

Position paper for ANEPR conference, "Asia in Search of a New Order"
Session 1, "Asian Regional Economy in a Multilateral Setting"
Tokyo, January 16-17, 2004

Compassionate Peaceful Evolution?

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One of the conundrums of East Asian economic integration is how far countries with different political systems and mutual distrust can integrate their economic systems. The wave of globalization promoted de facto economic integration in this part of the world. However, political systems and security policies have not yet caught up with economics. Despite China's recent charm offensive, there is a lingering concern in the region about whether China will be a benign power once it has achieved economic development with a corresponding military might. Won't China be tempted to use its power and influence to have its own way when it no longer feels the need to court its neighbors? This anxiety stems from the experience of having seen China's external policy abruptly shift according to its leaders' geopolitical calculations and visions, which have had a decisive power in its autocratic political regime. Its military's harsh rhetoric in warning Taiwan's leader against calling for a referendum on China's missile threat is a reminder that economic development and the stable environment conducive to it may not always be China's paramount goal. Nevertheless, China has become too large to be kept out of any meaningful institutional efforts for economic integration.

At the same time, there is a one-sidedness to this line of argument. The popular discussions on the impact of the rise of China¹ have tended to focus on the impact that China will have on the regional landscape and have neglected the impact that changing

¹ For the author's point of view on the impact of the rise of China, see Naoko Munakata, "The Impact of the Rise of China and Regional Economic Integration in Asia – A Japanese Perspective," Testimony Before the U.S.-China Economic and Security Review Commission Hearing on China's Growth as a Regional Economic Power: Impacts and Implications, December 4, 2003, Washington, D.C.

<http://www.uscc.gov/testimony/031204bios/naokmunakata.htm>

<http://www.uscc.gov/testimony/031204bios/munakataappendix.ppt>

regional dynamics will have on China. In fact, the success of China's activism has been based on its flexibility in responding to its neighbors' concerns and its apparent willingness to provide a solution, if limited, to their problems. Given this flexibility and willingness on the part of China, East Asian efforts for regional institution building could induce a significant change, beyond the point of no return, in China's domestic system, both economic and political.

China's regional policy went through a remarkable transformation after the Asian financial crisis. Even before that, China's positive experiences of participating in the APEC processes had helped Beijing gradually overcome its long-held fear that multilateral frameworks could constrain China's freedom and damage its interests. However, China was largely reactive until immediately after the regional financial crisis. In mid-1998, China seized the opportunity of projecting the image of a "responsible regional power" by not devaluing the renminbi. This episode made Beijing confident of its ability to positively shape the regional environment. The surge in foreign direct investment (FDI) and the rapid growth after China's accession to the World Trade Organization (WTO) further bolstered its confidence that China can successfully take on the challenge of globalization and emerge as an economic power in Asia and the world. China's activism culminated in its initiative to promote a China-ASEAN free trade area. Many observers applauded China's swift and skillful move in persuading ASEAN and concluding a framework agreement within two years after the initial proposal.

There is a significant risk, however, in China's current approach. China is driven by a political agenda of reassuring ASEAN and expanding its influence in the region. It makes bold moves without messy democratic processes but struggles with the implementation of its legal commitments in its vast territories where local officials have varying levels of willingness and capacity to enforce rules and regulations. If China cannot faithfully implement agreements, it will lose credibility with the business sector and the diplomatic goodwill of other contracting parties. For now, however, Beijing seems to remain focused on political overtones, not the implementation on the ground.

Indeed, as China has become proactive, a stark disparity has emerged between its

foreign and domestic policies. On the diplomatic policy front, it has come to stress liberal agenda and advocate multilateral solutions. On the domestic front, it has maintained an autocratic political system. China also emphasizes its desire to be open to the outside and to create a win-win situation with its trading partners. Its domestic system, however, is not fully capable of following through its international obligations. The Chinese markets are a collection of regional markets that are separated from each other by a persistent local protectionism. It may first have to achieve domestic integration before further accelerating integration with the outside. At the same time, its domestic emphasis is rightly shifting from continuing rapid growth to achieving a balance among the various segments of its economy, such as coastal and inland areas, rich and poor people.

The new leaders might be more intent on aligning its foreign and domestic policies. They succeeded their predecessors in the midst of the SARS epidemic. The world suddenly started to see the lack of transparency and accountability in China's domestic system as the source of a problem with serious global risks. This experience must have awakened the Chinese elites to the fact that its policy of projecting an attractive image of being a responsible great power needs to be supported by domestic capabilities. Therefore, it is possible that China, in the short run, will reduce the scope of FTAs it contemplates (for example, invoking the enabling clause for the limited coverage of its FTAs) and adjust the timetable for their implementation.

This may look like a setback for East Asian regionalism. It is not. China will duly accelerate the process of domestic reform and enhance its capability if it remains committed to being a responsible power. With China's enhanced awareness of the links between its external influence and domestic capability, East Asian regionalism could induce China's economic reform. The more reformed, the more attractive China will be. The more trust and confidence it earns in the region, the more willing it will be to promote its reforms.

Its desire to be seen as an attractive, responsible great power may also moderate its security policy. An aggressive military posture would significantly frustrate this effort.

Increased dialogue on regional security affairs would make China all the more keenly aware of neighboring countries' perception of it.

The process of positive feedback could also induce China's political transformation. In the short term, the Chinese authorities might become even more autocratic to effectively enforce its leaders' decisions on local authorities and the people. However, if China desires to be an attractive power in the region where an increasing number of people are enjoying democratic freedom, it has to be able to demonstrate that its own people can also enjoy an attractive living environment.

This process of positive feedback is different from a secret plot behind China's back to encourage antigovernment moves for democracy. Instead, it encourages China's leaders to promote political reform. For the time being, the pace and degree of reform could be compromised by the need for stability, but the direction of change would not. The purpose of engaging in this process is not to win a fight against communism, which China has already substantively abandoned. Instead, the purpose is to make the region more prosperous and peaceful. It is not just China that will go through transformation. So will its neighbors. How well they do will have an impact on China's performance. This process requires and builds on mutual trust in the region. One could call this process of positive feedback a "compassionate peaceful evolution."

The strategic question in designing an institutionalized economic integration in this region is therefore how to maximize the impact of this process of interactive transformation and bring it beyond the point of no return. I would like to seek the participants' views on this question.