

ASIA'S SHIFTING STRATEGIC AND ECONOMIC LANDSCAPE

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ASIA'S BALANCE OF INFLUENCE is shifting on all fronts—economically, militarily, technologically, diplomatically, and politically. The pace of change is accelerating. From the financial disruptions of the late 1990s to the ensuing nuclear crises, first in South Asia and then on the Korean Peninsula, Asia is a land transformed and transforming. It is also a region casting off Cold War Western influence and control, ready to exert economic, political, and, potentially, military muscle in response to expressions of American hegemony.

China's economic ascendance and political transition stands out as both a major episode in the history of global political economy and as the primary driver of wide-ranging changes in Asia's economic, technological, diplomatic, and security alignments. Beginning in the late 1970s, China experienced three decades of extraordinary growth that raised every indicator of material welfare, lifted hundreds of millions from poverty, and propelled China from near autarky into regional and global prominence. These unprecedented developments have transformed China into a substantial U.S. trade and investment partner, a regional military power, and a major influence on national economies and cross-national interchange throughout the Pacific region.

China has surpassed Japan as Asia's leader in military spending and in many dimensions of international trade. China is, moreover, emerging as

a voice for East Asian economic, political, and security interests.¹ Beijing's contribution to stabilizing regional markets during the Asian financial crisis beginning in 1997 and its central role in the six-power North Korea nuclear talks underscore China's growing prominence in regional and global efforts to manage contentious economic, social, and security issues. China's accession to the World Trade Organization (WTO) has accentuated these trends and may alter the balance of economic power in Asia as dynamically and dramatically as internal reform has restructured China's domestic balance between state-owned and private sector business.

We need not assume that China's high-speed growth will endure—although this is certainly possible. The dramatic multilateral impact of Japan's earlier growth spurt on trade, diplomacy, investment, technology, management, business structures, government regulation, and even national psychology demonstrates the profound consequences of economic change, even when military development remains muted. Given its far greater population, land mass, and economic potential, China's international impact during the next several decades seems likely to overshadow the global consequences of Japan's protracted growth spurt during the concluding decades of the twentieth century.

But there is a difference in kind as well. If the nations of Asia are arrayed on a techno-national versus techno-global scale, Japan and Korea seem worlds apart from China, which resembles the United States in many respects. In particular, China is more open to reciprocal trade, to foreign investment, and to trade in technology. Like the United States, China appears receptive to worldwide diffusion of technology under principles of free and open trade. These characteristics stand in stark contrast to the long-standing protectionist tendencies of official and unofficial policy in both Japan and South Korea.²

China's great boom already affects the regional and global alignment of power through Beijing's far-flung projection of economic, technological, and diplomatic influence. Comprehending this process, anticipating its implications, and formulating constructive responses will require new approaches that effectively integrate the often disparate worlds of economics, politics, and military strategy. Our investigation is structured to inform a U.S. policy on Asia capable of responding to dynamic change.

The central theme of this book is to examine the hypothesis that Beijing's vision of China's peaceful rise represents a practical and realistic path for the protracted and intricate global ballet to which China's vast and prolonged economic boom provides a remarkable overture.

This book analyzes the Asia-wide implications of China's rapid and largely unanticipated emergence as an economic, political, and military power and as a significant presence in both regional and global affairs. It employs a comprehensive, multidisciplinary analysis of the changing balance of influence in Asia. In this framework, the traditional notion of a balance of power is supplanted by the metaphor of a magnet, capable of causing political and economic realignment throughout Asia. One can easily envisage a world in which the rise of a single state can decisively alter long-standing patterns of military and economic relations.

An animating concern of this book is apparent U.S. disengagement from Asia at a time when China is recapturing its historical role as a great power, and positioning itself as a leading state in global affairs. This aspect of China's rise involves careful and energetic Chinese commercial diplomacy, which contrasts sharply with the tendency of recent U.S. administrations to concentrate diplomatic and military initiatives in other regions. Whether due to increased Chinese economic clout or U.S. neglect, the balance of influence is shifting in China's favor. It is past time for the United States to refocus attention on its economic and political interests in Asia.

Asia's primacy for American interests is beyond doubt. Asia has become the United States' largest economic partner: U.S. trade with Asia amounted to US\$1022.3 billion in 2005 compared to US\$847.6 billion of trade with Europe during the same year.³ In the security field, Europe responded to the end of the Cold War by reducing military expenditures from US\$257 billion in 1985 to US\$189 billion in 2001. At the same time, Asia pursued a military buildup (both conventional and nuclear) with overall defense spending rising from US\$128 billion in 1985 to US\$154 billion in 2001.⁴ Perhaps more telling, in 1999 and in all subsequent years, China's military budgets exceeded those of the major European powers. And in 2003, the last year for which statistics are available, China's and Japan's defense budgets reached US\$56 and US\$43 billion respectively, compared to US\$35, US\$46, and US\$43 billion for Germany, France, and the United Kingdom. The Chinese and Japanese figures are notable because Chinese military expenditures have consistently exceeded those of Japan since 2001.⁵

Although divided by historical enmities, Asian nations are paradoxically rushing toward integration of trade, manufacturing, and investment, both regionally and worldwide. Trade optimists foresee a golden age of global and intra-Asian trade and investment that can raise living standards, education levels, and life prospects for Asia's billions.⁶ They welcome China's new

pendant for making deals rather than fomenting revolution and applaud the recent flurry of regional and bilateral free trade agreements. One analyst argues that, with the exception of the Taiwan issue, China is more open to existing international institutions and norms and even to “U.S. dominance of the international and regional power structure than at any time since 1949.”⁷

Security pessimists are less sanguine. They point to China’s growing military budget and extensive plans for force modernization, concomitant with the long cycle of economic expansion.⁸ Some forecast the coming of a “second nuclear age” with many potential nuclear weapons states outside the West and outside the Nuclear Nonproliferation Treaty (NPT). They cite the nuclear aspirations of North Korea and Iran, the nuclear standoff between India and Pakistan, and the inability of the 2005 NPT Conference to make meaningful progress. They fear that failure to stem North Korea’s nuclear ambition could stimulate other countries to follow Pyongyang’s lead in withdrawing from the NPT—perhaps South Korea, Taiwan, or possibly even Japan. Several studies warn that Asian military affairs and economic relations may be far from harmonious in the future. One analyst observes that the absence of efforts to “reduce the risks of a maritime conflict in the west Pacific . . . injects major uncertainties into regional defense planning, very possibly compounding the risks in a major crisis.”⁹ Some raise the specter of an Asian bloodbath comparable to Europe’s catastrophic twentieth-century wars.¹⁰ Finally the U.S.-China Economic and Security Review Commission announced in its 2005 Annual Report to Congress that “on balance, the trends in the U.S.-China relationship have negative implications for the long-term economic and security interests of the United States”; it continues to maintain this position in its 2006 report.¹¹

We start from the supposition that the United States, short of a declaration of war, simply does not have the ability to halt or even substantially mitigate the expansion of Chinese influence in Asia. Indeed, the movement toward intra-Asian economic integration confers few advantages on the United States compared to global integration. But, as Ellen Frost has observed, building regional ties “offers Asian leaders political and security advantages, such as engaging China peacefully in the region, [and] acquiring a stronger collective voice” for Asian governments.¹²

Some may suggest that China’s policy of economic engagement and commercial diplomacy in Asia is merely tactical, a “charm offensive” designed to buy time until China is economically and militarily powerful enough to exert regional hegemony. While this possibility cannot be dismissed, it is also not a cause for action. China still faces enormous challenges and

internal hurdles as it struggles to accomplish its industrial revolution and urbanization in a telescoped time frame. While these challenges are all too obvious, it would be unwise to underestimate China's political acumen or its ability to overcome adversity. The scenarios are abundant: economic setbacks could trigger political unrest; rising inequality between coastal provinces and a vast rural interior could stimulate class rivalry. The migration of many millions from farms to cities could exacerbate a housing crisis. Unemployment, environmental degradation, unfunded health and pension systems, and an aging population all may impose limitations on the Chinese growth trajectory.

Regardless of the exact outcome, the continued expansion of China's role as a regional military power and global economic player seems inevitable. As a consequence, the United States needs to rethink its approach to China and Asia in light of new realities. Unfortunately, neither the Clinton nor the George W. Bush administration has achieved significant progress in this direction. Instead, policy toward China displays a shifting sequence of compromises between cooperation and containment.

Washington's reliance on a tired mix of recycled policies in the face of rapidly shifting Asian circumstances contrasts starkly with China's patient, apparently long-term strategy of Asian engagement centered on a variety of economic and trade initiatives and backed by an expanding array of diplomatic, educational, technological, and security links. Indeed, China's policy toward its Asian neighbors is reminiscent of U.S. foreign relations following World War II. In both instances, a major power deployed a combination of bilateral and multilateral agreements, forming policy and intellectual networks that involved its allies, including former enemies, in a dense web of mutually beneficial relations. From this perspective, China's current use of trade agreements as political instruments parallels earlier U.S. reliance on security arrangements as the centerpiece of efforts to build durable and responsive alliances.

This unfortunate coincidence of U.S. neglect with concerted Chinese efforts to consolidate a new generation of economic infrastructure agreements fuels speculation that the United States is losing significant influence over the evolving balance of Asian economic and political alignments. More specifically, the balance of influence between China and the United States in Asia is shifting decidedly in China's favor. Against this background, our project seeks to provide the context for a comprehensive and integrated American policy toward Asia in light of Asia's response to a rising and vastly more powerful China.

New Approaches to Asia Are Needed

The new dynamics of Asia's political economy reflects the legacy of a remarkable interlude in which Western nuclear superiority, technological ascendancy, and overwhelming conventional forces allowed leading powers, especially the United States, to ignore or intervene in potentially destabilizing regional conflicts without endangering their own domestic economic affairs. With rich nations enjoying a simultaneous regimen of guns and butter, strategic studies diverged from political economy, the former tending to focus on power relations stripped of economic constraint, the latter concentrating on development prospects absent debilitating military disruption.¹³

Recent events have demolished the underpinnings of this disconnect between economic and strategic thinking. The debut of North Korea, an international pariah and economic weakling, as a nuclear weapons power confirms that determination alone can propel ambitious nations into the nuclear club. The spread of significant technological capabilities beyond the advanced industrial states, coupled with large-scale application of dual-use technology to military systems, will enable many countries to upgrade conventional forces and acquire the potential to develop nuclear weapons.¹⁴

United States military supremacy is unlikely to be challenged for many years. Even so, the inability of U.S. forces to suppress the insurgency in Iraq quickly, coupled with mounting public criticism of the human and financial toll of the U.S. occupation, demonstrates the rising costs and dangers associated with efforts by leading nations to use military means to influence events in distant lands.¹⁵ Widespread recognition that military power alone cannot resolve the imbroglios with North Korea and Iran, for example, along with General Eric Shinseki's warning to "beware the 12-division strategy for a 10-division army,"¹⁶ and suggestions that the U.S. military may be tied down in Iraq for several years, presage the resumption of a long-dormant national dialogue over the appropriate scale of America's military establishment.

In this geopolitical environment, isolated perspectives built on individual disciplines become increasingly unreliable. Yet disciplinary insularity remains commonplace. Highly regarded and widely cited studies of China's economy by Chinese and international scholars as well as multilateral agencies rarely mention such terms as "armaments," "defense," "military," "People's Liberation Army," "security," and "weapons," nor do they explore possible interactions among economic development, military preparedness, and regional or global security.¹⁷ In addition, many researchers are reluctant to cross regional or national boundaries: generalists hesitate to engage with the daunting

complexities of evaluating Chinese data and penetrating enigmatic Chinese institutions, while China specialists often remain cocooned within the intricacies of Chinese language materials and Chinese society and politics.

Coming to terms with a rising yet fragmented Asia will require a sustained multidisciplinary effort involving the perspectives of economics, trade and investment, politics and diplomacy, technology, and security. No single project can hope to encompass the entire range of Asian issues and nations. In this book, we have approached the task of building an integrated analysis of Asia's shifting balance of influence by assembling an interdisciplinary group to focus on the impact of one major development: China's massive and unexpected growth spurt of the past twenty-five years.

The challenge is to distill, from a wide variety of perspectives, a comprehensive and interdisciplinary analysis of the changing configurations of Chinese power and influence in Asia, with the hope that this research will contribute to devising flexible policies that respond to Asia's rapidly evolving economic, political, technological, and military landscape. This involves evaluating the feasibility of a cooperative and mutually beneficial expansion of Chinese economic and political power. In the best-case scenario, China would attain the wealth and influence appropriate to its size and achievements without inflicting unacceptable damage to the vital interests of its Asian neighbors or to those of the United States.

While such an outcome is possible and highly desirable, the realist in us suggests that it is far from assured. A cooperative response to the rise of China must build on specific attitudes and policies in China, in neighboring states, and also in the United States. Such responses may clash with the perceptions and interests of influential groups on both sides of the Pacific. Thus the global adjustment to China's rise involves not just the foreign policies of many states, but their internal politics as well.

Why Study China and the Shifting Balance of Influence in Asia?

In nearly every area of international relations and political economy, China's coming of age is stimulating dynamic change throughout Asia and beyond. This study posits prominent and continuing consequences of Chinese development in the areas of trade, investment, technology, defense, and diplomacy. In trade, for example, Chinese exports to the United States rose from 6 percent of comparable Japanese totals in 1985 to 36 percent in 1995, and surpassed Japan's U.S.-bound exports in 2002; in 2005, China's exports to the U.S. exceeded Japan's by 76 percent.¹⁸ The pattern of export-led growth widely associated with Japan, Taiwan, South Korea, and other Asian

economies adds significance to this reversal. Massive upgrading of Chinese export infrastructure will continue, bolstered both by expanding internal markets and technology-laden investment by foreign-based multinational corporations. Escalating Chinese trade and economic power exert growing influence in many Asian nations, which confront a combination of opportunity (large and growing Chinese markets) and dislocation (Chinese products supplanting local suppliers).¹⁹

To this must be added increasing flows of foreign direct investment (FDI), both to and from China. China's share of investment flows into eight Asian nations, for example, soared from 21 to 66 percent during the 1990s.²⁰ The contrast between China's unabashed promotion of investment inflows and the ambivalence of government and labor toward foreign investment in Japan, India, and especially in Korea is striking.²¹ With global automakers and a broad array of Asian, European, and North American manufacturers rushing to establish and expand manufacturing facilities, China became the world's largest recipient of FDI in 2003, surpassing even the United States. We also observe the apparent beginning of a steep upward trend in outward investment from China, propelled by vigorous official support and directed toward acquisition of energy, raw materials, and manufacturing expertise. The result is an uncomfortable but potentially dynamic combination of opportunity and global economic adjustment.²²

Foreign direct investment in China, which now extends far beyond garments, toys, and other labor-intensive sectors, surely represents the largest technology transfer in global history, eclipsing the scope and impact of Soviet technology transfers to China during the 1950s.²³ Recent investment includes massive arrivals of cutting-edge and dual-use technologies in such sectors as semiconductors, electronics, and the aerospace industry. International efforts to limit Chinese acquisition of such technologies have faded. In semiconductors, for example, interagency conflict and industry opposition have eroded U.S. export controls.²⁴ Independent advances in specific fields—biotechnology, pharmacology, and aerospace, among others—enrich China's technological opportunities.

In the military sphere, as in commerce and investment, China and Japan appear to be trading places, with Chinese defense spending exceeding Japan's, at least temporarily. Chinese strategists' increasingly expansive conception of their nation's defense interests extends from Beijing's growing program of manned and unmanned space exploration and the acquisition of mid-air refueling capability to aspirations to develop a blue-water navy, and the growth of military assets and capability in and around the South China Sea,

the Straits of Malacca, and the Indian Ocean. The consequences of China's defense modernization ripple across Asia, from a reexamination of Japanese military posture to development of nuclear forces by India, Pakistan, and North Korea. All of China's neighbors, from Taiwan and Vietnam to more distant states like Japan and Indonesia, follow Chinese military developments with the closest attention.

But it would be a mistake to place excessive emphasis on Chinese military modernization. Strong economic ties beget diplomatic influence. This can benefit the United States—as when both America and China, sensing danger to economic links, muted confrontation over the April 2001 spy plane incident. Conversely, China's expanding trade and investment links may undercut U.S. influence, as Asian nations consider China's mounting capacity (and obvious willingness) to apply economic leverage in support of its diplomatic objectives. Australia's decision to limit official discussion of human rights issues to closed-door diplomatic sessions illustrates this outcome.²⁵ Economic strength reinforces Chinese diplomatic entrepreneurship, for example, in the evidently serious and well-received proposal to establish a free trade zone between China and the Association of Southeast Asian Nations (ASEAN) by 2010.

Beijing is becoming increasingly seasoned and confident in its relations with the ASEAN member states. In this context, Chinese behavior toward Taiwan may be seen as anomalous. China's hard line on Taiwan appears to have successfully engineered the political and diplomatic isolation of Taiwan from most of its Asian neighbors. For this reason, and because of booming economic ties between China and Taiwan, the Taiwan secession issue appears to be receding, despite the efforts of Taiwan's term-limited president, Chen Shui-bian.

Against this background of Chinese dynamism, the chapters in this book directly address issues surrounding China's large and growing influence throughout the Asia-Pacific region in the spheres of trade, technology, investment, commercial diplomacy, and military affairs. Crosscutting themes focus on China's changing relations with regional (and increasingly, with global) systems of manufacturing, research, trade, finance, military preparedness, and security alliances. The key issues can readily be expressed as questions: To what extent does China's rising economic power translate into political influence in the Asia Pacific region? Has China's capacity to generate innovation and to sustain technological development risen in tandem with its economy, or will Beijing continue to depend on technology imports from its trading partners and from Japanese, Korean, Taiwanese, European, and

North American multinational corporations? How does China's growing wealth and technological acumen affect its military capabilities? And how do these changes alter the way in which its neighbors and far-flung trading partners view Beijing's military and great power ambitions?

Should we expect China to replace Japan as the hub of Asia's political economy, and by extension, to become the chief source of Asia's influence on economic globalization? During the past three decades, Japan—as Asia's techno-economic powerhouse and the world's second largest economy—has clearly dominated regional economic and political interaction. But if we confine our attention to the past decade, the picture looks decidedly different. The rise of South Korea, Taiwan, and China, together with Japan's debilitating combination of economic malaise and political paralysis, makes Asia's economic and political scene appear less hierarchical and more decentralized. If we project ten years into the future, should we anticipate that China's growing global prominence will shift Asia's political and economic fulcrum from Japan and the Korean Peninsula toward Beijing and China's high-growth coastal provinces?

If the answer is yes, then we can perhaps project a more provocative scenario, one that goes beyond the economic dynamism of China. Since the end of the Second World War, the United States has been the leader and primary proponent of economic liberalism, but this may be because interdependence was always construed to be in U.S. interests. The United States could always close its borders (super 301 trade legislation, auto quotas, etc.). Now that China has become a formidable economic power, will the United States continue to champion free and open trade, unfettered capital markets, and economic interdependence? Will it do so even in the face of further expansion of Chinese manufacturing prowess, extensive outsourcing of U.S. production and services, and the rise of a massive, technically literate Chinese workforce?

There is, then, the possibility that the global economic architecture established after the Second World War, commencing with the General Agreement on Tariffs and Trade (GATT) and culminating in China's accession to the World Trade Organization (WTO), may be weakening, or at least may have to confront the stress of a rival consumer-oriented, technically astute, economic superpower coming on line. In that case, the rise of China may presage a new systems architecture for global trade and investment, one that must somehow accommodate multiple entities with insatiable appetites for energy, vast internal markets, and apparently unlimited productive capacity. If this is even suggestive of the nature of things to come, then the solution

will require real and substantial interdependence, perhaps modeled on the relationship that the United States has with the European Union, involving massive two-way trade, extensive and roughly balanced penetration of foreign direct investment, intricate commercial diplomacy, and complementary if somewhat dissimilar systems of corporate governance, technology acquisition, and finance.

In such a future, the United States would not be the only economy that affects the entire world. ("When the United States sneezes, the rest of the world gets a cold.") China's economy already exerts strong influence over many international markets; it may soon acquire the critical mass to cause economic dislocation on a global scale. In such a future, lesser states would have to coexist with two huge economic systems. This may represent a fundamental challenge to the existing order.²⁶ The question arises: Is the United States willing to contemplate the major shifts in global systems that might be required to maintain stability as China (and India) continue their breakneck development?

China's rise, like the historical emergence of other great powers, represents a tectonic shift in the global architecture of diplomacy, security, and commerce that has the potential to unleash instability, even war. Despite such dangers, our contributors agree that existing systems are sufficiently flexible and adaptive to support peaceful accommodation to China's growing wealth and power. Although the actions of many countries will influence the outcome, the choices made by the United States are likely to be decisive. Accordingly, we place great emphasis on the need for Washington to implement a consistent and forward-looking policy that recognizes China's emergence as a regional power and global economic partner.