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**ASIAN REGIONALISM, STRATEGIC EVOLUTION, AND  
U.S. POLICY IN ASIA:  
SOME PROSPECTS FOR CROSS-STRAIT DEVELOPMENT**

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## Introduction

Since the Asia Pacific Economic Cooperation (APEC) forum began in 1989 as a regional institution for economic cooperation, momentum for regionalism in Asia has gradually developed and led to institutionalized regional progress. Regionalism may be defined as the construction and utilization of multilateral intergovernmental institutions to share information; to develop, endorse, and enforce common rules and regulations; and to settle disputes. Membership is normally based on shared geographic space.

Although promoting trade and economic cooperation was the original incentive for enhancing Asian regionalism, a hope of building a regional bloc to increase Asia's clout in global trade talks has not materialized as yet. Regional security mechanisms such as the ASEAN Regional Forum (ARF), Council for Security Cooperation in the Asia Pacific (CSCAP), and Northeast Asia Cooperation Dialogue (NEACD) emerged in the 1990s, and helped not only to institutionalize regional security dialogue processes, but also strengthen the desire for regional cooperation on more varied aspects of international relations.

Asian regionalism moved forward steadily until the 1997 Asian financial crisis. Regional countries were hit hard by the multiple follow-on crises. Affected economies felt panic and were not able to cope with serious challenges, and they discovered that existing regional mechanisms were of little use in either protecting the region or helping it recover. There were two main reasons for this ineffectiveness: first, the existing mechanisms remained mostly to be regular dialogue forums and could not generate necessary resources when needed. Second was a lack of confidence; the Southeast Asian countries believed the existing regional mechanisms served American and Western interests at the expense of the regional countries.

In general, external pressures exposed the pitfalls and limits of existing regional cooperation in Asia. As a result, a strong sentiment grew among those countries that were hit by the financial crises that Asia needed to develop certain indigenous financial rescue mechanism. The first move, at the peak of the crisis, was the ill-fated establishment of the Asian Monetary Fund, which was rejected outright by the United States, the IMF, and China. It was clear that there were conflicting interests between Asians and Americans. This crisis raised awareness that "East Asia needs to institutionalize its cooperation to solve similar problems and prevent new ones,"<sup>1</sup> and most Asian countries were inclined to push forward new regional architecture without the United States. Indeed, ten years later, concern over American dominance continues to be a critical stimulus of shaping new ways for regional cooperation in Asia.

For decades, regional cooperation and economic development in East Asia have been U.S.-oriented. Development of regionalism has been in accordance with America's

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<sup>1</sup> "Towards an East Asian Community: Region of Peace, Prosperity and Progress," Ministry of Foreign Affairs of Japan, East Asia Vision Group Report 2001, p. 7; <<http://www.mofa.go.jp/region/asia-paci/report2001.pdf>>

interest in the region. Especially after the financial crisis, the idea and preference that an exclusive Asian regional grouping should be formed was reinforced among regional leaders. It was obvious that external incentives brought about a new momentum for regional cooperation, which led to the emergence of the ASEAN Plus Three Summit (APT; or ASEAN plus China, Japan, and Korea) in 1997.<sup>2</sup> At the second summit in November 1998, South Korean President Kim Dae-jung noted in a speech that the region had just witnessed devastation caused by the financial crisis and did not have any regional organization to launch an effective response. President Kim spoke about the need for an East Asian Community and proposed the early establishment of the East Asian Vision Group. In the third APT Summit in November 2000, ASEAN leaders pledged to consider the possibility of holding an “East Asian Summit” (EAS) to promote cooperation in East Asia<sup>3</sup> and agreed to establish the East Asian Study Group. Some leaders in this effort believe that “an East Asian regional organization where the members would be entirely Asian would help promote Asian tolerance and belief in non-interference in the domestic affairs of other countries.”<sup>4</sup>

Discussion and suspicion over whether an Asian regional grouping would be desirable or viable have continued in the region, centering around the key question of how the region may redefine its relations with the U.S. and whether East Asia would be able to deviate from the U.S.-dominated regional cooperation. But, unsurprisingly, as the region faces structural changes accompanying the rapid economic growth of regional countries and the rise of China, support for intra-regional cooperation is growing.

The new wave of regionalism in Asia is driven by two new factors: the rise of China and failure of the Doha Round global trade talks. Over the past few years, people have been debating and trying to identify the implications of the rise of China for the region and the international community. Although the rise of China has not resulted in a structural overhaul of regional cooperation, it may be right to suggest that it has dramatically changed the developing trend of regional cooperation.

Over the past few decades, movement toward regionalism in Asia has mainly been stimulated by the region’s economic dynamism. Most analyses of regionalism in Asia look into different periods of economic development in the region and highlight trade, investment, and relationships with regional institutions. Regional institutions, such as APEC in the late 1980s and ASEAN Plus Three in the late 1990s, have been at the center of regionalism. Nevertheless, new East Asian regionalism is not confined to trade and economics, but is enriched by security cooperation and strategic competition of big powers. This paper argues that since the late 1990s, China has systematically developed a new sphere of influence in Asia by all policy means and especially through mechanisms

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<sup>2</sup> This forum comprises the ten members of the Association of Southeast Asian Nations (ASEAN) – Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam – plus China, Japan, and Korea.

<sup>3</sup> “Summary of ASEAN+3 (Japan, People’s Republic of China, the Republic of Korea) Summit Meeting,” Ministry of Foreign Affairs of Japan, November 24, 2000; <<http://www.mofa.go.jp/region/asia-paci/asean/conference/asean3/summary0011.html>>

<sup>4</sup> Mahathir Mohamad, “Let Asians build their own future regionalism,” *Global Asia*, vol. 1, no. 1 (September 2006), p. 15.

for regional cooperation. China's attempts to build favorable regional mechanisms expand its comprehensive strategic weight.<sup>5</sup>

The establishment of the Shanghai Cooperation Organization (SCO), ASEAN Plus Three, the ASEAN Plus China Summit, the ASEAN and China Free Trade Area, the East Asian Summit, and the Boao Economic Forum shows the value that China places on cooperation mechanisms in Southeast Asia and Central Asia. Each of these institutions is clearly China-oriented and thereby increases China's influence, indicating that strategic calculations are behind their formation. China has also expanded its participation in organizations that are not China-centric, such as the Conference on Interaction and Confidence Building Measures in Asia (CICA),<sup>6</sup> a regional security body in Central Asia, and the South Asian Association for Regional Cooperation.

This indicates that the new regionalism is driven not only by the economic interests of regional countries but also by the strategic interests of big powers. It is interesting to note that the increase in momentum toward regional cooperation and integration parallels U.S.-China strategic competition. As noted, China's strategic ambition, to increase its regional and global influence to the level of a great power, is served by developing regional cooperative mechanisms. China can build closer multilateral relationship on the strength of its good image among faithful neighbors, and it can also build a strategic layer keeping U.S. influence out of the region. As resentment of the U.S. is growing throughout the region, China inches its way toward regional leadership through sophisticated diplomacy.

After the September 11, 2001 terrorist attacks, U.S. foreign policy has been fully preoccupied with a counter-terrorism campaign and wars in Iraq and Afghanistan. East Asia has been largely disregarded by the U.S. It has become common to note that while China tries hard to woo regional countries by offering substantial economic incentives, the U.S. appears interested only in pressing and demanding that regional countries fall in line with its counter-terrorism campaign ("you're either with us or against us"). Over the years, Beijing's good neighbor policy has successfully changed China's image and won friendship around the region. In contrast, the U.S. is considered by regional countries as not serious enough about the region. While a preoccupied Washington continuously ignores what regional countries want, Asian regionalism continues to progress and is more likely tilting toward China's advantage for years to come. As a result, the U.S. is not only losing a sense of close friendship in the region as a whole, but is also losing influence.

The progression of Asian regionalism indicates that economic-focused integration does pave the way for a more cohesive regionalism, but at the same time strategic competition between the United States and China, as well as between China and Japan, also contributes to new momentum for regionalism. As this integration is taking place to

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<sup>5</sup> Hugh DeSantis, "The Dragon and the Tigers: China and Asian Regionalism," *World Policy Journal*, vol. 22, no. 2 (Summer 2005).

<sup>6</sup> "Almaty Summit Leads to Creation of Asian Security Organization," Embassy of Kazakhstan, June 2006, <[http://www.kazakhembus.com/Special\\_Report\\_CICA.html](http://www.kazakhembus.com/Special_Report_CICA.html)>

a large extent under China's leadership, the immediate policy implication for the United States is that it must review and reshape its Asia policy into a more serious and sincere commitment to the process of regionalism. The current U.S. approach to Asian regionalism, in which it only makes effort to reemphasize significance of APEC and ARF to regional issues, is insufficient. In fact, the U.S. may not be able to completely catch up with the new drive that has developed in the region. Asian countries still need American leadership, but U.S. policy may have forced them to distance themselves from different U.S. interests. No matter how strategic evolution may affect the course of regionalism in Asia, the U.S. should return to the region with genuine leadership.

Despite the success and relatively progressive nature of the new Asian regionalism, participants in the trend are not genuinely facing up to the potential challenge of cross-strait economic interactions between Taiwan and China. With the exception of APEC and Boao, Taiwan is not represented in any of the multilateral bodies named above. Under the existing context of regional mechanisms, can the region really keep Taiwan out of the picture forever? As Taiwan's economy is so deeply integrated with the region and China, would the forthcoming regionalism bring about new hope for better collaboration across the Taiwan Strait? If, for political reasons, Taiwan would not be properly considered as part of the regional group-building, would that cause some economic concerns for China and the region? China's political discrimination against Taiwan in the regional context may end up further damaging Taiwan's view of the mainland and potentially hurting economic benefits from cross-strait interactions.

In this paper, the key questions to be pursued are:

1. How should the region understand the economic and strategic stimuli of regionalism?
2. How would the significance of the new regionalism in Asia affect U.S. interests in Asia? Would structural changes in Asia's international relations fundamentally shift the existing strategic landscape?
3. Asian regionalism is progressing alongside the strategic alliances that were maintained by the U.S. and partners throughout the Cold War. What may the development of regionalism mean to regional security and American interests?
4. How do the U.S.-China and China-Japan strategic rivalries weigh on the process of regionalism?
5. In light of the progressive development of regional mechanisms, how might the U.S. redefine its Asia policies?
6. Under the strategic architectural influence of regionalism, how may cross-strait relations progress? What kind of new China-driven regional mechanisms for cross-strait development should one really look into?

The primary purpose of this paper is to examine multiple factors of the updated Asian regionalism that challenge policy makers: definition of Asian regionalism, exploration of the progress of regionalism, major trends in Asian regionalism, the impact of strategic evolution on regionalism, strategic competition in the U.S.-China and China-Japan relationships that overshadows regionalism, and the profound implications

of regionalism for cross-strait interaction. Asian regionalism is directing to the course of regional cooperation, while under the surface strategic competition among big powers may undercut this positive effect. Strategic calculation of regional countries would emerge along with new trends of regionalism.

## **Revisiting the historical background of Asian regionalism**

### 1. Review of theoretical discourse

There is rich literature on regionalism. Theoretical examinations of regional integration emphasize the process of integration. There are two distinct analytical processes referred to in regional integration: regionalism and regionalization.<sup>7</sup> Over the years, regionalism has been defined as various types of group-building; many have tried to define it in different terms.<sup>8</sup> In general, regionalism refers to the expression of a particular regional identity and collective action within a geographical region. Although regionalism is often defined in a geographic context, it normally includes other substantial elements: a clear objective of fostering cooperation; consistent linkage among civil societies; and systemic effort by governments, non-governmental organizations, and private sectors. It can be understood as “increased transactions in a defined geographical space combined with the development of collective institutions and a common identity.”<sup>9</sup>

The process of institution building constitutes the main feature of Asian regionalism. Yet, in the process of regionalism, economic and geopolitical motives of states normally direct the course of development. During the 1980s, many gradually realized that progress of economic development in Asia brought about increasing awareness of common interest. Given the increasing concern about external pressures that trading blocs in Europe and North America were mounting against the interests of Asian trading countries, Asians felt a strong need to institutionalize regional cooperation. The emerging awareness of common interests did not, however, imply that Asia would want to develop a European Union-like transnational institution at that stage.

Theoretical discourse at the time reflected the European experience and focused on a number of approaches: functionalism, neo-functionalism, transactionalism, and regional integration. Technological change and functional interactions would gradually bring about an understanding of a larger community emerging from among different societies. As the functionalists argued, increasing demands of citizens would lead to the creation of inter-governmental networks. The neo-functional approach emphasized that during the integration process, political actors in individual national settings are gradually persuaded to shift their loyalties, expectations, and activities toward a new center. The regional

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<sup>7</sup> T. J. Pempel, “Introduction: Emerging webs of regional connectedness,” in Pempel, ed. *Remapping East Asia: The Construction of a Region* (Ithaca and London: Cornell University Press, 2005), p. 19.

<sup>8</sup> A list of various definition of regionalism can be read from Dennis Rumley, “The geopolitics of Asia-Pacific regionalism in the 21<sup>st</sup> Century,” *The Otemon Journal of Australian Studies*, vol. 31 (2005), pp. 6-8.

<sup>9</sup> Paul Evans, “Asia’s new regionalism: implication for Canada,” Foreign Policy Dialogue Series, Asia Pacific Foundation of Canada, 2003-3, p. 5. See also Louise Fawcett, “Exploring regional domains: a comparative history of regionalism,” *International Affairs*, vol., 80, no. 3 (May 2004), p. 433

institution would eventually demand jurisdiction from national states through an integration process.<sup>10</sup>

Transactionalism stresses that through processes of integration a strong sense of community and institutions will be reinforced by frequent and widespread practices among players within national boundaries. The existence of a sense of community will lead to real confidence that members of the community will not exert force against each other. These different approaches of regional cooperation supplied useful theoretical discourse for Asians to generate momentum of regionalism.

Partly because of Asia's great diversity, in the past analysts could not imagine that regional consensus and even regional identity would possibly emerge in Asia any time soon, especially among historic rivals. Theorists went against the conventional wisdom, and claimed that functional cooperation would at some point in the future create a spillover effect and enable political cooperation. As noted, the emergence of regionalism has been based mainly on economic incentives, and political difference between the governments pushing regionalism often slows down progress. This shows that the theoretical assumption of a spillover will take a long time to become a reality in the process of Asian regionalism.

Nevertheless, the theories exist to provide certain analytical approaches for enhancing better understanding of regional cooperation. In the Asian context, the process of emerging regionalism is still very much characterized by the complex inter-governmental approach. It reflects that the main feature of Asian regionalism is the multidimensional networks among regional governments and informal business networks.<sup>11</sup> While there are a number of pan-regional architectures working for broader economic cooperation, there are also a few different sub-regional groupings opting for closer cooperation only among their members, and potentially exercising strategic competition against others. The experience of Asian regionalism so far could therefore complement the traditional theoretical frameworks. After the Asian financial crisis trampled regional economies, new momentum for regional cooperation and region-wide economic cooperative mechanisms emerged. When the prospects for global trade development stalled, economic networks among regional countries accelerated through negotiating bilateral and multilateral free trade arrangements. Now, the new regionalism in Asia is giving rise to a regional grouping sentiment under which regional countries pursue their interests together.

Regarding the process and characteristics of regionalism, Asia has moved forward from regional cooperation to regional institutionalization, and from U.S.-centered regional economic cooperation to Asia-oriented (or China-driven) comprehensive cooperation. In addition, due to the rise of China, the geographic scale of regionalism has also become broader, now encompassing Central and South Asia. National interests are

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<sup>10</sup> Based on an early argument in Ernst B. Haas, *Beyond the Nation States: Functionalism and International Organization* (Stanford, CA.: Stanford University Press, 1964).

<sup>11</sup> Fu-Kuo Liu, "East Asian Regionalism: Theoretical Perspectives," in Fu-Kuo Liu and Philippe Régner, eds., *Regionalism in East Asia: Paradigm Shifting?* (London: RoutledgeCurzon, 2003), pp. 6-10.

gradually converging right across the whole region of Asia. As the trend toward a more institutionalized structure gains momentum, more discussions on the EU type of regional integration are being raised. Many wonder if Asia may follow the EU's path, which featured the two disparate approaches of intergovernmentalism and transnationalism, or if it will blaze a new trail. The key debate in Asia remains the consolidation of the basis of regionalism, which involves complicated networks and sub-regional groupings, but not so much the structure of regional mechanisms.

While the process of regionalism is mainly driven by regional governments (a top-down approach), regionalization (a bottom-up approach) refers to the development of increased commercial and human transactions in a certain geographical region which gradually transform perceptions of regional operations. There are many contributing actors that facilitate transactions and multiple regional networks including businessmen, non-governmental organization workers, think tank networks, terrorist groups, secessionist groups, extremist religious groups, and even transnational criminal groups. For years, regionalization has been considered interest-driven and spontaneous, and it is credited with paving the way for regional societies to sense the need for a regional community and a regional identity. It is always easier to understand the regionalization of economic cooperation and its implications by studying trade patterns and investment flows. However, in an uncertain security environment, strategic competition and transnational issues (i.e. terrorism, piracy, infectious diseases, human trafficking, energy, and environmental protection) have all become major regional security concerns. Regionalization could refer to practical common efforts to address such concerns.

## 2. Re-examination of recent regional progress

The history of Asian regionalism is commonly analyzed by identifying distinct periods in the development process<sup>12</sup> and focusing on regional economic institutions.<sup>13</sup> This paper will approach the issue differently, analyzing Asian regionalism through the shifting trends of the strategic ascendancy of major powers. Unlike regional development in the past, today the process is characterized by the rise of China and a preoccupied United States. Therefore, the entire progress of Asian regionalism can be examined and thus categorized into four separate parts: 1) the U.S.'s comfortable domination of regional institutional experiment; 2) regional resentment of the U.S.; 3) China's charm offensive and ASEAN revival; and 4) the U.S.'s attempt to return to the region.

### *U.S. domination and regional institutional experiment*

Throughout the years, especially before the Asian financial crisis in 1997, development and regional cooperation in Asia have been encouraged, guided, and even dominated by the United States. A concrete example of this approach to regional institutions is the successful establishment of the Pacific Economic Cooperation Council and APEC. In the

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<sup>12</sup> For instance, Naoko Munakata's work on *Transforming East Asia: the Evolution of Regional Economic Integration* (Washington D.C.: Brookings Institution Press, 2006).

<sup>13</sup> Edward J. Lincoln, *East Asia Economic Regionalism* (Washington D.C.: Brookings Institution Press, 2006).



years following the establishment of APEC in 1989, regional countries tried to deepen and widen the process of institutional cooperation.

Early Asian regionalism focused heavily on promoting regional economic cooperation, mainly in the field of trade and investment. Japan was one of keen initiators for pushing international economic cooperation in the region, as Tokyo saw such cooperation as beneficial to its economic interests in international trade. Economic development in Asia was in large part a function of structural changes in Japanese industry. That was the beginning of fresh momentum for regional integration. Stimulated by the early target of the “1992 Single Market” in the European Community, the Asia-Pacific region took a brave leap from the initiative level of regional cooperation to try to institutionalize the process of regional cooperation. With such vast diversity, a dream of regional integration is hopeful to the region, but remains a challenging and perhaps unreachable target.

Under American hegemony, Asian regional institutions have presumably served American interests. The U.S. managed to become deeply involved in the process of developing regional institutions, and was able to actively run through the process according to its strategic and economic interests. During the past few decades, the U.S. market continued to be the main destination of most Asian export-oriented economies. Over the years, trade and investment across the Pacific have dramatically developed a typical structure of supply and demand chain (production and market), which underpin sustained regional economic cooperation. It is understandable that the advocacy of free trade and open regionalism has long been the core of U.S. policy regarding regional cooperation, as these trends are seen to benefit the U.S.<sup>14</sup>

Within the APEC structure, the U.S. in 1993 initiated the annual APEC Economic Leaders’ Meeting among all members in the region. It clearly showed the leadership and Washington’s commitment to prosperity and security for the region. Since that year, APEC’s original economic focus has been broadened to include many other pressing issues, especially transnational challenges.<sup>15</sup> There are however, always two contending observations on APEC’s performance and the U.S.’s active leadership. For one, APEC’s unique experience in promoting regional cooperation in Asia is considered instrumental. However, as its institutional approach develops, APEC’s involvement in too many different burning issues has to an extent changed the forum from what it was supposed to be. As a result, APEC has become very much like a regional bureaucratic system focusing on too many issues. APEC’s nature of consensus annually produces declarations, but the region has not yet developed real actions to follow what have been agreed upon.

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<sup>14</sup> The policy was recently reinforced by a US senior official. “US views on Asian Regional Integration,” by Michael Michalak, U.S. Senior Official for APEC, Remarks at International Institute of Monetary Affairs, Tokyo, Japan, January 25, 2006. <<http://www.state.gov/p/eap/rls/rm/60335.htm>>

<sup>15</sup> In terms of issues tackled, APEC has grown to include over 100 formal and informal dialogues and meetings. “Fact sheet: the United States and APEC,” Bureau of East Asian Affairs, State Department, November 9, 2006. <<http://www.state.gov/p/eap/rls/75725.htm>>

### *Regional resentment of the United States*

When Malaysian Prime Minister Mahathir Mohamad proposed an East Asian Economic Caucus in early 1990s, the U.S. tried to dissuade regional countries from participating. U.S. supremacy was impressive, but its blunt reaction to regional initiatives was not welcomed in the region. Fifteen years later, critiques of the U.S. attitude at that time are still voiced with dissatisfaction. The general impression in East Asia has been that the U.S. wants to maintain its dominance and would undermine any attempt to build new regional groupings, which may potentially deviate from U.S. interest from the region.

Asian resentment of the U.S. loomed larger in the wake of the 1997 Asian financial crisis.<sup>16</sup> Those regional countries that suffered accused Western speculators of undertaking a financial assault on their economies. During the critical moment in which they could not withstand dysfunction of their financial markets, the U.S. and the International Monetary Fund came to the rescue with “capitalist regulations.” The imposing image of the IMF in particular would be remembered among several generations in Asia. In one particular example, as then-Korean President Kim Dae-jung was reluctantly forced to sign the IMF rescue deal in front of TV cameras, the head of the IMF standing nearby and pointing fingers. Watched by millions of Koreans and even more across Asia, President Kim seemed to accept what was considered the humiliation of his nation. Furthermore, later when regional countries proposed an Asian Monetary Fund to pool financial resources within the region, the U.S. blocked it, perhaps considering regional financial cooperation to be a threat to American interests.<sup>17</sup> Struck by the crisis, many Asian leaders realized that there simply was not a substantial financial cooperation mechanism that existed within the region, and those existing trans-Pacific regional institutions did not work.

One serious lesson learned after the crisis was that as long as the U.S. and Western influences remained critical within any Asian regional institutions, there would not be any chance for Asian countries to look after themselves. Desire for an effective regional grouping among Asian countries to protect them from devastation by Western influence grew stronger and stronger. It was critical that China withstood international market pressures and maintained the value of its currency (renminbi or RMB), as the RMB's depreciation would mean absolute devastation to the entire region. Compared with China's sacrifice to save regional economies from crumbling, the ambivalent United States tried to distance itself from the region at a critical time, and generated anger.

### *China's charm offensive and ASEAN as a hub of regionalism*

One of China's most impressive advances into the region appears to be the improvement in its relationship with ASEAN countries. Over the last decade or so, China, with strategic calculation, has developed systematic and skillful ways of wooing friends in the region.

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<sup>16</sup> Edward Lincoln, *East Asian Economic Regionalism* (Washington D.C.: Brookings Institution Press, 2005), p. 5.

<sup>17</sup> Chang Noi, “Asian regionalism in a high wind,” *The Nation*, December 25, 2006. <[http://www.nationmultimedia.com/2006/12/25/opinion/opinion\\_30022430.php](http://www.nationmultimedia.com/2006/12/25/opinion/opinion_30022430.php)>

China's deep involvement in the region is almost prevailing in every corner. Unlike the early years of China's image as a fomenter of communist sabotage and revolution, today China's diplomacy, propelled by an increase of comprehensive national power, is advancing by economic means. Increases in trade, investment, economic aid, infrastructural project bids, economic development plans, and even free trade agreements have dramatically linked China with the Southeast Asian region and changed the regional perception of China.<sup>18</sup>

Indeed, as China's economic growth becomes an engine of regional economic development, almost the entire region has borne fruit from trading with China. In addition, China has conducted a new way of providing foreign aid to poor Asian countries without any penalties attached. It has reduced difficulties for those who are in need and previously could apply only to Western-dominated international financial institutions for aid. For some, China's expansion of supplying foreign aid to developing countries is considered as competition with the West. However, the most important trend is that China is going through those aid projects, which focus mainly on building infrastructure, to further integrate the regional trade network.<sup>19</sup> With strategic intent, China and Vietnam recently looked beyond transportation links in accelerating a joint venture on "two corridors and one belt" across their border areas.<sup>20</sup> This construction project will not only develop industry, trade, and tourism, but delivers strategic advantages for China.

Observing this developing trend, regional analysts have begun to predict that "Beijing will eventually develop a position of dominance with the countries of Southeast Asia similar to U.S. relationship with Latin American states."<sup>21</sup> In accordance with its good neighbor policy, China focuses on extending economic benefits, in which it also shares. In 2002, after several rounds of negotiation, China and ASEAN agreed to sign a Declaration on the Conduct of Parties in the South China Sea, which solved the first stumbling block in their relations. The following year, China was the first dialogue partner to accede to the ASEAN Treaty of Amity & Cooperation. China and ASEAN relations have since entered into an era of full speed ahead. China's acceptance by ASEAN has dramatically broadened the landscape of regionalism.

China's outreach to ASEAN is best considered to be part of the larger charm offensive. China values the ASEAN regional integration effort and adheres to it with keen commitments such as the ASEAN-China Free Trade Agreement. China perceives that ASEAN is a weaker player in international politics, but its pivotal role in regional groupings does give China a better launching pad to the region.<sup>22</sup> On the contrary, by real

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<sup>18</sup> Tyler Marshall, "How China is winning the soft power battle across East Asia," *The National Interest*, Issue 85, September 1, 2006. <<http://www.nationalinterest.org/Article.aspx?id=11938>>

<sup>19</sup> Jane Perlez, "China competes with West in aid to its neighbors," *New York Times*, September 18, 2006.

<sup>20</sup> "Vietnam, Guangxi eye faster construction of economic corridors, better trade," April 15, 2006 <[http://english.people.com.cn/200604/15/eng20060415\\_258509.html](http://english.people.com.cn/200604/15/eng20060415_258509.html) >

<sup>21</sup> Tyler Marshall, "China poised to dominate influence in Asia," *Boston Sunday Globe*, August 13, 2006, p. A10.

<sup>22</sup> John Lee, "An ASEAN Bloc – A Convenient Fiction," *On Line Opinion* (Australia's e-journal of social

business thinking the U.S. does not see much difference with or without an ASEAN free trade agreement (FTA) in place. Many Americans often view multilateral institutions such as ASEAN as useful “talk shops” only. A common view expressed by U.S. officials on pursuing a regional FTA suggests that the United States always prefers bilateral FTAs to regional ones because regional FTAs may not make real business sense. Even though the U.S. and others may not consider such a move to be harmful to any third party’s interest, many believe that based on a long term strategic view, China’s strategic advance into the region would result in transformation of geopolitical landscape in Asia. It would have profound implications for the U.S. and Japan. It is understood in the region that “China’s motive is not just the direct trade benefits, but also a strategic consideration: to assure countries which feel threatened by China’s growth, and anchor good long-term relations with them.”<sup>23</sup>

ASEAN’s central role in regional multilateral cooperation is emerging again after its earlier peak in 1990s. The new trend toward regionalism repositions ASEAN at the center of regional development. Even with competition between Japan and China for leadership of the regionalism effort, ASEAN’s unique position makes it an indispensable actor at the time of political compromise. Further, despite its internal differences and China’s ambitions, the organization managed to launch the ASEAN Plus Three and Plus One series, and the EAS. Through these efforts, ASEAN has helped instill its own values of consensus (“the ASEAN way”) into the regional institution building process. ASEAN’s characteristics and its active role dilute possible influence by power rivalry in the region.

#### *A renewed American approach to the region*

Over the past six years, the United States’s war on terror has been the overwhelming concern in Washington, and has complicated its relations with regional countries. U.S. policy in Asia has not been proactive, especially with regard to the regional building process. American interests in Asian regionalism generally include open regionalism and inclusiveness, assurance of U.S. alliance interests, and contribution to regional economic growth.<sup>24</sup> The United States may be overconfident in believing that regional groupings will not jeopardize American interests, even if the United States is excluded. Regional countries have not seen an American emphasis on projecting future development in the region. Even when the region encounters danger, such as North Korea’s development of a nuclear capability, the United States by reaction insists on exercising a tough line against North Korea. But, a more realistic assessment reveals that the United States and international community may have to make certain compromises, perhaps even considering seriously the existence of a nuclear North Korea in Northeast Asia. There seems to be no clear strategy for the United States to manage regional security as yet.

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and political debate), posted May 16, 2006. <<http://www.onlineopinion.com.au/print.asp?article=4466>>

<sup>23</sup> Speech by Lee Hsien Loong, Prime Minister, at the 6<sup>th</sup> International Institute of Strategic Studies Asia Security Conference, June 1, 2007, at the Shangri-La Hotel.

<sup>24</sup> John Miller, “The roots and implications of East Asian regionalism,” Occasional Paper Series, Asia Pacific Center for Security Studies, (September 2004), p. 13.

Beyond economic development and security, the United States has not paid enough attention to the progress of regional integration in Asia. Many experts around the region worry that the U.S. does not seem alert to broad changes in the region.<sup>25</sup> While the region is marching toward economic integration and cooperation with China, the U.S. has been content to watch from the sidelines and its attitude is typically either too confident or too naïve. In the 2004 Indian Ocean earthquake and tsunami disaster, the U.S. was the first to arrive on the scene and brought in the largest disaster relief program, of which it is justifiably proud. It of course shows that the U.S. is the only country with full competence and capacity to help in time of crisis. But the American perspective is simply that the region should be thankful. In 2005, when Secretary of State Condoleezza Rice skipped the annual ARF regional security conference, her absence sent a negative message to regional leaders, as if the U.S. was overwhelmed by many burning issues and did not really care about Asia. Media and think tanks have warned that this neglect would cost U.S. diplomacy in the region. This is not to suggest that the region dislikes the U.S., but to point out that Asia needs the U.S. for security assurance. Regional leaders even believe that U.S. presence could effectively balance against China's expanding influence in the region.

Since 2006, however, the U.S. has expressed a serious commitment to regional cooperation. That August, U.S. Trade Representative Susan Schwab met 10 ASEAN economic ministers and signed a Trade and Investment Framework Arrangement (TIFA). The signature of the U.S.-ASEAN TIFA reflects a strong U.S. commitment to establishing the architecture that will serve as a platform to facilitate vigorous U.S. economic engagement in the ASEAN region. "The TIFA will be a platform to intensify our trade and investment relations with the ASEAN region, which collectively constitutes our fourth largest trading partner and represents one of the most rapidly growing and dynamic economies in the world."<sup>26</sup>

At the 2006 APEC Economic Leaders' Meeting, President George W. Bush took the occasion to call for a bold strategy for trans-Pacific trade liberalization, a region-wide Free Trade Area of the Asia-Pacific (FTAAP).<sup>27</sup> The initiative, which was discussed and designated for senior officials to explore and report to the next APEC meeting in Canberra, marks the U.S. comeback effort to Asian regional cooperation. When asked if this grand proposal shows a decisive effort to return to the region, U.S. officials did not seem sure whether there is a clear strategy. The U.S.'s top priority on trade now is to revive the delayed progress of the Doha Round global trade negotiation. On region-wide trade cooperation in Asia, the U.S. takes a realistic approach and focuses more on bilateral FTAs than a regional one. As economic development is so varied within ASEAN, the U.S. may prefer a bilateral FTA or TIFA with individual ASEAN countries to regional

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<sup>25</sup> Experts reflected the concern at the Senior Policy Seminar. "The United States and Asia: Assessing Problems and Prospects," Senior Policy Seminar 2006, (Honolulu: East-West Center, 2006).

<sup>26</sup> "U.S. Trade Representative Susan C. Schwab Meets with ASEAN Economic Ministers and Signs TIFA," August 25, 2006.

<[http://www.ustr.gov/Document\\_Library/Press\\_Releases/2006/August/US\\_Trade\\_Representative\\_Susan\\_C\\_Schwab\\_Meets\\_with\\_ASEAN\\_Economic\\_Ministers\\_Signs\\_TIFA.html](http://www.ustr.gov/Document_Library/Press_Releases/2006/August/US_Trade_Representative_Susan_C_Schwab_Meets_with_ASEAN_Economic_Ministers_Signs_TIFA.html)>

<sup>27</sup> "Results of the 2006 APEC Leaders' Meeting -- Asia-Pacific Economic Cooperation (APEC) 2006," The White House, 2006. <<http://www.whitehouse.gov/apec/2006>>

FTA. Obviously, the U.S. does not have an immediate plan for a single bilateral FTA with ASEAN. Looking from a critical perspective, FTAAP for the time being is not a realistic project for the U.S., because it does not comply with existing U.S. trade practices. Trade experts nevertheless see the proposal as a reflection of American concern over its declining economic influence in the Asia Pacific region.<sup>28</sup>

Trying to improve America's image in the region, President Bush and Secretary Rice visited more individual countries in Asia in 2006. Some may see that during the Leaders' Meeting the proposal was brushed off for the following year, but one would have to think more positively that as long as the U.S. keeps initiating new proposals for follow-on regional cooperation, the message of the U.S. resuming strong and active leadership to the region would be clearly understood. It would be a better use of time and effort to undertake real policy debate than just argue against the idea of keeping the U.S. out of regional new groupings.

### **Strategic evolution and momentum for Asian regionalism**

After the Soviet empire dissolved in 1989, China suddenly realized that it was the largest contemporary socialist country. Because the bipolar international system had crumbled, China was fraught with great apprehension on where the nation was about to go. During that confusing period, specifically on September 4, 1989, Deng Xiaoping set the policy guideline of “*tao guang yang hui*” (bide one's time and build up one's capabilities), which later became China's foreign policy strategy. Under this guideline, China would try hard to prevent itself from becoming involved in any direct state-to-state conflict and would engage the world through participating in regional mechanisms and international organizations.<sup>29</sup> Thus, active engagement in multilateralism has become a main feature of China's external strategy.

During the early 1990s, after China's image plummeted in the wake of the 1989 Tiananmen incident, China began to open up to opportunities of entering regional multilateral organizations. But despite this evolving attitude, Beijing felt that the world was still hostile to it. With great suspicion of external powers, China feared that participation in multilateral arenas would further constrain its ability to maneuver. China was suspicious of the U.S.-led regional multilateralism, like APEC, ARF, and CSCAP, as members of these multilateral fora may be rallied to gang up against Chinese interests. At

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<sup>28</sup> “US pushes for APEC free trade agreement,” ABC Online, November 7, 2006.  
<<http://www.abc.net.au/news/newsitems/200611/s1782553.htm>>

<sup>29</sup> China's advance into the international community via access to regional institutions is commonly discussed among Chinese experts as an important part of its regional strategy, especially in the case of the SCO. Zhao Gancheng, “China's rise and periphery policy,” in N S Sisodia and G.V.C. Naidu, eds. *Changing Security Dynamic in Eastern Asia: Focus on Japan* (New Delhi: Institute of Defence Studies and Analyses and Promilla & Co., 2005); Zhang Nin, “2006 nian Shanghai hezuo zuzhi tanhui de lichen bei yi yi (The milestone of 2006 SCO Summit),” Xinhuanet, July 18, 2006.  
<[http://news.xinhuanet.com/banyt/2006-07/18/content\\_4849286.htm](http://news.xinhuanet.com/banyt/2006-07/18/content_4849286.htm)>; Shao Yuqun, “The Shanghai Cooperation Organization and the Development of Sino-US Relations,” paper delivered at the SIIS-Brookings Conference on Regionalism in Asia, Shanghai, December 11-12, 2006.  
<<http://www.siis.org.cn/forumenglish/brookings/yuqun.pdf>>

the outset, China's involvement in regional cooperation initiatives was passive and reactive. Its attitude remained defensive and sensitive to many political issues. In practice, China's early impetus for regional cooperation was twofold: to avoid being left out by others, and to attempt to prevent Taiwan's participation.

Throughout the long learning process of the 1990s, China did not exhibit much active leadership in regional multilateral mechanisms, let alone help the region institutionalize.<sup>30</sup> After all, it was as yet unfamiliar ground for China. Gradually, increasing comprehensive national power has made China more confident and comfortable with multilateralism. Toward the end of the 1990s, China benefited from being in the leading group of regional multilateralism and fundamentally changed its skeptical perception of participation in multilateralism. For broader strategic reasons, China became very keen to make use of regional cooperation mechanisms to portray a cooperative image to the region and most importantly to eliminate regional fears of a China threat.

The Asian financial crisis provided China with a critical opportunity to move into the center of regional cooperation. China's holding up of the renminbi's value amidst the crisis won region-wide appreciation and boosted its confidence in assuming regional leadership. Subsequently, China gained even more political influence in the region. As China's relatively unharmed economy continued to grow, its prospective market attracted a large amount of foreign direct investment in East Asia. Many of the resulting resources have been injected into a massive military buildup, which China realized may undercut its effort of peaceful rise, should it be mismanaged. How to defuse regional concerns of a China threat became top priority for China's regional strategy. It was this context that China actively initiated proposals for security and economic cooperation to its neighbors in Southeast Asia to reassure its good intentions and show its serious commitment. A cooperative atmosphere for the construction of a new regional architecture began emerging between China and ASEAN.

The September 11, 2001 terrorist attack was immediately followed by the war in Afghanistan, giving the U.S. an exceptional justification for stationing its troops in Central Asia. Almost all Central Asian countries promised to supply assistance to the U.S., in different ways. Uzbekistan and Kyrgyzstan granted basing rights at the Karshi-Khanabad Air Base and Manas Air Base, respectively.<sup>31</sup> Moreover, by that time, American forces were operating at a number of posts in Pakistan.<sup>32</sup> In 2002, immediately after the war in Afghanistan, the U.S. opened a second front against terror in the Philippines. U.S. military personnel moved into the southern Philippines, helping train the Philippines's armed forces and strengthen their counter-terrorism capacity. The U.S. almost suddenly spread out its military into Southeast Asia and Central Asia, and gained

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<sup>30</sup> Munakata, *Transforming East Asia: the Evolution of Regional Economic Integration*, p. 160.

<sup>31</sup> Lionel Beehner, "Asia: US military bases in Central Asia," Council on Foreign Relations, July 26, 2005. <<http://www.cfr.org/publication/8440/>> Both military bases stationed roughly 1,000 US military and civilian personnel.

<sup>32</sup> Patrick Martin, "US bases pave the way for long-term intervention in Central Asia," World Socialist Website, January 11, 2002. <<http://www.wsws.org/articles/2002/jan2002/base-j11.shtml>>

tremendous strategic leverage in Asia. As a result, the geo-political landscape in the region was changed. Unsurprisingly, this new progress increased China's strategic concerns. China felt encircled by the new strategic layout in the region with American forces on both its eastern and western frontiers, and the regional perception of potential "China threat" remained worrisome to Beijing – the combination of these two factors has plunged China into a strategic nightmare. Based on its good neighbor policy, China stepped up its efforts to move into the region more aggressively by means of developing and strengthening regional cooperative mechanisms.

The development of the SCO, ASEAN-China Free Trade Agreement (ACFTA), ASEAN Plus Three, and even the EAS reflects the trends of China-driven momentum and China-centered orientation in regionalism. In the security realm, China has utilized the SCO as both an instrument for integrating regional interests and for linking with other important international institutions. The SCO began in June 2001 with emphasis on fighting terrorism, separatism, and religious extremism. Since 2003, the SCO has taken practical steps toward cooperation with the objective of promoting economic cooperation based on the free movement of goods, capital, services, and technologies. The long term goal on trade and economic cooperation set for 2020 is to develop a new integrated economic zone, which may lead to the creation of an SCO free trade zone.<sup>33</sup> Since China is the most powerful economy among all members of the SCO, it is not only an active member but is also gradually claiming economic leadership. Strengthening energy security and developing regional economic cooperation has become strategic focus of SCO, which is in accordance with China's strategy.

In short, the September 11 terrorist attack triggered a big change in the strategic structure in Asia and also resulted in an emerging of U.S.-China strategic competition. In the past few years, the region has witnessed a rapid expansion of China's strategic landscape, while the U.S. has been preoccupied with counter-terrorism, Iraq, and Afghanistan; despite its new military presence on China's borders, the relative influence of the United States in East Asia is declining. Although focusing on regional cooperation will not necessarily lead to immediate confrontation, China's successful advance into the region has pushed forward its strategic posture. This gain has potentially endangered existing American regional interests. In a declaration at its July 2005 leaders' summit, the SCO implicitly called for the United States to "set a final timeline" for withdrawing its military forces from the territory of SCO member states.<sup>34</sup> Many analysts believed that Russia and China were really behind this push; in fact, some analysts believe that, based on Beijing's and Moscow's undeclared strategic objectives, the SCO was clearly founded as a counterweight to U.S. influence in Central Asia.<sup>35</sup> With motivations based in part on

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<sup>33</sup> Nina Kulikova, "Economic cooperation within SCO," NOVOSTI (Russian News & Information Agency), May 3, 2006. <<http://en.rian.ru/analysis/20060503/47173696-print.html>>

<sup>34</sup> "Declaration of Heads of Member States of Shanghai Cooperation Organization," Astana, July 5, 2005. <[Http://www.sectsc.org/html/00648.html](http://www.sectsc.org/html/00648.html)>

<sup>35</sup> Howard W. French, "Shanghai club, once obscure, now attracts wide interest," *New York Times*, June 16, 2006, p. A12. Although China later shifted the SCO to focus on terrorism, separatism, and religious extremism, it was originally created as a counterweight to U.S. influence in the region. Wang Jisi "China's changing role in Asia," in Kokubun Ryosei and Wang Jisi eds., *The Rise of China and a Changing East Asian Order*, p. 16. For a different view on the creation of the SCO and the Astana declaration, see Akihiro



energy concerns and other strategic considerations, the United States's increasing presence in Central Asia created security concerns for Russia and China. In geopolitical and geo-economic calculation, Chinese believe that with a serious strategic commitment from Moscow, the SCO could strengthen China's strategic posture and offset the United States's influence in the region.<sup>36</sup>

The U.S. government expressed concerns over China's efforts to limit the U.S. presence and influence in the region.<sup>37</sup> This broad strategic competition plays a substantial role in regional progress and contributes to new momentum for Asian regionalism, as China's increased political and economic influence has triggered fierce competition for regional leadership between Japan and China. The development and planning of regional mechanisms has become an arena for this competition.

### *China's regional strategy and the harmonious world policy*

To ensure a stable environment for its peaceful rise and domestic economic development, China's foreign policy strategy focuses on two parallel soft-landing tracks: sustaining progress and active involvement in multilateral institutions and building partnerships with major powers. As noted, China sees that multilateralism can assuage fears of a threat from its growing power and can extend its influence, and that major power partnership can help enhance China's overall interests and balance against possible future challenges.<sup>38</sup> Together, these strategic tracks aim for the promotion of a "harmonious world" which is defined as a peaceful environment conducive to China's rise. The key feature highlights open-mindedness and advocacy of multilateralism. The top priority is thus to facilitate harmony with its neighboring countries. Hu Jintao's deliberation of the harmonious world reflects China's consistent effort on regionalism.

While China is advancing its interests through regional institutions like the SCO, it also keeps engaging with major powers in different regions based on clear strategic calculation. China's attitude to multilateralism shifted from skepticism to active

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Iwashita, "The SCO and Japan: Moving Together to Shape the Asian Community," The Brookings Institution, January 28, 2008, <[http://www.brookings.edu/articles/2008/0128\\_asia\\_iwashita.aspx](http://www.brookings.edu/articles/2008/0128_asia_iwashita.aspx)>.

<sup>36</sup> Ruan Zeshan, "Shanghai hezuo zuzhi dui zhongguo you he zhanlue jiezhì? (What strategic value does the SCO have to China?)" *Zhongguo Baodao*, April 10, 2002. <http://www.weachina.com/info/01068.htm>; Wang Wei, "Zhongguo yinhe zhong jin Shanghai hezuo zuzhi (Why does China stick to the SCO?)," *Jingji Baodao*, April 30, 2003. <<http://euroasia.cn/Chinese/news/Subject/Shanghai/2003051015333.htm>>

<sup>37</sup> Richard Lawless, Deputy Undersecretary of Defense for Asian and Pacific Security Affairs, highlighted the point at the US-China Economic and Security Review Commission Hearing on "US-China Relationship: Economics and Security Perspectives," February 1-2, 2007, Washington D.C. <[http://www.uscc.gov/hearings/2007hearings/hr07\\_02\\_1\\_2.php](http://www.uscc.gov/hearings/2007hearings/hr07_02_1_2.php)>

<sup>38</sup> Analyses, like Avery Goldstein and Kevin Sheives, identified two major components of China's strategy: multilateralism and partnership with major powers. Avery Goldstein, *Rising to the Challenge: China's Grand Strategy and International Security* (Stanford, C.A.: Stanford University Press, 2005), Chapter 6; Kevin Sheives, "China turns west: Beijing's contemporary strategy towards Central Asia," *Pacific Affairs*, vol. 79, no. 2; China's foreign policy currently focuses on the great power relations and active participation in multilateral institutions. See Evan S. Medeiros and M. Taylor Fravel, "China's New Diplomacy," *Foreign Affairs*, November/December 2003. See also Ni Feng, "The shaping of China's foreign policy," in Kokubun Ryosei and Wang Jisi eds., *The Rise of China and a Changing East Asian Order*, (Tokyo: Japan Center for International Exchange, 2004), p. 149.

participation. After China's accession to the World Trade Organization in December 2001, its trade policy shifted to a higher gear. A senior Chinese official pointed out that after China's accession to the World Trade Organization (WTO) and the spectacle of the failed WTO ministerial conference in Seattle in 1999, China became interested in exploring FTAs as an alternative to the global and multilateral approach.<sup>39</sup> In 2000 it proposed to develop the ASEAN-China FTA (ACFTA) by 2010, and an agreement to this effect was signed in November 2002. This agreement marked the beginning of a new era of China's FTA policy. China now has a clear roadmap in the region, which includes sub-regional FTA and bilateral FTA arrangements.<sup>40</sup> The direction of China's FTA policy has clear regional strategic impetus and is consistent with China's pragmatic approach of foreign policy. China's interest in regional FTAs is threefold. First, in addition to strengthening economic cooperation with neighboring countries, China could also dramatically increase its influence through regional architectures. Second, regional cooperation architectures serve as a friendship platform to ease the potential China threat that has haunted the region for some time. Third, by establishing regional economic mechanisms, China would put itself to the test of international competition and would thus be compelled to accelerate domestic reform.

On security, territorial disputes in the Spratly Islands then remained ASEAN's biggest concern with China's regional ambition. After prolonged discussion, China and ASEAN signed the "Declaration on the Conduct of Parties in the South China Sea" in November 2002, which has dramatically reduced security concerns that China has caused in the region. Thereafter, the history of territorial disputes between them became a non-issue. Furthermore, under the consideration of its regional strategy, China's top priority has been to strengthen relationships with ASEAN countries and back away from direct conflict and pending disputes. China took another step by signing the "Instrument of Accession to the Treaty of Amity and Cooperation (TAC) in Southeast Asia" in October 2003.<sup>41</sup> Literally, China's accession to the TAC sent a benign message through the region, and won China the trust of its neighbors. China's successful transformation of its image in Southeast Asia has been attributed to continual neglect of the U.S. over the past decade and a growth in China's soft power – "influence by persuasion rather than coercion."<sup>42</sup> Chinese strategic discourse specifies that Southeast Asia is a launching pad for China to becoming a global power and anchors China's strategic high ground of balancing the U.S. and Japan in Asia.<sup>43</sup> Under its current strategic environment, one of

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<sup>39</sup> It was indicated by the then Minister of Foreign Trade Shi Guangsheng. Yang Zerui, "China's FTA Developments," 2004/ASCC/019, APEC Study Centers Consortium Meeting, Viña del Mar, Chile, May 26-29, 2004.

<sup>40</sup> Ibid.

<sup>41</sup> "Instrument of Accession to the Treaty of Amity and Cooperation (TAC) in Southeast Asia," October 8, 2003. <<http://www.aseansec.org/15271.htm>> "TAC raised the provisions of the Kuala Lumpur Declaration to the level of a treaty to which other Southeast Asian countries could accede and with which the non-regional countries could associate themselves. The treaty enshrines the following principles: mutual respect for one another's sovereignty; noninterference in internal affairs; the peaceful settlement of intraregional disputes; and effective cooperation." <<http://www.aseansec.org/92.htm>>

<sup>42</sup> Joshua Kurlantzick, "China's Charm: Implications of Chinese soft power," *Policy Brief* (Carnegie Endowment for International Peace), no. 47 (June 2006).

<sup>43</sup> Zeng Pinyuan, "Zhongguo Dongnanya Zhanlue Lun (Argument on China's Southeast Asia Strategy)," *Zhongguo Baodao* (China Report), no. 388 (January 29, 2004),

China's strategic choices for shaping its regional effort is that it will have to look to its neighbors for strategic backing.<sup>44</sup> In order to win this backing, China must diminish regional concerns about the "China threat" theory. Whatever disputes may exist in the political, security, economic, and energy realms, China needs to avoid any possibility of clashing interests and must solve differences with its neighbors to serve its best strategic interests.

China's increasing involvement in Central Asia is motivated by concerns over regional stability, energy security, and most importantly its wariness of the U.S. presence.<sup>45</sup> China's active involvement in Conference on Interaction and Confidence Building Measures in Asia (CICA) and the establishment of the SCO shows that China believes it can satisfy domestic demands and geopolitical interest in Central Asia through regional cooperation. In other words, China's pursuit of regionalism in Central Asia is based on strategic interest. Since the U.S. launched the war on terror in Afghanistan in 2001, the SCO has become the focal platform of regional cooperation in Central Asia. Although the SCO began with regional efforts of fighting common concerns of terrorist and secessionist threats, economic interactions between China and other members are rapidly increasing, especially in energy sectors. Increasing geopolitical significance, the SCO enables China to closely link with Central Asian countries and Russia, and to make strategic advances in both regionalism and big power partnerships.

After focusing in its first few years on security cooperation on counter-terrorism along borders of member states, the SCO has begun to move into other areas such as energy cooperation, trade and investment, and transportation and communication. These new areas of activity reflect China's domestic and external strategic visions, and China has wielded a large amount of influence in these projects. On the strategic level, China has taken advantage of access to Central Asia's natural resources and markets and has accelerated the development of its own western provinces to serve as an economic hub for Central Asia, so it would also further secure China's western border and critical energy supply from the region.

In South Asia, China's role has been quite contentious because China has traditionally sided with Pakistan against India and served as a "polarizing rather than unifying factor."<sup>46</sup> For much of recent history, China has been the only relevant external strategic challenge to the region. Nevertheless, it made great efforts to gain full membership in the South Asian Association for Regional Cooperation (SAARC). Early on in January 2004, SAARC members signed the South Asian Free Trade Area (SAFTA) Agreement, which took effect on January 1, 2006. Alongside Japan, China became an observer of SAARC in 2005. For comprehensive strategic interests, China is actively involved in the development of South Asia: SAFTA means potential economic and

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<<http://www.weachina.com/html/02013.htm>>

<sup>44</sup> Ni Feng, "The shaping of China's foreign policy," in Kokubun Ryosei and Wang Jisi eds., *The Rise of China and a Changing East Asian Order*, p. 150.

<sup>45</sup> Kevin Sheives, "China turns West: Beijing's contemporary strategy towards Central Asia," p. 226.

<sup>46</sup> Alyson J. K. Bailes, "Regionalism and security building," in *Regionalism in South Asian Diplomacy*, SIPRI Policy Paper, no. 15. (February 2007), p. 2, emphasis added.

market opportunities. What's more, South Asia's geo-political significance in terms of energy supply routes gives China enormous motivation to be involved in regional politics and cooperation. While China has made every effort to establish an "India-China Strategic and Cooperative Partnership for Peace and Prosperity" and to participate in regional cooperation, it also attempts to balance against India's dominance developing strategic partnerships with most Indian neighbors such as Pakistan, Bangladesh, and Sri Lanka.

In January 2007, during the ASEAN Plus Three summit, China invited the ten ASEAN members to participate in joint military exercises for peacekeeping training and disaster-zone management and reconstruction, to take place in July 2007. This invitation marked a fundamental shift of China's regional strategy "with China moving toward more limited multilateralism rather than its historical unilateralism to advance its regional *security* interest."<sup>47</sup> The region perceives that China promoted regional economic cooperation and trade and investment linkages at first in order to strengthen its relations with regional countries. Now, it is gradually moving the regional agenda toward security matters, with an emphasis on defense cooperation and confidence building among militaries.

#### *The Sino-Japanese leadership contest and Japan's strategy*

When China surprisingly proposed the China-ASEAN FTA in 2000, Japan was still stuck in its traditional trade policy, which embraced the WTO framework and was reluctant to go along with the FTA path.<sup>48</sup> The Japanese government believed that its interests would be served best under the multilateral WTO mechanism. But the WTO negotiation process broke down, and the major global trend has been toward the development of bilateral and multilateral FTAs. As China's regional leadership in this trend may result in its dominance, Japan has realized that it has no choice but to shift its policy preference over to FTAs. There was a time when policymakers in Tokyo wondered whether Japan's shift toward FTAs would require a departure from its traditional U.S.-centered trans-Pacific course of regional cooperation and whether this shift would be in its best interest. After a decade of stagnation and the loss of economic dynamism, Japan realized that its influence in regional affairs was severely diminished. Due to its domestic political difficulties and uncertainty about its future relationship with China, Japan's sense of direction and vision for regional cooperation were completely missing on many regional occasions of track one and track two diplomacy.<sup>49</sup> There is strong sentiment among ASEAN countries that Japan should consider changing its "United States first, Asia second" approach,<sup>50</sup> but

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<sup>47</sup> David Fullbrook, "China's Strategic Southeast Asian Overture," *Japan Focus*, March 6, 2007. <<http://japanfocus.org/products/topdf/2372>>

<sup>48</sup> Japan started Asian domino effect of regional arrangement, when Japan negotiated for an economic partnership agreement with Singapore. China signed the "Agreement on trade in goods of the Framework Agreement on comprehensive Economic Cooperation" with ASEAN in 2004. South Korea signed a framework free trade agreement with ASEAN in May 2006.

<sup>49</sup> Takahara Akio, "Japan's political response to the rise of China," in Kokubun Ryosei and Wang Jisi eds., *The Rise of China and a Changing East Asian Order*, p. 167.

<sup>50</sup> Lay Hwee Yeo, "Japan, ASEAN, and the Construction of an East Asian Community," *Contemporary Southeast Asia*, vol. 28, no. 2 (August 2006), p. 272.

Tokyo is reluctant to do so as it hedges against China. Therefore, the Sino-Japan rivalry works against the regional interest and impedes the trend toward regional cooperation, adding uncertainty to the region.

As a direct reaction to China's proposal of the ASEAN-China FTA, in January 2002 then-Prime Minister Junichiro Koizumi proposed to ASEAN an initiative for a "Japan-ASEAN Comprehensive Economic Partnership (JACEP)" in which the vision of Japan's regional strategy was succinctly presented.<sup>51</sup> The initiative led to mutual endorsement of the "Framework for Comprehensive Economic Partnership between the ASEAN and Japan" at the ASEAN-Japan Summit in October 2003. Later in December 2003, heads of states from both sides announced the "Tokyo Declaration", which unveiled the Japan-ASEAN plan to address future relations in the fields of economics, finance, politics, and cultural cooperation. Japan convinced its ASEAN partners that working to establish an outward-looking East Asian Community would be the best way to deepen regional cooperation.<sup>52</sup> Japan's strategy of Asian regional integration rests heavily on a broader conception of Asian community based on the framework of ASEAN Plus Three and extending to Australia, New Zealand, and India.

In recent years, Japan has responded aggressively to the momentum for East Asian regionalism with its geostrategic vision of balancing China's influence. Obviously, Japan has engaged in "an intense contest with China to determine what the new institutions are to be based on: preserving Asian exceptionalism, as Beijing now argues, or pursuing a common set of values rooted in democracy and the rule of law, as Tokyo contends."<sup>53</sup> While many in the region witness China's advance, Japan is catching up quickly by developing comprehensive economic and regional security partnerships. Although Japan's keen interest in developing JACEP was prompted by Chinese action, it has significantly helped to affirm ASEAN's central role in East Asian regional cooperation.<sup>54</sup> While their competition may not be good for regionalism, the contest between Tokyo and Beijing reaps large strategic gains for ASEAN. It is also critical for Japan to be seen returning to the region as a leader in two ways: JACEP clearly defines Japan's interest in and commitment to Southeast Asia, and at the same time it serves to counterbalance China's overwhelming influence in the region.

Japan also worked hard on a region-wide JACEP in 2007, and bilateral comprehensive economic partnership agreements (EPAs).<sup>55</sup> Japan's regional strategy is to

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<sup>51</sup> "Speech by Prime Minister of Japan Junichiro Koizumi Japan and ASEAN in East Asia – A Sincere and Open Partnership," Singapore, January 14, 2002. <<http://www.aseansec.org/2884.htm>>

<sup>52</sup> "Tokyo Declaration for the Dynamic and Enduring ASEAN-Japan Partnership in the New Millennium," Tokyo, December 12, 2003. <<http://www.aseansec.org/15500.htm>>

<sup>53</sup> Michael Green, "Japan is back: why Tokyo's new assertiveness is good for Washington," *New York Times*, February 26, 2007.

<[http://www.nytimes.com/cfr/world/20070301fareviewessay\\_v86n2\\_green.html?\\_r=1&pagewanted=print&oref=slogin](http://www.nytimes.com/cfr/world/20070301fareviewessay_v86n2_green.html?_r=1&pagewanted=print&oref=slogin)>

<sup>54</sup> Chia Siow Yue, "The rise of China and emergent East Asian regionalism," in Kokubun Ryosei and Wang Jisi eds., *The Rise of China and a Changing East Asian Order*, p. 67.

<sup>55</sup> The targeted dates have been agreed on the occasion of the 10<sup>th</sup> ASEAN-Japan Summit: "Chairman's Statement of the 10<sup>th</sup> ASEAN-Japan Summit," Cebu, Philippines, January 14, 2007.

<<http://www.infojapan.org/region/asia-paci/asean/conference/state0701.html>>

realize two specific proposals: the vision of a “Comprehensive Economic Partnership Agreement in East Asia (CEPEA), which would lead to region-wide economic integration including ASEAN, China, Japan, South Korea, Australia, New Zealand, and India; and the establishment of an international organization in the region like Organization for Economic Cooperation and Development (OECD) to serve as a policy platform.<sup>56</sup> Another Japanese initiative on security, which emphasizes the establishment of a strong platform like the Commission on Security and Cooperation in Europe (CSCE) to ensure regional stability, underscores the idea of an East Asian Community.<sup>57</sup> Through these initiatives, Japan hopes to discourage Chinese unilateralism and to keep it comfortably in check within a multilateral institutional context. A mixture of engagement and deterrence lies at the core of Japan’s regional strategy and is highlighted by strategic preparation for China’s increasing influence. Japan actively promotes Asian regional cooperation through ASEAN Plus Three and the EAS processes, helping to set common norms of conduct. In addition, Japan continues to rely on the U.S.-Japan security alliance to deter China.<sup>58</sup>

The Sino-Japan rivalry is reflected in the different scopes of cooperation for future Asian regionalism that each side proposes. Especially at the outset of the EAS development process, there was a lack of regional consensus regarding the number of member states. China was anxious to entrench its influence over the organization and preferred to invite Southeast and Northeast Asian states only. However, Japan favored encompass a broader group, including some external partners. In this connection, a Japanese senior official stated that “it is critical that our economic integration be open and transparent to our nonregional partners. Japan is opposed to making a closed circle in the region.”<sup>59</sup> Since the establishment of the Joint Statement on East Asian Cooperation in 1999, Japan has taken a more pro-active role in the regional community building process through various multilateral combinations,<sup>60</sup> and the Tokyo Declaration of 2003 was a milestone for Japan-ASEAN cooperation. On the strategic level, Japan emphasizes the pivotal role ASEAN has played in regional cooperation efforts and has doubled its efforts to establish a comprehensive and strategic partnership with ASEAN since 2003. In addition, Japan has conducted proactive diplomacy beyond East Asia’s geographic boundaries by developing strategic partnerships with India and Australia.

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<sup>56</sup> Comprehensive economic partnerships normally include trade liberalization, regulatory convergence, economic precedents for the international system, and trade security. “Global Economic Strategy,” Ministry of Economy, Trade and Industry, Japan, April 2006, p. 13 & 4. <<http://www.meti.go.jp/english/report/index.html>>

<sup>57</sup> Kawato Akio, “Leadership and strategic vision in Easy Asia,” CEAC Commentary (Council on East Asian Community), May 17, 2006. <<http://www.ceac.jp/e/commentary/060517.pdf>>

<sup>58</sup> Shiraishi Takashi, “Questions over China’s intention,” CEAC Commentary (Council on East Asian Community), August 2, 2006. <<http://www.ceac.jp/e/commentary/060802.pdf>>

<sup>59</sup> Toshiaki Kitamura, Vice-Minister of Ministry of Economy, Trade and Industry, “Japan’s new deal for Asia,” *Far Eastern Economic Review*, vol. 169, no. 7 (September 2006), p. 43.

<sup>60</sup> Chang-gun Park, “Japan’s emerging role in promoting regional integration in East Asia: Towards an East Asian Integration Regime (EAIR),” *Journal of International and Area Studies*, vol. 13, no. 1 (June 2006), p. 65.

## U.S.-China strategic rivalry and revisiting U.S. Asia policy

There is a clear difference between the strategic intentions of the U.S. and China in the evolution of regional cooperation. The rise of Chinese nationalism against Japan indicates that different strategic interests and security considerations may have recently re-awakened their historical animosity. At this point, Japan clearly sides with the U.S., while China has successfully wooed many regional countries with economic incentives and its improved peaceful image. However, worrying about the potential threat of China's growing military strength, Japan has identified China and North Korea as its key security concerns. In this context, Japan and the U.S. have committed to reinforcing their mutual security alliance and have put forth common strategic objectives. In February 2005, the U.S.-Japan Security Consultative committee (the "two plus two" meeting) agreed to encourage China to seek a peaceful resolution in the Taiwan Strait and to be transparent in military affairs.<sup>61</sup> Based on the "responsible stakeholder" concept, the meeting set a generally positive tone for the U.S.-Japan posture toward China.

As China in 2000 decided to make a bold move toward a regional FTA with ASEAN, many perceived that China's regional policy shift has been based more on the consideration of political and strategic interest rather than pure economic advantages. It is true that the China-ASEAN FTA has been considered to be part of a "South-South cooperation" pattern in which the fruits of the cooperation would not be as great as the challenges from economic structural competitions between the parties. Indeed, the ACFTA illustrates a major feature of China's regional strategy, which focuses on soft power. China has successfully changed its image in the region by giving away more in the short run to neighboring countries than it gains from them. Winning the "hearts and minds" of regional people is always considered China's top foreign policy priority.

On the contrary, during the past five years, American inattention to developments in Asia has weakened U.S. intimacy with the region and harmed U.S. interests. The exercise of its doctrine of pre-emption, unilateralism, the invasion of Iraq, and its obsession with counter-terrorism have all led to a serious decline of the American image in the region.<sup>62</sup> Analysts, including both Asians and Americans, suggest that "Asia is not waiting for the United States and Washington must actively re-engage if it is to maintain its influence."<sup>63</sup> Because China's regional strategy features the projection of soft power, many analysts do

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<sup>61</sup> "Joint Statement of the US-Japan Security Consultative Committee," Washington D.C., February 19, 2005, <<http://www.state.gov/r/pa/prs/ps/2005/42490.htm>>

<sup>62</sup> A large number of scholarly works and media reports have discussed this phenomenon. See, for example, Elizabeth Economy, "China's rise in Southeast Asia: Implications for Japan and the United States," *Japan Focus*, no. 403 (October 6, 2005). <<http://japanfocus.org/products/details/1815>>; David Fullbrook, "China's Strategic Southeast Asian Overture," *Japan Focus*, March 6, 2007. <<http://japanfocus.org/products/topdf/2372>>; Dick K. Nanto, "East Asian regional architecture: New economic and security arrangements and US policy," CRS Report for Congress, (Order Code RL33653), September 18, 2006; Tyler Marshall, "How China is winning the soft power battle across East Asia," *The National Interest*, issue, 85 (September/October 2006); Tyler Marshall, "China poised to dominate influence in Asia: Solid economy, diplomatic ties attracting allies," *Boston Sunday Globe*, August 13, 2006; "Southeast Asia's new best friend," the Los Angeles Times, June 17, 2006.

<sup>63</sup> The Senior Policy Seminar. "The United States and Asia: Assessing Problems and Prospects," Senior Policy Seminar 2006 (Honolulu: East-West Center, 2006).

not look beyond the immediate intention and do not see the purpose of China's strategy. It may be fine for the time being to suggest that the rise of China and China's increasing influence has not quite affected U.S. interests in Asia,<sup>64</sup> but the long-term trend indicates that the result of the U.S. attitude of "benign neglect" and of preferring bilateral agreements to multilateral ones does not match the trend of regionalism.

While most Asian countries meet frequently in various multilateral regional occasions and endeavor to develop regionalism, the U.S. would have to ponder whether its Asia policy needs to be revisited and updated with more proactive involvement considering the new dynamics of regional progress. U.S. leadership in Asia, which is seen and felt in the region as more and more separate from the new development, faces increasing challenges. The developing trend is therefore moving gradually in favor of China rather than the U.S., as China is not only engaging in but also leading efforts at cooperation. Strategic rivalry will continue to shape both U.S.-China relations and regionalism. The U.S. urgently needs to reposition itself in Asia based on its bilateral relationship with China.

### *China's increasing influence over the regional agenda*

Regional cooperation has entered into a new era, and the strategic transformation between the great powers highlights specific features of regionalism. As the rise of China is the fulcrum on which the regional dynamic turns, that dynamic has become China-driven and China-centered. In short, the geographic focus of regional efforts has shifted from the trans-Pacific relationships to intra-Asian regional architecture. Some may see that as a result of China-driven regional efforts, the U.S. is implicitly pushed out of regional games. Others may believe that unless the new regional efforts formulate clear goals and undertake specific actions, the U.S. will remain quite comfortable watching from outside.

It is important to note that the new China-driven regionalism will influence both the direction of economic cooperation and regional security. The Sino-Japan conflict remains the main obstacle to greater regional cooperation. Will Japan or China be able to develop and sustain economic cooperation with other neighboring countries without coming to term with each other? More broadly, the Sino-U.S. relationship is also critical to the future development of regional integration. What is more significant for the U.S. is that, for the first time, the future direction of Asian regionalism can not be decided in Washington. Rather, it would be very much a factor of Beijing's choices or the outcome of competition/cooperation between Tokyo and Beijing, though ASEAN will be safe on the driver's seat. ASEAN FTA has become the center of regional integration, but ACFTA is a benchmark of regional integration. If there would be a possibility of an East Asian FTA, it would have to be built on the success of ACFTA.

Now, China is actively pushing a new regional agenda. During the ASEAN Plus One (China) summit in January 2007, China and ASEAN leaders signed an agreement on

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<sup>64</sup> Robert G. Sutter, "China's rise: implications for US leadership in Asia," *Policy Studies*, 21 (East-West Center Washington, 2006).



trade in services, which would mark substantial progress toward building the ACFTA. Two years ago, a similar agreement on trade in goods was signed to launch the first step of the bilateral FTA process. The third step of an agreement on trade in investment is now on their immediate agenda. In order to strengthen the China-ASEAN strategic partnership, Chinese Premier Wen Jiabao made five proposals to his ASEAN counterparts in which he emphasized strengthening mutual political trust, upgrading economic and trade relations, cooperating in the fields of non-traditional security matters, supporting ASEAN integration process, and enriching social, cultural, and personnel exchanges.<sup>65</sup> Obviously, through this warming process China is taking the lead in initiating deeper and more comprehensive cooperation.

From practices of regional cooperation in the SCO, ASEAN-China, and trilateral summits among China, Japan, and Korea, China not only manages to push the regional agenda forward, but also tries to engage bickering parties within the regional multilateral context. This leads to a clear understanding that the process of creating new regional groups under substantial Chinese influence, is becoming irreversible.

*The inattentive U.S. Asia policy: can bilateral arrangements be effective?*

Obviously, Asian regional cooperation has flourished. While Asian regional cooperation has moved toward broader issue areas and includes a variety of structures, like the Boao Forum for Asia sponsored by China, Asian Cooperation Dialogue hosted by Thailand, and different ASEAN-related regional forums, U.S. policy surprisingly has not reflected the dynamism of regional cooperation. Rather, the U.S. government has continued mostly to emphasize the conventional “hub and spokes” strategic system of bilateral security arrangements with individual countries in the region, and gives little attention to existing regional multilateral organizations such as APEC and ARF. The American system of Asian alliances may have worked well during the Cold War, but it is questionable whether it can manage today’s regional and national realities.<sup>66</sup> Asian leaders have begun to express their concern with the insufficient American attention, to Southeast Asia in particular. Singapore Prime Minister Lee Hsien-loong cautioned that, “distracted by problems elsewhere, the U.S. isn’t paying enough attention to Southeast Asia, losing its regional influence to a rising China and potentially weakening antiterrorism cooperation.”<sup>67</sup>

Regional experts have warned that the U.S. does not have a clear strategy and strategic vision for coping with the rise of China. Washington’s reliance on outmoded structures may not only have weakened the U.S.’s definitive influence in the region, but also forced allies and friends to opt for their own hedging approaches.<sup>68</sup> Perhaps, the American system of Asian alliances has to be renovated to cope with today’s political

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<sup>65</sup> Wen Jiabao’s speech at the 10<sup>th</sup> China-ASEAN Summit, Xinhuanet, January 14, 2007.

<[http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/world/2007-01/14/content\\_5604871.htm](http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/world/2007-01/14/content_5604871.htm)>

<sup>66</sup> Francis Fukuyama, “Re-envisioning Asia.”

<sup>67</sup> Yaroslav Trofimov and Paul Beckett, “Politics & Economics: Singapore Prime Minister urges US to bolster its ties in Asia,” *Wall Street Journal*, April 18, 2007, p. A9.

<sup>68</sup> Wendell Minnick, “Special report - China rising: East Asia braces as American influence fades,” *Defense News* (March 19, 2007), p. 11.

reality, as many new factors and developments have emerged in Asia.<sup>69</sup>

Many in American policy circles feel that the Bush administration has failed to articulate a strategy to engage East Asia.<sup>70</sup> The real concern over the last two years has been that the United States has not been able to come to terms with the new reality of ASEAN's central role in the process of Asian regionalism. While most of America's regional allies rely on active strategy and policy coordination in Asia, the U.S.'s benign neglect toward the region has gradually resulted in confusion and uncertainty among regional countries on how to effectively deal with the rise of China. This is not to suggest that the United States has already lost its influence in Asia, but to underline some of the results of the U.S. preoccupation with problems in the Middle East. It is odd to see the U.S., which once dominated the development of regional cooperation, sidelined in the new wave of regionalism in Asia. U.S. policy momentum may not be able to catch up with Asian dynamism.

### **Cross-strait interactions under the new framework of Asian regionalism**

After the breakdown of the WTO talks in 2006, Asia's hope for an open regionalism was shattered. The immediate effect was for Asia's economies to seek bilateral FTAs in order not to be left behind by any preferential deals, before the global trade could be rationalized. Even though a "noodle bowl" effect of FTAs may risk overlapping rules and may complicate the process for international traders, Asian countries are still rushing to pursue complicated FTA networks.<sup>71</sup>

Similarly, economic interdependence between Taiwan and China has intensified dramatically and may accelerate further under the new Ma Ying-jeou government in Taipei. No matter how political tension develops, trade, investment, and industrial collaboration continue to increase. As a result, economic integration is now taking place across the Taiwan Strait and is fostering high hopes for further cross-strait cooperation. However, in no way would these complicated networks of FTAs and comprehensive economic partnerships (CEPs) in the region include Taiwan, one of leading economies in Asia and a WTO member. Future cross-strait relations will be confined by a new regional structure (or even a new regional power configuration), which emphasizes stability and maintains the status quo. Searching for key pillars of stable relations between China and Taiwan therefore becomes a common regional security objective.

Nevertheless, under the new structure of Asian regionalism, whatever combination of regional cooperation it may be, there are no hints whatsoever that Taiwan may be involved. ASEAN Plus Three and the EAS are all aiming at advocating further cooperation and regulating regional groupings. For political reasons, Taiwan is virtually

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<sup>69</sup> Fukuyama, "Re-envisioning Asia."

<sup>70</sup> Daniel Sneider, "Asia's polite reception to Bush masks declining US influence," *YaleGlobal*, November 17, 2005. <<http://yaleglobal.yale.edu/article.print?id=6531>>

<sup>71</sup> Richard E. Baldwin, "Managing the noodle bowl: the fragility of Asian regionalism," CEPR Discussion Paper (Centre for Economic Policy Research, University of Geneva), No. 5561, March 2006. <[http://www.bwl.uni-kiel.de/phd/files/paper\\_baldwin.pdf](http://www.bwl.uni-kiel.de/phd/files/paper_baldwin.pdf)>

neglected. As Taiwan's economy has deeply integrated into the regional and Chinese markets, being kept outside of the regional economic integration process would certainly weaken Taiwan's competitiveness and dampen its economic prospect. How would this artificial isolation affect the new regional grouping process as a whole? What should the region consider in regard to Taiwan's role? For example, how may Taiwan be formally included into ASEAN Plus Three? Would ASEAN Plus Three and "One" (attaching Taiwan) work? Would the new structure of regionalism bring forth a new agenda for accelerating dialogue and cooperation across the Taiwan Strait? If China and Taiwan would, in the short term, still find it impossible to settle their differences, would the new structures of regional economic cooperation hamper existing business opportunities and discourage economic prospects across the strait? Doesn't Beijing have a wonderful opportunity to help Taiwan engage in regional mechanisms and to fundamentally shift the nature of cross-strait relations from confrontation to cooperation?

Under the pro-independence government in Taipei over the past eight years, political relations between Taipei and Beijing turned hostile. Domestic political development in Taiwan was overwhelmed by political activists from both ends of the political spectrum. The pro-independence Democratic Progressive Party (DPP) government was in effect hijacked by radical independence supporters. The DPP insisted on translating its beliefs into policy, but did not always consider the reality that it faced. Its basic attitude toward the mainland and foreign policy appears to have been to drift away from the "one China" framework that has maintained the status quo in the Taiwan Strait. Indeed, the DPP government undertook to challenge the unfavorable status quo. On August 2, 2002, President Chen Shui-bian announced that there is "one country on each side of the Strait," clearly identifying the cross-strait relationship as one between two sovereign states. Afterward, there were two competing policy approaches toward China in the DPP government: pragmatism vs. independence dogmatism. The interplay of domestic political forces and a constant power struggle within the DPP therefore had a major impact on policy.

Under the circumstances, the DPP government bogged itself down in relentless internal political strife, which led to a generally confrontational approach to cross-strait relations. Because the DPP government was viewed less and less favorably by the Taiwan electorate as its term wore on, it often utilized cross-strait hostility to shift the domestic focus and tried to capitalize on that hostility, especially during election campaigns. As a result, antagonism and mistrust have built up further between Beijing and Taipei. On the other hand, it must be noted, Beijing's continuous hostility toward Taipei provided a superb rationale (and political ammunition) for the DPP government and independence fundamentalists to generate and manipulate anti-China sentiment in Taiwan. In the future, China may have to think more carefully about whether its stiff policy of weakening the DPP government's position served China's long term interest, as a divided and frail Taiwan could cause more trouble for China and the region.

The Asian regional cooperation process has made the maintenance of peace and stability ever more vital to the further prosperity in the region. Anxiety over cross-strait tension must be contained through a systematic arrangement by all parties concerned. As

a responsible stakeholder in Asia, China needs to contemplate the possible negative effects of isolating Taiwan from the new Asian regionalism, on which cross-strait development and China's own economy are highly dependent. Although China's strategy focuses on friendly access to the region through bilateral and regional cooperation channels, it deliberately differentiates Taiwan from the region and blocks every possible opportunity that Taiwan may have for involvement in regional institutions.

In the process of building the new regional architecture, it has never been clearly considered that Beijing's deliberate isolation of Taiwan will gradually generate problems for the Chinese economy and cross-strait relations. Caution is required in three areas.

First, discontent with Taiwan's diplomatic isolation is increasingly apparent in the public opinion of Taiwan society. It has aggravated anti-Chinese sentiment and provided impetus for the independence movement. Even if a majority of Taiwanese would have great doubt about pressing forward with independence, the public tends to blame Beijing's hard-line strategy for Taiwan's marginalization in the international community., Beijing is literally pushing Taiwan's public down the independence line. As China is now trying to win the "hearts and minds" of Taiwanese, the complete denial of Taiwan's role in the internal community will just get backfire and complicate the long-term relationship across the strait. Likewise, Taiwan's marginalization in the regional effort of economic preferential arrangements can become detrimental, as it may boost extremist sentiment within Taiwanese society.

Second, over the years, the industrial structure across the strait has progressively developed into a valuable pattern of global business networks and supply-chains. China serves as a manufacturing base and Taiwan provides capital, management, and global market networks. Taiwan has become a linchpin in the network of the Chinese market and the global markets. A new structure of regional trade arrangements excluding Taiwan may alter this structure across the strait, which has benefited both Taiwan and China. So far, China has not yet evaluated how much it will be affected in this way if Taiwan is completely kept out of the regional effort. Taiwan's marginalization is potentially threatening not only to Taiwan itself but also to China.

Finally, Taiwan's economic development is closely integrated with China's economy, even though the DPP government has tried hard to thwart the increasing trend of interdependence. While China is actively pursuing regional cooperation and bilateral and regional FTAs, encouraging initiatives for cross-strait economic integration so far remains unheard of. If Taiwan's economy can continue to develop well, China could reap great benefits from accelerating the economic integration process with Taiwan. Cross-strait dialogue, which can be made possible only through shared interests, will have to be based upon the existing experience of the bilateral economic integration process. It is very important that both sides shall not make any extra effort to sabotage cooperation in any way.

Currently, cross-strait interactions are complicated, featuring the extremely asymmetric combination of a high degree of economic interdependence and political

tension and isolation. Under DPP rule, Taiwan's economic policy was seriously hampered by political infighting and ideology,<sup>72</sup> resulting in a loss of economic competitiveness and further isolation from the regional cooperation process. Since 2005, the exchange between Taiwan's major opposition party, the KMT, and the Chinese Communist Party has served as a convenient channel to develop a cross-strait cooperation mechanism. For instance, at the second KMT-CPC Forum held on April 14, 2006, functional cooperation on agriculture, financial, and energy fields across the strait was proposed and later materialized,<sup>73</sup> and the visit to China by the KMT chairman in May 2008 further increased momentum and paved the way for the landmark semi-official meetings between Taiwan's Strait Exchange Foundation and China's Association for Relations Across the Taiwan Strait (ARATS) in June 2008. However, suspicion of Chinese political motives remains strong in Taiwan.

Political differences notwithstanding, certain cooperative mechanisms are desperately needed in order for Taiwan to embrace the momentum of economic integration. Instead of repudiating any proposals recommended by the KMT and Beijing, the DPP should be more supportive of the KMT-CPC channel as a means to seek opportunities for cooperation in pursuit of Taiwan's national interest. At the very least, such interaction could help both sides develop mutual trust and stabilize the relationship.

At the same time, it is important for the Chinese side to consider leaving political motivation behind and initiate an acceptable formula for broader bilateral economic cooperation across the strait, and to allow Taiwan to participate in the Asian regional cooperation process. The megatrend of Asian regionalism is leading the way for further cooperation among regional countries, and should cause China and Taiwan to rethink their current "hostile" policy approaches. If both parties envision the beneficial development that may be pursued across the strait, they could choose to work toward a mutually acceptable formula, such as a cross-strait FTA or the establishment of a cross-strait economic zone. If the future development of Asian regionalism is to be based on ASEAN Plus Three process and the EAS, it may be time for regional leaders to think in terms of ASEAN Plus Three, Plus Three (Australia, New Zealand, and India), and One (Taiwan).

### **Concluding remarks: prospective regional trends**

After several decades of commercial and industrial regionalization, regional networking, and experimentation with regional institutions, regional cooperation in Asia has entered a new era of community building. The reason why Asian regionalism shall be considered "new" here is that the prevailing impetus in the wake of the Asian financial crisis is locally generated; Asian countries are attempting to enhance the effectiveness of regional mechanisms by their own efforts. During this wave of new regionalism processes, the United States and western-dominated international institutions have been clearly

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<sup>72</sup> "2007 Taiwan White Paper Issue," *Topics Taiwan Business*, vol. 37, no. 5 (May 2007), p. 8.

<sup>73</sup> BBC, "Guo-Gong luntan zhaokai shuangfang huyu jiaqiang jing mao hezuo (KMT-CCP conference convenes, both sides call for strengthening economic and trade cooperation,)" [http://news.bbc.co.uk/chinese/trad/hi/newsid\\_4900000/newsid\\_4909000/4909006.stm](http://news.bbc.co.uk/chinese/trad/hi/newsid_4900000/newsid_4909000/4909006.stm)

sidelined. Regional cooperation therefore has moved beyond its traditional perceptions of geographic boundaries and political rivalry. The ASEAN Plus Three and ASEAN Plus One (China) series, as well as the East Asian Summit, have come to dominate the scene of Asian regional cooperation. They have as a result shifted the focus and engine of regionalism away from the United States and toward China. Even though all leaders attending the ASEAN Plus Three summits in the past few years have claimed that new regionalism shall be open, doubts remain regarding the U.S. role. In light of the rise of China, there are serious questions as to whether U.S. influence is relatively declining or has declined.

Since the turn of the new century, the region has witnessed a pre-occupied and distracted United States, a more comprehensively powerful China, a retreating Japan with a new reorientation agenda, an emerging India, and a repositioned ASEAN. Asian regionalism is now entering into a new era, attempting to develop new intra-Asian mechanisms, while the old trans-Pacific mechanisms continue to exist. Asian regionalism is now characterized by dynamic economic cooperation and both strategic cooperation and competition.

Since the first ASEAN Plus Three summit was held in December 1997, this process has been China-driven and Asia-centered. Ten years later, regional multilateralism has further evolved and resulted in the emergence of the EAS, and perhaps an East Asian Community for the future. Confirmed by regional leaders, ASEAN Plus Three and the EAS will become the main forums of Asian regionalism. On another front, the SCO has emerged as the most important institution for regional cooperation in Central Asia. It has progressed from security cooperation to comprehensive cooperation and clearly reflects China's strategic intention in that part of Asia. For the first time in recent history, new regional mechanisms in Asia are not propelled by any outsiders, including Americans. The immediate questions are: can these mechanisms be sustained without the involvement of the United States? What kind of challenges will they bring about to the region and the United States? What profound implications will there be for the relationship between the United States and Asia? Although Asian leaders argue that they remain committed to inclusiveness and open regionalism, the real atmosphere seems to suggest otherwise. If new regionalism is exclusive rather than inclusive, how will American interests in Asia be affected?

At the regional strategic level, recent strategic evolution implies that, apart from the counter-terrorism campaign, the rise of China has become an important factor in the strategic transformation of Asia, which may dominate the direction of long term regional strategic development for decades to come. China's recent all-out diplomatic advancement and achievements have been seen as part of an attempt to strengthen its leadership posture in the region and elbow off the leading roles of the United States and Japan in regional security and economic affairs. Even though no regional governments would make clear to the public that competition is their strategic intention, the recent development of the EAS indicates that such a trend is becoming more apparent. U.S. analysts have expressed concerned with this development. In particular, China has worked hard to secure strategic partnerships with a number of countries in the region and

may potentially lead to the formation of alliances for China, if not anti-American ones. In July 2005, as noted above, the SCO issued a declaration calling for the military coalition in Afghanistan to set a timeline for withdrawing troops from its member states, reflecting growing unease over America's regional military presence. It was confirmed that China and Russia played behind-the-scenes roles in this declaration.

The process of developing regionalism in Asia is, in part, a strategic exercise for the big powers. Strategic competition between China and Japan is apparent, even within the context of regionalism and multilateral cooperation. While Asian regionalism moves forward, the United States is clearly sidelined by the force of the Asia-driven effort. Does this mean that the United States's influence is declining? Although the United States retains its dominance in the region, the rise of China and the emergence of Asian regionalism now provide much of the momentum and direction for regional development. It is obvious that the United States, which still very much relies on the APEC framework and its traditional bilateral alliance system, is not going to lead the new wave of regionalism. The United States is distracted and is not keeping up with the pace of regional cooperation; this phenomenon may or may not harm U.S. interests. What regional experts have generally seen is that the United States is not interested in the region and is not giving it much attention. As Asian leaders have committed to further evolution of ASEAN Plus Three and the EAS frameworks, it appears that the U.S.-led APEC framework and the Asia- (or China-) driven ASEAN framework cover different geographic areas and functions. Many would suggest that the both frameworks can complement each other, but institutional competition seems inevitable.

China appears likely to become the leading player in the process of regionalism. ASEAN and other Asian countries, however, hope that the region will not be dominated by a single big power. Thus, they feel that America's continuous engagement in the region will definitely serve their best interests. Consequently, it is critical now to consider how Asian nations may encourage the United States to continue to engage the region, and how the United States might extend its interests further. Appealing to a regional audience, a U.S. official message on America's commitment argues that "far from neglecting Asia, the U.S. is more engaged than ever before."<sup>74</sup> But the United States needs to find a systematic means of engagement, particularly as part of the regionalism effort. As a component of its strategy to cope with the rise of China, a U.S. strategy in Asia, if any, would have to come to terms with the increasing trend of China-driven regional cooperation and Asia-centric regionalism.

Asian regionalism is now pulled forward by two main forces: economic and security cooperation. The leading trends are toward regional and bilateral FTAs or comprehensive economic partnership in the economic field, and strategic partnerships and groupings in the security sphere. The immediate impact of the new regional momentum on cross-strait development would likely be an asymmetrical adjustment of markets and economics. China will gain benefits from regional FTAs and will shift commerce to FTA partners, while Taiwan will be left out of FTA networks and will suffer the most disadvantages. Although

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<sup>74</sup> "The United States and Asia-Pacific security," Speech by U.S. Defense Secretary Robert Gates at The 6<sup>th</sup> IISS Asian Security Summit, Shangri-La Dialogue in Singapore, on June 2, 2007.

Taiwanese industries forced to move into FTA zones would not be affected, existing cross-strait economic dynamics would be seriously harmed. In particular, Taiwan's middle and small enterprises, which account for more than 90 percent of its economic performance, would be hurt by the fact that Taiwan is excluded from any regional FTAs. General economic analyses of this effect suggest that it would trigger yet another wave of Taiwanese industrial relocation in China and Southeast Asia.<sup>75</sup> Now, one of the leading investors in East Asia, Taiwan plays a pivotal role in the global industrial supply chain and should be an active player in East Asian economic integration. For instance, Taiwan over the years has become the second most important component supplier in the regional division of labor system.<sup>76</sup> Since Taiwan's industrial advantage increasingly relies on economic operations across the Taiwan Strait, economic interdependence between Taiwan and China will be further strengthened. Taking into account the political, security, and economic realities, it would serve the best interests of both Taiwan and China to develop initiatives for cooperation, such as a cross-strait comprehensive economic partnership, which would help buffer Taiwan's current disadvantageous stand in international economic development and thus assure a more cooperative relationship between Taipei and Beijing. Recent experience shows that China's tough policy and Taiwan's hardcore independence approach make each intolerable to the other and therefore hamper cross-strait cooperation.

Asian regionalism will continue to evolve, with or without the United States. The serious questions for now are: How do regional leaders shape a new and clear direction for economic integration? How can the U.S.-led APEC framework be compatible with a separate Asia-centric multilateral framework? How can the regional community involve Taiwan? The dynamics of Asian regionalism is characterized by two megatrends—cooperation and competition—which will continue to guide the development of regionalism in the future.

1. Cooperation: In light of global trade challenges, Asian countries will increase momentum for intra-regional cooperation through various grouping formulae. Cooperation must prevail, as it is critical to the continued prosperity of the region. On the security side, regional cooperation among related countries under certain groupings will be strengthened.
2. Competition: Since the WTO framework is not able to take the lead for some time to come, different FTAs and CEPs will link up regional economies. Economic competition will intensify, as the “noodle bowl” effect proliferates. It is expected that regional security challenges will strengthen cooperation among partners, but they may increase competition between different groupings. The effect of regional cooperation should lead to competition rather than confrontation.

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<sup>75</sup> Min-min Hsieh, “Dongya jingji zhenghe de weixie yu tiaozhan (Threats and challenges for East Asian economic integration),” Chinese National Federation of Industries (Taipei), January 7, 2005.

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<sup>76</sup> Wu-hsiung Chen, “Taishang quanqiu touzi bu ju celue (Taiwanese businessmen's global investment strategy),” Chinese National Federation of Industries (Taipei), October 13, 2006.

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