

Research Note

The Shift in China's Regional Policy in the Latter Half of the 1990s

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Introduction

There has been a rising tide of regionalism in the post-cold war world, and East Asia has not been an exception. Regionalism is defined here as a movement or thought that identifies a certain region in between the world and the state and seeks to provide it with a specific role to play in economic, political, security, or cultural affairs.¹⁾ It is true that even now Northeast Asia is the only region in the world without any regional framework for economic or military cooperation, or not even a free trade agreement between nations. The progress in regional integration is much slower there than in Europe, where the Euro currency has appeared in tangible notes and coins, or in North and South America where the North American Free Trade Area (NAFTA) and the South American Common Market (MERCOSUR) have been established. Nevertheless, considering the conditions adverse to regional integration in East Asia, such as the existence of different state systems, separated nations and economies of different stages of development, we should say that there has recently been a significant development particularly since the latter half of the 1990s. A salient example is the 1997 establishment of the annual ASEAN+3 (Japan, China and Korea) summit meeting, which virtually actualised the unsuccessful 1990 initiative by Prime Minister Mahatir of Malaysia to form an East Asian Economic Caucus.

It is noteworthy that a lot of the developing regional frameworks for East Asia as a whole are based on the experience and activities of the Association of Southeast

Asian Nations (ASEAN) in Southeast Asia. At the same time, it is also important to note that the pace of cooperation was raced by the change in China's attitude towards regionalism. The aim of this paper is to analyse the shift in China's policy towards regional cooperation. Since this is merely a brief research note, a few questions will have to remain unanswered until further investigation is made. For instance, are there any conflicting views in China about her approach towards regionalism and regional cooperation? A key factor here will be the evaluation of the presence of the United States in the region and the role it plays. There seems to be a consensus among the Chinese experts on regional affairs, however, that improving Sino-Japanese relations is an indispensable factor in the promotion of regional cooperation in East Asia. Thus, it would be useful to discuss the prospect of Sino-Japanese relations in the context of regionalism in East Asia. Leaving these intriguing questions for the time being, however, let us concentrate on one question in this paper: what were the reasons for China's turnabout on regionalism? In seeking for an answer, we must begin by looking into what China's original attitude towards regionalism was like.

China's Initial Reluctance

China used to be known as one of those powers dubious about regional, multilateral approaches to solving international problems. For sure, Party General Secretary Jiang Zemin took a personal interest in the Asia-Pacific Economic Cooperation (APEC), partly because the advent of the unofficial summit meeting in 1993 at Seattle coincided with his appointment as State President that year, and he apparently considered the APEC summit as the right stage for him to enhance his prestige and authority at home and abroad. In the wake of the '4 June Incident'²⁾ in 1989, China worked hard on improving its relations with the Southeast Asian countries which were far less critical of China's brutal suppression of the student/citizen movement than the Western countries and Japan. China normalised ties with Indonesia (1990), Singapore (1990) and Vietnam (1991), and attended the South China Sea Workshop from its second meeting in 1991. Nevertheless, in the ASEAN Regional Forum (ARF) that was established in 1994, China proved to be a reserved participant rather reluctant to discuss specific issues such as the territorial disputes in the South China Sea.³⁾ Even in the realm of economics, when Japan proposed the establishment of the Asian Monetary Fund (AMF) in September 1997, Japan was not only opposed squarely by the United States but also snubbed by China.

Regionalism or regional approaches are not traditional jargons in China's diplomacy. In the university textbook on contemporary Chinese diplomacy published in 1999, there is no reference to regionalism at all.⁴⁾ The same applies to the textbook of the Central Party School, where the top elite attends refresher courses on theories, policies and domestic and world affairs.⁵⁾ China sees international politics as basically a power game among great powers competing for hegemony. In the remarks of Jiang Zemin on world affairs, it is said that there is a daily enhancement in the competition of comprehensive state power, which consists of the economy, military, science and technology and national integrity.⁶⁾ Diplomacy for her is a struggle for survival and development in this game. It is true that she treasures and makes good use of her status as a permanent member of the UN Security Council, and that Third World diplomacy has been an integral part of Chinese diplomacy. But based on such understanding of the world, China has attached greatest importance to the bilateral relations with the big powers.

China realises that it is still way behind the US, Europe, Japan and Russia in terms of economic, military and science and technological strength, and thus considers itself to be a regional 'developing power' in the transitional process of becoming a global power.⁷⁾ China's cautiousness about multilateralism stems partly from this complex self-perception. That is, China on the one hand prefers bilateral approaches since it has an upper hand over most of the states in the region, and fears that once it is co-opted into a multilateral framework, it will lose this advantage. This type of concern is reflected in its hesitance about the ARF. At the same time, China is afraid that the initiative and leadership of such multilateral frameworks will be taken by the powers stronger than itself. This seems to have been a concern behind China's giving the cold shoulder to Japan upon the latter's initial proposal to establish the AMF. Thus, China essentially sees the development of multilateral frameworks from the standpoint of state interests. Against the recent idea in the west that the concept of sovereignty is in the process of change and that some part of sovereignty has to be 'given up', one Chinese scholar has argued that, 'We must stress that giving up sovereignty essentially has to be spontaneous, and that the purpose of giving up sovereignty is to exchange it for an even larger state interest'.⁸⁾

It was around 1996 and 1997, however, that China appeared to shift its approach to regional frameworks as if it had discovered their use. In 1997, when China hosted the ARF Intersessional Support Group on Confidence Building Measures, it stressed

that the ARF should play a central role in maintaining the stability of the region.⁹⁾ At the second ASEAN+3 (Japan, China and Korea) summit meeting in December 1998, Hu Jintao, the newly appointed Vice-president, proposed a meeting of deputy finance ministers and deputy presidents of central banks to be held within the framework of ASEAN+3.¹⁰⁾ In November 1999, China agreed for the first time to hold a Japan-China-Korea trilateral summit meeting at the occasion of the ASEAN+3 summit meeting. At the ASEAN+3 meeting the following year, China agreed to regularise the trilateral summit, and in addition, surprised others by proposing a free trade agreement with ASEAN. Then in February 2001, China hosted the Preparatory Meeting of the Bo'ao Asian Forum at Bo'ao, Hainan Island, which was the Asian version of the World Economic Forum in Davos. Finally in November 2001, China and ASEAN agreed to start negotiating for a free trade area to be established within the following 10 years.

Thus, it is safe to say that by the late 1990s China had dramatically shifted its policy towards regionalism. The initial shyness at multilateral forums receded rapidly, and regionalism was beginning to serve as a framework or a guideline for designing her bilateral relations with the neighbouring countries.

The Reasons for China's Turnabout on Regionalism

What, then, galvanised China into taking positive steps towards multilateral, regional frameworks in the latter half of the 1990s? There seem to be a few factors involved. First and foremost, the turnabout stemmed from the understanding that globalisation (*quan qiu hua*) is the new trend in world history.¹¹⁾ China regards globalisation as a historic opportunity for development, but also, and even more, as an enormous challenge. Many Chinese see that globalisation is led and dominated by the developed nations, amongst others the United States, which will increase their intervention in the internal affairs of others, in one way or the other, and that globalisation is spearheaded by the multinational corporations that could control and monopolise the benefits. In this context, Chinese scholars regard regionalisation (*qu yu hua*)¹²⁾ as conducive to neutralising somewhat the negative impact of globalisation. Bluntly said, they hold that regionalisation is conducive to protecting China's state interest. Obviously, this argument is related to the adoption of the concept of economic security, which took place amidst the Asian Financial Crisis.

The Asian Financial Crisis is the second factor in China's inclination towards

regional economic frameworks. The outbreak of the chain of currency and financial crises in Southeast Asian countries and Korea from July 1997 deeply shocked the Chinese leaders. This was not only because it seemed to shatter the Asian model of development that they had toiled and emulated, but even more because China itself had a very serious problem of non-performing loans.¹³⁾ The term economic security had been introduced in the Chinese lexicon first as one of the three pillars of the foreign policy of the Clinton Administration, and later it was used in the context of protecting local industries against challenges from foreign firms and products in the opening-up of the Chinese economy. But a new meaning was given when Vice Premier and Foreign Minister Qian Qichen spoke at the ceremony to celebrate the 30th Anniversary of ASEAN in December 1997. Qian said, 'The storm of the Southeast Asian Financial Crisis made it clear that economic security is an important element in stability and development. In order to maintain a regular, well-performing economy and financial order, we must...reinforce financial cooperation with the region and the world...and create a stable, safe external economic environment.' This was reported in the official *People's Daily*¹⁴⁾ under the heading, 'Qian Qichen expounding on a new concept of security'. A number of Chinese analysts reckon that the Crisis was conducive to strengthening greatly East Asian identity and integrity, as the Crisis made the policy makers of East Asia fully realise that their fates were interwoven and interdependent.¹⁵⁾ Undoubtedly China was a typical case.

The experience of the Asian Financial Crisis actually strengthened the third factor for China's turnabout, that is self-confidence in participating in a regional multilateral arena. In the face of large declines in the currencies of many Asian nations, China steadfastly refrained from devaluing their currency, the RMB. In fact, considering the frail financial situation at the time, the Chinese authorities feared that even a hint of devaluation could trigger a collapse in the local people's confidence in RMB and in the Chinese economy. However, they sold this policy rather dearly in a most skilful way by declaring that China would sacrifice its own interest and not devalue the RMB in support of the Southeast Asian countries in trouble.¹⁶⁾ At the same time the Chinese media sharply criticised Japan for exacerbating the crisis by allowing the yen to fall. Whatever the reasons were, the outcome was that the Asian countries deeply appreciated and praised the Chinese for not devaluing. This, as well as the fact that China managed to hold the impact of the Asian Financial Crisis at bay, added on to the staggering economic growth that it had achieved since 1992 and boosted its confidence in participating in a regional, multilateral framework. It

seems this was particularly the case because Japan continued to suffer from a prolonged recession and the United States proved to be rather ineffective in assisting a recovery in the region. That Japan changed its policy in 1999 and seriously endeavoured to pursue free trade agreements with South Korea and Singapore also urged the Chinese to change their minds and agree on the trilateral summit with Japan and South Korea and to propose a free trade agreement with ASEAN.¹⁷⁾

That China felt more comfortable in a multilateral setting was important in advancing their thinking about the solution to the 'Chinese dilemma'.¹⁸⁾ This is the fourth factor in China's active engagement in regional frameworks. The Chinese dilemma refers to the situation in which China seeks for a peaceful international environment for the sake of her economic development, but as it actually develops it cannot but raise the sense of a 'China threat' among neighbouring nations. That is, peace and stability in the region promotes China's development, but China's development does not necessarily promote peace and stability in the region. This ironical situation stems from such factors as the outstanding size of China's area and population, the long history of China's dominance in the region, and the unhidden pursuit of power politics and the military build-up of China. The Chinese have realised, however, that one solution to dispelling the worries among the neighbouring nations is to promote regionalisation and create a mechanism by which they contribute to the regional economy by further opening-up their economy and providing more opportunities for others to make use of China's outstanding economic growth.¹⁹⁾ Their specific proposal was to establish a free trade area in East Asia.

Conclusion

Thus, we can see that China changed its attitude towards regionalism because of its strengths and weaknesses. China felt threatened by the rising tide of globalisation and sought for a shield to protect its state interest. The Asian Financial Crisis, however, actually provided an opportunity in which China was able to show off its capacity and be appreciated by the neighbouring nations. The Crisis was also an opportunity in which the East Asian nations, including China, deepened their understanding of regional interdependence and of the need to promote regional cooperation. Because of its staggering economic growth in the 1990s China was more confident in regional, multilateral arenas, and that confidence seemed to be supported by the relative decline in the Japanese economy and by the disappointment among the East Asian countries of the United States, which provided little help when

needed. Through constructing and developing multilateral frameworks for regional cooperation, China saw a potential for creating an 'all-win' mechanism which should allay the neighbouring countries' fear of a growing giant.

Notes

- 1) See the definition of regionalism by Yoshinobu Yamamoto in the *Encyclopedia of Political Science* (in Japanese), Koubundou, Tokyo, 2000, p. 721.
- 2) Also note that the memory of the '4 June Incident' (Tian'anmen Incident) in 1989 was still fresh in people's minds at that time, and for China the meeting was important in its attempt to mark a complete comeback on the international stage.
- 3) Yoshihide Soeya, 'ASEAN Regional Forum and China' (in Japanese), Seiichiro Takagi (ed.), *China's Diplomacy and the Asia-Pacific in the Post-Cold War Era*, The Japan Institute of International Affairs, Tokyo, 2000, pp. 62-5.
- 4) Li Baojun, *An Introduction to Contemporary Chinese Diplomacy* (in Chinese), Chinese People's University Press, Beijing, 1999.
- 5) Editing Group of Some Strategic Questions for China Facing the 21st Century (ed.), *Some Strategic Questions for China Facing the 21st Century* (in Chinese), Chapter 10, Chinese Communist Party Central Party School Press, Beijing, May 2000, pp. 180-95.
- 6) See, for example, Jiang Zemin, *On 'Three Representatives'* (in Chinese), Central Documents Publishers, Beijing, 2001, p. 28 and p. 182.
- 7) Editing Group of Some Strategic Questions for China Facing the 21st Century, p. 186.
- 8) Remark by Zhang Baijia, researcher at the Central Party History Research Centre, at a group discussion held at the Institute of International Studies, Tsinghua University, reported in *Huanqiu Shibao*, 22 September 2000, p. 4. The other participants were, Wang Yizhou, Institute of World Economics and Politics, Chinese Academy of Social Sciences, Zhu Chenghu, Strategic Institute at the National Defence University, Qu Xing, Foreign Affairs College, Jin Dexiang, Tsinghua University, and Yan Xuetong, Tsinghua University.
- 9) Soeya, p. 65. It was an eye-opener when China agreed the previous year to co-chair the meeting with the Philippines, a central adversary in the territorial disputes at the time.
- 10) The first meeting took place in March 1999.
- 11) The rest of this paragraph relies on the report of the group discussion of scholars, *Huanqiu Shibao*, 22 September 2000, and *Some Strategic Questions for China Facing the 21st Century*, pp. 184-5.
- 12) In the group discussion mentioned in notes 8 and 11, Zhu Chenghu stressed this point and cited the example of Mexico, which, thanks to NAFTA, replaced China as the number one textile exporter to the US. Note that, on the relationship between regionalisation and globalisation, there are different views. Some think regionalisation

is one step in globalisation, while others regard they take place simultaneously and that China should promote the former. I personally tend to think that regionalisation is one result of globalisation.

- 13) According to a most reliable source, the percentage of non-performing loans of the four major state-owned commercial banks had been 24.4 as of the end of 1996, but rose to 29.2 as at the end of June 1997. The same source cited that the percentage was 7.9 in Thailand and 17 in Indonesia (Li Xinxin, 'Viewing the Hidden Financial Peril of Our Country from the Viewpoint of the East Asian Financial Crisis' (in Chinese), *Reform*, 1998, No.3, 20 May 1998, p. 32 and p. 31).
- 14) *People's Daily*, 16 December 1997.
- 15) For example, see Hu Shaocong, 'The Progress and Prospects of Cooperation in East Asia' (in Chinese), *International Studies*, 2000, No.5, p. 51 ; Sun Cheng, 'Relations between Powers and Cooperation in East Asia' (in Chinese), *International Studies*, 2001, No.4, p. 25 ; Zhao Jianglin, 'Construct a Free Trade Area in East Asia' (in Chinese), *World Affairs*, 2001, No.8, p. 32. A common argument was that the East Asian countries had also realised that the United States was unhelpful and APEC was useless in such a crisis.
- 16) For details of China's response to the Asian Financial Crisis, see Akio Takahara, 'The Political Economy of the Asian Financial Crisis: the Case of China' (in Japanese), *Asian Studies*, Vol.45, No.2 (August 1999), pp. 53-79.
- 17) Yoshihiro Otsuji and Takashi Shiraishi, 'We Advocate an Enlarged FTA between Japan and ASEAN' (in Japanese), *Chuo Koron*, February, 2002, p. 75.
- 18) I mention the Chinese dilemma in Akio Takahara, 'The New Bush Administration and US-China Relations' (in Japanese), *East Asia*, No.407 (May 2001), p. 11.
- 19) See Hu Shaocong, 'The Progress and Prospects of Cooperation in East Asia' (in Chinese), *International Studies*, 2000, No.5, p. 53.