

From Fragmentation to Coherence: A Way Forward for East Asia

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East Asia's voice in global and economic governance is fragmented and thus relatively ineffective. The region is under-represented, by any measure, on the International Monetary Fund, the Bank for International Settlements and the Financial Standards Board. Only in the G-20 does the region have fair representation, but its impact is limited because it speaks with a fragmented voice. There are large areas of agreement among regional nations on core economic and governance issues which the region could work together to promote. This article explores in general what keeps the region's three largest economies apart on so many issues and, in particular, explores the huge price China is paying in soft power terms for its belligerence over territorial claims in the South China and East China Seas.

Disciplinary fragmentation in International Economic Law occurs between its sub-disciplines of trade, monetary cooperation, global financial regulation, investment, and so on. However, within each sub-discipline, further fragmentation occurs in a variety of ways owing to a variety of factors. One of these is said to be regionalism. Some view regionalism as a building block of wider multilateral convergence, while others view regionalism as a threat to multilateralism such as the threat that regional trade agreements appear to pose to the global multilateral trading system. The Trans-Pacific Partnership (TPP) negotiations, the initiative for a Regional Comprehensive Economic Partnership (RCEP), and the proposal for a Free Trade Agreement between China, Japan and Korea are examples of attempts at regional trade integration in East Asia and the Asia-Pacific, that mirror earlier developments in Europe and North America.

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Others see regions not in terms of disciplinary fragmentation but as a source of ideas about global economic governance, for example, the emergence of a "Beijing" or "East Asian" or "Seoul Development" consensus.

This chapter explores the prospects for East Asian regionalism. It does so by placing East Asian monetary and financial cooperation - characterised by a predictably "soft law" framework - against the backdrop of the collective underrepresentation of the region at the global level. It then goes on to show how history and contemporary events and circumstances prevent cooperation in East Asia, let alone the emergence of a coherent regional economic framework. Because of the centrality of East Asia to the global economy in the foreseeable future, this lack of coherence will impact how international economic law and regulation develops. In many ways, the situation in East Asia emphasizes the truth in the observation that the greatest source of fragmentation in the international economic order remains the fact that large domains of law and policy remain within the jealously guarded, sovereign purview of sovereign nations. What is worse than regionalism is sovereignty. In East Asia what lies behind the retreat to sovereignty, and the prevention of cooperation, and at what cost, is the subject of this chapter. And so the chapter concludes by looking at Japan's historical baggage and, more extensively, China's own role today in stifling an "East Asian voice" in the regulation of international economic affairs. Put simply, ironic as it is, the primary obstacle to the emergence of a unifying Beijing Consensus for international economic governance is Beijing.

East Asia is naturally a fragmented, not a cohesive, region. Its nations are divided by religions, political systems, degrees of development and historical distrust. Some of the region's nations reject religion all together while others embrace Buddhism, Christianity, and Islam. Some nations are communist-directed but promote free markets such as China, others are democracies with a high degree of government influence over industry such as Japan, Korea and Singapore, and others are laissez faire free market democracies such as Hong Kong. Some nations are highly developed such as Japan and Singapore, others are desperately underdeveloped such as Myanmar and Laos, and others, such as China, have pockets of both stages of development within them.

The road to the degree of unity seen today in Europe has been long and tortuous yet Europe shares a common religion, political system and degree of development. The principal divisive factor in Europe has been historical distrust. East Asia has a much steeper road to climb on the path to unity with deep divisions in religion, political systems and levels of development and with at least as much historical distrust due to past wars and conflicts as has Europe.

This high degree of regional fragmentation has greatly limited the impact the region has been able to have in global economic governance. The usual pattern in the G20 and other fora has been for Japan and/or South Korea to argue against proposals put forward by China and for China to do likewise when a proposal originates from their neighbours to the east. The net result is that the voices of the region's major nations tend to cancel each other out, and the very large areas of agreement on economic and development policy within the region are not effectively promoted or argued for in the bodies of global economic governance.

This is a great loss because East Asia matters and its views on how to encourage and support economic growth deserve a global audience. East Asia has mattered for a long time. The region's high growth rates have supported global growth. The region's, and especially China's, capacity to produce manufactured goods, clothing and other items ever more efficiently and cheaply has kept a lid on inflationary pressures in virtually all developed economies. For Australia, Brazil and other commodities exporters China's growth has provided a massive market for minerals and other commodities. Indeed, the rise of East Asia generally has underpinned global prosperity for the past 25 years.

Since the global financial crisis of 2008 the region has mattered even more. As economic growth has slowed dramatically or even stalled in the EU and the US, the world has come to rely upon East Asia (bolstered by Brazil, India and Australia) to provide markets for exports and maintain economic activity.

So what we have today is a situation in which the region that is underpinning global economic activity has relatively little input into global economic governance and the rules of the

global economic game are being set by the two regions that are faltering economically: the EU and US.

This doesn't have to be so. This chapter explores what will be required for East Asia to begin to speak with a more unified voice in the councils of economic governance. It lays out a road map for the region to follow if it wishes to transcend its natural fragmentation and begin to exercise the influence and power that its economic success has earned it.

History and Background

Historically, East Asia enjoyed only a minor role in global economic and financial governance. Sixty years ago, in terms of its economic significance and influence, this made sense. Today it does not. For decades, East Asian nations have charted their own economic course, and enjoyed extraordinary growth. For over 20 years China has grown at an average rate above 9 percent¹ that has recently decreased to about 7.5 percent,² Malaysia has grown at an average rate of above 6 percent, Singapore at above 7 percent, and South Korea, Taiwan and Thailand at well over 5 percent.³ When Japan was outperforming the world, from 1950 to 1965, its economy expanded on average at over 10 percent per annum.⁴

¹ Wayne M. MORRISON, "China's Economic Conditions", Congressional Research Service, Report for Congress, 26 June 2012, at 4-5.

² Ian JOHNSON, "China's Growth Rate Slowed in the 2nd Quarter" *The New York Times* (12 July 2012), online: The New York Times: <http://www.nytimes.com/2012/07/13/business/global/chinas-growth-rate-slowed-in-the-2nd-quarter-down-sharply-from-a-year-ago.html>. For a highly insightful analysis of how China is now pursuing more equitable and sustainable development in a quest for social peace and stability, see C.L. LIM, "China's State-Centric Model of Steered Economic Liberalization", Conference on European and Global Economic Governance, Brussels, 2011.

³ Data spanning 1987-2011, The World Bank "GDP growth (annual%)", (accessed 1 August, 2012), online: The World Bank: <<http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>>; International Monetary Fund, "World Economic Outlook Database" (accessed 1 August), online: IMF: <<http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx>>.

⁴ K BEIDA, *The Structure and Operation of the Japanese Economy* (New York: John Wiley & Sons, 1970) at 12.

China is today the second largest economy in the world in purchasing power parity ('PPP') terms, the terms that economists generally accept as best for comparative purposes, and, even more impressively, the second largest economy in unadjusted US dollar terms.⁵

Of worldwide official foreign currency reserves China holds about 30 percent, Japan about 15 percent and South Korea about 3 percent.⁶ China and Japan have long been the principal buyers of US Treasury bonds. The Chinese and Japanese have saved and lent, so Americans can borrow and spend. China has been assisted in amassing these reserves, in my view, by keeping its currency, until recently,⁷ significantly undervalued.⁸ However, while China may well have been manipulating the value of its currency, it did so without breaching its obligations under the Articles of Agreement of the IMF or the various WTO treaties.⁹

⁵ International Monetary Fund, "World Economic Outlook Database" (accessed 1 August), online: <http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx>.

⁶ See International Monetary Fund, "Currency Composition of Official Foreign Exchange Reserves" (29 June 2012), online: IMF: <http://www.imf.org/external/np/sta/cofer/eng/cofer.pdf>; Stanley WHITE, "Japan Gives China's Yuan \$10 billion Stamp of Approval", *Reuters* (13 March 2012), online: Reuters: <http://www.reuters.com/article/2012/03/13/us-japan-china-investment-idUSBRE82C0BL20120313>; Jiyeun LEE, "South Korea's Foreign-Exchange Reserves Rise to \$316.84 Billion" *Bloomberg* (3 May 2012), online: Bloomberg: <http://www.bloomberg.com/news/2012-05-02/south-korea-s-foreign-exchange-reserves-rise-to-316-84-billion.html>.

⁷ In mid-2010 China ended the freeze of the yuan against the US dollar and began to allow a gradual change in the value of the yuan. In April 2012 the government accelerated this process. (See Esther FUNG and Shen HONG, "China Widens Yuan Trading Band vs. Dollar" *The Wall Street Journal* (14 April 2012), online: WSJ: <http://online.wsj.com/article/SB10001424052702304444604577342580742454656.html>). The International Monetary Fund has of late revised its position on the renminbi, calling the currency "moderately undervalued" – a shift from its earlier consistent position that the renminbi was "substantially undervalued". The Fund said China's shrinking trade surplus and the renminbi's appreciation in recent years meant that it was now closer to fair value: International Monetary Fund, "People's Republic of China", IMF Country Report No.12/195, 2012 Article IV Consultation, July 2012.

⁸ There is a vigorous debate on whether China has manipulated the value of the yuan (which it steadfastly denies) and on whether the yuan has long been undervalued. See for example: Roya WOLVERSON and Christopher ALESSI, "Confronting US-China economic imbalances" *Council on Foreign Relations* (2 November 2011), online: CFR: <http://www.cfr.org/china/confronting-us-china-economic-imbances/p20758#p3>.

⁹ Bryan MERCURIO and Celine SZE NING LEUNG, "Is China a 'Currency Manipulator'? The legitimacy of China's exchange regime under the current international legal framework" (2009) 14 *International Lawyer* 1257.

The path to development promoted by the International Monetary Fund, World Bank and US Treasury is a bundle of policies generally known as the Washington Consensus.¹⁰ The focus of these policies has been to grow the debtor's economy, to alleviate poverty within the country and so as to generate sufficient foreign exchange resources to stay current on its debts.¹¹ It has been taken as axiomatic that higher growth rates lead to less poverty and that the road to higher growth involves devaluing exchange rates, reducing budget deficits, charging more for state-produced goods and services such as electricity and water; privatising state-owned companies, and deregulating the labour market. In summary, the Washington Consensus calls for a much-reduced role for government and a much-increased role for markets.¹²

Diverse policies have been pursued by different East Asian nations, so the region's economic success doesn't present a simple story. However, the three leading countries' economies have much in common. Their public finances are healthy, their banking systems and corporate balance sheets are less stressed than most Western countries, and their massive foreign exchange reserves serve as potent insurance against external shocks.¹³ China, Japan and Korea share a common perspective that government should have a major role in directing economic activity: not for them is the Washington Consensus approach of leaving strategy to the market.¹⁴ Their domestic economic policy settings are strongly pro-business with relatively meagre social welfare safety nets and their policies generally prefer domestic businesses over consumers

¹⁰ The term 'Washington Consensus' was coined in 1989 by John Williamson, a British economist: "A Conversation With John Williamson, Economist" *The Washington Post* (12 April 2009), online: The Washington Post: <<http://www.washingtonpost.com/wp-dyn/content/article/2009/04/09/AR2009040903241.html>>.

¹¹ Alfredo SAAD-FILHO, "Life Beyond the Washington Consensus: An Introduction to Pro-poor Macroeconomic Policies" (2007) 19(4) *Review of Political Economy* 513 at 521; Hossein ASKARI, *Third World Debt and Financial Innovation: The Experiences of Chile and Mexico* (Paris: OECD Development Centre, 1991) at 22.

¹² R.P. BUCKLEY, "The Economic Policies of China, India and the Washington Consensus: An Enlightening Comparison" (2010) 27 *Wisconsin International Law Journal* 707.

¹³ Ishrat HUSAIN, "Asia and Global Governance", *International Policy Digest*, 15 October 2011.

¹⁴ China has the largest foreign exchange reserves, Japan the second largest, and Korea the eighth largest, see: "Top 10 forex reserves by country", *Forexspace* (April 25, 2012), online: forexspace: <<http://www.forexspace.com/forex-insights/309/top-10-forex-reserves-by-country>>.

through a mix of low interest rates on savings and high tariffs on imports. All have pursued export-led models of growth.

In summary, the three leading East Asian nations manage their economies in broadly similar ways when it comes to the relative size and role of government in an economy, the preferred size of foreign exchange reserves, and a pro-business bias in policy setting. In particular, China, Japan and Korea all favour far larger roles for government than the Washington Consensus would permit.

The policies that have served the region so well often contradict those of the Washington Consensus. This is self-evidently true in China,¹⁵ but even Japan has consistently preferred regulatory approaches “that rein in rather than let loose market forces”.¹⁶ Indeed, the only East Asian economy to consistently follow Washington Consensus policies has been Hong Kong (treating it as a separate economy for these purposes).

The term “Beijing Consensus” was coined in 2004 by economist and journalist Joshua Cooper Ramo.¹⁷ According to Ramo the Beijing Consensus comprises three theorems “about how to organise the place of a developing country in the world”.¹⁸ The first emphasises the value and necessity of innovation, the second emphasizes sustainability and equality as first-order considerations, and the third the importance of self determination.¹⁹ Ramo also stresses unlike the “prescriptive” Washington Consensus, the Beijing consensus “does not believe in

¹⁵ As recently as 2004, state-owned enterprises accounted for over 50% of China’s GDP and over 40% of its exports: Jayati GHOSH, “China and India: The Big Differences” *International Development Economics Associates* (25 August 2005), online: IDEAs:

<http://www.networkideas.org/news/aug2005/news25_China_India.htm>.

¹⁶ Phillip LIPSEY, “Japan’s Asian Monetary Fund Proposal” (2003) 3 *Stanford Journal of East Asian Affairs* 93 at 100.

¹⁷ Joshua Cooper Ramo, *The Beijing Consensus* (London: Foreign Policy Centre, 2004), available from: <http://fpc.org.uk/publications/TheBeijingConsensus>.

¹⁸ *Id* at 11.

¹⁹ *Id* at 12.

uniform solutions for every situation”.²⁰

Williamson (who coined the term ‘Washington Consensus’ in 1989) argues that Ramo’s concept is so ill-defined, that it must be imputed to describe the actual development policies pursued by China.²¹ Accordingly, Williamson argues that the Beijing Consensus in fact comprises five central pillars: incremental reform; innovation and experimentation; export-led growth; state capitalism; and authoritarianism.²² If we are seeking an East Asian Consensus we need only tinker a little with Williamson’s conception of the Beijing Consensus to come up with: incremental reform; innovation and experimentation; export-led growth; state capitalism and a major directive role for government.

I agree with Williamson, Ramo gave us a neat term bereft of real content. The G20 then gave us a Seoul consensus bereft of any substantive connection to East Asia.

The G20 endorsed its first development agenda²³ in November 2010 in the form of the “Seoul Development Consensus for Shared Growth”. This Consensus contends that the G20 must “enhance the role of developing countries” because for “prosperity to be sustained it must be shared”; because global interconnectedness disproportionately affects the poorest countries; because as the “premier forum” for international economic cooperation the G20 has a role to play in helping developing countries; and because the global economy needs less industrialised economies to fuel global demand.²⁴ The document notes that “there is no ‘one-size-fits-all’ formula for development success”, but then goes on to establish six broadly applicable “G20 Development Principles” and nine “key pillars” where the application of these principles are

²⁰ Id at 4.

²¹ John Williamson, “Is the ‘Beijing Consensus; Now Dominant?” *Asia Policy*, (2012) 13, pp. 1-16, 6.

²² Ibid.

²³ AusAID, “The G20 Seoul Development Consensus for Shared Growth”

07 April, 2012, available from: <http://ausaid.gov.au/HotTopics/Pages/Display.aspx?QID=230>

²⁴ “G20 Development Summit 2010, Annex 1: Seoul Development Consensus for Shared Growth”, available from: <http://www.g20.org/Annex/20101112/780968426.html>

most critical. None of the principles or pillars relate particularly to policies pursued in East Asia. The Seoul Development Consensus is a G20 policy, not an East Asian consensus.

Other nations should be grateful that China and the other nations of East Asia have consistently ignored IMF advice and Washington Consensus policies, and taken their own paths, because for decades the stellar economic growth of East Asia has lifted that of the world while Washington Consensus policies have never worked this well in the countries in which they have been applied.²⁵

In finance China has marched to the beat of its own drummer. For 20 years the EU and US have been pushing for China to open up, allow in foreign capital, and allow the renminbi to float on international markets. China has resisted most of these demands. Foreign banks have been allowed in when, and on the terms, that suited China, and only in limited ways. Foreign capital has been allowed in only in tightly controlled ways so that longer-term investments in businesses are welcomed but short-term hot money flows are denied access.²⁶

So China has consistently called the shots in terms of its interaction with the global financial system. Yet to date China, and East Asia more broadly, have punched well below their weight in shaping international financial and economic governance. China has been happy to interact on its terms with global capital, without taking the next step of becoming heavily engaged in how the global financial system is structured and regulated.

Global Economic Governance

Until 2009 global economic governance was principally exercised by the G7 grouping of nations, in which Japan was the only Asian member. With the advent of the global financial crisis in 2008 it quickly became apparent that the G7 nations did not have the moral authority, or

²⁵ Dani RODRIK, “Goodbye Washington Consensus, Hello Washington Confusion?” (2006) 44(4) *Journal of Economic Literature* 973 at 974.

²⁶ Ross P Buckley and Weihuan Zhou, “Negotiating the International Economic Legal Order: Who Has Done Best, China or the West?” chapter in forthcoming C Picker, L Toohey and J Greenacre (eds), *China and the International Legal Order*, Cambridge University Press, 2013.

the right nations at the table, to craft a credible response to the crisis. So the G7 resolved to pass its role on to the G20, a pre-existing meeting of Finance Ministers that was promptly upgraded to a heads of government meeting.²⁷ The G20 grouping includes all members of the G7 plus China, Indonesia and Korea as well as other developing nations including Brazil, India and South Africa.

So for the first time, of late, East Asia has had four representatives seated at the high table of economic governance: Japan, China, Indonesia and Korea; five given ASEAN is usually extended an invitation to participate; and seven if one includes Australia and India as Asian nations. While India is indubitably Asian, and Australia in an economic sense strongly arguably so, this article focuses upon East Asia rather than the region more broadly conceived.

While global economic governance is in the politician's hands in the G-20, global financial governance is managed by the technocrats of the International Monetary Fund, Bank for International Settlements and Financial Stability Board. Yet in none of these bodies does East Asia have adequate representation.

Even after the reallocation of voting rights in the IMF in 2010-11, the ten ASEAN nations plus China, Japan and Korea have only 15.20 % of the total votes available to be cast,²⁸ whereas these 13 nations generate 25.52 % of global GDP.²⁹

There are 60 member central banks of the Bank for International Settlements, yet only nine are from East Asia (China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, The

²⁷ Douglas ARNER and Ross BUCKLEY, "Redesigning the Architecture of the Global Financial System" (2010) 11(2) Melbourne Journal of International Law 185 at 207-8.

²⁸ International Monetary Fund, "IMF Executive Directors and Voting Power" (14 August 2012), online: IMF: <<http://www.imf.org/external/np/sec/memdir/eds.aspx>>. Japan has 6.23 % and China 3.81% of the votes.

²⁹ The GDP of the ASEAN+3 nations is i.e. US\$16,120.4 billion compared to Gross World Product of US\$63,170 billion: Central Intelligence Agency, "Field Listing – GDP (Official Exchange Rates)", *The World Factbook* (accessed 16 March 2012) online: CIA: <<https://www.cia.gov/library/publications/the-world-factbook/fields/2195.html>>.

Philippines, Singapore, Thailand)³⁰ and while there are 19 members of the Board of the BIS, only two are from East Asia, both from Japan.³¹

The Financial Standards Board (FSB) has 52 seats on it for nations and 18 for organisations making 70 seats in total.³² Yet China has 3 seats, Hong Kong has 1; Indonesia 1; Japan 3; Korea 2; and Singapore 1 – giving East Asia as a region only 11 seats.³³ Article 10(1) of the FSB Charter provides that the number of the seats in the Plenary (i.e. the decision-making body of the FSB) “reflects the size of the national economy, financial market activity and national financial stability arrangements of the corresponding Member jurisdiction” – yet somehow it fails to come close to this for East Asia, at least in terms of the sizes of the national economies.

Therefore it is only in the G20 that East Asia’s representation equals its economic heft – the region has 20% of the seats (ie. four seats out of 20) and 25.52% of global GDP. Furthermore, the pattern has become to invite the Chairperson of ASEAN to G20 summits to represent ASEAN’s position on issues. The ASEAN Chair was first invited to the summit in London in 2009,³⁴ and has been invited to all subsequent summits.³⁵ ASEAN is pushing for a

³⁰ Bank for International Settlements, “Organisation and Governance”, Bank for International Settlements (last updated 19 December 2011), online: BIS: <<http://www.bis.org/about/orggov.htm>>. In relation to voting shares, the BIS website states that “The BIS currently has 60 member central banks, all of which are entitled to be represented and vote in the General Meetings. Voting power is proportionate to the number of BIS shares issued in the country of each member represented at the meeting.”

³¹ The Board at the time of writing comprised: Christian Noyer, Paris (Chairman); Masaaki Shirakawa, Tokyo (Vice-Chairman); Ben S Bernanke, Washington, DC; Mark Carney, Ottawa; Agustín Carstens, Mexico City; Luc Coene, Brussels; Andreas Dombret, Frankfurt am Main; Mario Draghi, Frankfurt am Main; William C Dudley, New York; Stefan Ingves, Stockholm; Thomas Jordan, Zurich; Mervyn King, London; Klaas Knot, Amsterdam; Anne Le Lorier, Paris; Baron Guy Quaden, Brussels; Fabrizio Saccomanni, Rome; Ignazio Visco, Rome; Jens Weidmann, Frankfurt am Main; Zhou Xiaochuan, Beijing: see Bank for International Settlements, “Board of Directors” (last updated 10 August 2012), online: BIS: <<http://www.bis.org/about/board.htm>>.

³² Financial Stability Board, “Members of the Financial Stability Board” (7 August 2012), online: FSB: <<http://www.financialstabilityboard.org/about/plenary.pdf>>.

³³ Financial Stability Board, “Members of the Financial Stability Board” (7 August 2012), online: FSB: <<http://www.financialstabilityboard.org/about/plenary.pdf>>.

³⁴ Giovanni CAPANNELLI, “Asian Regionalism: How Does it Compare to Europe’s?” *East Asia Forum* (21 April 2009), online: East Asia Forum: <<http://www.eastasiaforum.org/2009/04/21/asian-regionalism-how-does-it-compare-to-europes/>>.

formal seat at the G20, rather than relying on *ad hoc* invitations from the nation hosting the relevant G20 summit, but a permanent seat for ASEAN has not yet been institutionalised. If it is, or for so long as the tradition of *ad hoc* invitations is continued, East Asia will have 24% of the representatives at G20 meetings, which means the region's representation very nearly equals its contribution to global GDP.

The G20 is the primary body directing global economic and financial regulation – a role it has been given by the G7. The G20 often directs the activities of the more technical bodies like the IMF or the FSB. In this sense, if East Asia had been able to choose just one organ of global governance on which to have fair representation it could not have done better than choose the G20. The G20 is certainly the region's best chance to play a major role in global economic governance. What stands between the region and its playing that sort of role is the subject of enquiry of this chapter.

Why East Asia Has Had Little Input Into Global Governance

There are four principal reasons why the region's input into global governance has not matched its economic performance:

- A. The economic rise of East Asia has been a relatively recent phenomena and there is massive inertia in international governance arrangements.
- B. The region has not been able to agree among itself – its voice at meetings of the G20, the BIS, the FSB and other bodies is fragmented.

³⁵ For attendance at both 2009 summits see: "How can Asia strengthen its voice at the G20?" *East Asia Forum* (29 June 2010), online: <http://www.eastasiaforum.org/2010/06/29/how-can-asia-strengthen-its-voice-at-the-g20/>; for attendance at both 2010 summits see: "Chair of ASEAN, President SBY of Indonesia invites members of G20 to join ASEAN in search of lasting solutions to global challenges" *ASEAN* (4 November 2011), online: <http://www.aseansec.org/26712.htm>; for 2011 attendance see: Rodolfo C. SEVERINO, "Cambodia hosts first East Asian Summit for 2012" *East Asia Forum* (27 April 2012), online: <http://www.eastasiaforum.org/2012/04/27/cambodia-hosts-the-first-asean-summit-for-2012/>; for 2012 attendance see: "Cambodian PM heads for Mexico to attend G20 Summit" *Global Times* (16 June 2012), online: <http://www.globaltimes.cn/content/715285.shtml>.

- C. The United States has actively worked to discourage regional co-operation.
- D. The region has not really trusted international institutions and their policies.

A. *Inertia in Global Governance Arrangements*

The first reason needs little explanation – power in international affairs is attractive, nations do not like ceding it once they have it, and power sharing is a zero sum game, ie. more influence and power for East Asian nations means less for other nations. The region that is over-represented in membership entitlements at the IMF, the G20 and the various international financial regulatory bodies is generally Europe so any push for greater representation for East Asia (and developing nations more generally) almost inevitably requires Europe to give up some of its power. For instance, on the FSB on which East Asia has 11 seats, European nations hold 18 seats, and the European Central Bank and European Commission each hold an organisation’s seat while there are no distinctively Asian organisations on the Board.³⁶ So Europe enjoys almost double the representation of East Asia on the FSB while producing roughly the same proportion of global GDP.³⁷

B. *The Absence of Unity Among East Asian Nations*

As was explored in the introduction to this chapter, East Asia is a region fragmented by religion, political systems, degrees of development and history. Furthermore, the idea of Asia or East Asia is yet to gain as much traction as the idea of Europe had acquired by the 1970s.³⁸ Asia is not a term one hears used regularly in the region. Speakers are far more likely to speak of other nations specifically than of the region as a grouping. Asia and East Asia are terms used more

³⁶ Financial Stability Board, “Members of the Financial Stability Board” (7 August 2012), online: FSB: <<http://www.financialstabilityboard.org/about/plenary.pdf>>.

³⁷ East Asia’s GDP from the IMF database is US\$16.4 trillion (<http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx>), while from the same database, the European Union’s GDP is approximately US\$17.6 trillion.

³⁸ For a comparison of the development of the idea of European regionalism as compared to Asian regionalism, see Giovanni CAPANNELLI, “Asian Regionalism: How Does it Compare to Europe’s?” *East Asia Forum* (21 April 2009), online: East Asia Forum: <<http://www.eastasiaforum.org/2009/04/21/asian-regionalism-how-does-it-compare-to-europes/>>.

often by outsiders to define and limit the region than by those living within it to engender feelings of camaraderie and a shared future.

The hand of history weighs heavily on aspirations for regional unity.³⁹ The general perception in the region is that Japan has never properly apologised or taken responsibility for the atrocities it committed in its imperial period from 1895 to 1945.⁴⁰ This view is most strongly held in China, which through atrocities such as the Rape of Nanking suffered grievously at Japanese hands.⁴¹ Reconciliation between China and Japan is essential for the development of a regional architecture, as Simon Tay has pointed out,⁴² yet China and Japan are in no sense natural allies. Nonetheless reconciliation is needed, and for it to occur, “Japan must come to terms with its history”.⁴³ This is a difficult challenge for Japan given its domestic politics. Extreme right wing elements within its body politic who wish to argue that the rape of Nanking never happened will always receive disproportionate media coverage in places like China, as will Japanese school texts that choose to portray Japan as a victim in WWII rather than an aggressor.⁴⁴ This is a difficult challenge for Japan but is one to which it simply must rise – for its own sake and for the region’s. Korea has its own similar sources of historical distrust with Japan, most prominently the way in which Japan forced Korean women to serve as comfort women (prostitutes) for Japanese soldiers in WWII and its

³⁹ Rosemary FOOT, “Asian’s Cooperation and Governance: The Role of East Asian Regional Organizations in Regional Governance: Constraints and Contributions” (2012) 13(1) Japanese Journal of Political Science 133 at 139.

⁴⁰ Daniel NAGASHIMA, “Japan’s Militarist Past: Reconciliation in East Asia?” (2006) Yale Journal of International Affairs 112 at 117; Shaun NARINE, “The Idea of an ‘Asian Monetary Fund’: The Problems of Financial Institutionalism in the Asia-Pacific” (2003) 27(2) Asian Perspective 65 at 84-85.

⁴¹ Narine, *id* at 84-85.

⁴² Simon C. T. TAY, “Attempts at a Regional Architecture” in Simon C. T. TAY, ed., *Pacific Asia 2022: Sketching Futures of a Region* (Japan: Japan Center for International Exchange, 2005), at 200.

⁴³ *Ibid*.

⁴⁴ John H MILLER, “The Outlier: Japan Between Asia and the West”, Asia-Pacific Centre for Security Studies, Occasional Paper, March 2004 at 10.

continuing refusal to compensate the women.⁴⁵ Again, Japan needs to come to terms with its history.

The cause of East Asian unity is further held back by the absence of a clear regional leader. Until perhaps 15 years ago, the obvious economic leader of the region was Japan,⁴⁶ but the distrust mentioned above limited its capacity to play this role, and in any event Japan tended to keep its distance in regional councils playing the role of a somewhat aloof developed nation in a developing region. Today the economic leader of the region is China but Japan remains unwilling to concede this role and instead the two nations continue to jostle each other for leadership of the region.

C. The US Works Actively to Discourage Regional Co-operation

The US has not historically seen a unified East Asia as being in its national interest. It has therefore worked in more and less subtle ways against regional unity and co-operation. When Japan proposed, and was willing to fund, an Asian Monetary Fund in the aftermath of the 1997 crisis, the US was strongly opposed to the idea – principally because this Fund could have led to far greater regional co-operation and diminished US influence.⁴⁷

More recently, however, as the region has progressed along a road towards regional community building, the US has come to realise it best get on the bus, or risk being left behind. America's attitude towards East Asian regionalism is far less antagonistic than it was one or two decades ago, but it still doesn't actively support the process.⁴⁸

⁴⁵ Yvonne Park Hsu, "‘Comfort Women’ from Korea: Japan's World War II sex slaves and the legitimacy of their claims for reparations" (1993) 2(1) Pacific Rim Law and Policy Journal 97.

⁴⁶ So in 1996 Björn Hettne was able to write, "Asia-Pacific is becoming the new centre of global capitalism. It can also be seen as an emerging trade bloc under the leadership of Japan" and later describe Japan as "a hegemonic contender": Björn HETTNE, "Globalization, the New Regionalism and East Asia", Global Seminar Shonan Session, United Nations University, 2-6 September 1996.

⁴⁷ Zhongqi PAN, "Dilemmas of Regionalism in East Asia" (2007) 10(2) Korea Review of International Studies 17 at 23.

⁴⁸ Januzzi *supra* note 43 at 129-130; Ito GO, "Regionalism in the Asia-Pacific and US interests" (2008) 30 Nanzan Review of American Studies 167.

D. East Asia's Historical Distrust of International Institutions

The principal contemporary reason for the region's general skepticism about global economic governance is the region's deep disillusionment with the intervention of the IMF in the Asian crisis in 1997 and 1998.⁴⁹ The IMF's high-handedness in imposing stringent conditions on Indonesia, Korea and Thailand was perceived as a humiliating affront to sovereignty and still looms large in the region's collective memory. This is particularly so because the IMF's initial diagnosis of Asia's troubles in 1997 was quite wrong, as even the Fund itself was forced to admit in under two years.⁵⁰ The strongly interventionist and directive style of the IMF in that Crisis was in direct contrast to the region's strong preference for consensus-led cooperation, and so the region remains deeply distrustful of global economic institutions.⁵¹ Be that as it may, the region is losing the opportunity to shape the global debate and the resulting regulatory measures due to this historical distrust, and it is surely time for the region to rise above its history and to start to play the role which its economic success has earned it and which will serve it best. After all, it is not as if China is content with the international financial system as it is. The Governor of China's central bank has been calling since 2009 for a new reserve currency regime;⁵² and China is hard at work bringing this to pass. It has entered into currency swap agreements with Australia, Brazil, Hong Kong, Indonesia, Malaysia, New Zealand, Singapore and South Korea to facilitate trade with those countries being

⁴⁹ C. Randall HENNING and Mohsin S. KHAN, "Asia and Global Financial Governance", Peterson Institute for International Economics, Working Paper, October 2011 at 10; "Bitter IMF pills difficult for Asia to swallow" *China Daily*, 3 December 2008, online: China Daily: <http://www.chinadaily.com.cn/world/2008-12/03/content_7264255.htm>.

⁵⁰ Ross BUCKLEY and Sarala FITZGERALD, "An Assessment of Malaysia's Response to the IMF during the Asian Economic Crisis" (2004) *Singapore Journal of Legal Studies* 96.

⁵¹ For a nuanced analysis of other reasons for this distrust see Injoo SOHN, "East Asia's Counterweight Strategy: Asian Financial Cooperation and Evolving Monetary Order", UNCTAD G-24, Discussion Paper No. 44, March 2007 at 2-3.

⁵² Zhou XIAOCHAUN, "Reform the IMF" *China Org* (26 March 2009), online: China.org.cn: <http://www.china.org.cn/international/2009-03/26/content_17504019.htm> (accessed 11 October 2011); and Fred BERGSTEN, "We should listen to Beijing's currency idea" *Financial Times* (8 April 2009), online: FT: <<http://www.ft.com/cms/s/0/7372bbd0-2470-11de-9a01-00144feabdc0.s01=1.html#axzz1aWgJGjgs>>; "Beyond Bretton Woods 2: is there a better way to organise the world's currencies?" *The Economist* (4 November 2010), online: The Economist: <<http://www.economist.com/node/17414511>>; Jamil Anderlini, "China calls for new reserve currency" *Financial Times* (24 March 2009), online: FT: <<http://www.ft.com/intl/cms/s/0/7851925a-17a2-11de-8c9d-0000779fd2ac.html#axzz24FUqz5a5>>.

denominated in their local currencies or renminbi, rather than US dollars.⁵³ As a result of these agreements and their projected expansion in the future, HSBC predicts that by 2015 the renminbi will be one of the three leading currencies for the conduct of international trade.⁵⁴ China remains of the view that there are better alternatives for a global reserve currency than the US dollar, with which I agree,⁵⁵ and if it could bring all of East Asia with it in that view, it would have a far better prospect of one day seeing it realised.

Regional Integration

Integration within East Asia is an odd phenomenon. The region is highly integrated in terms of production – China is increasingly the manufacturing hub to which industries in other regional nations contribute inputs in their niches of comparative advantage. It is also well integrated in formal trade terms with a veritable noodle bowl of bilateral and regional free trade agreements in place or under negotiation.⁵⁶ However, the region is poorly integrated in financial and political terms.⁵⁷ The financial systems of most East Asian nations are far more closely integrated with financial systems in North America or Europe than with those of other East Asian nations. This is perplexing given the high savings rates and foreign exchange reserves that characterize regional nations. East Asia's massive savings as a region give it enviable options in

⁵³ Michael DWYER and Jason MURPHY, "Historic \$A pact seals China ties", *Australian Financial Review*, (23 March 2012), online: AFR: <http://afr.com/p/national/historic_pact_seals_china_ties_3EnHQZQ0Awwcj176ecKMjM>.

⁵⁴ *Ibid.* See also J. WHEATLEY, "Brazil and China in plan to axe dollar" *Financial Times* (18 May 2011), online: FT: <<http://www.ft.com/cms/s/0/996b1af8-43ce-11de-a9be-00144feabdc0.html#axzz1aWgJGjgs>>

⁵⁵ Ross P. BUCKLEY, "Resilience and global financial governance", in S. CORK, ed., *Resilience and Transformation: Preparing Australia for Uncertain Futures* (Melbourne: CSIRO Publishing, 2009), 65 at 70.

⁵⁶ There are currently 17 implemented free trade agreements among East Asian nations, one free trade agreement under negotiation (Japan-Korea) and a further five under proposal: Yunling ZHANG and Minghui SHEN, 'The Status of East Asian Free Trade Agreements', ADBI Working Paper Series No. 282, May 2011, 32-33. In addition, in May 2012, China, Japan and Korea agreed to begin negotiations on a free trade agreement: see "China Plans Talks with Japan, Korea on Free-Trade Area" *Bloomberg* (14 May 2012), online: Bloomberg: <<http://www.bloomberg.com/news/2012-05-12/china-japan-korea-to>>; "Regional Economic Outlook: Asia and Pacific", International Monetary Fund, World Economic and Financial Surveys, October 2011.

⁵⁷ David COWEN and Ranil SALGADO, "Globalization of Production and Financial Integration in Asia" in David COWEN, Ranil SALGADO, Hemant SHAH, Leslie TEO and Alessandro ZANELLA, eds., *Financial Integration in Asia: Recent Developments and Next Steps*, IMF Working Paper No. 06/196, 2006 at 4.

dealing with global capital, and provide the opportunity to interact with global capital more on its own terms.

Immediately after the East Asian crisis in 1997 Japan offered to fund the establishment of an Asian Monetary Fund, with a view to enhancing regional financial integration, but the idea met stern opposition from the United States and the IMF, and a lack of support from China, and was dropped.⁵⁸ In its place, the much less ambitious Chiang Mai Initiative was pursued, a series of bilateral commitments by which regional nations committed to make bilateral swap arrangements and security repurchase agreements available to each other in times of need.

The CMI was not called upon during the 2008 global crisis with regional nations preferring to arrange extended credit lines from the US Federal Reserve. In the face of this failure, the swap agreements were multilateralised in early 2009 and increased by US\$40 billion to US\$120 billion in an agreement known as the Chiang Mai Initiative Multilateralised ('CMIM').⁵⁹ And in May 2012, the swap lines were doubled to \$240 billion.⁶⁰ China, Japan and Korea provide 80% of these commitments, with the balance from ASEAN nations.

Originally only 20% of the amounts available under the CMIM were available if a nation did not have an IMF program in place. As IMF negotiations are typically slow, 80% of the funds would not be available promptly -- when they are needed in a crisis. The reason given for conditioning CMIM credit upon an IMF program is that the CMI lacked a surveillance capacity. This has now been remedied with a surveillance authority established,

⁵⁸ Lipsey, *supra* note 16.

⁵⁹ J RATHUS, "The Chiang Mai Initiative's multilateralisation: A good start", East Asia Forum, 23 March 2010.

⁶⁰ Ministry of Strategy and Finance, Korea, "ASEAN+3 Finance Ministers and Central Bank Governors' Meeting Successfully Concludes", Press Release, 3 May 2012, online: MOSF: <http://english.mosf.go.kr/upload/mini/2012/05/FILE_A66G81_20120503182819_1.pdf>.

in Singapore, in 2012.⁶¹ However, the immediately available amount was only increased to 30% of available funds, with a view to a further increase to 40% in 2014.⁶²

Jayant Menon has noted that “Asia’s recent doubling of its financial safety net looks impressive. But it’s more icing than cake.”⁶³ Menon is right. The amount of funds available under the CMIM need at least to be doubled and preferably tripled,⁶⁴ and the limits on the availability of the funds radically altered, before the CMIM will be a real substitute for credit lines from the US Federal Reserve or the IMF in any future crisis. However, while ASEAN and the region moves slowly it is persistent, so achieving a CMIM of this size and ability to react swiftly is by no means unforeseeable.

A series of substantial credit lines coupled to a serious surveillance (and thus advice-giving) capacity is very close to a monetary fund, in this case, an Asian Monetary Fund. If the CMIM’s credit lines are tripled, and the conditions upon which they be made available be determined entirely by the CMIM’s surveillance authority in Singapore, not the IMF, then the CMIM could begin to function like an Asian Monetary Fund and thereby greatly enhance the region’s control of its economy and allow the region to insulate itself, to some extent, from the vagaries and volatility of global capital.

The Need for a Unified Regional Voice in Global Governance

If East Asia is going to be able to exercise the influence it should have given its foreign exchange reserves and its contribution to global GDP growth, China, Japan and Korea are going to need to cooperate. Yet, rather than cooperating, the three countries

⁶¹ The ASEAN+3 Macroeconomic Research Office (AMRO) was officially opened on 31 January 2012. It is responsible for monitoring the macroeconomic and financial situation of, and identifying vulnerabilities within, the ASEAN+3 region: Ministry of Finance, Singapore, “Opening Ceremony of ASEAN+3 Macroeconomic Research Office”, Press Release, 31 January 2012, online: AMRO: <http://www.amro-asia.org/wp-content/uploads/2012/01/01-Press-Release_AMRO-Opening-Ceremony.pdf>

⁶² Ministry of Strategy and Finance, Korea, *supra* note 52.

⁶³ Jayant MENON, “Asia’s Financial Safety Net a Dead Loss” *Bangkok Post* (15 June 2012), online: Bangkok Post: <<http://www.bangkokpost.com/news/local/298107/asia-financial-safety-net-a-dead-loss>>).

repeatedly clash at G20 summits. For instance at the G20 Finance Ministers meeting in Paris in February 2011, Korea and China were in conflict over the internationalization of the renminbi and at the G20 seminar in Nanjing in late March 2011, Japan openly supported the current role of the US dollar as the global reserve currency in opposition to the wishes of China.⁶⁵

The region's economic strength and stability, and its role as a driver of growth globally, should give rise to considerable economic clout for the region in G20 deliberations but for this to happen the region needs to speak with one voice. The two principal reasons it doesn't are (i) the lingering, potent historical animosities between China and Japan and Korea and Japan, and (ii) Japan's and Korea's concern about China's military rise and its increasing bellicosity.

So the way forward is going to require action from Japan and China. What is needed from Japan has already been explored,⁶⁶ so the focus now turns to China.

China's Change of Course

For 20 years China's foreign relations policies were, in the main, a model of the subtle but effective pursuit of national self-interest. In the past few years, all this has changed.

For years in classes about the region, I would contrast the use by Japan and China of aid funds to secure influence. Every year Japan would heavily outspend China on regional aid, and achieve far less bang for their yen. Japan funded worthy projects that gave its neighbours what Japan believed they needed, and what they often did need. China on the

⁶⁴ And then of course regularly increased to keep pace with inflation.

⁶⁵ Yves TIBERGHIE, "Big Picture: The Context of the Seoul G20 Summit and the Northeast Asian Paradox", East Asia Institute Issue Briefing No. MASI 2011-04, 26 August 2011, at 6.

⁶⁶ See text accompanying footnote 35 and following.

other hand gave what recipient governments wanted.⁶⁷ It was as if Japan was the parent who knew best, and China the grandparent who bought soft toys and ice cream.

As the developed nation in East Asia, Japan acted as if it had earned the right to solve other nations' problems. China behaved like a good friend who listened first, and then helped. In the words of Mauzy and Job, "China's attempts to woo Southeast Asia consist of a package of well crafted policies featuring economic incentives and goodwill measures along with a strong diplomatic effort."⁶⁸

Unsurprisingly, China won friends and influenced nations, whereas Japan spent a lot of money and did a lot of good, but not much for itself.

There were tensions in these years which diminished other nation's trust in China such as China's 'integration' of Tibet, China's desire to reunify Taiwan as part of China, and an unsettled land boundary with India.⁶⁹ However, it is fair to say that China's star was on the ascendant as a potential regional leader. All this started to change in the past few years with the rise of Chinese bellicosity.

China is pushing its claims to islands in the South China and East China Seas, and few in the West draw distinctions between these claims. They tend to be seen as undifferentiated acts of Chinese aggression. China's perspective is utterly different.

China is pushing its claim to the Spratly Islands in the South China Sea vigorously against the Philippines, Vietnam, Malaysia, Taiwan, Brunei – all of whom maintain claims to at least some of the islands. A quick look at a map shows the validity of the Philippines', and

⁶⁷ Jonathan WESTON, Caitlin CAMPBELL and Katherine KOLESKI, "China's Foreign Assistance in Review: Implications for the United States", US-China Economic and Security Review Commission Background, 1 September 2011, at 2; Hitoshi TANAKA and Adam P. LIFF, "Japan's Foreign Policy and East Asian Regionalism", Council on Foreign Relations, December 2009 at 3-4.

⁶⁸ Diane K. MAUZY and Brian L. JOB, "US Policy in Southeast Asia: Limited re-engagement after years of benign neglect" (2007) 47(4) Asian Survey 622 at 632.

perhaps Vietnam's, claims to the Spratlys and the vast oil and gas reserves beneath them. Any map also shows the fatuousness of China's claims to the Spratlys, which are a long way away from China. This doesn't deter China as it bases its claims on history – for reasons related to the idea of China that I will explore later. In July 2012, to reinforce its claims, China resolved to garrison troops on one of the islands, and appointed 45 legislators to govern them.⁷⁰

Likewise, in mid-2012, China established a military garrison on the Paracel Islands in the South China Sea, that are claimed by Vietnam. This was described by one of Australia's most perspicacious commentators as “an extraordinary act of provocation”.⁷¹

Formerly China would have sought oil and gas exploration rights over the Spratlys and the Paracels by offering the Philippines and Vietnam production-sharing agreements plus large amounts of aid and large, cheap loans. Today China bases its claims not on persuasion and largesse, but on military might. China will prevail by relying on its military strength but at what cost to its longer term ambitions to be a genuine regional and global leader, and to start to shape the global system so that it serves China's, and East Asia's, ends?

In the East China sea there is a territorial dispute over the Diaoyu Islands (which are known as the Senkakus in Japan) and over fishing rights in nearby waters. In the words of an article on Xinhuanet,

“There is ample historical evidence to show that the Diaoyu Islands have been Chinese territory since the Ming Dynasty (1368-1644). The fact is recorded in many historical documents. Even a map published by Japan between 1783 and 1785 ... labelled the Diaoyu Islands as Chinese territory.

⁶⁹ S. Mahmud ALI, “Asia's Century one of Turbulent Transition and Volatility” *East Asia Forum* (24 April 2012), online: East Asia Forum: <<http://www.eastasiaforum.org/2012/04/24/asias-century-one-of-turbulent-transition-and-volatility/>>.

⁷⁰ Jane PERLEZ, “Tensions rise as China sends troops to disputed islands” *Sydney Morning Herald* (25 July 2012), online: SMH: <<http://www.smh.com.au/world/tensions-rise-as-china-sends-troops-to-disputed-islands-20120724-22n76.html>>.

⁷¹ Peter HARTCHER, “Any China conversation better than none at all” *Sydney Morning Herald* (14 August 2012), 11.

The islands were unfortunately seized by Japan during the 1894-1895 Sino-Japanese war and had since been under its occupation until its defeat at the end of World War II. However, they were not returned to China, its rightful owner, and were wrongly assigned to the then U.S.-controlled ... Japan ... under an illegal treaty signed between Tokyo and Washington in 1951.”⁷²

Japan has rather different views, stating that the islands have been under Japanese control since 1895, and dismissing all the grounds that China relies upon as baseless.⁷³ This dispute is about five uninhabited islands comprising a total area of about 7 kilometres, and three barren rocks, which just happen to be near important shipping routes and which probably sit above substantial oil reserves. At the time of writing it continues to generate considerable heat with allegations that China has locked missile guidance systems on to Japanese vessels in the area and the like.⁷⁴ This dispute poses a genuine threat to regional stability.

There have been extensive protests within China about Japan’s occupation of these islands.⁷⁵ Most Chinese scholars to whom I have spoken are of the view that the government could do much to lower these tensions and diffuse the situation.⁷⁶ Yet, as the words of

⁷² Jiang HANLU, “Japanese rightists’ landing at Diaoyu Islands infringes Chinese sovereignty” *Xinhua* (19 August 2012), online: Xinhua: <http://news.xinhuanet.com/english/indepth/2012-08/19/c_131794676.htm>.

⁷³ Ministry of Foreign Affairs of Japan, “The basic view on the sovereignty over the Senkaku Islands” (August 2012), online: MOFA: <<http://www.mofa.go.jp/region/asia-paci/senkaku/senkaku.html>>.

⁷⁴ See Alicia PQ WITTMAYER, ‘Why Japan and China Could Accidentally End Up at War’ (22 March 2013) *China-US Focus* <<http://www.chinausfocus.com/peace-security/why-japan-and-china-could-accidentally-end-up-at-war/>> (accessed 4 April 2013); and ‘Locked On’ *The Economist* (9 February 2013) <<http://www.economist.com/news/asia/21571466-dangerous-dance-around-disputed-islets-becoming-ever-more-worrying-locked>> (accessed 4 April 2013).

⁷⁵ “Japanese firms close offices in China as islands row escalates” *The Guardian* (17 September 2012), online: Guardian: <<http://www.guardian.co.uk/world/2012/sep/17/japanese-firms-close-offices-china>>; “China-Japan protests resume amid islands row” *BBC News* (18 September 2012), online: BBC: <<http://www.bbc.co.uk/news/world-asia-china-19632042>>; “More Protests in China Over Japan and Islands” *New York Times* (18 September 2012), online: New York Times: <<http://www.nytimes.com/2012/09/19/world/asia/china-warns-japan-over-island-dispute.html>>.

⁷⁶ See also Sarah RAINE & Christian Le MIÈRE, ‘Chapter Two: Beijing’s Multifaceted Approaches’ (2013) 53 *Adelphi Series* 55; and Ian STOREY, ‘Slipping Away? A South China Sea Code of Conduct Eludes Diplomatic Efforts’ (East and South China Seas Bulletin No 11, Center for a New American Security, 20 March 2013).

Xinhuanet quoted above suggest, the Chinese government for its own reasons is not seeking to do so.

The George W Bush administration fixated on the Middle East and ignored East Asia. Upon coming to power in 2009 the Obama administration sought to rectify this oversight. But the conventional wisdom was that America was by then so resented in the region that reclaiming its former influence would be likely impossible.⁷⁷

Yet, of late, China's aggressive postures have so scared regional nations that they have been lining up to ask America to re-engage. So we see the Philippines asking America to re-open Clark Air Base and Subic Bay, military bases the Filipinos ordered closed over 20 years ago.⁷⁸ We see the US announcing it will move the bulk of its navy to the Pacific, so that 60 percent of its fleet, including six aircraft carrier groups, will be based in the Pacific by 2020.⁷⁹ And we see Indonesia taking the unprecedented step of sending its newest Sukhoi fighter aircraft offshore for the first time ever -- to Australia for joint training exercises in July 2012.⁸⁰

So China in the past four years has given to the US the extraordinary gift of allowing it to re-establish its regional credibility and influence; which raises the question of why would China do such a thing?

The answer to this question lies not in what China expects the results of its actions to be, but in what is motivating its actions. In the decades when China's foreign relations policies were a model of the subtle but effective pursuit of national self-interest, China was

⁷⁷ Renato Cruz DE CASTRO, "The Obama Administration's (Neoliberal) Reengagement Policy in East Asia: Implications for US-China Relations in the Twenty-first Century" (2011) 47(2) *Issues and Studies* 1.

⁷⁸ Robert JOHNSON, "The US will open massive Philippine bases not occupied since the Cold War" *Business Insider* (8 June 2012), online: Business Insider: <<http://www.businessinsider.com/the-us-is-reopening-massive-philippine-military-bases-not-used-since-the-cold-war-2012-6>>.

⁷⁹ "Leon Panetta: US to deploy 60% of navy fleet to Pacific" *BBC News* (2 June 2012), online: BBC: <<http://www.bbc.co.uk/news/world-us-canada-18305750>>.

⁸⁰ Lindsay MURDOCH and Michael BACHELARD, "Indonesian jets in Australian war games" *Sydney Morning Herald* (18 July 2012), online: SMH: <<http://www.smh.com.au/world/indonesian-jets-in-australian-war-games-20120717-228f3.html>>.

seeking regional influence and supporters in global fora. It was not, however, dealing with issues of territoriality. When China's foreign relations policies have tended to be self-defeating, they have dealt with claims to territory seen by China as traditionally belonging to China. And here the idea of China becomes very important. Just as I wrote earlier that the idea of Asia is not particularly strong, the idea of China is both powerful and resonant for Chinese people.

So when territory that historically was part of the idea of China, or that today is seen as having formed part of that idea whether at the time it really did so or not, is not accepted by other nations for reasons of geography as being part of China, China becomes aggressive and assertive in ways that do not serve it in the bigger picture. Yet we must bear in mind that these actions of the Chinese government which I have characterised as aggressive are criticised internally within China as being too weak. For what is at stake for China is not just some small collection of islands, even with potential oil and gas reserves, what is at stake is part of the historical idea of China. It is the idea of China as the central kingdom, China as mother of the world's most populous people, China as the 'moral guardian' of her people in Confucian terms.⁸¹ This is part of the reason that China treats as its nationals people who were born there but have since renounced their Chinese citizenship and assumed that of other nations.⁸² It is part of the reason why when China first opened to foreign investment under

⁸¹ In Confucianism the state is the "moral guardian" of the people, the relationship between the individual and the state is understood in consensual rather than adversarial terms, and neo-Confucian ideals held it was the responsibility of the educated individual to serve the State. See Roberta MARTIN (ed), "Central Themes for a Unit on China" *Asia for Educators* (2009), online: AFE: <http://afe.easia.columbia.edu/main_pop/kpct/ct_china.htm>. Confucianism prescribes a lofty ideal to the State with the governor as "father" to his people who should look after their basic needs: see Jia WANG, Greg G. WANG, Wendy E. A. RUONA and Jay W. ROJEWSKI, "Confucian Values and the Implications for International HRD" (2005) 8(3) *Human Resource Development International* 311, 315.

⁸² John GARNAUT, "China fetes Abbott like 'PM-in-Waiting'" *The Age* (23 July 2012), online: *The Age*: <<http://www.theage.com.au/opinion/political-news/china-fetes-abbott-like-pminwaiting-20120723-22k9e.html>>; Donald ROTHWELL, "Chinese law is Australia's business" *The Drum* (29 November 2010), online: *The Drum*: <<http://www.abc.net.au/unleashed/41544.html>>.

Deng Xiaoping the investment that was most welcomed by provincial and national governments, and was most likely to succeed, was investment by overseas Chinese.⁸³

Important insights into this idea can be gleaned from a speech delivered by Professor Wei-Wei Zhang in the Netherlands in 2011. He writes:

“China is a civilizational state and the world’s only civilizational state. China is the only country in the world with a history of unified state for over 2000 years. It is the only country with a continuous civilisation lasting over 5000 years. The Chinese are the indigenous people to their own land. ... China is the only country which is ... an amalgamation of an ancient civilisation and a huge model state.”⁸⁴

Professor Zhang sees China as somewhat like what the Roman Empire might have been if it endured to this day as a massive unified state in which all inhabitants spoke Latin. He sees China as an amalgamation of four factors: a super-large population, a super-sized territory,⁸⁵ a super-long history and a super-rich culture.

As Amartya Sen has identified:

“high technology in the world of 1000 AD included paper and printing, the crossbow and gunpowder, the clock, the iron chain suspension bridge, the kite, the magnetic compass, the wheelbarrow and the rotary fan. Each one of these examples of high technology ... a millennium ago was well-established and extensively used in China and ... practically unknown elsewhere.”⁸⁶

⁸³ K. C. FUNG, Hitomi IIZAKA and Sarah TONG, “Foreign Direct Investment in China: Policy, Trend and Impac”, Paper prepared for a conference on “China’s Economy in the 21st Century”, 24-25 June 2002, Hong Kong, at 6-7; C. Simon FAN, “Overseas Chinese and Foreign Investment in China: an application of the transaction cost approach”, Centre for Asian Pacific Studies Working Paper Series, Paper No. 39, 1997, at 8-10.

⁸⁴ Wei-Wei Zhang, “The allure of the Chinese model”, Conference: Power shifts in a changing world order: The role of the European Union and the position of the Netherlands, Senate of the Netherlands, 4 February 2011, at 11.

⁸⁵ Professor Zhang seems unaware that the contiguous continental United States, Australia and Brazil are all within 5 percent of the land mass of China.

⁸⁶ A. SEN, “Global Doubts as Global Solutions” (Alfred Deakin Lecture, Melbourne, 15 May 2001) <www.abc.net.au/rn/deakin/stories/s296978.htm>.

Most people in the West are unaware that China gave these inventions to the world 1,000 years ago and led the world in technology, but this is common knowledge in China. Indeed, in discussions in China, it seems the statistic that as recently as 1820 China produced 33% of global GDP is forefront in the mind of most educated Chinese.⁸⁷ In 1820 China's GDP was 42% higher than Western Europe's and over 18 times that of the US; and East and South Asia's GDP combined was 2.5 times that of Western Europe.⁸⁸ China has been a superpower before and the Chinese know this. They believe "the rise of China is granted by nature" and China's decline "is a historical mistake which they should correct."⁸⁹

For most Chinese people, the period from 1820 to 1970 was an historical anomaly – a period in which Asia was not the most productive part of the planet.⁹⁰ For these people, the economic rise of China and India is merely the world returning to its natural state.

In short, China is an idea at once larger, more influential and more powerful than the ideas that underpin almost any other nation. Ironically, probably the only other nation in the world that is as defined and influenced by its own idea of itself – in this case the ideas surrounding its founding – is the United States.

⁸⁷ See, for example: "Hello America: China's economy overtakes Japan's in real terms" *The Economist* (16 August 2010), online: The Economist: <<http://www.economist.com/node/16834943>>; Derek THOMPSON, "The economic history of the last 2,000 years in 1 little graph" *The Atlantic* (19 June 2012), online: The Atlantic: <<http://www.theatlantic.com/business/archive/2012/06/the-economic-history-of-the-last-2-000-years-in-1-little-graph/258676/>>; Derek THOMPSON, "The economic history of the last 2000 years: Part III" *The Atlantic* (22 June 2012), online: The Atlantic: <<http://www.theatlantic.com/business/archive/2012/06/the-economic-history-of-the-last-2000-years-part-iii/258877/>>; "China's historical GDP share in the world" *China Whisper* (29 August 2012), online: China Whisper: <<http://www.chinawhisper.com/chinas-historical-gdp-share-in-the-world>>; Zubin JELVEH, "Merely following a megatrend" *The New York Times* (15 October 2005), online: NY Times: <http://www.nytimes.com/2005/10/15/technology/15interview.html?_r=1&ex=1287028800&en=6e9fe66df56bd0aa&ei=5090&partner=rssuserland&emc=rss>.

⁸⁸ Angus MADDISON, "China in the World Economy" (2006) 11(3) *International Journal of Business* 240 at 242 (Table 1).

⁸⁹ Yan Xuetong, "The Rise of China in Chinese Eyes" (2001) 10(26) *Journal of Contemporary China* 33 at 33.

⁹⁰ Certainly for China this period was utterly anomalous as its GDP measured in constant dollars increased only 5% in total over the 130 years: Maddison, *supra* note 80.

The power and resonance of this idea of China is why the nation is behaving so counter-productively over the territorial disputes in the South China and East China seas. And any resolution of these conflicts is going to have to accommodate the present day reality and influence of this idea. China is going to need to be assisted to see its interests through a lens that is larger than one merely of sovereignty. It would be well served by assistance in seeing its pivotal role in a world of two super-powers, a role that is so much bigger, and with more far-reaching consequences for China and others, than historical ideas of the geographical ambit and limits of China.

China is the regional superpower. It now has real muscles to flex. Perhaps doing so provides some sort of steroidal satisfaction – we are doing this because we can. But there is a clear pattern here – when China is seeking to gain access to resources or influence with other nations it behaves adroitly and subtly but when the issue at stake touches on China’s territorial sovereignty the subtlety gives way entirely to bellicosity. This regional aggression is distinctly at the expense of China’s national interests. China’s former course of building its soft power and trustworthiness was far better calculated to advance its own interests. Its current behavior has seen American influence rise in the region far more than anyone believed possible three or four years ago.⁹¹

China’s new aggressive posture on security issues also effectively derails any possibility of a unified voice on economic governance issues. By driving Japan and Korea ever more strongly under the American military umbrella, China inevitably gives the US the power to shape the Japanese and Korean positions on economic issues to an extent that would not otherwise be possible.

⁹¹ Jayshree BAJORIA, “How the U.S. Should Stay Relevant in Asia” *Council on Foreign Relations* (18 November 2011), online: CFR: <<http://www.cfr.org/asia/us-should-stay-relevant-asia/p26546>>; Ian JOHNSON and Jackie CALMES, “As U.S. looks to Asia, it sees China everywhere” *The New York Times* (15 November 2011), online: The New York Times: <http://www.nytimes.com/2011/11/16/world/asia/united-states-sees-china-everywhere-as-it-shifts-attention-to-asia.html?pagewanted=1&_r=2&ref=world>.

This is to everybody's detriment. The G20 would be a more effective institution of global economic governance with a strong and unified policy input from East Asia. The region with the highest growth rates in the world must have useful things to say in global economic deliberations and deserves to be listened to carefully. The capacity to bring this about lies in China's hands, but it is going to require many years of careful, considerate regional behavior as China convinces the region it has the region's best interests at heart and can be trusted to deliver to it prosperity and security.

The first step in this journey towards reclaiming its natural regional leadership may lie in the negotiations towards a free trade agreement among China, Japan and Korea which commenced in March, 2013.⁹² Some commentators believe these negotiations may provide a forum and way in which to deal with the territorial issues.⁹³ This free trade agreement could therefore be doubly important – for the potential it offers to achieve a degree of regional unity on trade issues and as a forum and means to resolve other issues that are presently utterly undermining regional unity.

Conclusion

East Asia has been important to the global economy for decades, and of central importance since 2008. However, the region's natural fragmentation, and the forces of history, have greatly limited its ability to contribute to global economic governance and therefore to the development of a less fragmented and more coherent discipline of international economic law. While the substance of the Washington Consensus is widely understood, that of the Beijing Consensus is less well-defined. I have defined here an East

⁹² Ministry of Economy, Trade and Industry (Japan), 'First Round of Negotiations on a Free Trade Agreement (FTA) Among Japan, China and the ROK', 28 March 2013) <http://www.meti.go.jp/english/press/2013/0328_01.html> (accessed 4 April 2013); Xinhua, 'China, Japan, S.Korea End 1st FTA Talks with Progress' *China Org* (28 March 2013) China Org: Online, <http://www.china.org.cn/business/2013-03/28/content_28386884.htm> (accessed 4 April 2013); and Ministry of Foreign Affairs (Republic of Korea).

⁹³ 'China Japan and South Korea Eye Free Trade Agreement' *BBC News: Business* (26 March 2013) BBC Business: online: <<http://www.bbc.co.uk/news/business-21934726>> (accessed 4 April 2013).

Asian Consensus as comprising incremental reform; innovation and experimentation; export-led growth; state capitalism and a major directive role for government. But the fact that an East Asian Consensus is not a settled and influential term speaks to the region's inability to (i) articulate why it has led the world in economic growth for two decades and (ii) grasp the thought leadership role that such economic success should confer. It should have long been obvious to China that the region was unlikely to collectively support a Beijing Consensus. The failure to promote an East Asian Consensus is a lost thought leadership opportunity and one that has done nothing to lessen the fragmentation in the discipline of international economic law.

The region's economic strength should also have given rise to considerable economic clout in G20 deliberations but for this to happen the incoherence in the region's voice needs to stop. The two principal reasons it doesn't are (i) the lingering, potent historical animosities between China and Japan and Korea and Japan, and (ii) Japan's and Korea's concern about China's military rise and its increasing bellicosity.

So the way forward is going to require action from Japan and China.

As previously considered, the only answer to the potent historical distrust is for Japan to take responsibility for its history, give unconditional apologies for past abuses, and ensure its school texts and other histories don't whitewash Japan's role as the aggressor in WWII and the abuses committed by its troops.

Equally there is only one answer to the rising concerns about China's current aggression. China needs to stop resorting to threats and military intimidation or security tensions will continue to irreparably undermine any convergence of the region's voice. China is paying a huge price in lost international influence for taking its utterly uncompromising stance on territorial issues. This is a real loss for the region which is destabilized and spends much more than it would otherwise need to do on military expenditures. It is tragedy for China, Japan and Korea who spend their energy squabbling among themselves rather than

shaping the international regulatory and other agendas in ways that would serve them and the region.

Since opening up to foreign investment under the leadership of Deng Xiaoping, China's strategies have been characterised by subtle, astute, long-term thinking – three elements missing from its current approach. A return by China to its former policies of seeking regional leadership and influence through soft power and the strategic use of aid funds and largesse may require China to share the oil and gas resources in the South China Sea but the cost to China of sharing these resources would be far less than the cost to China of the loss of the opportunity to shape the global economic and regulatory agenda.

China is now a major global player. It is playing for stakes far higher than fidelity to the historical idea of China or access to some oil and gas or fishing rights. China, Japan and East Asia would all be far better off if each could realize that the bigger game they are playing in is the opportunity to shape the global economic and financial architecture and to bring coherence, and a distinctly Asian sensibility, to the rules by which the global economy is governed – those of the discipline of international economic law.