five priority areas for co-operation in the early years of the twenty-first century. In 2002, a Framework Agreement on Comprehensive Economic Co-operation was signed to establish a free trade area (FTA) covering the six old ASEAN states by the year 2010 and covering all ten ASEAN members by 2015. Today, ASEAN has emerged as the third largest trading partner of China, ahead of Japan and just behind the European Union and the US.

Although China and ASEAN have been improving their relationship within the ASEAN Plus Three mechanism, progress in strengthening regional cooperation has been relatively slow because of the competition between China and Japan. In the first place, there are three ASEAN Plus One mechanisms within the ASEAN Plus Three framework between China, Japan, and South Korea respectively and the regional group. When China concluded its FTA agreement with ASEAN, Japan and South Korea felt the acute pressure of being left behind and immediately followed in China's footsteps.

Later in the development of the East Asia Summit (EAS), there was keen competition between two different views. In the final report of the East Asian Study Group delivered in 2002, the EAS was supposed to include only members of the ASEAN Plus Three,⁽³⁷⁾ and China was happy with this line of development. But then Japan, Indonesia, and Singapore again asked for the inclusion of Australia, New Zealand, and India. Apparently Malaysia was the only country that articulated reservations. The expansion of EAS from 13 to 16 members was related to the consideration of most ASEAN members that this arrangement would make it easier for ASEAN to maintain leadership.⁽³⁸⁾ As one researcher in the think tank of China's Ministry of Foreign Affairs indicated, this expansion of membership challenged China's previously favourable position in the EAS process.⁽³⁹⁾ China was further disappointed when ASEAN decided not to hold the second EAS in Beijing as China requested, but to ensure that the next and subsequent summits would be held in ASEAN countries only. More significant still, in 2010, the EAS further expanded to include the US and Russia; under such circumstances, China would have to focus again on ASEAN Plus Three.

In sum, China's preferred regionalism strategy in East Asia would be the ASEAN Plus Three approach, which excludes the US and allowed more room for China to maximise its influence. In this approach, China hopes to win over ASEAN and persuade South Korea to support its position. However, progress has not been smooth and China explicitly would like to keep all options open at this stage while the pressure of TPP increasingly looms large. China considers keeping a relatively low profile a prudent way of minimising resistance to its attempts to enhance its influence on the part of the major powers involved in the region as well as reducing suspicion and the sense of insecurity on the part of lesser regional powers.

Diplomatic and security challenges and difficulties in China's regionalism strategy in East Asia

While China's approach to various regional international institutions reveals the strengths and weaknesses of its regionalism strategy in East Asia, there are also diplomatic and security challenges based on its own values and foreign policy orientations as well as those of other countries involved in the region.

Sovereignty and institutionalisation

The Chinese Communist Party (CCP) traditionally considered the struggle against imperialism and the abrogation of the unequal treaties imposed on China its sacred missions. According to Shan Wenhua, while China today still maintains the "inviolability of sovereignty" position, it really refers to the "abstract sovereignty" concept, which only means that China, as a sovereign state, should retain ultimate control over its domestic affairs and enjoy an equal standing in the international community. Yet at the "concrete sovereignty" level, the Chinese authorities accept that specific sovereign powers may be divided, allocated, delegated, or transferred after a cost-benefit analysis. For example, since the 1990s, the Chinese government has reversed its position and has decided to accept the granting of national treatment and access to international dispute settlement forums in bilateral investment treaties.⁽⁴⁰⁾

The concept of sovereignty is also controversial in regional natural disaster relief, an important element in China's increasing concern over its involvement in non-traditional security issues. This controversy was highlighted by the devastation of Cyclone Nargis, which struck Myanmar in early May 2008 and posed a problem to the Chinese leadership in view of China's support for Myanmar. Under what circumstances would China accept that human security, which the international community has increasingly adopted as the norm for its rescue operations in recent years, takes precedence over traditional security based on national sovereignty? In the Myanmar case, China, Russia, South Africa, and Vietnam opposed the Responsibility to Protect doctrine and United Nations Security Council intervention to deliver relief supplies to stricken areas in Myanmar without the consent of its government.⁽⁴¹⁾ In the foreseeable future, this position on the part of China will facilitate Beijing's approach to the CLMV group of countries (i.e., Cambodia, Laos, Myanmar, and Vietnam) within ASEAN, but will continue to attract

34. Sheng Lijun, "China and ASEAN in Asian Regional Integration," in Wang Gungwu and Zheng Yongnian (eds.), *China and the New International Order*, London and New York, Routledge, 2008, pp. 256–261.

35. See ASEAN Secretariat, *Report of the ASEAN-China Eminent Persons Group*, November 2005, available online at www.aseansec.org.

36. See the speech by Singapore's ambassador to the US, Chan Heng Chee, at the Annual Ambassadors' Forum and Corporate Conference of Asia Society Texas on 3 February 2006, in *Straits Times*, Singapore, 15 February 2006, pp. 28–29.

37. See *Final Report of the East Asian Study Group*, www.aseansec.org/viewpdf.asp?file=/pdf/easg.pdf (not accessible on 20 March 2013).

38. Sheng Lijun, *op. cit.*, p. 271; and Chai Yu, *op. cit.*, p. 137.

39. Wei Min, "Zhongguo Dongmeng guanxi ji dongya hezu de huigu yu zhanwang (China-ASEAN relations and East Asia co-operation: Review and prospects)," from the official China-ASEAN FTA website, www.cafta.org.cn. The author was an associate professor at the China Institute of International Studies, Beijing.

40. Shan Wenhua, "Redefining the Chinese Concept of Sovereignty," in Wang Gungwu and Zheng Yongnian (eds.), *op. cit.*, pp. 53–80.

41. The National Institute for Defense Studies, Japan, *East Asian Strategic Review 2009*, Tokyo, The Japan Times, Ltd., May 2009, p. 159.

criticisms from the US and the Western countries and will be a bone of contention in the Sino-American competition for regional influence.

Today China faces a new challenge as the Myanmar leadership makes limited steps towards political liberalization to secure better relations with the US and EU in return for aid, trade and hopefully investment. Chinese leaders realize that Myanmar's dependence on China will decline, but they are prepared to maintain a close relationship with its neighbour while facing much keener competition.

In the pursuit of strengthening regional cooperation, the Chinese authorities accept that a much more flexible concept of "concrete sovereignty" is essential. Since the turn of the century, there have been many indications that the Chinese leadership has decided to pursue an active and constructive role in international organisations. The EU serves as a very useful reference. Many Chinese scholars perceive the European model as dealing with international relations via "institutionalisation" and "the construction of multilateral institutions"; the "institution" is a crucial pillar of the EU's "civilian power" and the main source of its influence.⁽⁴²⁾ Chinese academics in the field of international relations have shown a strong interest in three major EU approaches: common security (as opposed to absolute security), multilateralism (as opposed to unilateralism), and a global treatment of international problems and crisis (as opposed to short-term and *ex post* solutions). The promotion of common security emphasises regional security as well as economic and political means, and deals with international crisis through internal and external co-operation as well as economic and cultural exchanges.⁽⁴³⁾

Great power ambitions, lack of trust and hedging strategy

In the 1990s, China was more interested in promoting multipolarity as well as establishing strategic partnerships and various types of partnerships to reduce US influence.⁽⁴⁴⁾ In the past decade or so, China has toned down its confrontational rhetoric about American "hegemonism." Worries of US containment have re-emerged in the official media since 2010, however, and they seem to have been strengthening. Chinese leaders have been trying hard to assume a constructive role in resolving international disputes or alleviating tension, as well as demonstrating a diplomatic activism involved in multilateral mechanisms and collective security and promoting win-win solutions to international problems. In the East Asian context, China has been promoting good-neighbourly relations and regional cooperation.

The most serious limit to the EU model's influence on China's regionalism strategy in East Asia, however, is the great power ambitions of China and other major powers in the region, including the US, Russia, Japan, and India.⁽⁴⁵⁾ The present Chinese leadership continues to identify the US as China's principal external threat, while the US-Japan alliance places Japan in the same category with the US; Japan is also perceived as an important competitor in the East Asia region. Although China has succeeded in reducing the "China threat" perception⁽⁴⁶⁾ on the part of ASEAN countries to a considerable extent, many of them still adopt a policy of "hedging" against China, i.e., engaging China while enhancing ties with other extra-regional powers so as to balance China.⁽⁴⁷⁾ China's assertiveness in territorial issues and maritime rights has in fact strengthened such hedging strategies since 2010. As argued by Sheng Lijun, a strong but balanced relationship with the US serves not only as security insurance but also as an incentive to persuade China to make more economic concessions. "Ironically, the more China pushes in deepening its relations with ASEAN, the more ASEAN may feel

that it needs a strong relationship with other extra-regional powers to keep the balance."⁽⁴⁸⁾

ASEAN countries' adoption of a "hedging" strategy reflects the lack of trust and confidence among members of ASEAN Plus Three. Regionalism in Northeast Asia must be realised as a pre-requisite to East Asian regionalism, and the lack of close regional cooperation in Northeast Asia is because China and Japan cannot co-operate to support the objective. There are other factors as well, including animosity arising from past relations among the regional states; differences in political and social systems; discrepancies in economic development levels; and a long tradition of ethnic homogeneity that does not allow nations to be susceptible to the concept of integrating with others.⁽⁴⁹⁾

The history textbook issue and Koizumi Junichiro's visits to the Yasukuni Shrine while he was Japan's prime minister (2001-2006) caused severe setbacks in Sino-Japanese relations and blocked any significant progress in regionalism in Northeast Asia and East Asia. It symbolically reflected the problem caused by rising nationalism in both countries and their gradual loss of vision and tolerance to tackle difficulties. Some academics would argue that this lack of trust can be traced to earlier developments. After the Taiwan Straits crisis in 1996, the strengthening of the "hedging" strategy on the part of the US and Japan was reflected by their subsequent reforming of their alliance structure.⁽⁵⁰⁾ Sino-Japanese mutual suspicions were then further exacerbated during the Asia-Pacific financial crisis in 1997, when China and Japan revealed a reluctance to engage in full co-operation and a sense of competition in supporting ASEAN.⁽⁵¹⁾ The Japanese now feel very uncomfortable with a rising China as the territorial dispute over the Diaoyu/Senkaku Islands has been deteriorating since the late 2000s. China's policy towards Japan is perceived as probably the most serious problem in its foreign relations and Chinese leaders believe that they cannot afford to be seen to be weak in dealing with Japan because of domestic nationalist pressure.

42. See Zhang Jun, "Cong ya-ou huiyi jin cheng kan fazhan guoji guanxi de 'ouzhou moshi'" (A European model of international relations from the view of the Asia-Europe meeting), *Ouzhou yanjiu (European studies)*, No. 1, February 2006, p. 4; and Song Xinning, "Zhongguo de jueqi yu ouzhou de jingyan" (China's rise and the European experience), *Jiaoxue yu yanjiu (Teaching and research)*, No. 4, April 2004, pp. 6-7.
43. Qiu Yuanlun, "Cong wuda guanjianci rushou liaojie ouzhou wajiao" (Understanding European diplomacy from five key words), *Xiandai guoji guanxi (Contemporary international relations)*, No. 3, March 2002, p. 23.
44. Joseph Yu-shek Cheng and Zhang Wankun, "Patterns and Dynamics of China's International Strategic Behaviour," *Journal of Contemporary China*, Vol. 11, No. 31, May 2002, pp. 235-260.
45. Jean-Pierre Cabestan, "Learning from the EU? China's Changing Outlook toward Multilateralism," in Wang Gungwu and Zheng Yongnian (eds.), *op. cit.*, pp. 211-214.
46. Herbert S. Yee and Ian Storey (eds.), *The China Threat: Perceptions, Myths and Reality*, London, RoutledgeCurzon, 2002.
47. See "Contending Perspectives: Southeast Asia and American Views of a Rising China," *Colloquium Brief*, Carlisle, Pennsylvania, Strategic Studies Institute, US Army War College, 2006.
48. Sheng Lijun, *op. cit.*, p. 270.
49. Jaewoo Choo, "Northeast Asia Regionalism and China - From an Outside-in Perspective," in Wang Gungwu and Zheng Yongnian (eds.), *op. cit.*, p. 220. For a detailed analysis on the impact of the "comparatively high degree of ethnic homogeneity" on the shaping of the regional international relations, see Christopher M. Dent, "Introduction: Northeast Asia - A Region in Search of Regionalism?," in Christopher M. Dent and David W. F. Huang (eds.), *Northeast Asian Regionalism: Learning from the European Experience*, London, RoutledgeCurzon, 2002, pp. 4-8.
50. Christopher Preble, "Two Normal Countries: Rethinking the US-Japan Strategic Relationship," *Policy Analysis*, No. 566, April 2006, www.cato.org/pub_display.php?pub_id=6335 (accessible on 20 March 2013); and Wu Xinbo, "The End of the Silver Lining: A Chinese View of the US-Japan Alliance," *Washington Quarterly*, Vol. 29, No. 1, 2005-6, pp. 119-130.
51. Gilbert Rozman, "China's Changing Images of Japan, 1989-2001: The Struggle to Balance Partnership and Rivalry," *International Relations of the Asia Pacific*, Vol. 2, No. 1, February 2002, pp. 95-130; and Jian Yang, "Sino-Japanese Relations: Implications for Southeast Asia," *Contemporary Southeast Asia*, Vol. 25, No. 2, 2003, pp. 306-327.

The above difficulties might have encouraged the Northeast Asian states to actively pursue cooperation with Southeast Asia on an individual basis; but this is not sustainable in the long term if the former do not seriously move to strengthen trust and co-operation among themselves. After the stepping down of Koizumi Junichiro, there was some progress in co-operation among China, Japan, and South Korea. In the autumn of 2006, Abe Shinzo visited China; the "ice-breaking trip" resulted in a joint press statement indicating that both countries would aim to build a mutually beneficial relationship based on common strategic interests. Sino-Japanese relations continued to improve on this basis. When Hu Jintao visited Japan in May 2008, the two governments signed a Joint Statement on Comprehensive Promotion of a Mutually Beneficial Relationship Based on Common Strategic Interest regarded as the "fourth important political document" guiding the bilateral relationship. In the following month, Beijing and Tokyo announced an agreement to establish a joint development zone in the northern section of the East China Sea; and for Japanese companies to participate in the Chunxiao gas field (Shirakaba in Japanese), where China had already begun development, according to Chinese law. The agreement would not compromise territorial claims on the disputed islands by both sides. Unfortunately these efforts came to nothing as the Diaoyu/ Senkaku Islands territorial dispute escalated.

After one year, the first prime minister of the Democratic Party of Japan (DPJ), Hatoyama Yukio, was replaced by Kan Naoto. Japan experts in China blamed the shifting of the factional balance within the DPJ government for the mishandling of the fishing boat incident in September 2010. The detention and prosecution of the Chinese boat captain by the local court in Japan was perceived to have gone beyond the normal pattern and an attempt to strengthen Japan's sovereignty claims over the Diaoyu/ Senkaku Islands. When in 2012, the Tokyo governor, Ishihara Shintaro, raised funds to purchase two of the islands from the Japanese private owner, the territorial dispute further escalated. The Chinese authorities and the people did not accept that the intervention by the Noda Yoshihiko administration to acquire the islands was an attempt to defuse the issue.

At the end of May 2008, the China-South Korea summit talks also led to the upgrading of the bilateral relationship to a "strategic partnership" and plans for the two governments to negotiate a free trade agreement. The improvement in relations among China, Japan, and South Korea and the global financial crisis prompted their closer co-operation in the financial field. In May 2009, the three countries agreed to contribute to a regional foreign exchange reserve fund serving ASEAN Plus Three, offering member countries liquidity when they were in difficulty in a financial crisis. This reserve fund might lead to the establishment of the Asian Monetary Fund and even an Asian currency unit in the future.⁽⁵²⁾

The North Korean government's sinking of the Cheonan corvette and the shelling of the Yeonpyeong Island in 2010, followed by the nuclear and missile tests in 2012 almost reduced the Six-Party Talks to bankruptcy. The Chinese leadership feels that its support for Pyongyang has not delivered results, instead the Kim regime's aggression has contributed to the strengthening of the US's security ties with Japan and South Korea to the disadvantage of China. The Chinese intelligentsia has started to question China's policy towards North Korea. In 2013, there are no indications yet that the new Chinese leadership would initiate a rethink of the bilateral relationship, but there seems to be obvious disappointment on the part of Beijing.

Soft power⁽⁵³⁾

When Chinese leaders began to engage in multilateral diplomacy at the end of the Cold War, they might not have been aware of the need to cultivate China's soft power. Today, they probably have a well-planned design to exploit international institutions and non-government organisations (NGOs) as global platforms to promote multilateral co-operation in various spheres, so as to cultivate a peaceful international environment to facilitate China's development. This design also serves China's regional strategy in East Asia.

As argued by Joshua Cooper Ramo, the Chinese model has begun to alter global development parameters in the economic, social, and political aspects. China thus has been able to reduce the influence of the US, which is perceived to have been promoting its interests unilaterally. China's development model offers new ideas to guide developing countries to protect their respective lifestyles and political options, and to realise genuine independence while converging with the international order in their respective development courses. The 2008 global financial crisis has further discredited the "Washington consensus" as the Bush and the Obama administrations have pursued a course of action condemned by the US authorities during the previous regional financial crises. Meanwhile, China has a good opportunity to seek a louder voice in the international financial restructuring and to better articulate the interests of developing countries.

Chinese leaders have also been building various international forums since the turn of the century to engage in Track-2 dialogue, including the Boao Forum for Asia in 2001; it aims at dialogues and exchanges with other regions to strengthen economic ties within Asia and between Asia and the external world. In 2002, after a visit to Peking University by a higher education delegation from South Korea, both parties reached agreement to hold the first annual meeting of the Beijing Forum on "The Harmony of Civilisations and Prosperity for All" in August 2004. Then, in May 2005, Fudan University hosted the Shanghai Forum on "Economic Globalisation and the Choice of Asia" involving academics, experts, entrepreneurs, and politicians from various countries to discuss the challenges of globalisation.⁽⁵⁴⁾ The hosting of international forums at the civil society level has now become a trend in China's major cities as well, and "sister city" relationships continue to multiply, as reflected by the annual reports of the Chinese foreign ministry.

The spread of Chinese culture and language now constitutes an important element in the cultivation of China's soft power. Following the examples of the British Council, the Alliance Française, the Goethe-Institut, etc., China has initiated its Confucius Institutes project. Following the launch of the first Confucius Institute in Seoul on 21 November 2004, there were 400 Confucius Institutes in more than 50 countries by the end of 2012.⁽⁵⁵⁾ The Institutes offer five types of services: promotion of Chinese-language teaching; training of Chinese-language teachers and provision of Chinese-language teaching resources; holding Chinese-language examinations and certification of Chinese-language teachers; information and consultation

52. Jiang Yiqing, *op. cit.*, p. 19.

53. Joseph S. Nye, Jr., *Soft Power: The Means to Success in World Politics*, New York, Public Affairs, 2004.

54. Tsai Tung-chieh and Hung Ming-te, "Meizhong liangguo zai dongnanya diqu de ruanquanli gouzhu yu jingzheng" (Constructing and competing for soft power in Southeast Asia between the US and China), *Prospect Quarterly* (Taipei), Vol. 10, No. 1, January 2009, p. 60.

55. "Confucius Institutes in the World," Web site of the Office of Chinese Language Council International (Hanban), www.hanban.org/hb/node_7446.htm (accessed on 3 April 2013).

Table 1 – Intra-Regional Shares of Non-oil Trade (%) in 1986/87, 1994/95, and 2006/07 (a)

Item	East Asia	Developing East Asia	ASEAN +3	ASEAN	NAFTA	EU-15
Total non-oil trade (b)						
Exports						
1986/87	29.3	24.1	20.9	9.8	45.1	66.6
1994/95	49	38	32.6	20.8	44.2	64.8
2006/07	44.5	34.4	31.5	18.9	48.4	59.5
Imports						
1986/87	41.5	24.6	29.8	8.6	31.8	66.3
1994/95	55.7	36.4	39.9	16.6	38	63.9
2006/07	62.7	47.2	47.9	22.8	34.1	58
Total trade (exports + imports)						
1986/87	34.4	24.3	24.5	9.2	37.3	66.5
1994/95	52.1	37.2	35.9	18.4	40.8	64.3
2006/07	52.1	40.2	38.7	21.2	40	58.7

(a) – Two-year averages;

(b) – Total merchandise trade excluding oil and gas (SITC 3)

Sources: Compiled from UN Comtrade database (SITC Rev 3); ADBI Working Paper 177 Athukoral, please see www.adbi.org/files/2009.12.11.wp177.intra.regional.trade.east.asia.pdf (accessed on 13 May 2013)

services on Chinese education and culture; and development of language and cultural exchanges between China and foreign countries.

The Confucius Institutes are example of the Chinese authorities' attempts to exploit the soft power of Chinese heritage; in recent years they have also been spending substantial resources to establish global media conglomerates to influence international public opinion. So far the impact remains limited. The fatal weakness appears to be that China's media do not enjoy freedom and autonomy, and as such they lack credibility and appeal. Unless the Chinese leadership is ready to accept freedom of the media, the pursuit of influence in international discourse will be an uphill task. At the same time, China's assertiveness in handling territorial disputes and maritime rights has also led to nationalist feelings in the region against China, reducing its appeal.

Economic challenges and difficulties in China's regionalism strategy in East Asia

China's major economic power status in East Asia is based on its impressive economic growth, rapid increases in industrial production and trade, and the expansion of its domestic market. To the countries of ASEAN Plus Three, China's economic development and rise in purchasing power have been serving as an engine for regional economic growth, a market for their exports, and outlet for their investment. China's attraction of external investment, trade, and commerce activities in turn enhances the region's economic vitality and international competitiveness.⁽⁵⁶⁾ Hence China's economic development has been an asset for the promotion of regional

economic integration and regionalism. Chinese leaders further appeal for the establishment of a new international political and economic order, respect for diversity among countries in the region, and the promotion of global economic relations based on equality, mutual benefit, and win-win scenarios so as to protect the interests of developing countries.⁽⁵⁷⁾

In terms of intra-regional trade share and the trade intensity index in East Asia, there is a good foundation for regional economic integration (see Table 1); and it is obvious that ASEAN Plus Three is the only viable grouping, comparing favourably with the North American Free Trade Area (NAFTA) and not too far behind the EU prior to its further expansion in this century. ASEAN as a group is too dependent on external markets, and it also relies heavily on investment from outside the region.

Table 2 provides a summary of ASEAN free trade agreements and regional trade agreements that have largely been concluded in recent years. They reflect a disappointment with the lack of progress in the promotion of free trade within the global WTO framework as well as keen interest in the establishment of partial free trade areas within the ASEAN Plus Three framework after the Asia-Pacific financial crisis in 1997 and especially after China's approach to ASEAN in the beginning of the twenty-first century.

The impact of this "spaghetti bowl" of FTAs is mixed, as shown by Table 3.

56. Thomas Dorsey, David Robinson, Yongzheng Yang, and Harm Zebregs, "The Impact of WTO Accession," in Wanda Tseng and Markus Rodlauer (eds.), *China: Competing in the Global Economy*, Washington, DC, International Monetary Fund, 2003, pp. 192–194.

57. Wu Lingjun, "Zhongguo yu dongya quyu jingmao hezuo: Quyu zhuyi yu baquan zhijian de guanxi" (China and East Asian regional economic and trade co-operation: The relationship between regionalism and hegemony), *Issues and Studies*, Vol. 44, No. 5, September 2005, pp. 1–27.

Table 2 – ASEAN Free Trade Agreements and Regional Trade Agreements

ASEAN Member States	WTO/APEC Member	FTA/RTA Concluded	FTA/RTA Under Negotiations
ASEAN	–	China (2010); India (2009); Japan (Comprehensive Economic Partnership, 2003); Korea (Goods and Services, 2005; Investment, 2009); Australia & New Zealand (2009)	Korea; EU; US (TIFA)
Brunei Darussalam	Yes / Yes	AFTA (1992); Japan (Economic Partnership Agreement, 2008)	US (TIFA)
Cambodia	Yes / No	AFTA (1992)	US (TIFA)
Indonesia	Yes / Yes	AFTA (1992); Japan (Economic Partnership Agreement, 2007)	US (TIFA)
Lao PDR	No / No	AFTA (1992)	–
Malaysia	Yes / Yes	AFTA (1992); Japan (Economic Partnership Agreement, 2005); Pakistan (Closer Economic Partnership Agreement, 2007)	Australia; India (Comprehensive Economic Co-operation Agreement); Korea; New Zealand; US (TIFA); EU; Chile
Myanmar	Yes / No	AFTA (1992)	–
Philippines	Yes / Yes	AFTA (1992); Japan (Economic Partnership Agreement, 2006)	US (TIFA)
Singapore	Yes / Yes	AFTA (1992); New Zealand (2000); EFTA (2002); Japan (2002); Australia (2003); US (2003); Jordan (2004); India (2005); Korea (2005); Panama (2005); Trans-Pacific SEP (Brunei, New Zealand, Chile, Singapore) (2005); China (2008); Peru (2008); The Gulf Cooperation Council (2008)	Canada; Mexico; Pakistan; Ukraine; EU
Thailand	Yes / Yes	AFTA (1992); Bahrain (2002); China (Preferential Trade Agreement on Agriculture, 2003); India (Early Harvest, 2003); Peru (Closer Economic Partnership, 2003; Early Harvest, 2005); Australia (2004); New Zealand (2005); Japan (Closer Economic Partnership, 2007); Korea (2009)	US (TIFA); Peru; India; EFTA
Vietnam	Yes / Yes	AFTA (1992); Japan (Economic Partnership Agreement, 2009)	Chile; Japan; EU (Partnership and Cooperation Agreement); US (TIFA)

Sources: US-ASEAN Business Council, www.us-asean.org/ASEAN/FTA_Matrix.doc (accessible on 20 March 2013); ASEAN Secretariat, "Framework Agreement on Comprehensive Economic Co-operation Between the Republic of India and the Association of Southeast Asian Nations, Bali, 8 October 2003," www.aseansec.org/22563.htm (accessible on 20 March 2013); ASEAN Secretariat, "Joint Media Statement on the Signing of the Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area, Cha-am, Thailand, 27 February 2009," www.aseansec.org/22255.htm (accessible on 20 March 2013); ASEAN Secretariat, "China Ready to Accommodate on ASEAN-China FTA," 22 January 2010, www.aseansec.org/24209.htm (accessible on 20 March 2013); ASEAN Secretariat, "The Sixth AEM-ROK Consultation, 15 August 2009, Bangkok, Thailand – Joint Media Statement," www.aseansec.org/JMS-6th-AEM-ROK.pdf (accessible on 20 March 2013); ASEAN Secretariat, "ASEAN and India Sign the Much Awaited Free Trade Area," 13 August 2009, www.aseansec.org/PR-ASEAN-India-Sign-Much-Awaited-FTA.pdf (accessible on 20 March 2013); "Japan-Brunei FTA Takes Effect Thursday," TMCnet.com, 30 July 2008, www.tmcnet.com/submit/2008/07/30/3576562.htm (not accessible on 20 March 2013); Malaysia External Trade Development Corporation, "Malaysia-Pakistan Closer Economic Partnership Agreement," www.matrade.gov.my/cms/content.jsp?id=com.tms.cms.article.Article_hide_MalaysiaPakistan (not accessible on 20 March 2013); Government of Singapore, "FTAs," www.fta.gov.sg/sg_fta.asp (accessible on 20 March 2013); Department of Trade Negotiations, Ministry of Commerce, Thailand, www.thaifita.com/english/index_eng.html; Vietnam Foreign Trade Office in Japan, "Japan Approved Economic Partnership Agreement with Vietnam," www.moit.gov.vn/vsi_portlets/portlet_action/cmsportlet/printarticle?arcl=4194 (not accessible on 20 March 2013), 26 June 2009; "Vietnam and Chile to Sign FTA Soon," Communist Party of Vietnam Online Newspaper, 17 May 2009, www.cpv.org.vn/cpv/Modules/News_English/News_Detail_E.aspx?CN_ID=340759&CO_ID=30180 (accessible on 20 March 2013); Department of Trade Negotiations, Thailand, www.thaifita.com/; and "Thai-Korean FTA offers ray of hope to businesses," Bangkok Post, 28 February 2009, www.bangkokpost.com/business/economics/12488/thai-korean-fta-offers-ray-of-hope-to-businesses (not accessible on 20 March 2013).

Notes: 1. AFTA: ASEAN Free Trade Agreement; EFTA: The European Free Trade Association (member countries: Switzerland, Iceland, Liechtenstein, and Norway); SEP: Strategic Economic Partnership; and TIFA: Trade and Investment Framework Agreement.

2. The above data do not include other types of regional co-operation such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) involving Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand.

The ASEAN Free Trade Area officially came into existence in 2002; and although the six long-standing members agreed to reduce tariffs on one another's goods to a maximum of 5%, non-tariff barriers and excise duties remain in place. More significant still, where manufacturing industries might benefit from economies of scale and an integrated internal market, ASEAN governments remain stubbornly protectionist; the Malaysian carmaker Proton has been an obvious example.⁽⁵⁸⁾ In absolute terms, intra-ASEAN trade

increased from US\$159.91 billion in 2002 to US\$598.24 billion in 2011; but in terms of trade share, intra-ASEAN trade increased from 22.4% of the total in 2002 to 25.1% in 2003, but remained roughly at the same level afterwards, remaining at 25% in 2011 (see Table 3). In the case of Japan, its share of ASEAN trade declined from 15.3% in 2000 to 11.4% in 2011,

58. David Martin Jones and M.L.R. Smith, *ASEAN and East Asian International Relations – Regional Delusion*, Cheltenham, UK, and Northampton, Massachusetts, US, Edward Elgar, 2006, p. 137.

Table 3 – Intra and Extra-ASEAN Trade, 1993–2011 (US\$ billion)

Year	Intra-ASEAN Trade		Extra-ASEAN Trade		ASEAN Trade with China		ASEAN Trade with Japan	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
1993	82.44	19.2	347.5	80.8	8.87	2.1	86.66	20.2
1994	105.48	20.5	408.52	79.5	11.06	2.2	101.6	19.8
1995	123.78	20.1	491.47	79.9	13.33	2.2	121.22	19.7
1996	145.18	21.5	528.78	78.5	16.69	2.5	116.46	17.3
1997	149.97	21.5	548.67	78.5	22.65	3.2	113.27	16.2
1998	120.92	21	455.19	79	20.41	3.5	81.41	14.1
1999	132.67	21.3	490.48	78.7	21.92	3.5	89.15	14.3
2000	166.85	22	592.25	78	32.32	4.3	116.19	15.3
2001	150.32	21.8	540.67	78.2	31.92	4.6	101.51	14.7
2002	159.91	22.4	553.91	77.6	42.76	6	97.59	13.7
2003	206.73	25.1	617.81	74.9	59.64	7.2	113.4	13.8
2004	260.7	24.3	811.15	75.7	89.07	8.3	143.26	13.4
2005	304.89	24.9	920	75.1	113.39	9.3	153.83	12.6
2006	352.77	25.1	1,052.03	74.9	139	9.9	161.8	11.5
2007	401.92	25	1,208.87	75	171.12	10.6	173.06	10.7
2008*	458.04	26.8	1,252.33	73.2	192.53	11.3	211.99	12.4
2009	376.21	24.5	1,160.64	75.5	178.19	11.6	160.86	10.5
2010	520	25.4	1,523.00	74.6	231.22	11	203.9	10
2011	598.24	25	1,790.35	75	280.41	11.7	273.35	11.4

Sources: Association of Southeast Asian Nations, ASEAN Statistical Yearbook 2006, Jakarta, The ASEAN Secretariat, 2007; and Association of Southeast Asian Nations, ASEAN Statistical Yearbook 2008, 2010, 2011, 2012, Jakarta, The ASEAN Secretariat, 2009, 2011, 2012, 2013. The data are calculated from the sources in the following:

www.asean.org/images/2012/publications/ASEAN%20community%20in%20figures.pdf

www.asean.org/images/2013/resources/statistics/statistical_publication/ASEAN_Statistic_Leaflet-2012_REV.pdf

www.asean.org/images/archive/documents/asean_statistical_2010.pdf

www.oecd.org/daf/inv/investmentfordevelopment/46485385.pdf

www.asean.org/images/2013/resources/statistics/Foreign%20Direct%20Investment%20Statistics_/Table%2025.pdf

www.asean.org/images/2013/resources/statistics/Foreign%20Direct%20Investment%20Statistics_/Table%2026.pdf

www.asean.org/images/2013/resources/statistics/Foreign%20Direct%20Investment%20Statistics_/Table%2027.pdf

www.asean.org/images/2013/resources/statistics/external_trade/table18.pdf

www.asean.org/images/2013/resources/statistics/external_trade/table24r.pdf

Notes: 1. Figures may not add up to totals due to rounding off.

2. * All figures are preliminary, with Cambodia being estimated using trade growth as in World Bank, World Bank Economic Update for the East Asia and Pacific Region, April 2009, www.worldbank.org.

though in absolute terms, Japan-ASEAN trade increased from US\$116.19 billion to US\$273.35 billion in the same period. Sino-ASEAN trade, as expected, did remarkably well; it rose from US\$32.32 billion (4.3% of ASEAN's total trade) in 2000 to US\$280.41 billion (11.7% of ASEAN's total) in 2011.

The China-ASEAN Free Trade Area was formally launched on 1 January 2010, hence the process of tariff reduction and elimination will continue to step up in the coming years (see Table 4). China has been the largest trade partner of ASEAN since 2012, but substantial trade with Japan, EU and the US will allow ASEAN to maintain a balance of power in trade terms. This symmetry is healthy for regional economic integration. As indicated by Table 2, various free trade/tariff reduction arrangements in East Asia have been and will be implemented in the decade or so following 2006; this process will likely raise the respective shares of ASEAN trade for China, Japan, and South Korea.

Closer examination reveals that China's economic influence in Southeast Asia is considerably weaker than depicted by the international media. From 1995 to 2003, China's investment in ASEAN constituted 0.29% of the total foreign investment in ASEAN, as compared with 28.83% for the EU, 16.47% for

the US, and 12.9% for Japan.⁽⁵⁹⁾ In 2011, ASEAN foreign direct investment (FDI) from China only amounted to 5.3% of the ASEAN total, compared with Japan's 13.2% of the ASEAN total (see Table 5). However, given China's more than US\$2 trillion in foreign exchange reserves and its "going out" investment strategy abroad, China's investment in ASEAN will certainly continue to increase in the foreseeable future. Moreover, China's official statistics have not taken into consideration investment by small and medium-sized enterprises as well as by foreign subsidiaries of major enterprises not reported to the Ministry of Commerce. Notwithstanding these adjustments, China's share of foreign investment in ASEAN remains relatively small at this stage.

In terms of foreign aid, China has been offering more government economic aid to ASEAN since 2005, especially to Indonesia, Cambodia, the Philippines, and Myanmar. But the main beneficiaries of China's expanding foreign aid

59. These figures are from the ASEAN Secretariat, quoted from www.cfta.org.cn. See also "Dongnanya: Zhongguo qiye 'zouchuqu' de zhongdian diqu" (Southeast Asia: A key area for Chinese companies 'going out'), *Guoji gongcheng yu laowu* (International projects and labour), No. 10, October 2005, quoted from www.cfta.org.cn.

Table 4 – Progress of Tariff Reduction and Elimination within the China-ASEAN Free Trade Area

TIME	Tariff Rates	Participating Countries	Remarks
2000	0-5%	Singapore, Indonesia, Malaysia, Brunei, Thailand	85% of the articles of the Common Effective Preferential Tariff of the ASEAN Free Trade Area agreement
2001	Average tariff rates: about 14% ASEAN member countries: 0%	China, Singapore, Indonesia, Malaysia, Brunei, Thailand, Myanmar	90% of all merchandise
2002	ASEAN members: 0%	Singapore, Indonesia, Malaysia, Brunei, Thailand, Myanmar	Memorandum of Understanding between the ASEAN Secretariat and the Ministry of Agriculture of the People's Republic of China (PRC) on Agricultural Cooperation signed
2003	Protocol to Amend the Framework Agreement on Comprehensive Economic Cooperation Between ASEAN and the PRC signed		
2004	Reduction of tariff rates of agricultural products	China-ASEAN Free Trade Area	Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Cooperation Between the ASEAN and the PRC signed
2005	Average tariff rates for WTO member countries: about 11%	China	All merchandise with reduced tariff rates
2006	ASEAN member countries: 0-5%	Vietnam	Below 82% of all merchandise
2008	ASEAN member countries: 0-5%	Laos, Myanmar	Below 82% of all merchandise
2010	ASEAN member countries: 0-5%	Cambodia	Below 82% of all merchandise
2011	Below 5%	China-ASEAN Free Trade Area	All merchandise
2015	ASEAN member countries: 0%	Singapore, Indonesia, Malaysia, Brunei, Thailand, Myanmar	All merchandise
2018	ASEAN member countries: 0%	All ASEAN member countries	All merchandise
2020	Below 5%	China, Singapore, Indonesia, Malaysia, Philippines, Thailand, Vietnam	All merchandise

Source: "Zhongguo – Dongmeng ziyou maoyiqu bufen guanshui xiaojian shijianbiao" (Timetable for the tariff reduction and elimination for some merchandises within the China – ASEAN Free Trade Area), China-customs.com, 1 January 2005, www.china-customs.com/html/afta/200501/01-1986.html (accessible on 20 March 2013).

programme are African countries; and in Asia, the principal recipient has been North Korea (probably receiving a third or more of the total).⁽⁶⁰⁾

The limited influence of the substantial China-ASEAN trade lies in the fact that most of it is in the hands of multinational corporations (MNCs), which accounted for 60.6% of the bilateral trade in 2005.⁽⁶¹⁾ This was mainly intra-industrial trade within and among MNCs in China and Southeast Asia as well as entrepot trade. It is significant to note that considerable double counting is involved, as many products, especially electronic products, cross borders twice or more, thereby grossly inflating trade volumes. This double

counting is estimated to be as high as 30% in China-ASEAN trade. The latter, however, has been an important asset in promoting development in the Guangxi Autonomous Region and Yunnan Province in South-western China, which are relatively backward compared with the country's coastal provinces. In recent years, foreign enterprises' share of China's exports has

60. Sheng Lijun, *op. cit.*, p. 263.

61. Zhu Wenwei, "Zhongguo Dongmeng huyu maoyi shichang jiang jinyibu kaifang" (China and ASEAN will further open their markets to goods), *Zhongguo maoyibao* (China trade) (Beijing), 12 January 2006.

Table 5 – Intra- and Extra-ASEAN FDI Inflow, 1995–2011 (US\$ billion)

Year	Intra-ASEAN FDI Inflow		Extra-ASEAN FDI Inflow		ASEAN FDI from China		ASEAN FDI from Japan	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
1995	4.8	18.3	21.43	81.7	0.14	0.5	5.55	21.2
1996	4.56	15.1	25.64	84.9	0.12	0.4	5.28	17.5
1997	5.4	15.8	28.69	84.1	0.06	0.2	5.23	15.3
1998	2.97	13.3	19.43	86.7	0.29	1.3	3.94	17.6
1999	2.47	9	24.91	91	0.06	0.2	1.69	6.2
2000	0.76	3.2	22.96	97.6	-0.13	-0.6	0.5	2.1
2001	2.53	12.4	18.1	88.9	0.14	0.7	2.2	10.8
2002	3.81	21.2	13.97	77.5	-0.07	-0.4	3.03	16.8
2003	2.7	11.1	21.36	88.2	0.19	0.8	3.91	16.1
2004	2.96	8.4	32.24	91.2	0.74	2.1	5.67	16
2005	4.22	10.6	34.74	87.7	0.54	1.4	6.66	16.8
2006	7.6	13.8	45.77	83.3	1.02	1.8	10.22	18.6
2007	9.41	13.5	59.11	85.1	1.23	1.8	8.38	12.1
2008	11.07	18.3	49.36	81.4	1.5	2.5	7.65	12.6
2009	6.3	13.43	40.6	86.57	1.51	3.8	5.31	13.4
2010	14.32	15.52	77.9	84.48	1.85	4	3.79	8.1
2011	26.27	23.02	87.84	76.98	6.03	5.3	15.01	13.2

Sources: Association of Southeast Asian Nations, ASEAN Statistical Yearbook 2006, Jakarta, The ASEAN Secretariat, 2007; and Association of Southeast Asian Nations, ASEAN Statistical Yearbook 2008, 2010, 2011, 2012, Jakarta, The ASEAN Secretariat, July 2009, 2011, 2012, 2013. The data are calculated from the sources in the following:

www.asean.org/images/2012/publications/ASEAN%20community%20in%20figures.pdf

www.asean.org/images/2013/resources/statistics/statistical_publication/ASEAN_Statistic_Leaflet-2012_REV.pdf

www.asean.org/images/archive/documents/asean_statistical_2010.pdf

www.oecd.org/daf/inv/investmentfordevelopment/46485385.pdf

www.asean.org/images/2013/resources/statistics/Foreign%20Direct%20Investment%20Statistics_/Table%2025.pdf

www.asean.org/images/2013/resources/statistics/Foreign%20Direct%20Investment%20Statistics_/Table%2026.pdf

www.asean.org/images/2013/resources/statistics/Foreign%20Direct%20Investment%20Statistics_/Table%2027.pdf

www.asean.org/images/2013/resources/statistics/external_trade/table18.pdf

www.asean.org/images/2013/resources/statistics/external_trade/table24r.pdf

Note: Figures may not add up to totals due to rounding.

been slowly declining to 52.4% in 2011 and 50.1% in the first eight months of 2012, while the share of private and collective enterprises rose to 33.5% in 2011 and 36.5% in the first eight months of 2012.⁽⁶²⁾

Conclusion

In the early 1990s, Chinese leaders began to consider the regional aspects of their foreign policy line; and soon they had to tackle the issue of China's participation in regional organisations. As indicated above, China rapidly developed a sophisticated regionalism strategy in East Asia, as the region is most important for China. Minimising the region's "China threat" perception has been a significant consideration in this strategy; and as the "China threat" is increasingly perceived in economic terms, the economic components of the strategy have become more important. After all, China has been working hard to secure a peaceful international environment to concentrate on its development; the development aspects have always been accorded top priority. Hence regional economic integration emerges as the core of China's regional strategy in East Asia; economic considerations have been the principal force pushing for regional integration as

demonstrated by the progress made in response to the regional and global financial crises.

The escalation of tension concerning the territorial disputes over the Diaoyutai/Senkaku Islands and the South China Sea symbolised by a series of high-profile naval exercises in the latter half of 2010 served to reinforce the "China threat" perception and strengthen the hedging strategies of regional countries, which have further intensified since then. The Obama administration has been exploiting the situation in engineering the US's "return to Asia." While China's building of a "blue water" navy will continue to raise the concern of its neighbours, China will probably put more emphasis on the appeal of regional economic integration by offering more economic concessions to ASEAN.

China is aware of its relative weakness in comprehensive national power, and it has been keeping its options open while allowing ASEAN to hold the initiative. Though never made explicit, China's preferred scenario is a highly

62. Pei Changhong et al., "2012 nian woguo maoyi xingshi fenxi yu yuce" (Analysis and Forecast of China's Trade Situation in 2012), in Chen Jiagui and Li Yang (eds.), "2013 nian zhongguo jingji xingshi fenxi yu yuce" [Economy of China Analysis and Forecast (2013)], Beijing, Social Sciences Academic Press (China), December 2012, p. 172.

integrated East Asia comparable to the EU and NAFTA in terms of balance of power, with China playing a significant or even a leading role. Chinese leaders understand that there is a long way to go, and that actively seeking leadership for China in the regional integration process could be counter-productive. In view of the difficulties in Sino-Japanese relations, economic integration in Northeast Asia has failed to make much progress. Hence China's approach has been economic integration within the Greater China circle first, then China and ASEAN, leading to ASEAN Plus Three. Its most demanding challenge is to help develop the institutional framework to promote regional integration.

Meanwhile, China has been actively promoting sub-regional economic cooperation such as development of the Greater Mekong Sub-region and the Pan-Beibu Gulf Area. These projects generate more room for China's initiative and leadership, and attract less attention and resistance from the major powers in the region. At the same time, China has been developing its soft power projection capabilities. Though largely successful, in terms of resources and history, it will take considerable time for China to catch up with the US and Japan. Regional elites' preference for educating their children at leading American universities is perhaps one significant example.

Despite China's impressive economic growth and its expansion of trade with the region, its economic influence remains weak because its manufac-

turing industries are concentrated at the lower end of the value-added chain. Certainly China's enterprises will be working hard to upgrade themselves, moving upstream to research and design as well as downstream to international distribution networks. China aims to secure a central role in the regional economy and production networks in the intermediate future, and it has the resources to do so.

If the Chinese leadership remains cautious and avoids being overly ambitious, its regionalism strategy in East Asia will facilitate China's economic development and its attainment of major power status. It will serve to weaken the various "hedging" strategies adopted by the big and small countries involved in the region as well as their economic protectionist measures, as common interests will strengthen trust and overcome suspicion. Patience and self-restraint are nevertheless essential, and they may be increasingly difficult given rising nationalism in many regional countries, including China, Japan, South Korea, and India.

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