Towards a Sino-centric regional order? Empowering China and constructing regional order(s)

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1. INTRODUCTION

China’s re-engagement with the global political economy has had massive implications for the functioning of the global economy as a whole, and on China’s regional neighbours in particular. What has happened in China has already resulted in a reconstruction of the East Asian regional economy and has had a profound impact on individual regional economies. The Chinese leadership has also developed new policies designed to promote regional cooperation and integration and perhaps even ultimately some form of East Asian regional community. Not surprisingly, this combination of economic and diplomatic change has generated a renewed focus on China’s regional leadership ambitions and capabilities, and the extent to which China might come to challenge US hegemony in the region and beyond.

This chapter accepts that state elites in the rest of East Asia are indeed altering their domestic and international strategies in response to what China already is and, more importantly, in preparation for what they expect China to become in the future. China’s regional leadership is thus in some ways already a reality because regional elites have imbued China with power and responded accordingly to their own constructed image of a Sino-centric regional future.

What happens in China is clearly hugely significant and important. But this chapter takes a deliberately cautious approach in an attempt to temper some of the more hyperbolic assertions of China’s impending rise to superpower status. It also suggests that the focus on China often leads to Japanese economic power being understated and in some cases simply ignored. It does this by focusing on two understandings of the nature of international relations, which inform an understanding of the nature of (Chinese) power in the global political economy, and also processes of regionalization. These
understandings can be broadly bracketed together under the heading ‘critical IPE’.

The first is a materialist conception of international relations and Strange’s understanding of ‘structural power’ – specifically, her work on the power to shape global finance and production. 2 Strange’s analysis had realist roots – she contended that the ‘world has changed’ 3 and that realism had to be re-thought (not thrown away) to take these changes into account. But she also acknowledged a debt to Marxism, and Strange’s work has informed the research agenda of many post-Marxist/critical IPE thinkers. The second (albeit related) understanding is the importance of ideas and the ability to exert ideational (or ideological) hegemony. Here I suggest that conceptions of Chinese ‘soft power’ built on ‘the appeal of China as an economic model’ (Kurlantzick, 2006: 5) overstate the ability of China to project and promote an alternative economic model, and this is without even thinking about the ability to project more overt alternative ‘political’ models and ideas. In short, the chapter suggests that China has clear importance and significance for the region, and that this will increase. China is also increasingly powerful in the region and able to exert its influence to attain its objectives, but whether this equates to ‘leadership’ is another question altogether.

2. A CAVEAT – WHICH REGION?

The chapter begins by outlying different conceptions of what lies behind China’s engagement of the region in recent years before then considering the strategies deployed to attain these objectives. But before moving on to the main part of this chapter, it is first important to think what this region actually is that China may or may not come to lead. Regions are not naturally occurring phenomena, but are instead socially and/or politically constructed. Where there are formal regional organizations, we know who the members are and where the limits of that region lie, but there is nothing ‘natural’ about them and they can and do change. For example, not only has membership of the EU expanded but also what is now considered to be ‘East’ Europe is no longer simply based on ideological cleavages. Similarly, ASEAN now contains Communist Party states – both ex and still current – that the organization was pretty much organized to resist in the 1960s and 1970s.

The problem of identifying regions becomes even more difficult when it comes to parts of the world that are not compartmentalized into formal regional organizations. For the most part, this chapter uses a definition of East Asia as ASEAN Plus Three (APT), an understanding that leaves out
Taiwan (which is exactly what the Chinese government wants), Australasia, and the Indian sub-continent. While the Chinese preference is to focus on the first smaller definition of East Asia, the second larger vision is reflected in the preferences of others, and also largely reflected in the participants in the East Asia Summit (EAS). In many respects, the promotion of the larger vision of East Asia is a direct response to fears over potential Chinese regional leadership, and the significance of disputed understandings of what the region is or should be is an issue we will return to towards the end of the chapter.

Both of the above definitions of East Asia ignore many of the states that actually share a border with China – Afghanistan, Mongolia and the states of the former Soviet Union. Indeed, through the Shanghai Cooperation Organisation (SCO), China’s regional relations with Russia and the Central Asian states of the former Soviet Union are in many ways more formalized and institutionalized than China’s Asian relations (see Chapter 10). For the purposes of this chapter, we simply need to be aware that China’s regional future does not just lie in East Asia; or put another way, China’s regional relations are not uniquely with East Asia.

3. OBJECTIVES: DOMESTIC POLITICS, GREAT POWER ASPIRATIONS AND (ECONOMIC) SECURITY

For many good reasons, the study of contemporary Chinese international relations is frequently framed by the historical context of international interactions. It is, for example, almost impossible to think about the motivations of China’s foreign policy without referring back to what happened during the ‘century of humiliation’. The Chinese Communist Party’s (CCP) victory in 1949 was either eased by or dependent on the party’s nationalist appeal (depending on which history you read), by the party’s determination to defeat the foreign imperialists, to restore sovereignty and secure China’s borders, and then to restore China to its ‘rightful’ place in the world. In post-Mao China, the abandonment of socialist goals has not seen the ‘death of ideology’ as some suggest (Pei, 2002) but simply the shedding of the Marxist/Communist elements of the party’s ideological basis. Nationalism remains hugely important as a tool of domestic legitimation for the CCP, and being a key actor on the world stage helps promote the idea of the Party as defender of national interests (often in the face of hostile opposition from the West). Indeed, Hughes (2006) argues that nationalism was at the heart of the reform process initiated by Deng Xiaoping – reforming the old system was justified and legitimated by the
need to build a strong China that could resist (and even oppose) the existing hegemonic global order.

The Chinese leadership has gone to great pains to assure international audiences that China will never seek hegemony and that its rise will not only be peaceful but also economically beneficial for the rest of East Asia. Not everybody believes this, pointing to Deng Xiaoping’s philosophy of keeping China’s real ambitions hidden as evidence of more sinister long-term goals. Others point to the problem of satisfying the domestic nationalist demands that the Party itself has done so much to generate. For example, Whiting (1995) points to the consequences of not only the new sense of pride in China’s economic successes, or ‘affirmative nationalism’, but also the feeling that key external groups have been trying to prevent China’s development and threaten Chinese interests: ‘assertive nationalism’. It is important not to exaggerate this too far, but events like the China–ASEAN summit in Nanning and the Africa Summit in Beijing within a week of each other in October–November 2006 help to establish a vision of China as a central actor in global affairs.

As such, while promoting China’s regional leadership might run the risk of alienating those who do not want to be led, Chinese predominance (if not outright leadership) is all but demanded by nationalist constituencies at home – at least some of whom think that the Chinese government does not always defend China’s national interests effectively (Shen, 2004). The appeal of a more assertive nationalist foreign policy gains even greater resonance if it is seen to trump US and/or Japanese regional ambitions, which brings us to the importance of balancing and coalition-building in China’s regional policy.

4. THE SECURITY AGENDA: IDENTIFYING ENEMIES AND REBUILDING TRIANGLES

Within the security literature, the dominant understanding of China’s East Asia policy is underpinned by a double discourse of hegemony. The first discourse revolves around long-standing concerns over Chinese hegemonic ambitions – as Denny Roy (1994) put it in the title of a 1994 article, ‘Hegemon on the horizon?’. In short, much of what is written on China and East Asia is inspired by a pervading unease that China will in the short run weaken the reach of US power in East Asia, and in the long run will establish leadership and/or hegemony over/in East Asia. Moreover, a decade after Roy’s early warning, the establishment of ever closer economic and political ties between China and other regional states (and also with ASEAN) has given greater credence to the idea that China is ‘reshaping the regional order’ (Shambaugh, 2004–5).
The second discourse revolves around understanding the motivations for Chinese engagement of the region – in short, the literature largely suggests that concerns about containment and the reach of US hegemony are driving Chinese policy. Earlier fears that the US–Japan security alliance might be on the wane (Friedberg, 1993/4) have not only proved to be unfounded, but the relationship has ‘rarely, if ever, been better’ (Christensen, 2006: 89). And although the Chinese government was not opposed to US intervention in Afghanistan, the length and extent of US involvement there and to a lesser extent in Pakistan has fed concern in China that it is being encircled by the hegemon (Chambers, 2007: 62). As Christensen (2006: 83) puts it, ‘China has been encouraged to improve relations with its neighbours diplomatically and economically at least in part as a hedge against US power and the fear of encirclement by a coalition led by the United States.’

While the US challenge and ‘encirclement’ might appear from the outside to be a case of clipping Chinese regional ambitions, Ross (1999: 93) argues that concern about encirclement from the US is ‘natural’ and about more than just containment as ‘the United States is the only power that can challenge Chinese territorial integrity’. To be sure, the threat level is not the same as in the 1950s and 60s, when Chinese policy-makers were all but convinced that war with one or other of the superpowers (and perhaps even both) was inevitable. However, even those who think that military conflict is highly unlikely suggest that there was a real concern in Beijing that the regional order would obstruct the attainment of national interests if left unchecked. For example, the bottom line of Goldstein’s (2005) analysis of China’s ‘Grand Strategy’ is what he calls a neo-Bismarkian approach to preventing a coalition of forces emerging against China allowing the time and space to concentrate on internal developments and modernization, in the short- to medium-term at least.

Thus, for many security scholars, classic ‘power balancing’ is at the heart of Chinese policy, intended to reduce the potential of containment and perhaps even conflict (Cheng, 2004; Hund, 2003). Regional leadership might remain rather elusive, but the promotion of friendly relations in East Asia with states that China once perceived as almost inevitable allies of the US might neutralize the threat to China (Sutter, 2004). This is partly achieved through diplomatic initiatives, but also through the promotion of closer economic ties. The Chinese leadership is depicted as establishing ‘strategic dependencies on China among its neighbours’ (Christensen, 2006: 104) to ensure that the region would not necessarily choose the US if the Taiwan issue ever results in the region having to take sides (Medeiros, 2005/6: 156; Chambers, 2007: 63). And rather than counterbalancing this Sino-dependence by seeking accommodation with the US, Friedberg...
(2000) points to the danger of ‘bandwagoning’ instead; hooking up with China’s rising star and locking the US out of East Asia. Beyond this initial reactive and ‘resisting’ phase, the next stage might be to build – perhaps more correctly lead – a counter-hegemonic alliance against US unipolar hegemony. In this respect, East Asia might come to occupy the third point of a strategic triangle that has been missing a pole since the collapse of the Soviet Union.

Whether the Chinese government has the ability to manipulate international economic relations in the way suggested above is open to question. What this strategy means for security in the region is also open to question – not least because there is no consensus among the various observers. Nevertheless, the overarching argument in this security literature that the Chinese leadership is trying to build alliances to limit and perhaps even neutralize US power is convincing, and is supported by official Chinese statements about hegemony and the global order. Indeed, we can perhaps take it a step further. Chinese policy is not just concerned with the US, but also with preventing Japanese leadership, on its own or in partnership with the US. Regional policy is also partly designed to neutralize Taiwan's attempts to build partnerships in Southeast Asia that might strengthen its claims to statehood or see it acting more and more like a state in international relations. In 1994, Lee Teng-hui's ‘vacation diplomacy’ saw him and/or his ministers meeting top-level government officials in Malaysia and Singapore (in January) and Indonesia and Thailand (in February). Enforcing China's insistence on not just a one-China policy but also against anything that might even intimate a two-China reality is part of this objective of engaging East Asia.

But there is also more to the security dimension of China’s regional strategy than simple power balancing. If we take the US and Japan out of the agenda for a moment, working with the region helps confidence-building. Perhaps more important, China and ASEAN (nations and the organization) have a shared interest in dealing with marine piracy and transnational crime. The SARS outbreak also illuminated the importance of information-sharing and policy coordination to prevent new threats to human if not national security. Perhaps most important of all, Chinese understandings of what economic security is, and how it should be attained, changed in the late 1990s. In many respects these economic security concerns have led the Chinese leadership to look to engage the region – and economic security has also pushed many regional elites into rethinking their own relationships with China. And while the ‘traditional’ security agenda is clearly important in shaping Chinese policy, the remainder of this chapter will focus on broadly defined ‘economic security’ and the politics of international economic exchanges.
5. STRATEGIES

5.1 Engagement with Regional Organizations

One of the most important changes in Chinese strategy to meet these objectives is through engagement with ASEAN. Until fairly recently, ASEAN was seen as a problem for China, if not a potential threat, at least an organization that was unsympathetic to Chinese goals, and an organization that was inclined towards Washington and US economic and strategic interests. The abandonment of the conception of ASEAN as necessarily a danger or obstacle represents a crucial sea change in not only Chinese thinking but also Chinese policy. For Chung (2007: 157) and Shambaugh (2004/5: 67–8) this conception began to change in the wake of Tiananmen in 1989. With the exception of Japan, there was a marked lack of condemnation from East Asian states to the Tiananmen killings. Rather than acting as a regional branch of US foreign policy, ASEAN as an organization and individual ASEAN state leaders instead decided to engage China at a time when international isolation was a real possibility. Christensen (2006) sees 1996 as the key year, and overt US support for Taiwan during the Taiwan Straits missile crisis as the key event. Fearing US encirclement, China decided to turn to East Asia as a hedge against US power using economic relations and trade agreements as political tools in great power balancing.

However, in many respects when it comes to economic security, the 1997/98 East Asian financial crisis was an even more important turning point. The crisis brought home the blunt reality that China’s economic fortunes were inextricably linked with what happens elsewhere (Fewsmith, 1999; Zha, 1999; Wang, 2004). Harris (2001) argues that the crisis resulted in a fundamental shift in conceptions of security in China, manifest by the much greater emphasis on the need to ensure ‘economic security’ in the 1998 White Paper on Defence. For a set of Chinese thinkers, realist conceptions of IR were found wanting in understanding the impact of globalization, forcing a rethink of the relationship between political and economic dynamics, and the relationship between the domestic and the international (Fang, 2000; Wang, 2003). Perhaps most of all, it entailed a rethink of China’s relations with the rest of the region, both bilateral relations with individual states, and with the region as a whole. Working together to head off potential crises at a regional level was increasingly seen as being in China’s own national self-interest, especially if such regional cooperation might reduce the need to rely on the US-dominated global financial institutions in times of crisis.

Not having to rely on the US-dominated international financial institutions (IFIs) also did much to increase the attraction of working with China.
in Southeast Asia. At a time when there was considerable discontent in the region against the terms of bailout conditions from the US-dominated international financial institutions, and a feeling that this was in some way ‘pay-back time’ for East Asia’s previous economic success (Higgott, 1998), there was ample space for a Chinese ‘charm offensive’ in Southeast Asia (Lautard, 1999). The prospect of having China’s massive foreign currency reserves as a bulwark against any future financial instability was also very attractive. Moreover, China’s willingness to participate in the Chiang Mai Initiative (see Chapter 1) represents a form of Chinese monetary diplomacy that has helped cement the idea that China has become a responsible state worth working with and engaging.

Such monetary diplomacy is not purely philanthropic. In the wake of the financial crises, Chinese exports in key areas dipped as the crisis economies’ currencies made their exports much more competitive in key third markets such as the US and Europe, as well as Japan, despite its own economic difficulties. Indeed, the whole turn towards East Asia and East Asian regionalism was in large part inspired by the secondary impact of the crises on the Chinese economy. Somewhat ironically, Makin (1997) and Bergsten (1997) both argue that China’s own competitive devaluation in 1994 was the starting point for economic problems in many regional states that resulted in the financial crises. Devaluation made exporting from China so attractive that labour-intensive production moved to China, resulting in the ASEAN states losing out in the key US and Japanese export markets (Holst and Weiss, 2004: 1256). Even if China did not cause the crisis on its own, the actions of Chinese elites certainly created a changed economic environment that other regional states had to, and perhaps failed to, respond to.

In 1997, there were real fears in East Asia and elsewhere that China might respond to the reduction in its comparative exchange rate advantage by devaluing again, which would plunge the rest of the region into a further spiral of financial chaos. Simply not devaluing won considerable (and in many respects excessive) praise and helped promote the idea that China was a responsible economic actor. In addition to serving Chinese national interests by preventing further downward spirals, the lessons of 1997/98 were that there was a real opportunity to neutralize the region as a potential ally of the US hegemon. Perhaps in the long term, it might become part of an emerging alternative pole defending or even promoting a different set of values under Chinese leadership (Hund, 2003; Cheng, 2004). Furthermore, Chinese engagement could act to neutralize the potential of Japanese regional leadership (Desker, 2004: 13).

So Chinese ‘monetary diplomacy’ in the 1990s was also well received, further cementing the idea that engaging the region could well work to China’s advantage, not just economically, but in classic realist conceptions
of power balancing and the national interest. Further attempts to engage the region followed. For example, China signed a ‘Declaration on the Conduct of Parties in the South China Sea’ in 2002, and joined the ASEAN Treaty of Amity and Cooperation in Southeast Asia in 2003. Notable by its omission in these discussions was a discussion about Taiwan, and some regional states have made attempts to have as close a relationship with Taipei as possible, short of formal diplomatic recognition. China is also a proactive participant in the APT meetings in addition to its own ASEAN Plus One summits, such as the one held in Nanning in October. More practically, China has gone further than Japan and South Korea in actual economic engagement by signing up to the creation of the ASEAN–China Free Trade Area (ACFTA).

5.2 A Diplomatic ‘Charm Offensive’

To some extent, ACFTA also forms part of China’s ‘charm offensive’ in the region. As we shall see later, there has been considerable concern that China’s economic rise has been or will be at the expense of other East Asian economies. While the investment–trade nexus in East Asia is not a zero-sum game, China clearly is competing with other export-oriented states for foreign investment, and competed with the same states for access to the key lucrative markets of the US, Japan and the EU. With China’s entry into the WTO, this impact is expected to grow as investment is diverted from Southeast Asia to China (Braunstein and Epstein, 2002). Forecasts from the World Bank suggest that the closer a state’s export profile to that of China, the more that state is expected to lose, with workers in the textile and apparel sectors in the region predicted to lose most, and the Philippines and Indonesia most under threat. The challenge is most severe in the Philippines and Indonesia. To compound the problem, the jobs under threat in the Philippines are overwhelmingly in low-skill sectors, where the new opportunities offered by China’s rise require skilled workers, making an easy transition from one type of employed activity to another, highly unlikely (Ianchovichina et al., 2004: 71). Felker (2003: 280) notes that the reduction in investment to ASEAN nations between 1996 and 2001 is almost all explained by what happened in Indonesia. Clearly, domestic issues in Indonesia did much to reduce its attractiveness for investors, but the concomitant attraction of China also played its part. Nearly a quarter of Indonesian exports are ‘at risk’ from Chinese competition (Ianchovichina et al., 2004: 69), and again the transition to competing with China to occupying a different level of the value chain seems unlikely.

Furthermore, Chinese negotiators would not have signed the ACFTA if they did not think it would benefit China. But signing also helps promote
Beijing’s desired message to the region that there is nothing to fear from China. On the contrary, because China is a responsible economic partner, as witnessed by the ACFTA, China’s economic progress represents a ‘win–win’ for both China and East Asia, and East Asia’s economic future is rosy precisely because of the rest of the region’s economic relationship with China. This message has been more overtly articulated in the ‘Peaceful Rise of China’ hypothesis first aired by Zheng Bijian at the 2003 Bo’ao Forum for Asia, which provided a theoretical justification for the continued charm offensive. The gist of this concerns how China has shown it is not only a force for peace and stability in the region, but the region as a whole can also benefit from the economic spillovers of Chinese growth. Far from being the threat to regional economic stability that some argued China’s rise had already become in 1997, China’s rise is the guarantee of regional economic stability and development. As Zheng (2005) comments, ‘China’s Peaceful Rise will further open its economy so that its population can serve as a growing market for the rest of the world, thus providing increased opportunities for – rather than posing a threat to – the international community’ (p. 24).

China’s peaceful rise will benefit the world, but the rest of the region will benefit most (Ahn, 2004). In addition, China’s leaders have been keen to repeat the message that they have no intention of imposing hegemony over East Asia, and as Wen Jiabao put it at the ASEAN–China summit in 2006, ‘China consistently supports ASEAN’s leading role in regional affairs and regional co-operation.’ As already noted, not everybody is convinced by this rhetoric. Indeed, rather than assuage fears of a Sino-centric future, ironically some people at least have focused on the inevitability of China’s rise (jueqi 崛起), rather than the peaceful (heping 和平) half of the slogan, and as a result, the rise is increasingly being replaced by harmonious (和) development (和平发展). Indeed, perhaps the most important reason why regional elites seem to be happy to engage China is because they are practical and pragmatic and realize that they have little option but to make the most of the reality of new regional dynamics.

5.3 Empowering China from Without?

In this respect, whether China actually has power or not is irrelevant – if others think that China is powerful now or will gain greater power soon and adjust policies accordingly, then China is effectively ‘empowered’. In the process, the preferences and objectives of China’s elites gain greater significance in policy-making processes at national and regional levels. Just as financial markets discount future economic shocks – for example, oil price rises – by dealing with them before they occur, so East Asia’s leaders
have discounted China’s future economic rise. The Bo’ao Forum for Asia provides an example of sorts here. The forum was initially conceived as a mechanism for government and non-state actors to come together in dialogue to discuss issues of common regional interest (note here that the region is the broad inclusive East Asia). It is typically written off as being nothing but a talking shop that achieves nothing – for some in China, it is an organization that has persisted partly to give Long Yongtu something to do after the criticism of his negotiating skills in framing China’s WTO entry criteria.

Returning to the idea that regions are constructed, talking shops shouldn’t just be dismissed as purely irrelevant. The promotion of ideas and ideational transfer do not take place in a void, ‘talking shops’ are actually important mechanisms for transferring ideas. Perhaps more importantly for this chapter, Bo’ao has changed and become something of a Sino-centric organization. This Sino-centric-ism takes two forms. First, China’s leaders have increasingly used the forum to announce and/or elucidate new policy initiatives and objectives, most clearly the Peaceful Rise of China hypothesis discussed above. Second, it seems that the primary reason that many participants make their way to Hainan every year is because they are interested in and/or concerned by the growth of China – and how they can make the most of it. As a result, they are not only happy for Chinese agendas to dominate, but they are actually there to find out what the Chinese are thinking and wanting. In the past, Japan’s regional role has been characterized as leading from behind. In contrast, it seems that other regional actors are actually forcing Chinese leadership to the fore by making their choices and framing their policies with Chinese preferences in mind.

5.4 China’s ‘Market Power’

As already noted, there has been considerable concern in the region that China’s rise has had a detrimental impact on other regional economies. But there is also a pragmatic recognition that China is a reality that has to be dealt with, so it may as well be dealt with in a manner that benefits the region. While there may be some arguments in Ramo’s (2004) *The Beijing Consensus* that could be contested here, his argument that China’s leaders don’t really need to try to persuade other regional leaders is persuasive. In short, China’s sheer size and rapid growth simply means that others have no choice but to fall in line with their policy preferences. Heartfield (2005: 197) similarly uses a ‘self-interested’ argument, suggesting that China’s rise has been ‘widely welcomed’ because it has at least taken the sting out of the regional impact of recession in Japan. Shambaugh (2004/5: 76) adds a little
liberal theory to this pragmatism by claiming that the best way of dealing with China ‘is to entangle the dragon in as many ways as possible’. As Wu et al. (2002: 1) put it, ‘China still looms very large over Asia, and is a global economic force to be reckoned with. ASEAN will have to engage China both as a competitor and a partner – an intricate relationship that has to be managed prudently’.

In developing his conception of the ‘new constitutionalism’ Gill (1998) argues that the US government uses the structural power of the size of its market to force change on other countries while not reciprocating with corresponding liberalization of the US economy in order to benefit US-based economic interests. There is not a clear and direct comparison with China here, but the extension of the concept of ‘market power’ to China is not only interesting, but largely underpins the above-mentioned promotion of a win–win future for China and East Asia. It is certainly true that many producers in the region do see China as a market opportunity. However, for many, it is not the Chinese market that is driving new regional patterns of trade and investment, but those external markets that production in China is often dependent on itself. China is not the source of the pull alone, but the conduit through which the market power of other external economies is transmitted in the region. Put another way, both external sources of investment and also external demand drive intraregional economic relations.

For those regional economies that can, the best way of benefiting from China’s rise is to go for high-skill, higher value-added stages of the production process. In Singapore, the emphasis has been on becoming a source of finance, not least by trying to attract multinational enterprises (MNEs) to establish their regional headquarters in Singapore (Felker, 2003). In this way, Singapore aims to act as a conduit between China and the global economy in much the same way (though on a smaller scale) that companies in Hong Kong have long played a bridging role between foreign investors and Chinese factories. In addition to finances and services, regional economies can also benefit through supplying China with higher-skilled, higher value-added exports and/or raw materials to be used in processing assembly within China.

For others, it is a process of adjusting to a new position in the production chain. For example, both the nature and destination of Thai exports has changed. While the export of labour-intensive manufactured goods to the US, Europe and Japan has stagnated (and in some sectors fallen), exports of products (particularly technology-intensive components) that are used in foreign-invested export industries have risen dramatically (World Bank, 2003). Similarly, Malaysian exports to China have come to be dominated by electrical components, chemicals, machinery parts and petroleum, and Indonesia’s by raw materials such as processed oil, rubber,
timber and gas: all materials or components that are in high demand in China's export-oriented industries. China is typically now the third biggest export market for regional states after the US and Japan. In the Malaysian case, exports to China have now exceeded exports to both Japan and the whole of industrial Europe.

This understanding of China as one part of wider, or perhaps longer global production chains has two important implications for China's regional power and leadership. First, in some respects, China's growth does not suggest a new model for others, but is actually shaped by those 'same historical forces' that helped generate growth in other regional economies in previous decades (Felker, 2003: 255). In the key realm of ideational power, the ideas that have underpinned the global political economy during the expansion of the neo-liberal project appear to be having a significant impact on altering the basis of the Chinese economy, and the class alliances that shore up the authoritarian political system.

Second, it suggests that at least some of the power that is often credited to China actually lies elsewhere. With foreign investment producing more than half of all Chinese exports, a considerable proportion of the power over production in China and how it is financed lies elsewhere. Crucially, the significance of Japan as a funder of production in China and elsewhere is brought back into focus. As the world focuses on the emergence of China as the workhouse of the world, the importance of investment from Japan, as well as elsewhere, is often overlooked. Japan is a key direct investor in Chinese production, and as I have argued elsewhere (Breslin, 2007), even more important when indirect investment is taken into account (the same is true of investment from the US). For example, Cheung and Wong (2000) argue that Japanese investment is massively underestimated because of the practice of investing in China via regional offices. Although sorting through the statistics is an inexact science, Matsuzaki (1997) has estimated that about 80 per cent of Japanese FDI in Hong Kong is subsequently reinvested in Guangdong, appearing first as Japanese investment in Hong Kong, and subsequently as a Hong Kong investment in China. As Takashi et al. (2002) argue, 'Japanese exports to East Asia “cause” significant inter-regional trade’ (p. 3). In short, in terms of the structural power identified by Strange in the introduction (Strange, 1996a; 1996b), there is considerably more power in Japan than a focus on the huge growth of production in China might make us believe.

5.5 Foreign Direct Investment

Despite considerable interest in China’s outward foreign direct investment in recent years, it is not often discussed in research on China’s regional
strategy. While finding consistent and reliable Chinese statistics has long been a problem in all areas, these generic problems seem to be heightened when considering Chinese outward investment for three main reasons. First, there is the problem of different sources; for example, UNCTAD figures for gross Chinese outward investment up to 2001 exceeded those produced by the Chinese government by a factor of eight (Wu et al., 2002: 117). Since then, the basis of statistical collection in China has been altered to meet international standards and more recent figures show far less divergence. However, there is still the issue of Chinese companies operating outside China (mainly in Hong Kong) who make profits or take out loans overseas to reinvest overseas, which do not appear in the PRC figure (Saunders, 2006). We also need to be aware that huge amounts of money leave China illicitly each year. Quite simply, we don’t know the full extent of this capital flight, but Gunter’s (2004: 74) estimate of US$923 billion from 1984–2004 (and half of the total from 1999–2004) is based on a sound methodology.

Second, there is the problem of a single source changing its statistics. For example, reports in early 2006 from the Chinese Ministry of Commerce reported outward investment for the previous year as US$6.9 billion before later reporting the figure as US$12.3 billion. Third, as with other dimensions of Chinese trade and investment statistics, there is the problem of using bilateral statistics to analyse more complex sets of relationships – or put another way, we don’t always know where the money ends up. For example, Hong Kong is the single biggest destination for Chinese outward investment, accounting for over half of the total. But much of this investment is subsequently reinvested elsewhere, including back into China to take advantage of incentives offered to overseas investment not afforded to locals. More recently, Latin America has emerged as a major destination for Chinese investment, but despite the growth in Chinese resource interests in the region, the overwhelming majority of this money goes to the Cayman and British Virgin Isles and Bermuda. In combination they account for roughly 20 per cent of all Chinese outward investment, and it’s fair to assume that most of the money invested in these tax havens is not to produce or manufacture there. Indeed, it’s also fair to assume that at least some of this ends up as investment back in China. When added to Hong Kong, this means that over 80 per cent of Chinese outward investment goes first to places where at least some of it doesn’t stay very long!

So with these caveats in mind, what can we say about the extent of Chinese investment in general, and its importance for regional relations in particular? First, although Chinese investment is small in global scales (around 1.5 per cent of global flows) and dwarfed by inward investment (by more than a factor of five in 2006), it is growing extremely quickly. The
government only really encouraged China’s investors to ‘go global’ in 2003, and from admittedly a relatively low starting point, it nearly doubled in 2004 to reach US$5.5 billion, grew by 123 per cent the following year to reach US$12.3 billion, and then by another third to reach US$16.1 billion in 2006. By the end of 2006, China had become the 13th biggest source of investment in the world. All analysis suggests that it will increase for the foreseeable future, and become an ever-increasing part of China’s regional relations, and indeed of China’s wider global economic profile.

After stripping out the Hong Kong factor, the most popular sources of investment in East Asia are Thailand or Singapore (depending on which set of statistics are used), Malaysia, and Indonesia. Investment in the Philippines, Vietnam, Cambodia and Laos remains relatively low in both the number and value of projects, but in the last three cases is on the rise. Primary research by Koko Oo uncovered significant Chinese economic interests in Burma that did not seem to be showing up in official data. China has also been a key supplier of both finances and arms to the Burmese army. What we do know is that the Chinese have had a significant role in supporting infrastructure projects, including two naval bases and an additional shipyard (Saunders, 2006: 37). It is probably fair to suggest that China’s economic interests in, and impact on, Burma are probably much more significant than the official words of both the Chinese and Burmese governments suggest.

Notably, those contacts that are recorded with Burma show the importance of sub-national governments as actors in China’s international economic relations. The desire to redress uneven development within China has provided an impulse to create new transnational economic relations across China’s west and southwest borders as part of the central government’s ‘Look West’ strategy. However, while the government in Beijing sanctions and facilitates this policy, the provincial government of Yunnan Province has been a key actor in establishing trade and investment links with Burma. It has also played a key role in the much greater economic interests that China is building in the Greater Mekong Sub-Region, with a particularly notable agglomeration of Yunnanese investment in Chiang Rai in Thailand (Frost, 2004).

At the risk of oversimplification, we can identify four main types of Chinese investment in the region. First, investment in Singapore in particular is largely based on attempts to buy into those higher levels of the production process that China currently lacks – particularly in business services. Second, since the late 1990s, investment in manufacturing capacity has increased, particularly in Thailand and Cambodia, primarily in labour-intensive and low value-added projects. Third, investment in infrastructure projects has been an important part of supporting other priorities in the
region, for example by creating a land-link between Yunnan and Thailand through investments in Laos (Storey, 2005: 4).

Fourth, and perhaps in the long term most significant, China’s investment policy (not just in the region) is in large part driven by resource requirements. There has been considerable international attention on the implications of increased Chinese demand for oil in particular. While China’s engagement of Africa has recently been the main focus of attention, resource issues are also highly significant in East Asia. It is not just that this could increase prices and distort distribution flows, but that there could be crucial political consequences. Bad case scenarios see China increasing its influence and ultimately control over the South China Sea, and providing political and economic succour to dangerous authoritarian states. Worst-case scenarios point to the real danger of China’s involvement in resource-based wars.23

The politics of oil already play a role in Chinese investment in the region, and are likely to play a more significant role in the future. Quite apart from importing oil from Indonesia, if oil from the Middle East is not to go through US-dominated sea-lanes, then they will have to go through Southeast Asia. Chinese policy-makers have considered applying to build a canal in Thailand – to ensure that oil tankers do not have to pass through US-dominated sea-lanes – but seem to favour an alternative that entails building a pipeline through Burma to Kunming in Yunnan Province (Lee, 2005: 286). But there is much more to China’s resource demands than just oil. According to official Chinese sources, a third of China’s total investment is in extraction industries, and even higher when refining is added. Indonesia has already become a key site of China’s resource-based investment in oil, gas and coal-based electricity generation, with Vietnam, Laos and the Philippines also actively touting for Chinese investment in extraction and energy industries.

With the exception of Vietnam, China is still relatively low on the list of each country’s table of leading investors, and Chinese investment remains relatively minor. Nevertheless, there are very good reasons to suggest that the trend will be ever upwards. The demand for resources seems destined to increase, numerous Chinese companies are in search of technologies and know-how through mergers and acquisitions, and buying into existing producers is seen by some Chinese producers as a good way of avoiding trade barriers.24 Moreover, this is occurring under the official strategy of ‘going global’ (走出去 zou chu qu), which ensures that Chinese companies that have the right connections receive considerable support for their projects. Reforms to make it easier to invest overseas are ongoing, and the government is looking at ways to make it easier to support their companies overseas. In addition, the government has directly intervened to establish an
overseas investment agency supposedly based on the Singaporean Temasek model to invest some of its massive foreign exchange reserves overseas. Again, the search for resources is key here, but so too is the need to offset pressure for currency revaluation and to dampen inflationary forces by offsetting the inflow of currency. While there are likely to be considerable investments in Central Asia, Africa and Latin America in search of resources, it seems fair to assume that outward investment in the region will become ever more significant – and hopefully ever more transparent and calculable in the future.

6. CONCLUSIONS: OBSTACLES TO CHINESE REGIONAL LEADERSHIP

There remains considerable debate among security scholars over whether China’s rise is a force for stability in the region or a source of inevitable conflict. Nevertheless, there is a consensus that the China factor is a key determinant of the region’s future and that other key actors should develop policies with an eye to what China’s response will be. There is also a general consensus that Chinese concern over US and Japanese policies in the region has driven China to embrace its East Asian nations and to embrace East Asian multilateralism. As such, the general advice from the academic community is that constructing a regional order might make things worse rather than better if it results in a more aggressive Chinese policy: aggressive in terms of the building of new alliances and perhaps even in the use of force. Far better to build a region that accommodates China’s interests, but also to be prepared for a non-Peaceful Rise just in case. As Berger (2000: 428) suggests, ‘create a benign and stable international security environment that on the one hand does not threaten China, but on the other hand is able to deal effectively with the security threats that do exist.’

In general, China is considered to be important and significant and increasingly powerful, but not yet a regional leader and not uniquely important, significant and powerful. Moreover, while it might be true that China’s engagement of the region is threatening to diminish the power of others, most notably the USA, as Christensen argues (2006: 117), it has resulted in China engaging the region in a way that many previously considered unimaginable. The Chinese leadership has embraced multilateral relationships that were previously shunned, and have even promoted a (neo)liberal regional economic order through a free-trade relationship with ASEAN. What this suggests, then, is that in ideational leadership, China’s position is not clear-cut. It is true that economic and military support for Burma shores up the government in Pyinmana and helps it resist
international pressure to reform and democratize. To say that it is promoting a model – the so-called ‘Beijing Consensus’ – is perhaps pushing things too far. Yet having China as an ally certainly strengthens leaders in other countries who do not want to accept liberalization economically or politically. However, at the same time, the tendency to focus on a zero-sum ‘China gains at the expense of the US’ perspective can hide the fact that these gains have been made by accepting dominant global norms of good old-fashioned multilateral diplomacy and liberal economics rather than challenging them.

Nor are China’s economic power and credentials for regional economic leadership wholly clear-cut either. In ideational terms, it is true that China has not followed the ‘shock therapy’ liberalizing prescriptions of the neoliberal camp, and the Chinese economy remains far from a liberal free market despite the growth of the non-state sector. But as noted above, the astonishing rise of China as a global economic force is in large part a result of embracing neo-liberal economic globalization and locating China within an existing economic structure. In material terms, the global activities of Sinopec and other energy-related companies are generating significant attention and concern. The purchase of IBM by Lenovo has promoted the profile of at least one Chinese company. But the overwhelming majority of goods that are bought in Europe and the US still carry brand names of European, American and East Asian companies, financed by outsiders and produced at the behest of outsiders. Indeed, although admittedly written before the boom in Chinese outward investment, Nolan (2003) has argued that one of the remarkable features of China’s rapid development is the lack of major international corporations with a global economic reach that have the same structural power that Japanese companies developed at a similar stage of development in the 1960s, and South Korean chaebols in some ways emulated in the 1980s and 1990s.

The Chinese government and Chinese companies are investing billions in research and development, and there is an apparently endless stream of Chinese delegations that are going overseas to buy technology, know-how and brands. So it must be highly likely that an indigenous Chinese economy will emerge in the future based on high skills, which does have the ability to project itself, and perhaps even to project ideas. But it is not there yet and there is nowhere near the power over regional (let alone global) production in China at the moment as there is in Japan. In short, producing cheaply may have altered the structure of the regional economy, but this does not equate to power and leadership yet, and China needs to move on and trade up. When China is the source of significant investment in the rest of the region and shaping production processes through means other than competitive production at the bottom end, then it really will be in a position to
enhance its power and leadership. In addition, perhaps a key long-term determinant of Chinese market power and Chinese regional leadership will be the extent to which the domestic economy grows to provide an ever greater gravitational pull on the region in the future.

So the focus on China perhaps underestimates the residual significance of Japan as both a regional actor and a determinant of future developments in regional institutions and organizations (Stubbs, 2002; Hennock, 2001). It is also unlikely (to say the least) that Japan will happily allow China to assume regional leadership unchallenged, or that major extra-regional actors – for which read the US – will do nothing. Here we return to the issue of conflicting and/or competing visions of East Asia identified at the start of the chapter and the establishment of the East Asian Summit (EAS). Unlike APEC, Russia, the US and the other states from the American continent are absent from the EAS, but the inclusion of India, Australia and New Zealand means that APT is not the only regional game in town. Not everybody in the region shares China’s preference for an exclusive ‘East Asian East Asia’ region where troublesome concepts like democracy and human rights don’t get in the way of economic cooperation. Moreover, other regional states (notably, but not only Japan) specifically want to stop China from achieving its regional objectives. Just as Chinese policy towards regional integration is partly designed to neutralize the power ambitions of others, so the EAS represents an attempt to neutralize Chinese power. This new vision of East Asia is essentially constructed to prevent the emergence of a Sino-centric APT regional organization, or even Chinese domination of an ‘ASEAN Plus One’ region. This idea is aptly caught by the statement of JETRO Chairman, Osamu Watanabe (2005), to an audience in Washington:

There was a difference of opinion among member countries on the concept and framework of the new summit and the East Asian community: It is my understanding that China and some ASEAN members insisted that the building of an East Asian community should be discussed only among the ASEAN Plus Three members. Japan and the other ASEAN members – out of concern that such a limited framework would allow China to expand its influence over East Asia – made the point of including India, Australia and New Zealand in the community.

Like APEC before it, the EAS is an ‘anti-region’ supplied in order to prevent the emergence of a regional community in an East Asian East Asia, that is an East Asia without Caucasians and an East Asia without the Indian sub-continent. A key argument in this chapter is that realities are often less important than perceptions, and perceptions of China’s future power are already conditioning the way that others deal with China today. China is also developing strategies to enhance its real rather than just...
perceived power in the region, though the evidence presented in this chapter suggests that this power is often overstated. Conversely, Japanese power and the ability to shape the nature of regional relations remains often understated in many analyses of the region and its future. Nor am I convinced that ‘soft power’ is as important as people like Kurlantzick (2006; 2007) suggest. As one Chinese scholar has suggested in interviews, the Chinese political system is ‘a problem’ rather than an attraction, and elites in the region are drawn to China first from necessity and second because of the way in which the global political economy is organized rather than though a desire to emulate the Chinese model. Important, yes, and powerful to an extent, but suggestions of Chinese regional leadership seem slightly premature to say the least.

NOTES

1. For the argument that as a result, military conflict with the USA is inevitable, see Bernstein and Munro (1998), Timperlake (1999), Gertz (2002) and Menges (2005). Mosher (2000) argues that China’s centuries-old superiority complex is driving its strategy to return itself to its rightful place of global dominance, while Thomas (2001), and Babin and Timperlake (2006) suggest that China is willing to ally with radical Islam to find a means of overcoming the US. For the view that economic superpower status is here or inevitable, see Weidenbaum and Hughes (1996), Bacani (2003), Overholt (1994) and Murray (1998).

2. Probably the best known of Strange’s works are Casino Capitalism (Strange, 1986), States and Markets (Strange, 1988) and The Retreat of the State (1996b). For a critique of her notion of structural power, see May (1996) and Strange’s (1996a) reply.

3. Strange (1994) famously critiqued Krasner’s reluctance to rethink the realist theory in an article entitled ‘Wake up, Krasner! The world has changed’.

4. At the time of writing, only India had participated from the sub-continent and Taiwan had not been invited.

5. The phrase ‘韬光养晦, 有所作为 taoguang yanghai, you suo zuo wei’ literally translates as ‘hide brightness, foster obscurity while accomplishing some things’. It is often translated as simply ‘bide our time and build up our capabilities’ – including in some official Chinese translations. But this translation does not include the idea of deliberately hiding real ambitions, and hence, so the argument goes, China is not only trying to obscure its real intentions, but also to obscure the translation of the paper where the obscurity is promoted!

6. Whiting (1995) also identified an ‘aggressive nationalism’ where an external enemy is identified that has to be dealt with for China’s interests to be secured, something akin to an ‘antagonistic contradiction’ in Maoist terms.

7. See also Sutter (2005) and various chapters in Shambaugh’s (2005) edited collection.

8. Not least because it legitimated the suppression of China’s own (self-defined) Muslim terrorists.

9. There are some similarities here with how changing conceptions of the west as a single bloc after the Geneva conference changed China’s international relations in the 1950s and 1960s, an interesting comparison but one that there is not time to go into here.

10. Goldstein (2005) also argues that 1996 was the key turning point, though his focus is on China’s broader ‘grand strategy’ rather than just the engagement of East Asia.
11. This is a contested analysis with Fernald, Edison and Loungani (1998: 2–3) and Wu et al. (2002) finding no statistical evidence to support the case. But focusing on the region as a whole, or even individual countries, might be misguided. The Japan External Trade Organisation has disaggregated overall figures and analysed individual products. And these figures show that on a good by good basis, the rise in exports from China to the US and Japan of each commodity corresponds with a decline in exports of the same goods to the same markets from Malaysia, Thailand, Indonesia and the Philippines prior to 1997 (Hughes, 1999).

12. China had previously agreed in principle to only bilateral codes of conduct.

13. Astrid Nordin was awarded a Reinvention Centre scholarship at the University of Warwick to undertake research on Bo’ao in the summer of 2005. These scholarships are designed to give undergraduate students a taste of academic research, and this section reflects some of her findings, which for the time being remain unpublished.

14. For example, Rix (1993) and Blechinger and Legewie (2000).

15. Including re-exports to Hong Kong and then into China.


17. In addition to the work cited below, early work that has considered this investment includes Frost (2004), Frost, Hewison and Pandita (2002), Wu and Chen (2001) and Wong and Chan (2003).

18. I have explained the various problems in detail in a section of Breslin (2007: 8–13) entitled ‘Methodological Problems: lies, damn lies, statistics and Chinese statistics (or never trust a statistic you haven’t faked yourself’.

19. As Frost (2004: 10) points out, nor does it help when a single Chinese source seems to.

20. Yang and Tyers (2000: 5) suggest that despite the massive amount of FDI into China, there was actually a net outflow of capital from 1996–98 in the region of US$30 billion.

21. Recent reforms are intended to reduce this round tripping by standardizing investment incentives. But the extent of round tripping since the beginning of the boom in investment into China in 1993 to 2006 was probably between 25 and 30 per cent of the total. For details and different estimates and methods of calculation, see Breslin (2007: 110–12).

22. Koko Oo sadly died before the completion of his PhD at the University of Warwick on China’s impact on Burma’s development.

23. For a good accessible overview of the possible implications of China’s demand for resources in general, see Zweig and Bi (2005). For the specific implications of China’s oil diplomacy, see Lee (2005).

24. For example, interviews with representatives from the pharmaceutical engineering business association in Beijing in September 2007 revealed the extent to which they fear health, environment and safety issues becoming an increasingly effective way of keeping Chinese exports out of the major markets in Europe and North America. One of the tactics being pursued is to acquire productive facilities within these markets, which has the added advantage of providing access to technologies that meet internationally-set standards. In this industry at least, large expenditures on R&D in China have so far only been partially successful in raising standards to internationally competitive levels.

25. Much of this non-state sector remains very close to the state through many formal and informal means. Whether it can really be considered to be independent from the state even though it is formally in private ownership is discussed in detail in Breslin (2007: 70–81).

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