

## **Chapter 1**

---

# **China's Cooperative Strategy toward East Asia— Aiming to Seize Regional Leadership**



Following the outbreak of the Asian financial crisis, China has been pursuing an active foreign policy in East Asia since the late 1990s. China perceives that nontraditional security threats have emerged and economic disparities between the industrial and developing countries have worsened in the process of political multipolarization and economic globalization. Given the present international situation, China realizes that in order to overcome these problems and achieve peace and prosperity, it is necessary to promote multilateral cooperation in East Asia. Consequently, China actively engages in regional cooperation by pursuing diplomacy under the banner of peace, development, and cooperation with aims to expand its external trade and domestic investment, narrow domestic economic disparities, prevent a recurrence of a financial crisis in East Asia, and secure stable energy supply.

China's cooperative strategy toward East Asia has brought about increased external trade and in-bound foreign investment and more stable relations with neighboring countries. On the other hand, preventing the recurrence of a financial crisis and narrowing development disparities among East Asian countries still remain as major issues. Problems also exist in China's relations with Japan. Additionally, the effort China has made to attain leadership in East Asia has not borne fruit, while the Association of Southeast Asian Nations (ASEAN) continues to hold the initiative in promoting regional cooperation in East Asia.

However, so long as China intends to secure the achievements it has made so far, and seeks to achieve more, it has no alternative but to deepen its cooperation with East Asian countries. In other words, China will continue to take a positive approach to cooperation in East Asia, sticking to its three-pronged diplomatic approach of peace, development, and cooperation.

For its part, Japan must seek to stabilize its relations with China and to ensure East Asia's stability and prosperity by promoting regional cooperation for advancing economic development and for dealing with nontraditional security threats. Sharing this objective with the United States, Japan should encourage China's constructive efforts for East Asia cooperation, while keeping close watch over China's attempt to assume dominant leadership in the region.

## **1. Promoting East Asia Cooperation**

### **(1) Advance of East Asia Cooperation**

Since the latter half of the 1990s, multilateral cooperation in East Asia has gathered pace. Central to this movement is the cooperative framework built by the 10 member states of ASEAN plus Japan, China, and South Korea. This framework, commonly known as “East Asia cooperation” or “ASEAN+3,” has been hosting ministerial-level meetings in various fields, and is topped off by the annual ASEAN+3 Summit. The agenda of these meetings has been expanded to cover political and security issues as well as economic ones such as trade, banking, finance, energy, transportation, and communications. Stimulated by the increasing regional cooperation achieved by the European Union (EU) and North American Free Trade Agreement (NAFTA), regional efforts in East Asia have made rapid progress.

The event that helped East Asia cooperation gather momentum was a summit meeting of ASEAN member states held in Kuala Lumpur together with Japan, China, and South Korea in December 1997. This came about after a Japanese proposal for a Japan-ASEAN summit meeting was met by ASEAN’s counter-proposal suggesting that China and South Korea also take part. East Asia cooperation thus started under ASEAN+3 (ASEAN member states with Japan, China, and South Korea) and three ASEAN+1s (ASEAN states with Japan, China, or South Korea, separately) in parallel, and these frameworks remain basically unchanged.

From the moment of its establishment in Kuala Lumpur, East Asia cooperation met with a challenge posed by a financial crisis that grew more and more serious from the second half of 1997. A sharp fall in the value of the Thai baht against the US dollar in July 1997 instantly triggered a similar fall in other Southeast Asian currencies. The impact was so devastating that Thailand, South Korea, and Indonesia, in particular, were compelled to seek aid packages from the International Monetary Fund (IMF) with conditionalities requiring tightening of their fiscal and monetary policies. Many other East Asian countries also suddenly found that their economies, which had been enjoying steady growth, were suffering an unprecedented crisis. The situation brought home to these East Asian nations their high degree of economic interdependence and the necessity for region-wide cooperation to overcome the crisis. Therefore, among the finance ministries and central banks of these countries, regional cooperation in East Asia began with policy dialogue and coordination.

At the third summit held in Manila in November 1999, East Asia cooperation made remarkable progress. On this occasion, the heads of states issued a Joint Statement of East Asia Cooperation. In the statement, they noted “the bright prospects for enhanced interaction and closer linkages in East Asia,” and recognized the fact that “this growing interaction has helped increase opportunities for cooperation and collaboration with each other, thereby strengthening the elements essential for the promotion of peace, stability and prosperity in the region.” The joint statement mentioned eight specific areas of cooperation in coming years: (a) economic cooperation, (b) monetary and financial cooperation, (c) cooperation in social affairs and human resources development, (d) cooperation in the area of scientific and technical development, (e) cooperation in the cultural and information area, (f) development cooperation, (g) cooperation in political and security fields, and (h) cooperation in dealing with transnational issues. In addition, they agreed to hold a foreign ministers’ meeting of member countries.

At a meeting of finance ministers of ASEAN+3 countries held in Chiang Mai in May 2000, they agreed to launch a Chiang Mai Initiative to strengthen the self-help and support mechanism aimed at stabilizing the monetary systems of East Asian countries. A swap arrangement through which foreign currencies are supplied to countries struggling with a financial crisis has already been made among five ASEAN member countries. The Chiang Mai Initiative is designed to build a currency swap arrangement throughout East Asia capable of quickly dealing with a financial crisis by expanding the existing arrangement to all member countries of ASEAN, and by making bilateral swap arrangements among ASEAN countries, Japan, China, and South Korea. In addition, an Asian Bond Markets Initiative (ABMI) aimed at creating a market for direct financing by issuing bonds in a local currency is making steady progress. The ABMI is expected to enable the region’s private business enterprises to use the abundant savings accumulated in Asia for long-term capital formation and investment. Meanwhile, a report submitted to the 2002 ASEAN+3 Summit by the East Asia Study Group (EASG) recommends the conclusion of a free trade agreement (FTA) in East Asia as a medium- to long-term goal. Negotiations for FTAs within each framework of ASEAN+1 have already concluded or are proceeding. An expert panel to explore the feasibility of concluding an FTA for the entire region has already been established.

East Asia cooperation has already expanded from the economic area to political and security ones. In January 2004, the first ASEAN+3 Ministerial Meeting on

Transnational Crime (AMMTC+3) was held in Bangkok. At the meeting, ASEAN+3 countries agreed to promote cooperation in dealing with eight categories of transnational crime: terrorism, illegal drug trafficking, human trafficking, money laundering, sea piracy, arms smuggling, international economic crime, and cyber crime. At the second meeting held in Hanoi the following year, they endorsed in principle an action plan against transnational crimes in these eight fields and decided to have the third meeting in Brunei in 2007. In addition, ASEAN+3 countries have come to move toward collaboration for peace and stability of the region. For example, a meeting of foreign ministers of ASEAN+3 countries that was held the same month as North Korea launched seven ballistic missiles into the Sea of Japan on July 5, 2006, issued a chairman's press statement in which they expressed concern over the missile launching by North Korea as an act that could affect peace and stability in the region and their hopes for the realization of the denuclearization of the Korean Peninsula.

Encouraged by these achievements, member countries of ASEAN+3 came to talk about the creation of an East Asian Community as an ultimate goal of East Asia cooperation. The idea of creating a community in East Asia traces back to a proposal made by Japanese Prime Minister Junichiro Koizumi in a speech he delivered in Singapore in January 2002. Endorsed by ASEAN at a special Japan-ASEAN commemorative summit held in December 2003, this concept was adopted as a long-term objective by the eighth ASEAN+3 Summit held in Vientiane on November 29, 2004. Although opinions were divided over the roles to be performed by an East Asian Community, member countries of ASEAN+3 have reached a consensus that they should step up East Asia cooperation in coming years.

## **(2) Strengthening China-ASEAN Relations**

China has long been actively involved in East Asia cooperation, and has aggressively promoted it within the framework of ASEAN+1. With ASEAN member countries bearing the brunt of the Asian financial crisis, China helped them to overcome it. It extended financial assistance to Thailand and Indonesia bilaterally and also through an IMF assistance package. In addition, China gave ASEAN member countries a firm assurance that it would not devalue the renminbi, which could have caused further depreciation of their currencies. As a result, China succeeded in gaining credibility with ASEAN. The signing of a declaration "Towards a Good-

neighborly Partnership of Mutual Trust Oriented to the 21st Century” is a proof of the increasingly close relations between China and ASEAN.

In December 1997, President Jiang Zemin of China proposed the idea of a good-neighborly partnership at an ASEAN-China summit held in parallel with an ASEAN+3 summit in Kuala Lumpur. At the summit, President Jiang Zemin stated that relations between China and ASEAN had been consolidated, that these relations were not only in the interests of the two sides but also to the benefit of the Asia-Pacific region, and that, therefore, the two sides should approach and handle their bilateral relations from a long-term and strategic perspective and forge a good-neighborly partnership of mutual trust oriented to the 21st century. ASEAN accepted the Chinese proposal. A joint statement issued after the summit said that the two sides agreed that the consolidation of China-ASEAN relations served “the common interests of their respective peoples as well as the peace, stability, and prosperity of the Asia-Pacific region.” The two sides have thus adopted the development of a good-neighborly partnership of mutual trust between China and ASEAN as an important objective in the 21st century. Where economic cooperation between China and ASEAN is concerned, they agreed on the need to consolidate their close economic relations by promoting trade and investment, by facilitating market access, by improving the flow of technology, and by enhancing the flow of, and access to, information related to trade and investment. They also reaffirmed support for the World Trade Organization (WTO) and for an early entry of China and ASEAN applicants to the WTO, and noted with appreciation China’s contribution to the recent financing packages in the region and the importance of enhanced cooperation on economic and financial issues between the finance ministers of China and ASEAN. The parties concerned also agreed to resolve their territorial disputes in the South China Sea through friendly consultations, and ASEAN member states reaffirmed their continued adherence to the “One China” policy.

Subsequently, China has further strengthened its relations with ASEAN. Typical of such efforts is the conclusion of an FTA with ASEAN. At an ASEAN+1 summit held in 2000, China proposed the signing an FTA with ASEAN. In response, studies were conducted by experts from both sides, and at an ASEAN+1 summit held the following year, the heads of states agreed to establish an ASEAN-China free trade area (ACFTA) within 10 years. In addition, the heads of state gathered at the ASEAN+1 Summit in 2002 signed a Framework Agreement on Comprehensive

Economic Cooperation between ASEAN and China, and the two sides have thus started working toward the creation of an ACFTA.

China showed a strong initiative in ASEAN's agreement to establish an ACFTA, which China had proposed in 2001. In negotiations for the ACFTA, China accepted prior liberalization of imports for eight categories of products, mostly in the areas of agriculture and fisheries. Many ASEAN members had keen hopes for expanding exports to China of their primary commodities competitive in the world market. China's agreement to liberalize its imports of primary commodities played an important role in eliciting a positive response from ASEAN to its proposal for the ACFTA.

China also agreed to delay for five years the implementation of proposed trade liberalization with regard to newer ASEAN members—Cambodia, Laos, Myanmar, and Vietnam—which feared that their industries were not competitive enough to withstand the impact of liberalized trade with China. To make it easier for them to agree to the ACFTA, China thus gave them more time to prepare.

China is keen on cooperating in the development of the Greater Mekong Subregion (GMS), a process that could help Indochinese countries lagging behind in economic development. In November 2002, the heads of states of the six countries bordering on the Mekong River basin met in Phnom Penh for their first summit meeting with the president of the Asian Development Bank (ADB). At that meeting, Premier Zhu Rongji of China indicated his country's willingness to actively participate not only in the development of the GMS and traditional infrastructure sectors such as transportation, energy, and telecommunications but also in expanding cooperation in wider areas, namely, trade, investment, human resources development, tourism, agriculture, drug control, and the environment. In July 2005, a second summit meeting was held in Kunming, the capital of Yunnan Province, China. China's Premier Wen Jiabao stressed the Chinese contribution to the GMS development by reporting that China had funded several key transportation projects such as the dredging of the Mekong River and the construction of the Pan-Asia highway, had helped train over 500 personnel in the areas of agriculture, customs, and telecommunications, and had set up a special fund of \$20 million under the ADB for human resources development. He then put forward recommendations for cooperation in the fields of development of infrastructure, facilitation of trade and investment, agricultural cooperation, human resources development, and public health. For pursuing these projects, Wen indicated China's willingness to provide more funds.



China has consolidated its relations with ASEAN also in the fields of politics and security. The greatest potential for conflict between China and ASEAN countries is the territorial disputes over the Spratly Islands in the South China Sea. With a view to defusing this problem, ASEAN called upon China to adopt a code of conduct in the South China Sea. In response, China signed a Declaration on the Conduct of Parties in the South China Sea (DOC) in November 2002. Under this declaration, the parties undertook to resolve their territorial disputes by peaceful means without resorting to the threat or use of force and through friendly consultations and negotiations, to refrain from inhabiting the presently uninhabited islands, to notify on a voluntary basis other parties concerned of any military exercise they plan to conduct in the area, and to guarantee freedom of navigation.

China is also promoting cooperation with ASEAN in dealing with nontraditional security issues, and China and ASEAN issued a Joint Declaration on Cooperation in the Field of Nontraditional Security Issues in November 2002. In that declaration, they reaffirmed that nontraditional security threats had increasingly posed serious challenges to regional and international security and mentioned as priorities at the current stage of cooperation: combating trafficking in illegal drugs, people smuggling including trafficking in women and children, sea piracy, terrorism, arms smuggling, money laundering, international economic crime, and cyber crime. Further, as a formula for cooperation, they decided to strengthen information exchange, personnel exchange and training, and joint research on nontraditional security issues. In January 2004, they signed a Memorandum of Understanding that specifically set forth medium- and long-term objectives to strengthen their cooperation on the issues.

Based on these accomplishments, China's stance on cooperation with ASEAN has grown stronger across the board. Chinese Premier Wen Jiabao, who attended an ASEAN-China summit held in Bali, Indonesia, in October 2003, signed the Treaty of Amity and Cooperation in Southeast Asia (TAC) that provided for noninterference in internal affairs, nonuse of force, and promotion of mutual cooperation. The TAC lays down the principles of action of ASEAN member states, and signing it has become a virtual precondition to joining ASEAN. In fact, all of the Indochinese countries signed this treaty before joining ASEAN. Along with India, China was the first non-regional power to sign the TAC.

At the same time, the heads of China and ASEAN states issued a joint statement on the Strategic Partnership for Peace and Prosperity. This joint statement has

upgraded the cooperative relationship between China and ASEAN, characterized as a “good-neighborly partnership of mutual trust” since 1997, to a strategic partnership for comprehensive and forward-looking cooperation in politics, economic and social issues, security, and international and regional affairs. China had formed strategic partnerships with major powers since the second half of the 1990s, but this was the first one formed with a regional organization. Moreover, the ASEAN-China Summit held in Laos in November 2004 issued a Plan of Action that spelled out specific fields of cooperation the two sides were to carry out pursuant to the strategic partnership over the next five years.

Toward the end of October 2006, an ASEAN-China Summit was held in Nanning, China, to commemorate the 15th anniversary of a formal dialogue between China and ASEAN initiated in 1991. In an address delivered at the summit, Premier Wen Jiabao, after acknowledging that Sino-ASEAN relations have never been better, maintained that both sides should cooperate in the fields of economy and security including enhanced military dialogue and closer maritime security cooperation. In a joint statement issued after the summit, ASEAN welcomed China’s contribution of \$1 million to the ASEAN Development Fund (ADF) and China’s funding assistance of \$1 million for the Initiative for ASEAN Integration, and both sides pledged to work in concert to advance the strategic partnership.

### **(3) Promotion of ASEAN+3 Cooperation**

China is actively involved not only in enhancing cooperation with ASEAN but also in promoting the ASEAN+3 framework that includes Japan and South Korea. When Japan proposed an Asian Monetary Fund (AMF) to help regional states fend off the Asian financial crisis, China was initially opposed to the idea for fear that it might strengthen Japan’s influence in East Asia. Subsequently, however, China attached importance to stabilizing the financial system in the region and has thus come around to a position in favor of financial cooperation among East Asian countries, including Japan. In a speech delivered at an ASEAN+3 summit held in December 1997, President Jiang Zemin pointed out a greater need to strengthen financial

cooperation in East Asia. At an ASEAN+3 summit held in November 1999, Premier Zhu Rongji proposed a meeting of finance ministers and central bank governors of East Asian countries and stressed the necessity of their deepening cooperation in dealing with financial problems. Pursuant to the Chiang Mai Initiative adopted as part of Zhu's proposal, China signed swap arrangements with regional states, amounting to \$19.5 billion as of May 2006. China has actively participated in the ABMI and served as cochair along with South Korea of a working group established under the ABMI.

China is also keen on concluding an FTA covering the entire region of East Asia. At an ASEAN+3 summit in 2002, to which the EASG submitted the final report defining the conclusion of an East Asia FTA as a medium- and long-term goal, China immediately proposed starting a feasibility study for establishing an FTA among China, Japan, and South Korea, and one in East Asia. At an ASEAN+3 summit held in 2003, Premier Wen proposed a feasibility study for an East Asia FTA. At a Japan-China-South Korea summit, the heads of these states issued a Joint Declaration on the Promotion of Tripartite Cooperation among Japan, China, and South Korea at the suggestion of China. In the declaration they expressed their appreciation of the progress in studying the tripartite FTA made by their respective research institutes, and agreed to map out the direction of a closer future economic partnership among the three countries. At an ASEAN+3 summit held in 2004, Wen proposed holding an experts' group meeting in Beijing the following year to launch a feasibility study on an East Asia FTA.

The positive attitude of China toward East Asia cooperation is evident not just in the economic field but also in the fields of politics and security. In reaction to the terrorist attacks on September 11, 2001, China proposed regional cooperation to deal with nontraditional security issues. In an address delivered before the fifth ASEAN+3 Summit held in November the same year, Premier Zhu Rongji stated that "At present, such transnational crimes as terrorism, drug trafficking, and illegal immigration are increasingly rampant, becoming an acute threat to the regional and global security. Our dialogue and cooperation in the political and security fields could begin by focusing on these issues first, and the scope of our cooperation would be extended and deepened in the process." He also proposed adopting an agenda for East Asia cooperation to deal with nontraditional security issues.

The AMMTC+3 held in January 2004 in Bangkok was based on a Chinese proposal. At the meeting, Tian Qiyu, China's executive vice minister of public

security, proposed building a regional cooperation mechanism to combat transnational crimes, designating priority areas of cooperation and their leading countries, establishing hotlines among the relevant organizations, drawing up an action plan for cooperation, and exchanging law enforcement personnel. According to the *People's Daily*, which covered the summit, building a cooperation mechanism to deal with transnational crimes represented a firm step from the economic field toward the political and security arenas in terms of East Asia cooperation.

## **2. China's Diplomacy Stressing Cooperation**

### **(1) Under the Banner of Peace, Development, and Cooperation**

As described above, China has been very actively involved in regional cooperation in East Asia in recent years. This is down to a change in China's perception of international relations; China now attaches greater importance to cooperation as a diplomatic tool. In August 2005, Foreign Minister Li Zhaoxing published a thesis entitled "Peace, Development, and Cooperation—Banner for China's Diplomacy in the New Era." In his thesis, he said that "Since entering the 21st century, the world has continued to undergo profound changes. World multipolarization and economic globalization are developing in greater depth amid twists and turns. Science and technology are making rapid progress as human society advances at an accelerated pace. New situations and new contradictions keep cropping up without letup." In other words, the world is undergoing great change and is unstable. With some retrogression and deviation, the world is moving politically toward a balance of power and economically toward integration underpinned by the rapid progress in science and technology, and such changes have given rise to various new problems.

What are the new situations and new contradictions now facing the world? As major issues to be addressed, Li Zhaoxing points out the escalation of nontraditional security threats and the widening development gap among countries. He argues that "nontraditional security threats are on the rise and becoming intertwined with traditional ones, and various security problems have become more transnational, interrelated and sudden in occurrence. . . . The ongoing economic globalization has deepened economic interdependence on the one hand, and aggravated the unevenness of development on the other, reducing some countries to a precarious position of being marginalized." He says that solving these problems, maintaining

world peace, and promoting shared development remain the missions of all countries in the world.

As measures to overcome the problems facing the international community and to achieve peace and development, Li stresses the necessity for promoting cooperation by all countries concerned, saying: “Thanks to its exploration and practice, the international community has arrived at a deeper understanding that it must secure peace and promote development through cooperation in the interest of progressing times and human advancement, and seek mutual benefit and win-win results by earnestly expanding the convergence of interest of all countries.” He maintains that “security of one nation is closely related with that of the region and of the world as a whole. Only through international cooperation can we effectively address the common security problems facing all countries. The Cold-War mentality, unilateralism, and the worship of military might well lead us nowhere. . . . A globalized economy calls for globalized cooperation. Only through cooperation can we gradually redress the imbalance in global development, effectively ward off economic and financial risks, and enable countries to seize the opportunities brought by globalization to realize common development. . . . The multi-field, multi-level, and multi-channel cooperation within the international community has become the realistic choice of more and more countries in recent years. Vigorous pursuit of peace, development and cooperation by the peoples of all countries has formed a tide of history.”

The Chinese government has pursued an independent, peaceful foreign policy since the 1980s in line with Deng Xiaoping's view that peace and development represent the agenda of the age. Under this policy, China has sought to achieve peace and prosperity for itself by riding the tide of peace and development while promoting it at the same time. The novelty of Li Zhaoxing's argument is the emphasis he has placed on cooperation, ranking it alongside peace and development. He characterizes cooperation as a vehicle indispensable to achieving peace and development; hence, all three together form a trinity. Li Zhaoxing holds aloft the banner of peace, development, and cooperation as an emblem of China's foreign policy and argues that this new thinking will enrich and develop China's independent, peace-oriented diplomacy.

## **(2) China's Perception of East Asia**

One achievement of China's peace-, development-, and cooperation-oriented

foreign policy that Li Zhaoxing referred to was the efficacy of its diplomacy in Asia. “During the 1997 Asian financial crisis,” he said, “China kept its currency stable and provided assistance to the best of its ability to the affected countries, and has thus played a vital role in overcoming the crisis” and further, that “In the wake of the Indian Ocean earthquake and tsunami, the Chinese government responded swiftly in providing the largest-ever relief program since the founding of New China.” He also said proudly that in dealing with the nuclear problem of the Korean Peninsula, China had played a constructive role in bringing about peace and stability, and in circumventing rising tension, in Northeast Asia by initiating first Three-party Talks and then Six-party Talks. He also gave China’s foreign policy credit for the development of regional cooperation in Asia, stressing that “China is an active participant in, and a staunch supporter for, the regional cooperation in Asia. It plays a positive role in such Asia-based mechanisms as ASEAN+China; ASEAN+China, Japan and South Korea; the Shanghai Cooperation Organization (SCO); the ASEAN Regional Forum (ARF); and Asian Cooperation Dialogue.”

How, then, does China view the present situation of East Asia—a region to which its peace-, development-, and cooperation-oriented foreign policy attaches importance? In a dialogue he had with business leaders of ASEAN countries shortly before the first East Asia Summit, Premier Wen Jiabao expressed strong hopes for the future of the East Asian economies, which have been successfully coping with globalization, by saying that “East Asian countries have made great strides in economic and social development by carrying out economic restructuring, by promoting economic liberalization, and by enhancing regional cooperation. With its most robust economy and greatest potential for growth in the world, East Asia is in the global spotlight.”

On the other hand, Wen Jiabao seems to take a harsher view of the political and security situation of East Asia than he does of the regional economy. At the first East Asia Summit, he pointed out that in today’s world, the pursuit of peace, development, and cooperation has become an irreversible trend of the times, and provides an external environment conducive to development for countries in the region, thus expressing the view that the pursuit of peace has become the mainstream of East Asian politics. At the same time, he noted that “East Asia is plagued by both historical problems like the cloud of the ‘Cold War,’ the territorial, ethnic, and religious issues which have long existed and new problems like the increasingly prominent terrorism, transnational crimes, natural disasters, and the

spread of infectious diseases.” Put another way, East Asia is faced with not only traditional threats including the problems of the Korean Peninsula and Taiwan and the territorial disputes over the islands in the South China Sea but also with nontraditional ones such as the terrorist bombings in Bali, the earthquake and tsunami in the Indian Ocean, and bird flu.

In order to address these political, economic, and security issues plaguing East Asia, Premier Wen suggested the following three points. First, the countries in the region must focus on developing their economies and promote shared prosperity. He argues that disparity in development is the most prominent contradiction facing the region and is an issue that each country must tackle. Unless the underdevelopment problem is solved at the underlying level, he says, it would be difficult to realize long-term peace in the region. East Asian countries must exchange experiences and insights gained in the course of development, extend support to less developed countries, narrow the existing development gap, and help one another achieve common development. Second, the countries must build harmonious relations and maintain peace and stability. He claims that a framework of regional relations based on mutual trust and harmony is a precondition—and guarantee—for achieving peace and development in the region. The East Asian nations should respect each other, treat one another as equals, ease contradictions through dialogue, and reconcile differences through consultations. Third, they must create a win-win situation through cooperation. According to him, cooperation is a “vehicle” necessary for realizing common development. It is only in a spirit of cooperation that the countries can overcome differences, continuously expand their common interests, effectively deal with the various problems facing them, and reach a win-win situation. Thus he posits that regional cooperation is an important trend of the times and that China will promote regional cooperation from a strategic standpoint.

Premier Wen Jiabao sums up China's foreign policy by saying that China will pursue a peaceful development path, firmly observe the guideline of being a good neighbor and partner, foster an amicable, tranquil and prosperous neighborhood, and commit to developing friendly cooperative relations with other countries in the region. In a speech delivered under the title of “China's Development and Asia's Rejuvenation” before business leaders of ASEAN states in Bali in 2003, Premier Wen explained China's policy of “amicable neighborhood, tranquil neighborhood, prosperous neighborhood” as follows: “To build an amicable

neighborhood means adherence to the Chinese philosophy which emphasizes benevolence, good neighborliness, and harmony. Guided by the principles that all countries, big or small, are equal and that one should live amicably with its neighbors, China is ready to work together with its neighbors, to foster stable and harmonious state-to-state relations in the region.”

“To build a tranquil neighborhood is to actively maintain peace and stability in the region, to consistently enhance mutual trust through dialogue and cooperation, and to settle disputes through peaceful negotiations, thus creating a peaceful, tranquil, and stable regional environment for Asia’s development.”

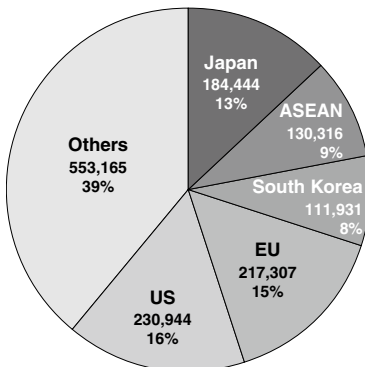
“To build a prosperous neighborhood is to step up mutually beneficial cooperation with neighboring countries, deepen regional and sub-regional cooperation, and vigorously facilitate regional economic integration, thus achieving common development with other Asian countries.”

### 3. China’s Strategy for East Asia Cooperation

#### (1) East Asia Cooperation for Sustaining Economic Development

China sees peace, development, and cooperation as the current of the times and is clear about promoting peace and development through cooperation in East Asia. What, then, are the specific objectives it seeks to achieve through regional cooperation?

**Figure 1.1. China’s major trading partners (2005)**  
(in millions of US dollars)



Source: Data from the website of JETRO.

East Asia cooperation has become indispensable for China’s sustainable economic development. First, just as economic globalization offers a major opportunity for the development of the Chinese economy, economic integration in East Asia is expected to develop closer trade and investment relations among regional countries, and this will support China’s economic development. In 2005, Japan, ASEAN, and South Korea were China’s



third, fourth, and fifth largest trading partners, respectively. If China makes headway in its pursuit of regional FTAs and economic integration with East Asian countries, its trade and investment will increase, fueling further development of its economy. China has concluded an agreement on an FTA with ASEAN ahead of any other. This FTA will create a market of 1.7 billion people with an aggregate gross domestic product (GDP) of \$2 trillion, and the two-way intra-regional trade will amount to \$1.23 trillion. The FTA is estimated to boost China's exports to ASEAN by 55.1 percent and its GDP by 0.3 percent. Furthermore, if China can strengthen its economic relations by concluding FTAs with Japan and South Korea—whose combined economies are far larger than ASEAN's and whose industrial structures are highly complementary to the Chinese economy—they would increase their trade with, and investment in, China. Given such prospects, China is actively pursuing an FTA embracing all of East Asia.

Second, closer economic relations with East Asian nations are expected to help China narrow regional gaps in economic development within the country. Under the reform and opening-up policy, China's eastern coastal regions, with industrial infrastructure such as ports and railways conducive to expanding trade, have achieved rapid economic growth, while the northeastern and southwestern regions have lagged far behind, with the result that development disparities have widened. In October 2005, the fifth plenary session of the 16th Central Committee of the Chinese Communist Party held in Beijing deliberated on the 11th Five-year Plan for National Economy and Social Development starting in 2006. The Central Committee says that this Five-year Plan is designed to strengthen credit support for shoring up weak links in economic and social development, developing the western region, revitalizing northeast China and other old industrial bases, energizing the central region, and encouraging the development of the eastern region. Integrating the Chinese economy with the economies of East Asia will lead to the advance of those less-developed regions of China, particularly the southwestern region that borders on Southeast Asian countries, and the northeastern region adjacent to Japan and South Korea. For instance, an FTA with ASEAN is expected to accelerate economic cooperation between the provinces in southwest China and Southeast Asian countries, to increase exports from these provinces to the latter countries, and to contribute to the implementation of China's strategy for the development of its western regions. The participation of China in the

development of the GMS also is aimed at creating an environment favorable to Chinese economic development by strengthening its political and economic relations with the five Indochinese countries.

Third, promotion of East Asia cooperation will help China overcome challenges posed by economic globalization. The Asian financial crisis of 1997 made China strongly aware that a drastic flow of speculative capital in a globalized economy could cause instability in the financial sector and, by extension, seriously damage the economy. Beijing also noted that the existing international monetary system headed by the IMF was not very helpful in stabilizing the monetary systems in East Asia. As illustrated by the fact that concrete action for East Asia cooperation had begun with the adoption of the Chiang Mai Initiative, countries in the region came to a common understanding that in order to prevent financial crises and achieve stable economic development, regional cooperation focused on maintaining the stability of their financial systems was essential. Thanks, in part, to the fact that its capital market was less opened to the world, China was not hit directly by the Asian financial crisis. However, China cannot but open its capital market if it is to sustain its economic growth in the face of economic globalization. It thus aims at maintaining stability and minimizing any confusion that might be caused by opening its financial markets to outside competition through East Asia cooperation.

Fourth, regional cooperation in East Asia is critical to securing a steady supply of energy that is essential to the sustainable growth of China's economy. Fueled by the rapid growth of its economy, China's demand for energy has increased sharply. As demand for oil and natural gas has far outpaced its domestic supply, it has come to depend heavily on imports. China's dependence on imported oil in 2005 shrank slightly but still remains at a high 42.9 percent. For China, energy resources in East Asia, particularly those in Southeast Asian countries, are very important. China hopes to secure a stable supply of energy by deepening its economic relations with Southeast Asia as a way to alleviate the energy problem, which could limit the pace of its economic development.

Southeast Asia is also important to China from the standpoint of ensuring the safety of oil shipments from the Middle East and Africa. Ships carrying the bulk of oil China imports from these regions pass through the Malacca Strait and South China Sea; therefore, securing the safety of sea-lanes in this region is of great importance for China's economic development in coming decades. For the same

reason, measures taken to check piracy in waters surrounding the Malacca Strait are also important to China. In this respect, stepping up antipiracy activities in this region as part of East Asia cooperation is a matter of great significance not only for Japan and South Korea but also for China.

## **(2) Building a Regional Order Favorable to China**

Constructing a peaceful environment through East Asia cooperation is another strategic objective of China. From China's perspective, factors that could threaten peace in this region are (a) an outbreak of conflicts with neighboring countries and destabilization of the surrounding regions, (b) stronger pressure on China from the superpower United States, and (c) an escalation of nontraditional security threats such as terrorism. By promoting East Asia cooperation, China aims to avert problems caused by these factors and build a favorable regional order.

Some ASEAN states harbor concerns about the growing economic and political influence of a rising China. China has been striving to dispel such concerns by strengthening its relations with ASEAN, and this was one of the reasons that prompted Beijing to conclude the ACFTA. China has tried to allay the sense of the threat felt by ASEAN toward the rapidly developing Chinese economy by deepening economic interdependence and creating a situation in which members can derive benefit from enhanced economic relations with China. China proposed the conclusion of an FTA with ASEAN in 2000. At the time, ASEAN members feared the intensified competition with China in their export markets as China's accession to the WTO loomed. China sought to dispel such fears by opening its market to ASEAN member states first. For this reason, China accepted the early liberalization of agricultural imports from ASEAN countries, and also offered to postpone the deadline for liberalizing the markets of less developed members from Indochina and apply preferential tariffs on imports from them.

Furthermore, China has sought to ease the sense of threat ASEAN felt toward China by consolidating cooperation in the fields of politics and security within the framework of ASEAN+1. China sought to defuse the issue of the South China Sea, which is the most serious security concern for ASEAN member states over China, by signing the DOC in November 2002. In October 2003, China also signed the TAC and has formed a strategic partnership with ASEAN. As a result, China takes the optimistic view that the sense of the China threat felt by ASEAN countries has basically died down. For instance, Yin Chengde, a senior fellow of

the China Institute of International Studies, maintains that a positive change in the perception of China among ASEAN states has emerged. After the end of the Cold War, Southeast Asian countries often discussed the China threat. However, he argues that as China has repeatedly demonstrated to ASEAN member states its sincerity about, and commitment to, good-neighborliness in recent years, suspicion and fears about China in these countries have basically disappeared to be replaced by respect and trust.

Japan is not only the largest economy in Asia but also a US ally with robust defense capabilities. As such, Japan holds the key to China's effort to achieve peace and development. Unless China can build stable relations with Japan, it will be impossible for China to create a stable external environment. Therefore, one of the reasons that China is promoting East Asia cooperation, based on the success it has achieved in deepening relations with ASEAN, is to use regional cooperation as a means to stabilize its relations with Japan. For example, according to Zhang Yunling, director of the Institute of Asia-Pacific Studies, Chinese Academy of Social Sciences, one political significance of East Asia cooperation is to improve Sino-Japanese relations, to effect reconciliation, and to build a cooperative relationship with Japan. He argues that the regional cooperation mechanism can be a "lubricant" that facilitates the development of Japan-China relations. Since 1999, China has held tripartite summit meetings with Japan and South Korea in parallel with ASEAN+3 summits. In 2003, the heads of these three states issued a Joint Declaration on the Promotion of Tripartite Cooperation among Japan, China, and South Korea, which said in part that "We are convinced that advancing and deepening the tripartite cooperation will not only serve to further promote the stable development of bilateral relations between Japan-China, Japan-Korea, and China-Korea but also contribute to the realization of peace, stability, and prosperity throughout East Asia," and that they decided to continue to hold tripartite summit meetings. With Japan-China relations at a stalemate due to differences over the understanding of history, the mechanism of East Asia cooperation performed as a "lubricant" for China, preventing a critical deterioration of its relations with Japan.

From a Chinese perspective, a peaceful international environment is not a unipolar world headed by the United States but a multipolar one in which some major powers and regional powers remain balanced. China seeks to promote the trend toward a multipolar world order through regional cooperation among East Asian countries. By virtue of its location in East Asia, China has interests in the

economy, politics, and security of the region. East Asia is growing as an important pole in the world, alongside the Americas and Europe. In order to create a multipolar world, it is necessary for East Asia to elevate its position in the world. Strengthening the power of East Asia would enhance the status of China, an important member of the region. China may seek a multipolar world with East Asia as a nucleus through the formation of an East Asian Community.

Promotion of multipolarization in East Asia is essential to achieving the peace China envisions. In particular, China is trying to undercut the predominant influence of the United States in the region. In so doing, it sees the promotion of East Asia cooperation without the United States, and the formation of an East Asian Community, as effective ways to reduce US influence. Furthermore, because of the Taiwan issue, a potential source of conflict with the United States, China needs to strengthen its capability to check the military presence of the United States that underpins US influence in East Asia. The US military presence is supported by its allies—Japan, South Korea, and Australia—and some ASEAN states. Therefore, in order for China to lessen military pressure from the United States, it must create a climate in which US allies and friends would not wish to confront China by strengthening regional security cooperation with Washington, while strengthening its own defense capability against the United States. China's positive involvement in the ARF and the Six-party Talks seems to be part of such efforts for regional security cooperation.

In order to create a stable external environment and a multipolar world order, China needs to seize the leadership of the East Asia cooperation process. By quickly concluding an FTA with ASEAN, signing the TAC, and stressing the importance of nontraditional security cooperation, China aimed to demonstrate its leadership in setting the agenda for East Asia cooperation. In the process, China had to cooperate with ASEAN more proactively than with other countries, and sought to increase its influence by actively promoting East Asia cooperation and by participating in formulating the “rules of the game” for the region. Professor Lu Jianren of the Institute of Asian-Pacific Studies, Chinese Academy of Social Sciences, asserts that China has become the locomotive pulling East Asia cooperation ahead and has made sure of the outcome by taking the initiative. Only by stepping up its cooperation, by actively carrying out its proposals, and by opening new fields of cooperation can China maintain its influence in East Asia, he argues.

#### **4. Achievements and Challenges of the East Asia Strategy**

##### **(1) Extended Economic Ties and Stable Relations with ASEAN**

While China's strategy for East Asia cooperation has produced considerable results, it faced some limitations. One of the achievements is the emerging trend in East Asia for accelerating economic integration through FTAs, thanks to the momentum created by the signing of the ACFTA. The total value of China's trade with ASEAN members has increased by a sharp 88 percent in two years—from \$41.62 billion (8.8 percent of China's total trade) in 2001 to \$78.25 billion (9.2 percent) in 2003. While the total value of China's trade with ASEAN states had increased by an annual average of 20.86 percent in 1990–2003, its annual pace of increase reached 31.5 percent in 2000–2003, showing how ASEAN-China trade has accelerated in recent years. At an ASEAN+1 summit held in October 2003, Premier Wen Jiabao proposed to increase the China-ASEAN trade volume to \$100 billion by 2005. It actually increased to \$105.88 billion in 2004, one year ahead of schedule, and ASEAN has become the fourth largest trading partner of China. Encouraged by China's initiative, Japan also started negotiating with ASEAN for the conclusion of an FTA, and South Korea already agreed to conclude an FTA with ASEAN. If Japan and South Korea each conclude an FTA with ASEAN, then together with the ACFTA this would create a de facto network of FTAs in East Asia with ASEAN as its hub. For China, which seeks to realize the economic integration of the region, the next target will be to conclude FTAs with Japan and South Korea.

China showed a negative attitude toward the participation of Australia, India, and New Zealand in the East Asia Summit. However, when viewed from China's objective of increasing trade and investment through the integration of the regional economy, then it becomes desirable for China to admit these three countries into an East Asian Community. When Wen Jiabao visited India in April 2005, he and Prime Minister Manmohan Singh released a joint statement which stated that both sides declared the establishment of a strategic partnership for peace and prosperity between the two countries. They acknowledged the necessity to step up economic cooperation, including trade and investment, and agreed to increase the value of two-way trade to more than \$20 billion by 2008. A move toward the conclusion of an FTA between the two countries will emerge sooner or later. China has already started talks with Australia and New Zealand about concluding FTAs.

Another achievement is the friendly relations China has built with many of its neighbors in East Asia by promoting cooperation in various forms. Particularly, China has consolidated extremely good relations with ASEAN members: China in 2001 agreed to conclude an ACFTA, and in 2003 signed the DOC, joined the TAC, and concluded a strategic partnership. In 2005, China, the Philippines, and Vietnam—the three countries that in the 1990s had contradicted one another over the Spratly Islands—carried out a joint exploration of natural resources around the islands. According to Wu Jianmin, president of China Foreign Affairs University, Southeast Asian countries no longer consider China as a threat. Moreover, China's relations with South Korea are also good. President Roh Moo-hyun, who met with Premier Wen, spoke highly of the Chinese foreign policy of equality, mutual benefit, and good neighborliness, and said that “the policy is of significance to peace and stability in Asia, and sets a fine example for the world order in the 21st century.” In recent years, South Korea has taken a position akin to that of China on issues such as Japanese understanding of history and the agenda of the Six-party Talks.

### **(2) Uneasy Relations with Japan, and Incomplete Leadership**

East Asia cooperation as advanced by China also faces many challenges. For instance, China seeks to prevent the recurrence of an Asian financial crisis through East Asia cooperation, but whether or not the existing framework of cooperation can effectively deal with such a crisis remains unclear. It is true that bilateral swap arrangements based on the Chiang Mai Initiative have increased in number and in the total amount of reserved currencies. However, such swap arrangements, by definition, can be effective only as a complement to assistance given by the IMF, and it is up to the IMF whether a financial crisis warrants its support and what form that assistance should take. The concept of an AMF aimed at providing emergency assistance as a regional initiative remains in tatters and there are no moves to reconsider the idea. In order to stabilize the currencies and to integrate the financial markets in East Asia, a common currency such as the euro may have to be introduced. However, China has not even taken measures to make the renminbi a convertible currency, a precondition to the integration of the region's financial markets, for fear of the adverse effects on its domestic economy.

Stabilizing relations with its neighbors and creating a peaceful international environment conducive to economic development through East Asia cooperation

has also hit a snag—a deterioration in China’s relations with Japan, a major power that wields considerable influence in the region. While sharing a common interest in wide-ranging economic areas, Japan-China relations are burdened with many factors that divide the two countries in the areas of politics and security. China sought to stabilize bilateral relations with Japan by promoting the multilateral framework of East Asia cooperation. But after Prime Minister Koizumi took office he paid an annual visit to Yasukuni Shrine, and in reaction, China suspended mutual visits by the heads of state. However, China sought to head off further deterioration in the relationship by holding bilateral and tripartite (including South Korea) summit meetings at gatherings for East Asia cooperation. But when Prime Minister Koizumi visited Yasukuni Shrine for the fifth time, in September 2005, his Chinese counterpart refused to hold either a bilateral or a tripartite summit. China thus abandoned the key “lubricant” that had lessened frictions between Japan and China. This marked an important deviation from its diplomatic strategy for East Asia cooperation. Shinzo Abe, who assumed the premiership after Koizumi stepped down, paid a formal visit to China, the first country he chose to visit as prime minister, in October 2006. In a Japan-China joint press statement released after the meeting, the leaders of the two countries reaffirmed that they would make joint efforts to strengthen their coordination over East Asia regional cooperation and Japan-China-South Korea trilateral cooperation.



**From right to left: Prime Minister Shinzo Abe of Japan, Premier Wen Jiabao of China, and President Roh Moo-hyun of South Korea shaking hands at a reception held after a Japan-China-South Korea Tripartite summit in Cebu, the Philippines (January 14, 2007) (Cabinet Public Relations Office of Japan)**

Seizing the opportunity provided by a change of administration in Japan, Beijing appears to have returned to its previous policy of using East Asia cooperation as a “lubricant” for smoothing its relations with Tokyo. At an ASEAN+3 summit held in Cebu, the Philippines, in January 2007, China held a tripartite summit meeting with Japan and South Korea—the meeting it had refused to hold since 2005—at which it agreed to start negotiations for the conclusion of a Japan-China-South

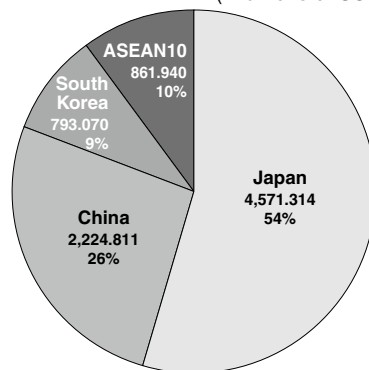


Korea investment agreement and clarified its position on promoting cooperation among the three countries.

China seeks to take charge in building a new regional order symbolized by an East Asian Community through East Asia cooperation. On the question of holding an East Asia summit, animated debate arose over which forum—the ASEAN+3 Summit, or the East Asia Summit in which Australia, India, and New Zealand participate—will become the central body of an East Asian Community. China asserted that the ASEAN+3 should be the core, while Japan emphasized the importance of the East Asia Summit. In the end, the participants agreed that the ASEAN+3 should be the “main vehicle” in forming an East Asian Community, while the East Asia Summit will play an important role in forming it. Some take the view that the result has justified the Chinese assertion; however, this does not mean that China has attained leadership in the process of building an East Asian Community over the coming years, because the declarations of both the ASEAN+3 Summit and the East Asia Summit say in no uncertain terms that the community building will be carried out under the leadership of ASEAN.

ASEAN attaches crucial importance to securing leadership in carrying out East Asia cooperation and in building an East Asian Community. In the first place, an East Asia Summit was expected to convene the leaders from ASEAN+3 countries. Behind this are the fears of ASEAN+3 leaders that as long as East Asia cooperation is driven by ASEAN states, which together account for a mere 10 percent of GDP of East Asia, then achievements will be limited. They felt that in order to further develop East Asia cooperation, initiatives taken by the three dominant economies—Japan, China, and South Korea—would play a critical role. The shift of framework from the ASEAN+3 Summit to the East Asia Summit was aimed at expanding the roles to be played by Japan and China over East Asia cooperation. Meanwhile, fears mounted in some ASEAN

**Figure 1.2. GDP of East Asian countries (2005)**  
(in billions of US dollars)



Source: Data from the IMF, *World Economic Outlook Database*, April 2006.

members about a decline in ASEAN influence over East Asia cooperation. In the end, ASEAN adopted a strategy for maintaining a balance of power on a wider scope by inducing Australia, India, and New Zealand into the framework. At an ASEAN+1 summit that was held prior to the first East Asia Summit, Premier Wen Jiabao reaffirmed his firm and continuous support for the leadership role played by ASEAN in promoting regional cooperation.

### **(3) Japan's Policy toward East Asia Cooperation**

For China, which seeks to achieve sustained economic growth in a stable surrounding environment, East Asia cooperation has taken on increasing importance. Barring serious internal political turmoil, China is likely to become actively involved in the East Asia cooperation process in the foreseeable future. Japan can share many of the objectives that China desires to achieve through its East Asia strategy, particularly in the economic field. The weight that the Chinese economy carries in East Asian economies is expected to increase in the coming decades. Japan, a major economic power in the region, should encourage China to become more positively involved in promoting the East Asia cooperation process and responsible for the steady development of the region's economies. To do so, Japan needs to be even more proactive than China in promoting policy for the integration of East Asian economies. Competition between Japan and China in promoting their policies for economic integration would bring about greater benefits for the entire region. Therefore, Japan is expected to make even greater efforts than China to conclude an FTA with ASEAN so as to realize an East Asia FTA.

In the areas of politics and security, too, there are objectives that Japan and China can share for the stability of East Asia. Chinese efforts to defuse the territorial disputes over the South China Sea and to promote regional cooperation for dealing with nontraditional security issues are welcome signs for Japan. Building stable relations with China is an important task for Japan; therefore, the East Asia cooperation process is of great importance as a "lubricant" for conflicting relations between Japan and China. Japan needs to make efforts to realize peace and prosperity in East Asia by jointly reconfirming with China the various common benefits to be derived from East Asia cooperation and by working out concrete measures for cooperation.

On the other hand, there are some Chinese foreign policy objectives that Japan does not share, such as the expansion of China's political influence in East Asia

and its effort to undercut US influence to create a multipolar order. It is clear that China wants to establish a new international political and economic order and is not satisfied with the existing order in East Asia. However, China's aim to create a regional order in which it can exercise leadership through East Asia cooperation has not been achieved, at least for now. Even ASEAN, with which China seeks to strengthen its relations, has not accepted China's leadership in East Asia. On the contrary, as shown by its signing the TAC, China has been incorporated into the regional order established by ASEAN. The more actively China pursues cooperation with the countries of the region, the more it becomes difficult for China to challenge the existing regional order that these countries share.

Many ASEAN member states, as well as Japan and South Korea, share an interest in maintaining the existing regional order based on the US presence. Therefore, it is difficult for China to make fundamental changes to the situation. The further development of East Asia cooperation would pressure China to share the same vision for the future regional order as other East Asian countries. For its part, Japan should share with the United States the long-term objective of persuading China to accept the existing East Asian regional order and vigorously promote East Asia cooperation in ways to expand the common interests of the region as a whole.