

## The Great Recession and China's Policy toward Asian Regionalism

### ABSTRACT

The global recession has had seemingly conflicting impacts on China's policy toward Asian regionalism. But China has never viewed regionalism and globalism as mutually exclusive and has seen strategic value in pursuing both. A stronger China emerging from the crisis is playing both regional and global games with a stronger hand.

**KEYWORDS:** great recession, China, Asia, regionalism, ASEAN Plus Three

THE 2008 GLOBAL RECESSION HAS HAD seemingly conflicting impacts on China's attitude and policy toward East Asian regionalism. On the one hand, the crisis has given a new impetus to China's drive to regionalism, which began in 2000 as a result of lessons learned from the 1997–98 Asian financial crisis. Stronger East Asian interest and improved China-Japan relations are facilitating regional cooperation. On the other hand, China is a rising power, with an increasing global presence and a greater role in global governance, which could draw it away from East Asian regionalism.

This article addresses two related questions. What are the Chinese attitudes and policy toward Asian regionalism relative to globalism? How does a major financial crisis affect all this? Chinese attitudes and policy, evolving over time, reflect a host of international and domestic factors. A financial crisis constitutes an exogenous shock to that process. To view the effect of a shock, we also need to study what is being shocked. To better assess the

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shock effect of the great recession, I will also put China's regionalism policy into a broader context.

My paper argues that the Chinese government has never viewed regionalism and globalism as mutually exclusive and has seen strategic value in pursuing both. The fact that China is emerging from the global recession stronger relative to other major powers allows Beijing to play both regional and global games with a more powerful hand. When it comes to Asian regionalism, Beijing's preferred cooperation framework is ASEAN Plus Three (the Association of Southeast Asian Nations plus China, Japan, and South Korea). China sees this type of configuration as an unavoidable stage of Asian regionalism. Accordingly, Beijing has chosen not to openly challenge rival schemes such as ASEAN Plus Six (i.e., adding Australia, India, and New Zealand); the East Asian Community; or the Asia Pacific Economic Cooperation (APEC) free trade zone, all of which are far more distant and challenging objectives for Asian regionalism in Beijing's mind.

#### CHINA'S POLICY TOWARD ASIAN REGIONALISM

Regionalism can be economic, military, political, or cultural in nature. This paper focuses mainly on formal economic regional agreements for free trade and financial cooperation. China turned to free trade regionalism in 2000 when it signed the Bangkok Agreement, which involves tariff reduction, and proposed a free trade agreement (FTA) with ASEAN. China and ASEAN agreed in November 2001 to move forward with the plan to create an FTA (which finally took effect January 1, 2010). Then-Premier Zhu Rongji later proposed to accelerate this ASEAN Plus One FTA with an "early harvest" scheme to give ASEAN access to China's agricultural market earlier than other World Trade Organization (WTO) member countries. In 2002 China proposed creating both a Northeast Asian Free-Trade Area and an East Asian FTA within 15 years. On June 29, 2003, Mainland China and Hong Kong signed the Closer Economic Partnership Arrangement (CEPA). Although Hong Kong is a special administrative region of the People's Republic of China (PRC), it has been a legal member of the WTO since January 1995. Thus, the Mainland China-Hong Kong CEPA indicates Beijing's growing interest in free trade regionalism.

China's turn to regionalism came late by global, but not East Asian, standards. East Asia used to stand out as the only major trading region not

actively involved in formal regional FTAs.<sup>1</sup> In particular, Japan as the leading economic power in Asia was mainly interested in the *global* free trade system through the 1990s.<sup>2</sup> As late as October 1, 2002, only five of the top 30 economies in the world were not parts of any FTAs, namely, Japan, China, South Korea, Taiwan, and Hong Kong.<sup>3</sup> This was not a case where the Chinese policy community was divided or unable to pursue regionalism. Rather, China had too much on its plate. It was trying to join the General Agreement on Tariffs and Trade (GATT) and its successor WTO, a 13-year effort that used up China's trade negotiation capacity. Membership in the global trade organization was also necessary before Beijing could pursue other trade deals. Moreover, China needed to first have a good relationship with the countries in question.

China now seeks a whole range of regional FTAs, including cross-regional ones. But its core accords are those with its neighbors. Because Japan has not been enthusiastic about an FTA with China, little can be done in Northeast Asia.<sup>4</sup> As late as July 2009, Japanese officials remained focused on concluding an investment agreement with China and South Korea. The Japanese showed little interest in moving beyond the study stage for an FTA, even though Chinese government officials several times during the year conveyed to their Japanese counterparts the desire to start formal negotiations on one.<sup>5</sup>

Thus, the logical alternative target would be Southeast Asia. However, China did not even have diplomatic relations with key countries in the region such as Indonesia (where diplomatic relations were severed in 1967) and Singapore until 1990. China normalized relations with Vietnam in 1991. In addition, China's FTA is being pursued within the framework of ASEAN. China made its first official contact with ASEAN only in 1994, and not a good start at that. There was much suspicion on ASEAN's part about China's

1. Naoko Munakata, *Transforming East Asia: The Evolution of Regional Economic Integration* (Washington, D.C.: Brookings Institution Press, 2006), pp. 3–4.

2. Edward J. Lincoln, *East Asian Economic Regionalism* (Washington, D.C.: Brookings Institution Press, 2004), pp. 175–76.

3. T. J. Pempel and Shujiro Urata, "Japan: A New Move toward Bilateral Trade Agreement," in *Bilateral Trade Arrangements in the Asia-Pacific: Origins, Evolution, and Implications*, eds. Vinod K. Aggarwal and Shujiro Urata (New York: Routledge, 2005), pp. 76–77.

4. In fact, Northeast Asian countries have had difficulties in achieving regionalism among them because of deep-rooted distrust. Gilbert Rozman, *Northeast Asia's Stunted Regionalism: Bilateral Distrust in the Shadow of Globalization* (New York: Cambridge University Press, 2004).

5. Interviews with two senior officials of the Ministry of Economy, Trade, and Industry, Tokyo, July 2009.

intentions toward Taiwan and the South China Sea. It took much effort from China to improve relations with ASEAN.<sup>6</sup>

### Varying Views of Regionalism

How and why China turned to regionalism is by now a familiar story, even though various scholars may put different spins on it.<sup>7</sup> The Chinese government and policy community saw both strategic and commercial advantages in promoting regional cooperation. Like other major East Asian economies, the Chinese government did not want to be placed at a disadvantage when other regions in the world, particularly Europe and North America, had moved far ahead with regional integration that would necessarily discriminate against non-members. East Asia has risen economically in the world and become more integrated in the market place in the process. China would benefit commercially from its role in the world's fastest growing region. Beijing would gain political influence by being at the center of regional cooperation that did not include the U.S. and by helping to make rules for East Asia that non-member countries would have to adapt to. Against the background of these perceived benefits, the Asian financial crisis of 1997–98

6. For studies of China-ASEAN relations, see Allen S. Whiting, "ASEAN Eyes China: The Security Dimension," *Asian Survey* 37:4 (April 1997), pp. 299–322; Thammy Evans, "The PRC's Relationship with the ASEAN Regional Forum: Realpolitik, Regime Theory, or a Continuation of the Sinitic Zone of Influence System?" *Modern Asian Studies* 37:3 (July 2003), pp. 737–63; Martin Stuart-Fox, "Southeast Asia and China: The Role of History and Culture in Shaping Future Relations," *Contemporary Southeast Asia* 26:1 (April 2004), pp. 116–39.

7. John Ravenhill and Yang Jiang, "China's Move to Preferential Trading: A New Direction in China's Diplomacy," *Journal of Contemporary China* 18:58 (January 2009), pp. 27–46; Jian Yang, "China's Competitive FTA Strategy: Realism on a Liberal Slide," in *Competitive Regionalism: FTA Diffusion in the Pacific Rim*, eds. Mireya Solis, Barbara Stallings, and Saori N. Katada (New York: Palgrave, 2009), pp. 216–35; Steve Hoadley and Jian Yang, "China's Cross-Regional FTA Initiatives: Toward Comprehensive National Power," *Pacific Affairs* 80:2 (Summer 2007), pp. 327–48; Kevin G. Cai, "Chinese Changing Perspective on the Development of an East Asian Free Trade Area," *Review of International Affairs* 3:4 (Summer 2004), pp. 584–99; Elaine S. Kwei, "Chinese Trade Bilateralism: Politics Still in Command," in *Bilateral Trade Arrangements in the Asia-Pacific: Origins, Evolution, and Implications*, eds. Vinod K. Aggarwal and Shujiro Urata (New York: Routledge, 2005), pp. 117–39; Fan Yongming, "Quyuxing Guoji Gonggongchanpin Jiexi Quyuehuzuo de Lingyige Lilun Shidian" [Regional public goods: Another theoretical perspective for regional cooperation], *Shijie Jingji yu Zhengzhi* [World Economics and International Politics] (Beijing) 1 (2008), pp. 7–13; Sano Jūnya, "Higajia Keizai Renkei Kyōka o Motomeru Chūgoku" [China wants to strengthen East Asian economic cooperation], in *Higajia Keizai Renkei no Jidai* [Partnerships for economic development in East Asia], ed. Watanabe Toshio (Tokyo: Tōyōkeizai shinbōsha, 2004), pp. 123–43.

jumpstarted China's activism in Asian regionalism. China wanted greater regional cooperation against future crises. China also felt rewarded for its policy pledge not to devalue the yuan and to provide some financial assistance to affected countries.

Virtually all competing schools of Chinese foreign policy thinking have reasons to like regionalism.<sup>8</sup> Realist thinkers, who are more prevalent in China, like a regional project where China dominates, which is consistent with the notion of spheres of influence. Liberals view regional FTAs as building blocks for liberalization projects that lead to greater free trade. Prominent advocates of Asian integration in China such as Zhang Yunling want China to be part of a bigger family, rather than seeing integration as a ploy to advance China's interest in an overly selfish way.<sup>9</sup> Moderate Chinese thinkers tend to emphasize globalism rather than regionalism. But they do view regional integration as a correction to narrow-minded nationalism and a means to help forge a stronger sense of international community—although it is hard to know how far regionalism will go.<sup>10</sup> For those who might be called “neo-traditionalists,” East Asian integration is consistent with a strong desire to go back to a pan-Asian identity vis-à-vis the West.<sup>11</sup> Chinese policy elites simply do not see how Asian integration could hurt China in any meaningful way. Even though regional FTAs would entail domestic adjustment costs in China as elsewhere, “losers” from regional free trade deals who are not well represented in the Chinese political system have not been able to influence the government's regionalism policy.<sup>12</sup>

8. For insightful studies on China's thinking and policy toward Asia, see David C. Kang, *China Rising: Peace, Power, and Order in East Asia* (New York: Columbia University Press, 2009); Gilbert Rozman, *Chinese Strategic Thought toward Asia* (New York: Palgrave, 2010).

9. As an opposite of such views, see Zhang Shiping, *Zhongguo Haiquan* [China's maritime power] (Beijing: Renmin ribao chubanshe, 2009). Zhang is a People's Liberation Army (PLA) general and a strategic thinker in the PLA Academy of Military Sciences. He wants to assert China's maritime power and views some Southeast Asian countries and Japan as encroaching China's maritime territories.

10. For example, see Wang Yizhou, *Zhongguo Waijiao Xingao* [Highland over China's foreign affairs] (Beijing: Zhongguo shehui kexue chubanshe, 2008), pp. 121–22.

11. Conversely, for some observers outside China, China's interest in Southeast Asia reveals its intention to revive a hierarchical Chinese world order. Evans, “PRC's Relationship with the ASEAN Regional Forum.”

12. Ming Wan, “The Domestic Politics of China's Asian Regionalism Policy,” in *Trade Policy in the Asia-Pacific: The Role of Ideas, Interests, and Institutions*, eds. Vinod K. Aggarwal and Seungjoo Lee (New York: Springer, September 2010, forthcoming).

The only potential “hindrance” to Chinese policy toward regionalism is competition for attention on the government agenda. But East Asian regional summits have become institutionalized with regular meetings that draw high-level attention. In October–November 2009, for example, both Premier Wen Jiabao and President Hu Jintao attended various regional cooperation summits. It is the practice that the premier attends ASEAN-related summits such as ASEAN Plus China, ASEAN Plus Three, and the East Asian Summit (EAS). The president attends the APEC Economic Leaders’ Meeting (AELM).

As noted, Beijing prefers ASEAN Plus Three to ASEAN Plus Six. ASEAN Plus Three was a regional framework created in December 1997 as the first East Asian countries-only regional group.<sup>13</sup> It took on an economic integration function in May 2000 when the member countries agreed in Chiang Mai, Thailand, to create a series of bilateral currency swap arrangements, the beginning of East Asian financial integration. Thus, East Asian regional integration really began in the financial area, unlike a typical regional integration process that begins with trade, as exemplified by Europe. Much of East Asian free trade negotiation takes place within the ASEAN Plus Three structure. ASEAN itself has been pursuing an ASEAN Free Trade Area (AFTA), an economic common market to be completed by 2015, although observers often doubt its feasibility given the huge disparities and festering disputes among some member countries. Outside ASEAN, China has led the way in concluding and implementing agreements to create ASEAN Plus One agreements, followed by Japan and South Korea. Feasibility studies have been conducted about a China–Japan–South Korea FTA and an ASEAN Plus Three FTA, although formal negotiations are yet to start.

The ASEAN Plus Six came about at Japan’s initiative when Malaysia proposed creating an EAS. The Japanese wanted to include Australia, India, and New Zealand in the EAS to counter China’s growing influence.<sup>14</sup> In the end, the ASEAN Plus Three ministerial meeting agreed in July 2005 to include the three additional members for the inaugural EAS meeting to be held in Kuala Lumpur in December.

The ideal size of an FTA is fundamentally determined by a trade-off between two factors. To maximize wealth generated from trade liberalization

13. Takeshi Terada, “Constructing an ‘East Asian’ Concept and Growing Regional Identity: From EAEC to ASEAN + 3,” *Pacific Review* 16:2 (June 2003), pp. 251–77.

14. Mike M. Mochizuki, “Political-Security Competition and the FTA Movement: Motivations and Consequences,” in *Competitive Regionalism: FTA Diffusion in the Pacific Rim*, eds. Solis, Stallings, and Katada, pp. 54–73.

and minimize distortion from trade diversion, the bigger the group the better. This is why a global free trade regime is best. But to achieve integration, a larger number of participants, often accompanied by a greater divergence in preferences, would impose a greater collective-action problem. Moreover, whom to include or not to include is as much driven by political calculations as by economic ones. In a smaller setting, China would be relatively more influential, which is the main reason that China seeks such a setting and Japan opposes it.

China and Japan are not confronting each other over ASEAN Plus Three or ASEAN Plus Six, and are settling into a compromise in which both schemes proceed.<sup>15</sup> The Chinese recognize that they are competing with the Japanese for leadership in regional cooperation, which could add another source of tension to bilateral relations.<sup>16</sup> There is no need for a major fight because the Chinese recognize that Japan would have difficulties proceeding smoothly with regional FTAs because of the resistance of its agricultural sector.<sup>17</sup> Moreover, other countries have their own preferences and proposals, creating a complex strategic environment.<sup>18</sup>

While preferring the ASEAN Plus Three configuration, China has been even more focused on ASEAN Plus China, which it sees as leading the way toward a broader East Asian FTA by connecting to Japan's and South Korea's FTAs with ASEAN.<sup>19</sup> As Chinese officials and analysts like to say, the China-ASEAN FTA includes 1.9 billion people, which makes it the most populous FTA in the world, with close to \$6 trillion in total gross domestic product (GDP) and \$4.5 trillion in total trade. This FTA enhances the voices of China and ASEAN in the world. China is now the third largest trading partner for ASEAN. On January 1, 2010, the China-ASEAN FTA entered into effect, lowering tariffs to zero for China and the six early ASEAN

15. This observation was confirmed by my interviews and discussions with officials and scholars in Tokyo in July 2009 and in Beijing in August 2009.

16. Lin Daizhao, "Lengzhanhou de Yatai Geju yu Zhongri Guanxi" [Post Cold War Asia Pacific and Sino-Japanese relations], *Guoji Zhengzhi Yanjiu* [Studies of International Politics] (Beijing) 2 (2001), pp. 14–20.

17. Zhang Zuguo, "Ribei Maoyi Zhengce de Zhuanbian cong Fouding dao Liyong Diquzhuyi" [Shift in Japan's trade policy: From opposing to utilizing regionalism], *Xiandai Guoji Guanxi* [Contemporary International Relations] (Beijing) 5 (2002), pp. 40–44.

18. Solis, Stallings, and Katada, eds., *Competitive Regionalism: FTA Diffusion in the Pacific Rim*.

19. Feng Zhaokui, "Shijiasan Zouxiang Dongya Ziyou Maoyiqu zhi Lu" [10 plus 3: The path to an East Asian free trade area], *Shijie Jingji yu Zhengzhi* 3 (2002), pp. 21–26.

members (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) on 90% of merchandise. The accord means a substantial opening up of the service sector as well. In 2015, Vietnam, Cambodia, Laos, and Myanmar will lower tariffs to zero for 90% of Chinese imports. Chinese observers generally think that they understand what ASEAN wants; their view is that ASEAN welcomes China's peaceful rise because it sees economic opportunities from having closer economic ties with China. This is a persuasive assessment of ASEAN's interest in an FTA with China.<sup>20</sup> (Less known to outsiders, the China-ASEAN FTA also involves a partial relaxation on tourist visas.)

The Chinese government has been publicly sensitive to ASEAN concerns about being marginalized. Premier Wen spoke at the Eighth ASEAN Plus Three summit in Laos in November 2004, emphasizing that China supports ASEAN's continuous leadership in the grouping and in East Asian regionalism. At the same time, the Chinese government sees clear strategic interests in forging closer ties with its southern neighbors. Former Vice Foreign Minister Wang Yi stated at a meeting that China faces strong, major-power neighbors to the east, north, and west and can only take initiatives and influence others in the ASEAN region. He reasoned that China needs to promote economic cooperation to sustain the political ties that the Chinese government tries so hard to nurture. China needs to tie ASEAN and China together with economic interdependence.<sup>21</sup> China is also seeking to include security interests in its relations with ASEAN. At an ASEAN foreign ministers' meeting in Phnom Penh in June 2003, China offered a bold proposal for a strategic partnership of political and economic cooperation with the association. The proposal, which was not publicized, was viewed by some in Southeast Asia as trying to establish a special relationship and to keep the U.S. and Japan at a distance.<sup>22</sup>

20. Suthiphand Chirathivat, "ASEAN-China Free Trade Area: Background, Implications, and Future Development," in *Asian Economic Cooperation in the New Millennium: China's Economic Presence*, eds. Calla Wiemer and Heping Cao (Singapore: World Scientific Publishing Company, 2004), pp. 363–83.

21. Luo Wensheng, "Zhongguo Dongmeng Gonglue" [China's strategy toward ASEAN], *Ershiyishiji Jingji Baodao* [21st century business report] (Guangzhou), November 24, 2004, <<http://finance.sina.com.cn/g/20041124/07251176287.shtml>>, accessed February 27, 2010.

22. Michael Vatikiotis, "China's Tight Embrace," *Far Eastern Economic Review*, July 17, 2003, pp. 28–30.

## Regional Financial Cooperation

My discussion above is mainly about free trade negotiations. China's participation in Asian regionalism is also reflected in regional financial cooperation. In May 2000, China joined the Chiang Mai Initiative (CMI) to establish a series of bilateral currency swap agreements among the ASEAN Plus Three countries. As argued above, Asian regionalism differs from the conventional regional integration model that starts with free trade before moving to the financial sector. According to the Chinese Ministry of Finance, by the end of 2008 China had signed bilateral currency swap agreements with six countries (Japan, South Korea, Thailand, the Philippines, Malaysia, and Indonesia), totaling \$23.5 billion, with \$16.5 billion coming from China.<sup>23</sup> China has also participated in a number of East Asian initiatives for financial cooperation, although one may debate whether Asian financial regionalism had lost steam prior to the global recession.<sup>24</sup> As with the trade area, the Chinese view Japan as their main competitor in the region while recognizing the continuous dominance of the U.S. dollar in East Asia.<sup>25</sup>

China's turn to regionalism does not indicate a rejection of globalism, defined here as participation in global economic agreements. China was part of the general trend in the Asia Pacific region to pursue bilateral or regional trade agreements as an alternative to the troubled global trade negotiations.<sup>26</sup> And Beijing's eventual success in joining the WTO cleared the way for it to think about regional agreements.<sup>27</sup> The Chinese government, business community, and public also paid overwhelming attention to the WTO, rather than to China's emerging regionalism efforts. The Asian financial crisis did not just facilitate Asian regionalism. While not as noticeable then, the crisis led to the launch of the Group of 20 (G-20), five members of which are

23. China News Agency, October 21, 2009, <<http://www.chinanews.com.cn/cj/cj-gncj/news/2009/10-21/1923727.shtml>>, accessed October 21, 2009.

24. Liu Tao, "Hou Jinrong Weiji Shidai de Dongya Huobi Jinrong Hezuo Fansi" [Reflection on East Asian currency and financial cooperation in the post financial crisis era], *Guoji Wenti Luntan* [International Review] (Beijing) 3 (Fall 2008), pp. 83–94.

25. Sun Jie, "Shenhua Yazhou Jinrong Hezuo de Tujing Riben de Zuoyong he Yingxiang" [The path to deepening Asian financial cooperation: Japan's role and influence], *Shijie Jingji yu Zhengzhi* 5 (2007), pp. 59–66; Gao Haihong, "Dangqian Quaniu Meiyuan Benwei Wenti ji Dongya Quyu Jiejue Fang'an" [The dollar standard in the contemporary world: Problems and East Asian regional solution], *ibid.*, 1 (2008), pp. 69–77.

26. Vinod K. Aggarwal and Shujiro Urata, eds., *Bilateral Trade Arrangements in the Asia-Pacific: Origins, Evolution, and Implications* (New York: Routledge, 2005).

27. Ravenhill and Jiang, "China's Move to Preferential Trading," p. 28.

Asian (China, India, Indonesia, Japan, and South Korea), which formally replaced the Group of Eight (G-8) in September 2009.<sup>28</sup>

As observed by Wang Yizhou, a noted Chinese international relations specialist, China has been balancing its relations with great powers, neighboring countries, developing countries, and multilateral institutions centered on the U.N. Wang views Beijing as having successfully formed a parallelogram of relations that does not favor any side at the expense of others.<sup>29</sup> One may debate how successful China has been in balancing the four lines and point out cases where it has failed to do so. But the point here is that the Chinese do not see a zero-sum game between globalism and regionalism; they intend to maneuver among different relationships to maximize strategic space for their foreign policy.

China's facility in playing both the global and regional games partly results from the fact that it does not see as big a divide between Asia and the West as Japan does. After the Meiji Restoration of 1868, some leading Japanese thinkers urged Japan to leave Asia and join the West. Since that time, the Japanese have often debated publicly where their country belongs. Although the Chinese also struggle with conflicting identities, they do not normally debate whether China belongs to Asia or the West. China is China and the country never sought to leave Asia and join the West. More relevant to contemporary international politics, Japan has a long-standing alliance with the U.S., and Tokyo's moves toward Asia are often interpreted as seeking some distance from the U.S. That is not the case for China.

Beijing clearly prefers an institutional arrangement that excludes the U.S., in order to give China more influence and flexibility. At the same time, China wants a good relationship with the U.S. and has learned to deal with it in multilateral forums. When it comes to East Asian regional integration, the Chinese want to accomplish it in a way that advances their economic and political interests without overly complicating their important relations with the U.S.<sup>30</sup> The Chinese also believe that it is possible to achieve East

28. The G-8 was the U.S., Britain, France, Germany, Japan, Canada, Italy, and Russia. For the rise of the G-20 after the Asian financial crisis, see Mark Beeson and Stephen Bell, "The G-20 and International Economic Governance: Hegemony, Collectivism, or Both?" *Global Governance* 15:1 (January/March 2009), pp. 67–86.

29. Wang Yizhou, "Zhongguo Waijiao Shitese" [The ten characteristics of Chinese diplomacy], *Shijie Jingji yu Zhengzhi* 5 (2008), pp. 11–13.

30. Wei Hongxia, "Dongya Duobian Hezuo Jiqi dui Zhongmei Guanxi de Yingxiang" [Multilateral cooperation in East Asia and its impact on Sino-U.S. relations], *ibid.*, 6 (2008), pp. 13–20.

Asian regional integration by adopting a slow and steady process to minimize U.S. opposition.<sup>31</sup>

#### CHINA'S ASIAN REGIONALISM POLICY AND THE GREAT RECESSION

To answer the question of how the global recession affects China's thinking toward regionalism, we need to consider two theoretical questions. First, does a financial crisis lead to greater efforts for trade liberalization, or to a wave of protectionism and isolationism? Second, would a global financial crisis further globalism or regionalism?

Like all nations, the Chinese government is worried about the global recession. And more than mature democracies like the U.S., the Chinese government worries about its regime security because poor economic performance would undermine its legitimacy.<sup>32</sup> Thus, China has protectionist instincts. At the same time, China considers global cooperation to be important, as one would expect from a major exporter and a country that has invested so heavily in American debt. The global recession has eroded public support for globalization to some extent because the financial downturn spreads instability—and many observers blame the free-wheeling global financial market as the root cause. But unlike the Great Depression of the 1920s and 1930s, there has not been a sharp rise of protectionism and competing economic blocs. The major countries including China have worked together and adapted the global governance structure to deal with the crisis.

The global recession has furthered China's interest in both globalism and regionalism. On the global front, the G-20 took the center stage with the gathering crisis. Unlike the G-8, consisting of mainly advanced economies, the G-20 also incorporates emerging powers: Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea, and Turkey. The G-20 summit was held in Washington, D.C., in November 2008 to help save the financial sector and in London in April 2009 to coordinate stimulus packages to fight off recession. The G-20 leaders met again in Pittsburgh, Pennsylvania, in September and decided to replace the G-8

31. Zhang Xuebin, "Lun Jianli Dongya Ziyou Maoyiqu de Kexingxing" [The feasibility of building an East Asian free trade zone], *Guoji Zhengzhi Yanjiu* 2 (2001), pp. 21–28.

32. Ming Wan, "Chinese Security under Globalization," *Fudan Journal of the Humanities and Social Sciences* 2:3 (September 2009), pp. 21–35.

with the G-20 and to give greater voting power at the International Monetary Fund to emerging economies, particularly China.

China basically likes the G-20 format. With the country's rise, there has been much discussion in the West and China about the latter's proper role in the global economic governance structure. Before the global recession, it was generally accepted in the U.S. policy community that it would be better for China to be incorporated into the global governance structure either as a new member of the G-7/G-8 or by elevating the G-20, which already included China and some fellow emerging powers as listed above. There was also a suggestion of creating a smaller structure of the most important economic players: the U.S., the E.U., Japan, and China.<sup>33</sup>

The G-7 was an important coordinating institution for the global economy. After Russia joined the club in the early 1990s, one could make a case that China should be in as well. China had already surpassed most G-8 members in overall GDP. While participating in the G-8 as an invited guest along with some other large developing countries in recent years, China showed no strong interest in membership.<sup>34</sup> The G-8 serves political as well as economic purposes. This poses problems for some Western powers that view China's human rights record as a barrier, and for China, which does not want to be a latecomer making all the adjustments in a West-dominated group. The Chinese were concerned that the West would use the G-8 as a channel to seek concessions from China that they could not get through other channels. Besides, the G-8 was viewed as not having any meaningful impact on China. China preferred the framework of the G-20 even before the global recession.<sup>35</sup>

After the crisis began, recognizing China's importance as a principal lender to the U.S., some strategic thinkers in the U.S. policy community called for

33. C. Fred Bergsten, Bates Gill, Nicholas R. Lardy, and Derek Mitchell, *China: The Balance Sheet: What the World Needs to Know Now about the Emerging Superpower* (New York: Public Affairs, 2006), p. 116.

34. From the Chinese perspective, the United States and the West included Russia, which was not an advanced country, in the rich nation club mainly for the political purpose of encouraging Russia down the path of democracy as well as to secure energy supplies. Gao Hua, "Eluosi Jishen Baguo Jituan yu Nengyuan Waijiao" [Russia's membership at the G-8 and its energy diplomacy] *Heping yu Fazhan* [Peace and Development] (Beijing) 4 (2006), pp. 1-7.

35. Yu Yongding, "Jueqi de Zhongguo yu Qiguo Jituan Ershijituan" [A rising China and G-7, G-20], *Guoji Jingji Pinglun* [International Economic Review] (Beijing) 5 (September-October 2004), pp. 9-12; He Fan, "Zhongguo shifou xuyao jiaru G7?" [Should China join G-7?], *ibid.*, pp. 13-16.

a Group of Two between the U.S. and China to lead the world. The G-2 scheme did not interest the Chinese government. From the Chinese perspective, such a structure would lock China to the American policy agenda, entail a level of contributions beyond its means, and invite a global backlash against the country's rise. Some suspicious Chinese analysts actually viewed discussion of a G-2 as an American trick to trap China. Beijing's concern was so strong that Premier Wen told visiting President Barack Obama on November 18, 2009, that China does not support a G-2 because China is not yet a developed country and does not seek alliance with anyone. Any serious discussion of a G-2 had already died down by the time Obama arrived in China. The Chinese government was also letting the rest of the world know that it has no interest in lording it over them.

By contrast, the G-20 is more representative of the new power reality in the world and puts China in a more comfortable situation with some other non-Western emerging powers. While the West still dominates the G-20, emerging countries have gained greater power. Because China plays a prominent role, its ambition is accommodated, to some extent, on the world stage. Put simply, China has become a global power and does not want to be shut out of other regions, given its growing needs for energy, natural resources, and markets for its products.

What a rising China should do globally has become a major topic since the current economic crisis began. The crisis coincided with the 30-year anniversary of China's reform and opening (1978) and the 60-year anniversary of the founding of the People's Republic of China (1949). To many in China, the country's stronger performance during the crisis vindicates its choice of development model.

By contrast, discussion of Asian integration has not heated up in China. In fact, when the media examined China's foreign policy record for 2009, the officials and scholars cited largely emphasized China's active participation in global forums such as the G-20, the climate change summit, and improved relations with the U.S. But that does not mean that China is not actively pursuing regionalism. China's regionalism train left the station a decade ago, and it is on track. In particular, the China-ASEAN FTA was completed on schedule on January 1, 2010, which necessarily involved active advocacy by senior officials. More broadly, top Chinese leaders need to attend routine regional summits, which engage their attention. Shortly after the G-20 meeting in Pittsburgh in September, Premier Wen attended the ASEAN-related

summits in Hua Hin, Thailand, in October. President Hu went to the APEC economic leaders' meeting in Singapore in November.

China has not made any major new regionalism initiatives, and it is focused mainly on consolidating its gains. By contrast, Japan has stepped up in launching a major proposal for regional integration. The Democratic Party of Japan (DPJ) won a major electoral victory in the lower house of the Diet in August 2009, routing the long-ruling Liberal Democratic Party. Hatoyama Yukio, the party leader, made it known during the election campaign that he was interested in an East Asian Community. Shortly after becoming prime minister, Hatoyama unveiled his vision for an E.U.-like East Asian Community. This was the boldest proposal from any East Asian leader in recent years. It was particularly surprising given Japan's past tendency to "lead from behind" and its recent attempt to merely keep up with China in the regionalism game; Tokyo began to pursue a free trade deal with ASEAN only after China had done so.

During his first meeting as prime minister with Hu Jintao in New York on September 21, 2009, Hatoyama pitched his idea for an East Asian Community. Hu did not respond explicitly. Some Chinese scholars interpreted this as showing that Chinese leaders, like leaders in other countries, need time to take Hatoyama's measure. But China has been engaged in regionalism for some time, although an E.U.-style regional grouping goes beyond what Beijing wants at this point. A positive response nonetheless emerged. Indeed, at the foreign minister meetings in Shanghai on September 28, Chinese foreign minister Yang Jiechi appeared willing to go along with the Hatoyama vision.<sup>36</sup> Then, at the China-Japan-South Korea summit held in Beijing on October 10, the goal of the East Asian Community was accepted. Before his visit to Japan, Chinese Vice President Xi Jinping in December explicitly endorsed Hatoyama's East Asian Community proposal as consistent with Asia's regionalist trend. Thus, the Chinese government is officially on board.

China will continue to compete with Japan for regional leadership and believes that it will be the leader in the end. But Chinese officials do not want to oppose the Hatoyama plan, because Sino-Japanese relations have improved since late 2006 and they have high hopes for the new prime minister. Hatoyama wants to emphasize Asia in Japan's foreign relations and has pleased the Chinese by pledging not to visit the controversial Yasukuni

36. *Asahi Shimbun*, September 28, 2009, <<http://www.asahi.com/international/update/0928/TKY200909280379.html>>, accessed September 28, 2009.

Shrine, which memorializes, among others, a number of major war criminals from World War Two. Former Prime Minister Koizumi Junichiro's annual visits to the shrine when he was prime minister were the main reason for the tension in the bilateral relationship in 2002–06. Moreover, the Chinese reason that a path toward an East Asian Community that includes India, Australia, and New Zealand will necessarily go through China's preferred tighter regional scheme of ASEAN Plus Three. But just to make sure, Premier Wen counseled a gradualist approach to East Asian integration during his speech at the October 2009 summit.

On top of all this, the Chinese also want to see the reaction to the Hatoyama plan from other parties. The plan has caused some concern among members of ASEAN who wish to remain in the driver's seat for East Asian regional cooperation. Still, from Beijing's perspective, it is likely that soothing words will be sufficient to maintain the appearance of an ASEAN-driven process.

It was Australian Prime Minister Kevin Rudd who offered a rival plan at the series of ASEAN summits in October. The Rudd plan was also ambitious, in that it envisions an Asia Pacific Community that serves security purposes as well as economic ones. Unlike the Japanese plan, the Australian plan explicitly includes the U.S. and also emphasizes political values.

The U.S. is in an awkward position over the Hatoyama plan. Washington rightly sees it as reflecting Hatoyama's preference for moving closer to Asia, which means some distancing from its postwar ally. Japan's closer relationship to Asia does not have to come at the expense of its relations with the U.S. But the Hatoyama plan, vague though it is, does not explicitly include the U.S. Hatoyama reiterated his idea at the APEC meeting in Singapore in November 2009, stressing the importance of the Japan-U.S. alliance in order to alleviate American concerns. But the U.S. is clearly not envisioned as a core member of the Asian group. After all, Hatoyama wants to create a common currency, essentially an alternative to the prevailing dollar standard in Asia. Furthermore, the prime minister insisted on revisiting the military base issue.<sup>37</sup> He released details of a secret 1960s agreement to allow American ships and planes to carry nuclear weapons when stopping over in Japan. The U.S. government was not amused, publicly. Also reversing its past inaction

37. The United States and Japan reached an agreement in 2006 to move 8,000 Marines to Guam and build a new air station to replace Futenma Marine Base. The DPJ opposed the 2006 agreement and wanted to review the plan to build a Futenma replacement.

over Asian regionalism, the Obama administration is seeking to reenergize the APEC forum. For that purpose, Obama attended the APEC summit in Singapore in November 2009.

However, the APEC scheme is unlikely to put the U.S. back in the center of the Asian regionalist movement. East Asia has other schemes that have made progress and built political momentum. APEC is even broader than the East Asian Community. Although no one will oppose it, APEC will end up on the back burner. Putting all its bets on the APEC plan means that the U.S. will most probably be an outsider looking in, 10 years from now. Moreover, the current political environment in the U.S. is unlikely to allow a “low quality” FTA with East Asia.

It is not in China’s interest to publicly comment on the highly sensitive Japan-U.S. tension. But one should expect Beijing to see more positives than negatives in this development. The tension between Japan and the U.S. used to worry China because that might unleash Japan. But China is more confident now. And since Beijing considers Japan to be already “unleashed,” meaning that Japan has become a normal state, it does not see much of a silver lining in the U.S.-Japan alliance. Thus, a greater complexity in the U.S.-Japan alliance would be beneficial for China.

The Obama administration is refocusing on Asia. At a major policy speech at the East-West Center on January 12, 2010, Secretary of State Hillary Clinton indicated that the U.S. is “back to stay” and will work with the existing regional institutions in Asia.<sup>38</sup> Beijing cannot oppose greater American involvement in Asia. To start with, China knows that many Asians welcome an American presence; open opposition by China might increase its neighbors’ suspicions of its intentions. Besides, China continues to treat its relationship with the U.S. as extremely important, and any effort to exclude the U.S. from East Asia would jeopardize that relationship. In fact, the Chinese have always said that China is not to blame if the U.S. is not interested in Asian regionalist projects. Beijing’s strategy is not to openly criticize any particular proposals on the table, while subtly steering the processes to its own purpose. Publicly, Chinese officials endorse all channels of regional integration. At his keynote speech at the APEC chief executive officer summit on November 13, 2009, President Hu emphasized that regional integration should be pursued along

38. Secretary of State Hillary Rodham Clinton, “Regional Architecture in Asia: Principles and Priorities,” East-West Center, Honolulu, January 12, 2010, <<http://state.gov/secretary/m/2010/01/135090.htm>>, accessed May 6, 2010.

multiple channels (*duoguan qixia*).<sup>39</sup> Chinese scholars think so too. Zhang Yunling, one of the best-known advocates of regionalism in China, argued recently that East Asian cooperation should have different mechanisms and forms.<sup>40</sup>

At the same time, Beijing's heart is still set on ASEAN Plus Three, and its energy is focused on ASEAN Plus China. As a senior official at the China National Development and Reform Commission noted, ASEAN Plus Three is the most economically beneficial scheme for China. To use Beijing's concentric road system as an analogy: cooperation among the mainland, Hong Kong, Macao, and Taiwan is like Beijing's Second Ring Road; ASEAN Plus China is the Third Ring Road; ASEAN Plus Three is the Fourth Ring Road; and the APEC FTA is possibly the Seventh (or Eighth) Ring Road.<sup>41</sup> At the ASEAN series of summits in 2009, the Chinese government did not tout its preferred regional architecture but focused on shoring up its FTA with ASEAN.<sup>42</sup> Premier Wen also announced that China would offer \$15 billion of low-interest loans to build infrastructure in Southeast Asia. The Chinese government also furthered its involvement in sub-regional schemes such as the Greater Mekong Sub-region program. In fact, one senior Chinese researcher from the China Institute of International Studies attached to the Chinese Foreign Ministry called the scheduled completion of the China-ASEAN FTA the brightest spot in these summits.<sup>43</sup>

Similarly, at the APEC meetings in November, the Chinese emphasized that one important agenda issue was Hu's visit to Malaysia and Singapore. Officials said it would further China's relations with ASEAN and help coordinate with the two countries to establish what kind of East Asian regional cooperation is desirable.<sup>44</sup> Moreover, Hu and Lien Chan, Taiwan's

39. China News Agency, November 13, 2009, <<http://www.chinanews.com.cn/cj/news/2009/11-13/1964231.shtml>>, accessed February 27, 2010.

40. *Zhongguo Jingji Daobao* [China Economic Herald] (Beijing), October 27, 2009, <<http://www.ceh.com.cn/ceh/jryw/2009/10/27/54855.shtml>>, accessed November 21, 2009.

41. China News Agency, November 9, 2009, <<http://www.chinanews.com.cn/cj-yjgd/news/2009/11-09/1954223.shtml>>, accessed November 9, 2009.

42. For astute observations by foreign journalists, see Jeremy Laurence, "Australia, Japan Pitch Rival Ideas for New Asia Bloc," Reuters, October 25, 2009, <<http://www.reuters.com/article/latestCrisis/idUSSP458910>>, accessed October 25, 2009; James Hookway, "Competing Visions for Asian Trade Bloc," *Wall Street Journal*, October 25, 2009, <<http://online.wsj.com/article/SB125647011593406339.html>>, accessed October 25, 2009.

43. China Broadcasting Net, October 25, 2009, <<http://news.sina.com.cn/c/2009-10-25/195618905082.shtml>>, accessed October 26, 2009.

44. China News Agency, November 10, 2009, <<http://www.chinanews.com.cn/cj/news/2009/11-10/1955428.shtml>>.

representative and former vice president, agreed during their meeting at APEC that the two sides would begin negotiations on free trade by the end of the year. Beijing and Taipei are now engaged in the Economic Cooperation Framework Agreement talks.

Another emerging feature of China's regionalism policy is to use different forums to serve different policy interests. For the APEC summit in Singapore in November 2009, Vice Foreign Minister He Yafei told the press that the Chinese government hoped to combat protectionism in trade and investment.<sup>45</sup> Indeed, in his APEC speech Hu gave his verbal support to APEC integration, but his focus was on criticizing protectionism in trade and investment, the most prominent theme in Chinese media coverage. Although some analysts treat that as an implied criticism of the U.S., other countries have also increasingly adopted protectionist measures against Chinese exports. The Chinese government saw itself as the biggest victim of trade protectionism strengthened by the global recession.

The Chinese view ASEAN Plus Three strategically as the most pragmatic ultimate solution that should be realized first, possibly by linking the three ASEAN Plus One FTAs (involving China, Japan, and South Korea, respectively) into a broader scheme. Moreover, ASEAN Plus Three has been the main framework for regional financial integration. China now has financial resources to influence the region. As mentioned earlier, by the end of 2008 the Chinese government had signed bilateral currency-swap agreements with six countries, totaling \$23.5 billion. China committed \$16.5 billion to these agreements. With the 2008 financial crisis, China signed bilateral agreements worth 360 billion yuan (around \$52 billion) outside the Chiang Mai framework.<sup>46</sup> China also supports the creation of regional foreign reserves, which elevates cooperation from the bilateral to the multilateral level. ASEAN leaders reportedly supported greater use of the yuan instead of the dollar for trade transactions in Southeast Asia at the ASEAN summit in October 2009.<sup>47</sup> Some Chinese analysts anticipate a wide use of the yuan in Southeast Asia within five years, partly because firms would want to reduce the currency

45. Ibid.

46. Ibid., October 21, 2009, <<http://www.chinanews.com.cn/cj/cj-gncj/news/2009/10-21/1923726.shtml>>, accessed October 21, 2009.

47. Thomas Fuller, "ASEAN Summit Turns to Widening Free Trade," *New York Times*, October 26, 2009, <[http://www.nytimes.com/2009/10/26/world/asia/26iht-asean.html?\\_r=1&pagewanted=print](http://www.nytimes.com/2009/10/26/world/asia/26iht-asean.html?_r=1&pagewanted=print)>, accessed October 26, 2009.

risk from a declining dollar.<sup>48</sup> The regional financial integration issue should become more prominent in the near future.

## CONCLUSION

China turned to formal regionalism in 2000 to advance its interests in a competitive international environment when most other major trading powers had already formed bilateral or regional FTAs. It did not do so to reject the global free trade regime but as a complementary instrument to maximize flexibility and gains. The global recession has not changed Beijing's basic calculations. Rather, the crisis has elevated China's relative power in the world, which Beijing is using to advance its agenda on all fronts, bilateral, regional, and global. Although some analysts view Beijing as becoming more assertive vis-à-vis the U.S. in Asia and elsewhere, the Chinese government remains cautious in the overall scheme of things. It does not endorse a G-2 format (some other aspiring countries might jump at the opportunity), and it has not made bold regional integration plans. Beijing clearly wants to prevent greater alarm and potential countermeasures to its continuous rise from other countries. China is doing well at present, negotiating skillfully between various levels of interaction, maximizing its national interests, and enhancing its influence. At the same time, China's approach will surely be tested when it has to make hard choices down the line against competing countries that are bound to rise to frustrate Beijing's ambition in the region or the world. China will either have to accommodate other countries or play hardball to advance its agenda as Asian regionalism moves into a more serious negotiation stage.

48. *Guangzhou Ribao* [Guangzhou Daily], October 17, 2009, <<http://news.sina.com.cn/c/2009-10-17/040718847261.shtml>>, accessed October 17, 2009.