

“China’s Rise to leadership in Asia – strategies, obstacles and achievements”

Shaun Breslin

Paper presented at the conference on *Regional Powers in Asia, Africa, Latin America, the Near and Middle East*, German Institute of Global and Area Studies, Hamburg, December 2006.

### **Introduction**

China’s re-engagement with the global political economy has had massive implications for the functioning of the global economy as a whole, and on China’s regional neighbours in particular. What has happened in China has resulted on a reconstruction of the East Asian regional economy (and individual regional economies) and helped generate a renewed focus of China’s regional leadership ambitions and capabilities.

This paper accepts that state elites in the rest of East Asia are indeed altering their domestic and international strategies in response to what China already is and, more importantly, in preparation for what they expect China to become in the future.

China’s regional leadership is thus in some ways already a reality because regional elites have imbued China with power and responded accordingly to their own constructed image of a sinocentric regional future. However, by other definitions there remain considerable obstacles to the creation of an East Asia under Chinese regional leadership, and this paper takes a deliberately cautious approach in an attempt to temper some of the more hyperbolic assertions of China’s impending rise to

superpower status (and a challenge to the hegemony of the US).<sup>1</sup> It accepts that while what happens in China is hugely significant and important, does such importance necessarily equate to the power that is necessary to establish regional leadership (and that Japanese power often remains understated). It is largely built on two understandings of the nature of international relations which inform an understanding of the nature of (Chinese) power in the global political economy, and also processes of regionalisation. Both of these understandings can be broadly bracketed together under the heading of “critical IPE”.

The first is a materialist conception of international relations and Strange’s understanding of “structural power”. Although Susan Strange thought of herself as a realist (albeit a realist who believed that the “world has changed” and this realist thinking also needed to change to encompass the growing importance of economics and economic actors), her work on who had the ability to shape global finance and production has something in common with the focus of early Marxist studies, and also informed the research agenda of many post-Marxist/critical IPE thinkers.

The second (albeit related) understanding is the importance of ideas and the ability to exert ideational (or ideological) hegemony. Here I suggest that conceptions of Chinese “soft power” built on “the appeal of China as an economic model” (Kurlantzick 2006: 5) overstate the ability of China to project and promote an alternative economic model.

And this is without even thinking about the ability to project more overt alternative

---

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

“political” models and ideas. In short, the paper suggests that China has clear importance and significance and is increasingly so. China is also increasingly powerful in the region able to exert its influence to attain its objectives – but perhaps not as much as some would suggest. But whether this equates to leadership is another question altogether.

### **Caveat – Which Region**

Before moving on to the main part of this paper, it is first important to think what this region actually is that China may or may not come to lead. Regions are naturally occurring phenomenon, but are instead socially and/or politically constructed. Where there are formal regional organisations, we know who the members are and where the limits of *that* region lie, but there is nothing natural about them and they can and do change. For example, ASEAN now contains (former) communist party states that the organisation was once pretty much designed to resist in the 1960s and 70s. It becomes even more difficult to identify a region when it comes to parts of the world that are not compartmentalised into formal regional organisations.

The focus in this paper and this panel is on China as an “Asian” power. This generates considerable definitional problems. For the time being, this paper uses a definition of Asia as ASEAN plus Three (including the individual ASEAN member states as well as ASEAN as an organisation. This understanding of course leaves out Taiwan, which is exactly what the Chinese government wants, Australasia, and the Indian sub-continent. With the exception of Taiwan, this broader definition of Asia is manifest both in membership of APEC, and participation in the inaugural East Asia Summit meeting in Kuala Lumpur in December 2005 (though of the “South Asian” nations,

only India attended). The extent to which there remains a contested understanding of region and its implications for Chinese leadership is an issue we will return to towards the end of the paper.

This definition of Asia also ignores many of the states that actually share a border with China – Afghanistan, Mongolia and the states of the former Soviet Union. Indeed, through the Shanghai Cooperation Organisation, China’s regional relations with Russia and the Central Asian states of the former Soviet Union are in many ways more formalised and institutionalised than China’s Asian relations. For the purposes of this paper, we simply need to be aware that China’s regional future does not just lie in Asia; or put another way, China’s regional relations are not uniquely with Asia.

## **Objectives**

### **Great Power Aspirations and Domestic Politics**

If you study Chinese history, it is tempting to case analyses of contemporary affairs in historical light/comparison – and with some justification. It is, for example, almost impossible to think about the motivations of China’s foreign policy without referring back to what happened during the “century of humiliation”. The CCPs victory in 1949 was in part at least predicated on its nationalist appeal built around the struggle to defeat foreign imperialists, and the restoration of China to first independence and later its rightful place in the world. In post-Mao China, the abandonment of socialist goals has not seen the death of ideology but simply the shedding of Marxism. Nationalism remains hugely important as a tool of domestic legitimation in China, and being seen to be a key actor on the world stage helps promote the party’s position as leading China back to its rightful place in the world in the face of hostile opposition from the

West. It's important not to exaggerate this too far, but events like China-ASEAN summit in Nanning and the Africa Summit in Beijing within a week of each other in October-November 2006 all help as symbols of China's emerging role and responsibilities.

### **Identifying Enemies and Rebuilding Triangles**

The title of this paper rather presupposes that China actually wants to attain leadership – and this is probably a fair assessment. In the short run, however, while leadership remains rather elusive, the first goal is effectively to neutralise potential challenges – challenges to regional leadership, and (perceived) challenges to China's development. Cheng (2004) and Hund (2003: 402) explain this turn towards South East Asia change in terms of pragmatic and practical national interest in the realist tradition. It is part of China's longstanding attempt to build a counterweight to US hegemony in the global political economy – to create a new pole, or at least to provide a bulwark against the power of the others. If China can't yet take leadership, it might at least prevent the US and Japan (individually or in partnership) exercising hegemony and threatening China's future. The policy, then, is to neutralise East Asia as a potential ally of US and in extreme understandings, a potential opponent of PRC (both the individual states and also ASEAN as a whole). Beyond such neutralisation, the next stage is to build – perhaps lead - a counter-hegemonic alliance against US unipolar hegemony. In this respect, Asia might occupy the third point of a strategic triangle that has been missing a pole since the collapse of the Soviet Union.

Regional policy is also partly designed to neutralise Taiwan's attempts to build partnerships in SEAsia that might strengthen its claims to statehood or see it acting

more and more like a state in international relations. In 1994, Lee Teng-hui's "vacation diplomacy" saw him and/or his ministers being met by top level government officials in Malaysia and Singapore (in January) and Indonesia and Thailand (in February). Enforcing China's insistence not just on a one china policy but against anything that even smacks of a two china reality is part of the objective of engaging Asia

### **Rethinking Security**

In addition to this neutralising strategy, there is also an attempt to defend China's national security through a new regional strategy. Security here is partly defined in traditional terms – the prevention of conflict in the future through confidence building and so on. Perhaps more important, China and ASEAN (nations and the organisation) have a shared interest in dealing with marine piracy and transnational crime. The SARS outbreak also illuminated the importance of information sharing and policy coordination to prevent new threats to human if not national security.

Perhaps most important of all, Chinese understandings of what economic security is (and how it should be attained) changed in the late 1990s. In many respects these economic security concerns have led the Chinese leadership to look to engage the region - and economic security has also pushed many regional elites into rethinking their own relationships with China.

### **Strategies**

#### **Foreign Direct Investment**

One area that is not much discussed in China's regional strategy is outward investment from the PRC to the region.<sup>2</sup> While the majority of the literature on China and investment in the region focuses on China as the recipient of foreign capital, Chinese outward investment is also becoming more significant. To be sure it is relatively small on a global scale accounting for only 0.55 per cent of global FDI in 2005. It also remains dwarfed by the amount of investment that goes into China. But it is growing every year – nearly doubling in 2004 to reach US\$5.5 billion<sup>3</sup> - making China the fifth biggest source of investment in Asia after Japan, Hong Kong, Taiwan and Singapore.

Exactly how much money is going from China to the region is open to question. For example, UNCTAD's figures for gross Chinese outward investment exceed those produced by the Chinese government by a factor of eight (Wu *et al* 2002: 117).<sup>4</sup> The discrepancy is perhaps partly explained by Chinese companies operating outside China (mainly in Hong Kong) investing overseas, and thus not appearing in the PRC figure. It might also be explained by the huge amounts of money that leave China illicitly each year. Quite simply, we don't know the full extent of this capital flight, but Gunter's (2004: 74) estimate of US\$923 billion from 1984-2004 (and half of the total from 1999-2004) is based on a sound methodology.<sup>5</sup>

---

<sup>2</sup> In addition to the work cited below, see Frost, Hewison and Pandita (2001) Wu and Chen (2001), and Wong and Chan (2003).

<sup>3</sup> Compared to inward investment of US\$60.63 billion US dollars, a 13 percent increase on 2003.

<sup>4</sup> As Frost (2004, p. 10) points out, nor does it help when a single Chinese source seems to indicate that investment from Yunnan Province is actually higher than investment from all of China in Thailand!

<sup>5</sup> Yang and Tyers (1999, p. 5) suggest that despite the massive amount of FDI into China, there was actually a net outflow of capital from 1996-98 in the region of US\$30 billion.

Frost (2004) has done more than most to make sense of these conflicting statistics,<sup>6</sup> so bearing in mind the constraints of statistical uncertainty, what general trends can we observe?<sup>7</sup> Over half of Chinese outward investment goes to Asia, with Hong Kong by far the leading destination, followed by Thailand or Singapore (depending on which set of statistics are used), Malaysia, and Indonesia. Investment in the Philippines, Vietnam, Cambodia and Laos remains relatively low in both the number and value of projects, but in the last three cases is on the rise. Official statistics from both sides suggest that Chinese investment in Burma is insignificant. However, primary research by Oo uncovered significant Chinese economic interests in Burma,<sup>8</sup> particularly but not only in real estate in the 1990s that did not appear to be showing up in official data. China has also been a key supplier of both finances and arms to the Burmese army. As such, China's economic interests in, and impact on, Burma are probably much more significant than both the official words of the Chinese and Burmese governments suggest.

Notably, those contacts that are recorded with Burma show the importance of sub-national governments as actors in China's international economic relations. The desire to redress uneven development within China has provided an impulse to create new transnational economic relations across China's west and Southwestern borders as part of the central governments 'Look West' strategy. However, whilst the government in Beijing sanctions and facilitates this policy, the provincial government of Yunnan Province has been a key actor in establishing trade and investment links with Burma.

---

<sup>6</sup> Including Frost's web resource, Asian Labour News on <http://www.asianlabour.org/> where he archives relevant news stories.

<sup>7</sup> This section also draws on Ping Deng (2004), research conducted by the Singapore Ministry of Trade (Wu *et al* 2002), and various news briefs from the official People's Daily.

<sup>8</sup> Koko Oo sadly died before the completion of his PhD on China's impact on Burma's development.



It has also played a key role in the much greater economic interests that China is building in the Greater Mekong Sub Region, with a particularly notable agglomeration of Yunnanese investment in Chiang Rai in Thailand (Frost 2004).

At the risk of oversimplification, we can identify four main types of overseas Chinese investment in the region. First, investment in Singapore in particular is largely based on attempts to buy into those higher levels of the production process that China currently lacks – particularly in business services. Second, since the late 1990s, investment in manufacturing capacity increased, particularly in Thailand and Cambodia, primarily in labour intensive and low value added projects. Third, investment in infrastructure projects has been an important part of supporting other priorities in the region – for example, by creating a land-link between Yunnan and Thailand through investments in Laos (Storey 2004, p.4).

Fourth, and perhaps in the long term most significant, China's investment policy (not just in the region) is in large part driven by resource requirements. There has been considerable international attention on the implications of increased Chinese demand for oil in particular. Returning to the discussion of the security agenda at the beginning of this chapter, it is not just that this could increase prices and distort distribution flows, but that there could be crucial political consequences. Bad case scenarios see China increasing its influence and ultimately control over the South China Sea, and providing political and economic succour to dangerous authoritarian

states. Worst-case scenarios point to the real danger of China's involvement in resource based wars.<sup>9</sup>

The politics of oil already play a role in Chinese investment in the region, and are likely to play a more significant role in the future. Quite apart from importing oil from Indonesia, if oil from the Middle East is not to go through US dominated sea-lanes, then they will have to go through Southeast Asia. Chinese policy makers have considered applying to build a canal in Thailand (to ensure that oil tankers do not have to pass through US dominated sea lanes), but seem to favour an alternative that entails building a pipeline through Burma to Kunming in Yunnan Province (Lee 2005: 286).

But there is much more to China's resource demands than just oil. According to official Chinese sources, a third of all Chinese investment (not just in the region) is in extraction industries – and even higher when refining is added. Indonesia has already become a key site of China's resource based investment in oil, gas and coal based electricity generation (*China Daily* 30 July 2005), with Vietnam, Laos and the Philippines actively touting for Chinese investment in extraction and energy industries.

We should not be carried away. With the exception of Vietnam, China is still relatively low on the list of each countries table of leading investors, and Chinese investment remains relatively minor. Nevertheless, in part at least because of China's position in global production networks, 'China's voracious appetite' for resources suggests that outward investment in the region will become ever more significant – and hopefully ever more transparent and calculable in the future.

---

<sup>9</sup> For a good accessible overview of the possible implications of China's demand for resources in general, see Zweig and Bi (2005). For the specific implications of China's oil diplomacy, see Lee (2005).

## **Engagement with regional organisations**

One of the most important changes in Chinese strategy to meet these objectives is through engagement with ASEAN. Until fairly recently, ASEAN was seen as a problem for China – if not a potential threat to China, an organisation that was not sympathetic to Chinese goals, and an organisation that was inclined towards Washington and US economic and strategic interests.

The change in fundamental conceptions of ASEAN as no longer seen necessarily a danger to China or necessarily an offshoot of US foreign policy represents a crucial sea change in not only Chinese thinking but also Chinese policy (there are some similarities here with how changing conceptions of the west as a single bloc after the Geneva conference changed China's international relations in the 1950s and 60s – an interesting comparison but one that there is not time to go into here. For Shambaugh (2004/5: 67-8) this conception began to change in the wake of Tiananmen in 1989. With the exception of Japan, there was a marked lack of condemnation from East Asian states to the Tiananmen killings. Rather than acting as a regional branch of US foreign policy, ASEAN as an organisation and individual ASEAN state leaders instead decided to engage China at a time when international isolation was a real possibility.

I think Shambaugh's point is well made. However, in many respects an even more important turning point was the 1997 financial crises. Harris (2001) argues there has been a key change in conceptions of security, with the 1998 White Paper on Defence marking a key turning point by redefining placing a much greater emphasis on the need for 'economic security'. The East Asian financial crisis of 1997 brought home

the blunt reality that China's economic fortunes were inextricably linked with what happens elsewhere (Fewsmith 1999, Zha Daojiong 1999, Wang Zhengyi 2004) For a set of Chinese thinkers, realist conceptions of IR were found wanting in understanding the impact of globalisation, forcing a rethink of the relationship between political and economic dynamics, and the relationship between the domestic and the international (Fang Li 2000). Perhaps most of all, it entailed a rethink of China's relations with the rest of the region – both bilateral relations with individual states, and with the region as a whole. Working together to head off potential crises at a regional level is increasingly seen as being in China's own self-interest (Fewsmith 1999, Zha Daojiong 1999) – especially if such regional cooperation can mitigate the need to rely on the US dominated global financial institutions in times of crisis.

Not having to rely on the US dominated IFIs also did much to increase the attraction of working with China in South East Asia. At a time when there was considerable discontent in the region against the terms of bailout conditions from the US dominated international financial institutions, and a feeling that this was in someway 'pay-back time' for Asia's previous economic success (Higgott, 1998), there was ample space for a Chinese 'charm offensive' in Southeast Asia (Lautard 1999). The prospect of having China's massive foreign currency reserves as a bulwark against any future financial instability was also very attractive. Moreover, China's willingness to participate in the Chiang Mai initiative (which allows signatory states to borrow US dollars from other members' reserves to buy their own currency in the event of 1997 style speculative attacks) represents a form of Chinese "monetary diplomacy" that has helped cement the idea that China has become a responsible state worth working with and engaging.

Such monetary diplomacy is not purely philanthropic. In the wake of the financial crises, Chinese exports in key areas dipped as the crisis economies currencies made their exports much more competitive in key third markets such as the US and Europe (and also, despite its own economic difficulties, Japan). Indeed, the whole turn towards Asia and Asian regionalism was in large part inspired by the secondary impact of the crises on the Chinese economy. Somewhat ironically, Makin (1997) and Bergsten (1997) both argue that it China's own competitive devaluation in 1994 was the starting point for economic problems in many regional states that resulted in the financial crises. Devaluation made exporting from China so attractive that labour intensive production moved to China resulting in the ASEAN states losing out in the key US and Japanese export markets (Holst and Weiss 2004: 1256).<sup>10</sup> Even if China did not cause the crisis on its own, but the actions of Chinese elites certainly created a changed economic environment that other regional states had to (and perhaps failed to) respond to.

In 1997, there were real fears in Asia and elsewhere that China might respond to the reduction in its comparative exchange rate advantage by devaluing again, which would plunge the rest of the region into a further spiral of financial chaos. Simply not devaluing won considerable (and in many respects excessive) praise and helped promote the idea that China was a responsible economic actor. Snitwongse (2003: 38) also notes that

---

<sup>10</sup> This is a contested analysis with Fernald, Edison and Loungani (1998: 2-3) and Wu et al (2002) finding no statistical evidence to support the case. But focussing on the region as a whole or even individual countries might be misguided. The Japan External Trade Organisation has disaggregated overall figures and analysed individual products. And these figures show that on a good by good basis, the rise in exports from China to the US and Japan of each commodity corresponds with a decline in exports of the same goods to the same markets from Malaysia, Thailand, Indonesia and the Philippines prior to 1997 (Hughes 1999).

When it set up a bail-out fund and came to the assistance of the countries, such as Thailand, that were most affected by the 1997 economic crisis, China garnered the lion's share of appreciation from those countries—despite the fact that Japan provided them with significantly more money.

So in addition to serving Chinese national interests by preventing further downward spirals, the lessons of 1997 were that there was a real opportunity to neutralise the region as a potential ally of the US hegemon – and perhaps in the long term, it might become part of an emerging alternative pole defending or even promoting a different set of values under Chinese leadership (Hund 2003, Cheng 2004). Furthermore, Chinese engagement could act to neutralise the potential of Japanese regional leadership (Desker 2004: 13).

So Chinese 'monetary diplomacy' in the 1990s was also well received, further cementing the idea that engaging the region could well work to China's advantage – not just economically, but in classic realist conceptions of power balancing and the national interest. This has been followed by further attempts to engage the region. For example, China signed a 'Declaration on the Conduct of Parties in the South China Sea' in 2002,<sup>11</sup> and joined the ASEAN Treaty of Amity and Co-operation in Southeast Asia in 2003. Notable by its omission in these discussions was a discussion about Taiwan, and some regional states previous attempts to have as close a relationship with Taipei as possible short of formal diplomatic recognition. China is also a proactive participant in the ASEAN plus Three meetings in addition to its own ASEAN plus one summits such as the one held in Nanning in October. More

---

<sup>11</sup> China had previously agreed in principle to only bilateral codes of conduct.

practically, China has gone further than Japan and South Korea in actual economic engagement by signing up to the creation of the ASEAN-China Free Trade Area (ACFTA). First proposed at the Manila summit in 1999, the ACFTA initiative took on a new impetus with the signing of the Framework Agreement on ASEAN-China Comprehensive Economic Cooperation at the Eighth ASEAN Summit Meeting in Cambodia in 2002. ACFTA is conceived as a dual speed process, with initial common tariff reduction to be completed by 2006, and a full free trade area in place by 2013.

### **A Diplomatic “Charm Offensive”**

To some extent, ACFTA also forms part of China’s “charm offensive” in the region. As we shall see later, there has been considerable concern that China’s economic rise has been or will be at the expense of other Asian economies. While the investment-trade nexus in Asia is not a zero-sum game, China clearly is competing with other export-oriented states for foreign investment, and competed with the same states for access to the key lucrative markets of the US, Japan and the EU. This process has led the New York Times to argue that:

“China is grabbing much of the new foreign investment in Asia, leaving its once-glistening neighbors – Thailand, South Korea, Singapore – with crumbs... Some Asian officials say they fear that Southeast Asia will be relegated to the role of supplier of food and raw materials to China in exchange for cheap manufactured goods” (New York Times, 2002)<sup>12</sup>

With China’s entry into the WTO, this impact is expected to grow as investment is diverted from South East Asia to China. (Braunstein and Epstein 2002) Forecasts from the World Bank suggest that the closer a state’s export profile to that of China,

---

<sup>12</sup> Cited in Wu *et al* (2002: 96).

the more that state is expected to lose, with workers in the textile and apparel sectors in the region predicted to lose most, and the Philippines and Indonesia most under threat. The challenge is most severe in the Philippines and Indonesia. To compound the problem, the jobs under threat in the Philippines are overwhelmingly in low skill sectors, where the new opportunities offered by China's rise require skilled workers, making an easy transition from one type of employed activity to another highly unlikely (Ianchovichina, Sethaput and Min 2004: 71). Felker (2003: 280) notes that the reduction in investment to ASEAN nations between 1996 and 2001 is almost all explained by what happened in Indonesia. Clearly, domestic issues in Indonesia did much to reduce its attractiveness for investors, but the concomitant attraction of China also played its part. Nearly a quarter of Indonesian exports are 'at risk' from Chinese competition (Ianchovichina, Sethaput and Min 2004: 69), and again the transition to competing with China to occupying a different level of the value chain seems unlikely. Throughout Asia, the conception of China as a super-competitor has informed not only media debates, but also official policy. Lee Kwan Yew has famously described the economic relationship between Singapore and China as an "elephant on one side and a mouse on the other", arguing that China is no longer interesting in promoting its regional ambitions through military means, but rather "The emphasis is on expanding their influence through the economy". Malaysia's Mahathir Mohamad has aired his concern that "There's not much capital going around. Whatever there is gets sucked in by China" (Chandler 2003) with claims that 16,000 jobs were lost in Penang alone in 2002 as major hi-tech producers move capacity to China (Eckholm with Kahn (2002).

Chinese negotiators would not have signed the ACFTA if they did not think it would benefit China. But signing also helps promote Beijing's desired message to the region



that there is nothing to fear from China. On the contrary, because China is a responsible economic partner, as witnessed by the ACFTA, China's economic progress represents a "win-win" for both China and Asia, and that Asia's economic future is rosy precisely because of the rest of the regions economic relationship with China.

This message has been more overtly articulated in the 'Peaceful Rise of China' hypothesis first aired by Zheng Bijian at the 2003 Bo'ao Forum for Asia provides the theoretical justification of the continued charm offensive. China has shown that it is not only a force for peace and stability in the region, but the region as a whole can also benefit from the economic spillovers of Chinese growth. Far from being the threat to regional economic stability that some argued China's rise had already become in 1997, China's rise is the guarantee of regional economic stability and development:

China's Peaceful Rise will further open its economy so that its population can serve as a growing market for the rest of the world, thus providing increased opportunities for - rather than posing a threat to – the international community (Zheng Bijian 2005: 24)

China's peaceful rise will benefit the world, but the rest of the region will benefit most (Ahn 2004). In addition, China's leaders have been keen to stress that they have no intention of imposing hegemony over, and as Wen Jiabao put it in Nanning in October, "China consistently supports ASEAN's leading role in regional affairs and regional cooperation".

Of course, not everybody in the region believes this. And it is somewhat ironic, though, that while the ‘peaceful rise’ of China hypothesis might originally have been designed to assuage concern over China’s emerging regional and global roles, for some people at least, it has refocused attention on the inevitability of China’s jueqi 崛起, rather than the heping 和平 half of the slogan (and as a result, rise is increasingly being replaced by development 和平发展). Indeed, perhaps the most important reason that regional elites seem to be happy to engage China is because they are practical and pragmatic and realise that they have little option but to make the most of the reality of new regional dynamics.

### **Empowering China from Without?**

In this respect, whether China has power or not is irrelevant - if people who have power think that China is powerful now or will gain greater power soon and adjust policies accordingly, China is effectively “empowered”. In the process, the preferences and objectives of China’s elites gain greater significance in policy making processes – both at the national and regional level.

The Bo’ao Forum for Asia provides an example of sorts here.<sup>13</sup> The forum was initially conceived of as a mechanism for government and non-state actors to come together in dialogue to discuss issues of common regional interest (note here that the region is the broad inclusive Asia). It is typically written off as being nothing but a talking shop that achieves nothing – for some in China, an organisation created that

---

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

has persisted partly to give Long Yongtu had something to do after the criticism of his negotiating skills in framing China's WTO entry criteria.

Returning to the idea at the beginning of this paper that regions are constructed, then talking shops shouldn't just be dismissed as purely irrelevant. Ideas and ideational transfer does not take place in a void – “talking shops” are actually important mechanisms through which ideas are transferred. Perhaps more importantly for this paper, Bo'ao has changed and become something of a sino-centric organisation. This sinocentricism takes two forms. First, China's leaders have increasingly used the forum to announce and/or elucidate on new policy initiatives and objectives – most clearly the Peaceful Rise of China hypothesis discussed above. Second, it seems that the primary reason that many participants making their way to Hainan every year is because they are interested in and/or concerned by the growth of China – and how they can make the most of this rise. As a result, they are not only happy for China's agendas to dominate, but they are actually there to find out what the Chinese are thinking and wanting. In the past, Japan's regional role has been characterised as “leading from behind”.<sup>14</sup> In contrast, it seems that other regional actors are actually forcing Chinese leadership to the fore by making their choices and framing their policies with Chinese preferences in mind.

### **China's “Market Power”**

As already noted, there has been considerable concern in the region that China's rise has had a detrimental impact on other regional economies. But there is also a pragmatic recognition that China is a reality that has to be dealt with, so it may as well

---

<sup>14</sup> For example, Rix (1993) and Blechinger and Legewie (2000).

be dealt with in a manner that benefits the region. I am not convinced by all that Ramo (2004) says in *The Beijing Consensus*, but his argument that China's leaders don't really need to try to persuade is itself persuasive. In short, China's sheer size and rapid growth simply means that others have no choice but to fall in line with their policy preferences. Heartfield (2005: 197) similarly uses a 'self-interested' argument suggesting that China's rise has been 'widely welcomed' because it has at least taken the sting out of the regional impact of recession in Japan. Shambaugh (2004/5: 76) adds a little liberal theory to this pragmatism by claiming that the best that way of dealing with China 'is to entangle the dragon in as many ways as possible'. As Wu et al (2002: 1) put it

China still looms very large over Asia, and is a global economic force to be reckoned with. ASEAN will have to engage China both as a competitor and a partner – an intricate relationship that has to be managed prudently

In developing his conception of the "new constitutionalism" Gill (1998) argues that the US government uses the structural power of the size of its market to force change on other countries while not reciprocating with corresponding liberalisation of the US economy in order to benefit US based economic interests. There is not a clear and direct comparison with China here, but the extension of the concept of "market power" to China is not only interesting, but largely underpins the above mentioned promotion of a "win-win" future for China and Asia.

Now it is certainly true that many producers in the region do see China as a market opportunity. However, for many, it is not the Chinese market that is driving new regional patterns of trade and investment, but those external markets that production

in China is often dependent on. China itself is not the source of the pull alone, but the conduit through which the market power of other external economies is transmitted in the region. Put another way, both external sources of investment and also external demand drive intraregional economic relations.

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

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

industries. China is typically now the third biggest export market for regional states after the US and Japan<sup>15</sup> - and in Malaysian case, exports to China have now exceeded exports to both Japan and the whole of industrial Europe.

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

Second, it suggests that at least some of the "power" that is often credited to China actually lies elsewhere. With foreign investment producing more than half of all Chinese exports, a considerable proportion of the power over production in China and how it is financed lies elsewhere. Crucially, the significance of Japan as a funder of production in China and elsewhere is brought back into focus. As the world focuses on the emergence of China as the workhouse of the world, the importance of investment from Japan (as well as elsewhere) is often overlooked. Japan is a key direct investor into Chinese production, and as I have argued elsewhere, even more important when indirect investment is taken into account (the same is true of investment from the US). For example, Cheung and Wong (2000) argue that Japanese

---

<sup>15</sup> Including re-exports to Hong Kong and then into China.

investment is massively underestimated because of the practice of investing in China via regional offices. Although sorting through the statistics is an inexact science, Matsuzaki has estimated that about 80 per cent of Japanese FDI in Hong Kong is subsequently reinvested in Guangdong, appearing first as Japanese investment into Hong Kong, and subsequently as a Hong Kong investment into China.<sup>16</sup> As Takashi, Hirofumi and Ruffer argue (2002: 3), 'Japanese exports to East Asia 'cause' significant inter-regional trade. In short, in terms of the structural power identified by Susan Strange in the introduction, there is considerably more power in Japan than a focus on the huge growth of production in China might make us believe.

### **Tentative Conclusions: Obstacles and Futures**

Of course there is more to the Chinese economy than just producing exports and it is already an important market in its own right. Nevertheless, I suggest that perhaps a key long term determinant of Chinese market power and Chinese regional leadership will be the extent to which the domestic economy grows to provide an ever bigger gravitational pull on the region in the future.

On a related issue, Nolan (2003) has argued that one of the remarkable features of China's rapid development is the lack of major international corporations with a global economic reach that have the same structural power that Japanese companies developed in the 1960s, and South Korean chaebols in some ways emulated in the 1980s (and of course, which have long been a feature of the major economies in the US and Europe). The global activities of Sinopec and other energy related companies are generating significant attention (and concern), and the purchase of IBM by

---

<sup>16</sup> Cited in Sasuga (2004).

Lenovo has promoted the profile of at least one Chinese company. But the overwhelming majority of goods that are bought in Europe and the US carry brand names of companies from Europe and the US and other parts of Asia, financed by outsiders and produced at the behest of outsiders (or cheap low cost and low quality goods). But its interesting to think how many Chinese brand names can people in Europe and the US actually think of. The Chinese government and Chinese companies are investing millions in R&D and innovation, and there is an apparently endless stream of Chinese delegations that are going overseas to buy technology, know-how and brands. So it must be highly likely that an indigenous Chinese economy will emerge in the future based on high skills that does have the ability to project itself (and perhaps even to project ideas) – but it is not there yet and there is nowhere near the power over regional (let alone global) production in China at the moment than there is in Japan. In short, producing cheaply may have altered the structure of the regional economy, but this does not equate to power and leadership, and China needs to move on and trade up. When China is the source of significant investment in the rest of the region and shaping production processes through means other than competitive production at the bottom end, then China really will be in a position to enhance its power and leadership.

So the focus on China perhaps underestimates the residual significance of Japan as both a regional actor and a determinant of future developments in regional institutions and organisations (Stubbs 2002, Hennock 2001). And it is unlikely (to say the least) that Japan will happily allow China to assume regional leadership unchallenged. It is also rather doubtful that major extra-regional actors such as the US will do nothing. And here we return to the issue of conflicting and/or competing visions of Asia



identified at the start of the paper and the establishment of the East Asian Summit (EAS). Unlike APEC, Russia, the US and the other states from the American continent are absent. But the inclusion of India, Australia and New Zealand means that ASEAN+3 is not the only regional game in town. It is not just that not everybody shares China's preference for an exclusive 'Asian Asia' region where troublesome concepts like democracy and human rights don't get in the way of economic cooperation. It is also that other regional states (notably, but not only Japan) specifically want to stop China from achieving its regional objectives, and the "big" region of the EAS is seen as an effective means of neutralising Chinese power. EAS might well turn out to be not much more than a talking shop exactly because of its size and diversity and because of its geostrategic role in preventing Chinese hegemony. Nevertheless, it shows that different reasons for promotion conflicting conceptions of region are alive and well and remain a key determinant of whether not only a working regional organisation can ever be constructed, but of how China's influence on the region might be constrained.

So clearly we are in a time of flux, and clearly what happens in China is becoming ever more significant. China is also increasing its power – though I think this power is often overstated, and Japanese power and the ability to shape the nature of regional relations remains often understated in many analyses of the region and its future. Nor am I convinced that "soft power" is as important as people like Kurlantzick (2006) suggests. As one Chinese scholar has argued, the Chinese political system is "a problem" rather than an attraction, and elites in the region are drawn to China first from necessity and second because of the way in which the global political economy is organised than through a desire to emulate the Chinese model. Important? Yes.

Powerful? Perhaps not as much as many suggest. Leading? Not yet and not for some time. But the world is not static and if China can trade up through investment in innovation and skills, then we will sit down and think this through again.

## References

- Ahn Byung-Joon (2004) 'The Rise of China and the Future of East Asian Integration', *Asia Pacific Review*, 11 (2): 18 – 35.
- Babbin, J. and Timperlake, E. (2006) *Showdown: Why China Wants War with the United States* (Washington: Regnery).
- Bacani, C. (2003) *The China Investor: Getting Rich with the Next Superpower* (Indianapolis: John Wiley).
- Bergsten, C. (1997) 'The Asian Monetary Crisis: Proposed Remedies' prepared remarks to the U.S. House of Representatives Committee on Banking and Financial Services, November 13<sup>th</sup>, available at [www.iie.com/publications/papers/paper.cfm?ResearchID=297](http://www.iie.com/publications/papers/paper.cfm?ResearchID=297)
- Bernstein, R. and Munro, R. (1998) *The Coming Conflict with China* (New York: Vintage).
- Blechingner, V. and Legewie, J. (eds) (2000) *Facing Asia: Japan's Role in the Political and Economic Dynamism of Regional Cooperation* (Munich: Iudicium).
- Braunstein, E. and Epstein, G. (2002) 'Bargaining Power and Foreign Direct Investment in China: Can 1.3 Billion Consumers Tame the Multinationals?', New School University Center for Economic Policy Analysis Working Paper No. 2002-13.
- Chandler, C. (2003) 'Coping With China: As China Becomes the Workshop of the World, Where Does That Leave the Rest of Asia?', *Fortune*, 16<sup>th</sup> January.
- Cheng, J. (2004) 'The ASEAN-China Free Trade Area: Genesis and Implications' *Australian Journal of International Affairs*, 58 (2): 257–277.
- Cheung Chiwai and Wong Kwan-Yiu (2000) 'Japanese Investment in China: A Global Perspective', in Si-Ming Li and Wing-Shing Tang (eds) *China's Regions, Polity, & Economy: A Study of Spatial Transformation in the Post-Reform Era* (Hong Kong: Hong Kong University Press): 97-132.
- China Daily (2005) "Sino-Indonesian Deals Inked" *China Daily*, 30<sup>th</sup> July.
- Desker, B. (2004) 'In Defence of FTAs: From Purity to Pragmatism in East Asia', *The Pacific Review*, 17 (1): 3-26.

- Eckholm, E. with Kahn, J. (2002) 'Asia Worries About Growth of China's Economic Power'. *New York Times*, 24<sup>th</sup> November.
- Fang Li (2000) 'Yao Zhengshi Yanjiu Shijie Jingji Quanchihua taojian xia guoji zhengzhi jingji guanxi de xin tedian (Pay Attention to the New Characteristics of International Political Economy Relations in Researching World Economic Globalisation)', *Dangdai Shijie (Contemporary World)*, (2): 7-10.
- Felker, G. (2003) 'Southeast Asian industrialisation and the changing global production system', *Third World Quarterly*, 24 (2): 255-282.
- Fernald, J., Edison, H. and Loungani, P. (1998) 'Was China the First Domino? Assessing Links between China and the Rest of Emerging Asia', Board of Governors of the Federal Reserve System International Finance Discussion Paper Number 604.
- Fewsmith, J. (1999) 'China in 1998: Tacking to Stay the Course', *Asian Survey*, 39 (1): 99-113.
- Frost, S. (2004) 'Chinese outward direct investment in Southeast Asia: How Big are the flows and what does it mean for the region' *The Pacific Review*, 17 (3): 323-340.
- Frost, S., Hewison, K. and Pandita, S. 'The Implications for Labour of China's Direct Investment in Cambodia', *Asian Perspectives*, 26 (4): 201-26.
- Gertz, W. (2002) *The China Threat: How the People's Republic Targets America* (Washington: Regnery).
- Gill, S. (1998) 'New Constitutionalism, Democratisation and Global Political Economy', *Pacifica Review*, 10 (1): 23-38.
- Gunter, F. (2004) 'Capital flight from China: 1984-2001', *China Economic Review*, 15 (1): 63-85.
- Harris, S. (2001) 'China and the Pursuit of State Interests in a Globalising World', *Pacifica Review*, 13 (1): 15-29.
- Heartfield, James, 'China's Comprador Capitalism Is Coming Home', *Review of Radical Political Economics*, vol. 37, no. 2, 2005, pp. 196-214.
- Hennock, M. (2001) 'East Asian Pact Trades Up' *BBC News On-Line*, 7<sup>th</sup> November, [news.bbc.co.uk/1/hi/business/1641613.stm](http://news.bbc.co.uk/1/hi/business/1641613.stm)
- Higgott, R. (1998) 'The Asian Economic Crisis: A Study in the Politics of Resentment', *New Political Economy*, 3 (3): 333-356.
- Holst, D. and Weiss, J. (2004) 'ASEAN and China: Export Rivals or Partners in Regional Growth?', *The World Economy*, 27 (8): 1255-1274

- Hughes, C. (1999) 'Japanese Policy and the East Asian Currency Crisis: Abject Defeat or Quiet Victory?', University of Warwick, Centre for the Study of Globalisation and Regionalisation Working Paper No. 24.
- Hund, M. (2003) 'ASEAN Plus Three: Towards a New Age of Pan-East Asian Regionalism? A Skeptic's Appraisal', *The Pacific Review*, 16 (3): 383–417.
- Ianchovichina, E., Sethapat, S-N, and Min Zhao (2004) 'Regional Impact of China's WTO Accession', in Kathie Krumm and Homi Kharas (eds) *East Asia Integrates: A Trade Policy Agenda for Shared Growth* (Washington: World Bank): 57-78.
- Kurlantzick, J. (2006) 'China's Charm: Implications of Chinese Soft Power', Carnegie Endowment Policy Brief No 47, June.
- Lautard, S. (1999) 'State, Party, and Market: Chinese Politics and the Asian Crisis', *International Political Science Review*, 20 (3): 285–306.
- Lee, P. (2005) 'China's quest for oil security: oil (wars) in the pipeline?', *The Pacific Review*, 18 (2): 265–301.
- Makin, J (1997) 'Two New Paradigms', *Economic Outlook*, 1<sup>st</sup> October.
- Menges, C. (2005) *China: The Gathering Threat* (Nashville: Thomas Nelson).
- Mosher, S. (2000) *Hegemon: China's Plan to Dominate Asia and the World* (New York: Encounter).
- Murray, G. (1998) *China: The Next Superpower: Dilemmas in Change and Continuity* (Basingstoke: Palgrave-Macmillan).
- New York Times (2002) 'Economic Juggernaut: China is Passing US as Asian Power', *New York Times*, 29<sup>th</sup> June.
- Nolan, P. (2003) *China at the Crossroads* (Oxford: Polity Press).
- Overholt, W. (1994) *The Rise of China: How Economic Reform is Creating a New Superpower* (London: Norton).
- Ping Deng (2004) 'Outward investment by Chinese MNCs: Motivations and implications', *Business Horizons*, 47 (3): 8-16.
- Ramo, J. (2004) *The Beijing Consensus: Notes on the New Physics of Chinese Power* (London: Foreign Policy Centre).
- Rix, A. (1993), "Japan and the Region: Leading from Behind," in Richard Higgott, Richard Leaver, and John Ravenhill, eds., *Pacific Economic Relations in the 1990s: Cooperation or Conflict?* ( Boulder, Colo.: Lynn Rienner): 62-82.

- Sasuga, K. (2004) *Microregionalism and Governance in East Asia* (London: Routledge).
- Shambaugh, D. (2004/5) 'China Engages Asia: Reshaping the Regional Order', *International Security*, 29 (3): 64–99.
- Snitwongse, K. (2003) 'A New World Order in East Asia?', *Asia-Pacific Review*, 10 (2): 36-51.
- Storey, I. (2005) 'China and Vietnam's Tug of War Over Laos', *Jamestown Foundation China Brief*, 5 (13): 3-5.
- Stubbs, R. (2002) 'ASEAN Plus Three: Emerging East Asian Regionalism?', *Asian Survey*, 42 (3): 440-455.
- Takashi Isogai, Hirofumi Morishita and Rasmus Ruffer (2002) 'Analysis of Intra- and Inter-Regional Trade in East Asia: Comparative Advantage Structures and Dynamic Interdependency in Trade Flows', Bank of Japan International Department Working Paper No. 02-E-1.
- Thomas, G. (2001) *Seeds of Fire: China and the Story Behind the Attack on America* (Tempe: Dandelion).
- Timperlake, E. (1999) *Red Dragon Rising: Communist China's Military Threat to America* (Washington: Regnery).
- Wang Zhengyi (2004), 'Conceptualizing Economic Security and Governance: China Confronts Globalization', *The Pacific Review*, 17 (4): 523-4.
- Weidenbaum, M. and Hughes, S. (1996) *The Bamboo Network: How Expatriate Chinese Entrepreneurs Are Creating a New Economic Superpower in Asia*, (New York, Simon and Schuster).
- Wong, J. and Chan, S. (2003) 'China's Outward Direct Investment: Expanding Worldwide', *China: An International Journal*, 1 (2): 273-301.
- World Bank, 'Thailand Economic Monitor, May 2003' available at <http://www.worldbank.or.th/monitor/economic/2003may.shtml>
- Wu H-L., and Chen C-H., 'An Assessment of Outward Foreign Direct Investment from China's Transitional Economy', *Europe-Asia Studies*, 53 (8): 1235-1254.
- Wu, F., Poa Tiong Siaw, Yeo Han Sia and Puah Kok Keong (2002) 'Foreign Direct Investments to China and Southeast Asia: Has ASEAN Been Losing Out?' in *Economic Survey of Singapore*, (Third Quarter): 96-115.
- Yang Yongzheng and Tyers, Rod. (2000) 'Weathering the Asian Crisis: The Role of China', Australian National University Asia Pacific School of Economics and Management Working Paper No 00-1.

Zha Daojiong (1999) 'Chinese Considerations of "Economic Security"', *Journal of Chinese Political Science*, 5 (1): 69-87.

Zheng Bijian (2005) 'China's 'Peaceful Rise' to Great Power Status', *Foreign Affairs*, 84 (5): 18-24.

Zweig, D. and Bi Jianhai (2005) 'China's Global Hunt for Energy', *Foreign Affairs*, 85 (5): 25-38.