



**China in Asia Seminar Series**

**Seminar 6: “Competing Visions of Regional Economic Integration”**

**September 30, 2005**

**CORE GROUP SUMMARY**

The meeting opened with a China expert asking the group to discuss their thoughts on China’s vision of regional economic integration. His impression is that the Chinese portray ASEAN as taking the lead and claim that they are just following along.

An economist indicated his impression that the Chinese are proceeding with caution. Despite having launched the FTA with ASEAN and discussing FTAs with other countries, they see them as largely symbolic moves with little action. Up until 2001 the Chinese were focused on meeting their WTO requirements. However, the 1997-98 financial crisis did affect their thinking on integration. There are two things to keep in mind. The first is the potential spin-off or spin forward of China’s WTO obligations. In some sectors, they will be one of the most open countries in the world. The second is China’s political regime allows the government to put forward proposals without having to consult the affected sector. Japan and Korea do not have that kind of flexibility.

A political economist pointed out that the senior Chinese ambassador who negotiated the WTO agreement said openly that he was more or less told to propose the China-ASEAN FTA for political reasons.

To reiterate that point, an expert on Southeast Asia said that China can put proposals on the table knowing that Japan and others are not able to follow suit. In Southeast Asia, China has great incentive to build up the western part of China, particularly Yunnan province, and develop the Greater Mekong area. Many projects are already underway, including major road networks from Kunming to Bangkok and from Danang in Vietnam to Moulmein on the Burma coast. Yet soon China is likely to run into the same sorts of problems that ASEAN ran into with the ASEAN FTA. It will be interesting to see if China can be more successful than ASEAN itself has been.

One member questioned whether these projects were being financed by the Chinese. A Southeast Asia expert said that much of the money is coming from the Asian Development Bank, which is primarily funded by the Japanese. But the Chinese are paying for most of what is being built in China and Burma, although Thai companies are also in Burma building roads and hydropower stations.

According to a Southeast Asian member, these initiatives are also strongly backed by ASEAN. They want roads coming down from the north to facilitate intra-ASEAN trade and tourism.

One economist pointed out that with China we see a deliberate policy of structural integration, active commercial diplomacy, and some “early harvest” activity. But the strategic and political sides of the equation are less developed.

A China specialist weighed in, saying that although China has more freedom to act than Japan, it is not without its own difficulties. The WTO negotiations were difficult and the central government came under criticism for some compromises. There are local issues such as pollution, land takeovers, and corruption that are driving protests. The central government simply cannot make a top-down decision; there is greater provincial and city involvement in making policy.

Another China expert underscored that it can be difficult for policies to work their way through the system to the top Chinese leadership for a final decision. We should not overestimate the degree of central government control.

Another China specialist indicated that provincial authorities are actively involved because they are the ones on the ground with responsibility for implementing projects. Two other aspects are important to consider. The first is culture and language. The large number of ethnic Chinese in Southeast Asia provides a strong foundation for Chinese activities. The second is the growing capacity of the Chinese bureaucracy. Compared with ten years ago, China has devoted more resources to attracting bright and knowledgeable people into their diplomatic corps. In contrast, Southeast Asia is not high on Washington’s agenda.

A Japanese business participant reiterated that we should not overestimate Chinese political leadership over private actors. In the recent CNOOC bid for Unocal, it was his understanding that the Chinese government thought that CNOOC had overstepped its bounds and created an unwanted problem on the eve of Hu Jintao’s visit to the United States.

A China specialist suggested it might be better to think in terms of tactical coordination across the bureaucracy rather than a unified and carefully coordinated Chinese strategy. One pattern is for a leadership trip to serve as a tool for coordination across bureaucratic boundaries. For example, if the Chinese sign a major oil deal, they often also commit to having Chinese companies build bridges and roads to the oilfield using Chinese foreign aid or loans. Hu Jintao’s visit for the signing of the deal becomes a vehicle for tactical policy coordination.

A strategist questioned the applicability of this model of tactical coordination. Chinese policy toward Iran, for example, reflected broad Chinese strategic interests and high-level attention. The China specialist countered that the Chinese government can only handle so many high-priority issues at one time. He agreed that Chinese high-level attention is focused on Iran, but this degree of attention could not be applied to all countries at all times.

Challenging this assessment of China’s limits, a Southeast Asian participant saw China as having a clear regional strategy that integrated economic and strategic planning. Hu Jintao’s visits come after years of planning. The Chinese have been very good at overcoming historical bias by

talking about cooperation and socializing themselves into the ASEAN community. They used ASEAN to accustom the region to a Chinese presence, and then expanded their bilateral ties. The Chinese have a great vision for the region, but are happy to move on the specific issues and pace that makes ASEAN comfortable. The Chinese present the idea that they are there to talk about issues that matter to Southeast Asia and that they will stay for the long haul. This is a very different strategy from that of the United States. However, there are varying degrees of acceptance of China's role within ASEAN. Vietnam could be a potential counterplayer to China.

Another Southeast Asian member returned to China's strong cultural and historical linkages to the region. Previously in Malaysia, the Malays were cautious about the role of the ethnic Chinese, but now the government wants to tap the China market and is active in encouraging the local Chinese community to lead the way. Malaysia has developed a high level of comfort in dealing with China. The two countries have signed a bilateral Memorandum of Understanding covering defense cooperation, officer exchanges, joint exercises, and the possibility of joint procurement. There will always be nagging concerns in Southeast Asia about possible ambitions to create a sort of Chinese Monroe Doctrine. But except for Vietnam, the countries in Southeast Asia have not historically been dominated by China.

According to a Southeast Asian specialist, this leaves us with two competing frameworks connecting China and Southeast Asia. The first is purely economic, with a positive sum game for both parties. So far the evidence appears to support that view. The competing view is that China is using soft power to advance its regional hegemonic ambitions. China's current benign policy is laying the groundwork for a future strategic vision that is not publicly expressed. There is little direct evidence for this view because it depends on what happens in the future. A defense expert added that U.S. military planners are inclined to accept the second view and to see China's military buildup as important evidence.

After a discussion of the lack of regional leadership in Southeast Asia, one expert on Southeast Asia said that the strategic challenge is not about leadership, but about power. How much influence will countries have in organizing the region and determining the rule of the road? The U.S. is wasting time speculating about Chinese plans. China will continue expanding its power until it meets something that imposes costs. China has commercial, economic and political ambitions. But Chinese policy is not just driven by Beijing, but also by provincial and local officials with different interests. The U.S. is not sufficiently focused on this challenge.

Two economists suggested that efforts to frustrate China's economic ambitions would make the second scenario more likely. By treating China as an enemy, it will become an enemy.

The session ended with a labor expert pointing out the need to keep U.S. and international pressure on China to meet its WTO obligations. China's authoritarian system may make it easier for China to negotiate FTAs; a no-strings-attached FTA with China may be attractive for small countries. But China's main partners need to raise issues of democracy and human rights. We don't want a global community that rewards the worst players rather than the best players.