

Overview of the Political Economy of Northeast Asia

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As we move into the 21st century, Northeast Asia is becoming a global focal point of which regional stability and economic development are key elements. Moving forward with promoting security cooperation and economic integration the issue of security – from North Korea's nuclear missiles to adopting measures to prevent conflicts in the East China Sea – and the emergence of trade and a free trade zone is the key to strengthening the region and avoiding conflict. The growing Chinese market and political forces will also play a pivotal role in the economic and political development and integration in the region.

Northeast Asia is currently a mixture of cooperation and conflict with economic interdependence and regional cooperation. However competition and points of conflict also threaten East Asia's stability and security. The current trend for countries in the region is maintaining regional stability and economic development parallels international global development. However, the change and complicated interaction amongst the bilateral relations of many groups is something that warrants continued attention.

Pursuing economic development through political reconciliation

In recent years, the Asia-Pacific region has experienced phenomenal regional economic and trade cooperation. The original six ASEAN countries (Malaysia, Singapore, the Philippines, Indonesia, Thailand and Brunei) enlarged to include Vietnam, Cambodia, Laos and Myanmar into its ASEAN Free Trade Area (AFTA). Though these latecomers have not fully met AFTA's tariff reduction obligations, it is expected to occur within the next five years. ASEAN Plus Three (China, Japan and

South Korea) saw South Korea signing a free trade agreement (FTA) with ASEAN countries and the U.S. recently following suit; China will have signed similar deals with all ten ASEAN countries by 2010. In 2004, China signed the first tariff reduction agreement with ASEAN countries – and with a total population of 1.7 billion and trade of US\$1.2 trillion, it is a small glimpse of the forthcoming trade zone.

Japan signed the “Tokyo Declaration” with ASEAN in early 2003, increasing bilateral cooperation. Additionally, other Asia-Pacific countries have signed or are in the process of negotiating FTAs or other bilateral agreements on economic and trade cooperation. In December 2005, ASEAN Plus Six (China, Japan, South Korea, Australia, New Zealand and India) held the East Asia Summit (EAS) in Kuala Lumpur to discuss the future of Asia. Even though differences remain, economic integration has begun.

In the area of regional cooperation, regional integration is based on East Asian regionalism and is changing international relationships in East Asia. After the 1997 Asian Financial Crisis, Asian currency cooperation and the ASEAN Plus Three mechanism was set up which resulted in East Asia economic cooperation entering a substantive period¹. Even though the EAS expanded to include New Zealand, Australia and India, every country in East Asia continues to actively push for a “cooperative dialogue” throughout the region. On the other hand, bi-regional and inter-regional FTA’s are gradually increasing with East Asian regionalism² gradually entering a period of legal systemization³, of which the most impressive was the deal signed by China and the Association of South-East Asian Nations in 2001 involving total economic cooperation that would see the construction of a free trade zone by

¹ For the debate on ASEAN Plus Three and East Asian regionalism, see: Takashi Terada, “Construction an ‘East Asian’ Concept and Growing Regional Identity: From EAEC to ASEAN+3,” *The Pacific Review*, 16:2, June 2003, pp.251-277; Mark Beeson, “ASEAN Plus Three and the Rise of Reactionary Regionalism,” *Contemporary Southeast Asian*, 25:2, August 2003, pp.251-268; and Markus Hund, “ASEAN Plus three: towards a new age of pan-East Asian regionalism? A Skeptic’s Appraisal,” *The Pacific Review*, 16:3, September 2003, pp.383-417.

² Christopher M. Dent, “Networking the Region? The Emergence and Impact of Asia-Pacific Bilateral Free Trade Agreement Projects,” *The Pacific Review*, 16:1, March 2003, pp.1-28; Zhang Yunling, “Emerging New East Asian Regionalism,” *Asia-Pacific Review*, 12:1, 2005, pp55-63.

³ About the idea of legalization and East Asian normative order, see: W. Abbott, Kenneth; Keohane, Robert O.; Moravcsik, Andrew; Slaughter, Anne-Marie; Snidal, Duncan, “The Concept of Legalization,” *International Organization*, Summer 2000, Vol. 54 Issue 3, pp. 401-419; and Miles Kahler, “Legalization as strategy: The Asia-Pacific case,” *International Organization*, Summer 2000, Vol. 54, Issue 3, pp. 549-571.

2010⁴.

The East Asian region also faces the problem of security, with regional powers competing to become the areas biggest player with the North Korean nuclear crisis and Taiwan straight conflict potential flashpoints. The U.S.-China and China-Japan relationships are the focus of this competition, while China's rise – from the economy to diplomacy to energy – is causing redistribution in the region's power relationships. On the surface, East Asia's security environment at the beginning of the new century is largely peaceful and stable but each country is more actively preparing their military and strategic alliances. Even though the economic and trade relationships between every Northeast Asian country is growing quickly, political and security issues still play a leading role in the diplomatic policies of each country.

America's return to East Asia

Due to the US's war on terror and war in Iraq American policy makers have shifted their attention away from the Asia region. This has resulted in the region developing its own policies separate from American influence. However, there is no political vacuum in the region because the U.S. still remains the leader in East Asia. However, with China's rise, North Korea's nuclear weapons and the development of East Asia economic integration, America's East Asian policy has been passive and therefore largely ineffectual in taking on a leadership role in maintaining stability and the status quo.

Nevertheless, the U.S. is waking up to the fact that they need to return to their former dual policy of new realism and new liberalism in East Asia. Following the U.S. elections, U.S. strategy emphasized the Middle East with particular focus being placed on Iran and Iraq. But U.S. policy makers need to modify their global strategy to emphasize East Asia as a key region so as to maintain a balance of power and peace in the region. As such, facing the North Korea nuclear weapons program and the rise of China, the U.S. should use a combination of diplomacy and force to

⁴ Vinod K. Aggarwal and Min Gyo Koo, "Beyond Network Power? The Dynamics of Formal Economic Integration in Northeast Asia," *The Pacific Review*, 18:2, June 2005, pp.189-216.

maintain the current peace and ensure that power brokers in the region don't challenge the leading role of America. In short, the U.S. should still play the role of "hegemonic balancer" in East Asia.

Moreover, the economic development and regional integration of East Asia has made the U.S. see that this new gold mine is the lifeblood of its economic hegemony. In 2005, the U.S. played an indirect role in halting ASEAN Plus Three from changing its name to the Asia Economic Forum – which promoted the inclusion of Australia, New Zealand and India. This would have expanded the membership and territory of this organization and cooperation between Northeast and Southeast Asia, cementing China's role as a leader in the region. On the other hand, America is looking to APEC to emphasize the economic integration of the Asia Pacific region. The conflict between these two different approaches to the region's future will be determined by competition between East Asia – being led by China – and the Asian Pacific – being led by the U.S. The competition between the policies of the U.S. and that of China could be positive with each major power getting what they need. Moreover, through this process, the variation in their power will be revealed.

The Rise of China and the development of the U.S.-China Relations

The rise of China is the leading and most controversial issue in the field of international relations and the main cause of structural changes in East Asia. In the area of economic interdependence, the development of China's economy provides opportunities that will increase regional economic trade in the 21st century. Chinese imports and exports have made great strides in the past few years. In 2003, import and export trade has exceeded US\$851 billion, which represents a growth of 37.1% and in 2004 was US\$1.1 trillion representing growth of 35.6%. Since 2002, the total quantity of trade among countries in East Asian has grown by approximately 58%. By 2005, China's exports and imports were third in the world.

The structure of Northeast Asia, like all other regions, is defined mainly by the distribution of wealth and power among regional countries. The surge of Chinese economic power is the most important factor affecting the distribution of power in

Northeast Asia in the past decade. China's economic growth has important influence on every country throughout the world. In a recent lecture held at the Shanghai Futures Exchange, US Treasury Secretary Henry Paulson said that in the past five years, the growth of China- U.S. economic entities occupies 50% of global economic growth. The economic relationship between the U.S. and China reached a new stage when the two countries established the Strategic Economic Dialogue mechanism on September 9, 2006.

The structure of Northeast Asia is also influenced by the nature of the interconnections among regional countries, especially among major powers. After Bush became president, relations between the US and China experienced many twists and turns, from strategic competitors to the three C's (candid, constructive, cooperative) and the new three C's (complex, complicated, comprehensive) relationships⁵. Even though both frameworks characterized the US-China relationship as becoming increasingly complicated – with Deputy Secretary of State Robert Zoellick calling on China to become a responsible stakeholder – it implies that, in the area of regional and international affairs, the US believes China should emerge in accordance with responsible superpower behavior⁶.

Active cooperation between the U.S. and China parallels the ideals of a post Cold War world where a spirit of international cooperation and consensus are of paramount importance. The spirit of cooperation between all the major powers is a win-win situation and hopefully represents a regional and global trend for the future⁷.

North Korean nuclear missile crisis and the 6-Party Talks

⁵ Philip Yang, "From Strategic Competitor to Security Collaborator? US-China New Tri-Level Strategic Relations and Taiwan Security in a Post-9/11 World," *Issues and Studies*, Vol. 39 No.4, Dec. 2003, pp. 182-193.

⁶ Aaron L. Friedberg, "The Future of US-China Relations," *International Security*, 30:2, Fall 2005, pp.7-45 Robert S. Ross, "Assessing the China Threat," *National Interest*, no.81, Fall 2005, pp.81-87; and Bradley A. Thayer, "Confronting China: An Evaluation of Options for the US," *Comparative Strategy*, no.24, 2005, pp.71-98

⁷ Fisi Wang, "China's Search for Stability with America," *Foreign Affairs*, 84:5, September/October 2005, pp.39-48; Zheng Bijian, "China's Peaceful Rise to Great Power Status," *Foreign Affairs*, 84:5, September/October 2005, pp.25-38; and Minxin Pei, "The Dark Side of China's Rise," *Foreign Policy*, no.153, March/April 2006, pp.32-40.

The consensus reached at the 6-Party Talks held on February 13 of this year signaled a new era in the North Korean nuclear crisis with the possibility of a denuclearized Korean peninsula. In return for dismantling their nuclear weapons program, the other five parties agreed to provide emergency energy assistance to North Korea in the initial form of 50,000 tons of heavy fuel oil. All six parties agreed to take positive steps to increase mutual trust, and make joint efforts for lasting peace and stability in Northeast Asia. Finally, all six parties agreed on establishing five working groups: denuclearization of the Korean Peninsula; normalization of North Korea-U.S. relations; normalization of North Korea-Japan relations; economic and energy cooperation; and a joint Northeast Asia peace and security mechanism.

With North Korea having broken so many promises in the past, it's difficult for East Asian countries to maintain an optimistic attitude⁸. However, recent developments should alleviate tensions because the U.S. is using effective diplomacy. After President Bush named North Korea as part of the "Axis of Evil," demands for North Korea to destroy its nuclear weapons program were always made under the rubric of the ineffective CVID (complete, verifiable, irreversible dismantlement) framework. The North Koreans worry about their security stating that Americans should ensure that they will not make a preemptive attack on North Korea. Only then will the North Koreans agree to dismantle their nuclear weapons program. The biggest problem facing the six party talks is the discussion of priorities.

The Bush administration's use of a flexible approach and willingness to use diplomatic channels to reach a consensus will go a long way to ensure that North Korea destroys their nuclear weapons in the future. Bush's flexible attitude can partially be attributed to the worsening situation in Iraq and needs a successful resolution in North Korea to cover his poor diplomatic performance in the Middle East. Another issue is that since the Democrats took congress they have incessantly criticized the Bush administration for its failures in Iraq. A diplomatic victory in North Korea would offer a balance to Bush's poor Middle Eastern report card.

The second factor is China's rise and transformation. In the past, China typically played a passive role as third-party mediator in conflicts between the U.S.

⁸ Victor Cha and David Kang, "Can North Korea Be Engaged?" *Survival*, 46:2, Summer 2004, pp. 89-108.

and North Korea. However, since the joint statement of September 2005, China has changed its role and has become a “good officer,” because of their influence on North Korea. It is through Beijing that the Six Party consensus resulted. China will now need to take on the active role of guarantor between the U.S. and North Korea. Therefore, if before it was a diplomatic struggle – making China the mediator between the U.S. and North Korea – today the challenge faced by Beijing is how effective their influence is on the six-party talks in maintaining security and peace in the Korean Peninsula.

Chinese-Japanese Relations: Sino-Japanese strategic ties?

During Junichiro Koizumi’s tenure in office, relations between China and Japan could be described as economically hot and politically cold. Though the political relationship between China and Japan on the surface is tense because of unresolved historical problems, the deeper issue between the two East Asian powers rests in the power confrontation between them. The first issue is communist China’s rapid rise; the other is Japan’s internal normalization. Even though there are problems between the two country’s history, energy and territory, as China-Japan trade relations deepen, bilateral conflicts have temporarily been suspended in favor of diplomatic measures.

As a well-known conservative and neo-revisionist politician⁹, Prime Minister Shinzo Abe’s visit to Beijing marks a strengthening of ties between the two countries, where he expressed the hope that Japan and China can construct a mutual strategic relationship with each other. However, both sides have yet to confirm what benefits will result from this mutual strategic relationship¹⁰. Only with this principle of reciprocity can China and Japan construct a relationship that is strategically beneficial and equal to both sides. In April of this year, Premier Wen Jiabao visited Japan and signed a joint statement with the hope of consolidating China-Japan relations that are strategically and mutually beneficial.

⁹ For the discussion on Japanese strategic culture, please see: Eric Heginbothan and Richard J. Samuels, “Mercantile Realism and Japanese Foreign Policy,” *International Security* 22, no. 4 (Spring 1998), pp. 171-203.

¹⁰ Peter Gries, “China’s Japan Policy,” *SAIS Review*, 25:2, Summer/Fall 2005, pp.105-114.

The current China-Japan bilateral relationship is becoming more interrelated. Since becoming Prime Minister, Abe has increased dialogue and communication between Japan and China, including frequent meetings among party leaders. Though gaps still remain – including visits to the Yasukuni Shrine and territorial disputes in the East China Sea – relations between China and Japan have entered a period of normalization¹¹. Additionally, beneficial strategic ties between China and Japan are still influenced by many effects such as the Chinese economy and the trade relationship between Japan and China. China’s domestic factors, nationalism clashes¹², U.S. policy as well as the issue of Taiwan are all factors influencing the direction of China-Japan relations.

Cross-Straight relations: 2008: The election year

As Taiwan’s democratization becomes more entrenched, localization and national identity will become the most important factors influencing cross-straight relations and Taiwan’s security, thus raising concerns both domestically and internationally that these issues will lead to conflict between Taiwan and China. So the question remains: What is the relationship between Taiwan’s democratization and Taiwan’s security?

The author believes that the process of Taiwan’s democratization not only changes the island’s political system and lifestyle, but also changes Taiwan’s relationship with foreign countries that has a direct effect on Taiwan’s security. First, Taiwan’s democratization has become the key factor influencing the island’s domestic politics, which has a direct effect on diplomacy and security. The domestic political environment and competition between political parties influences the government’s diplomatic relations and security policies.

Second, democratization has caused structural changes in Taiwan’s security environment. The major actors influencing Taiwan’s security, especially the

¹¹ Denny Roy, “The Sources and Limits of Sino-Japanese Tensions,” *Survival*, 47:2, Summer 2005, pp. 191-214; Jin Qiu, “The Politics of History and Historical Memory in China-Japan Relations,” *Journal of Chinese Political Science*, 11:1, Spring 2006, pp.25-53.

¹² Peter Hays Gries, *China’s New Nationalism: Pride, Politics, and Diplomacy* (Berkeley: University of California Press, 2004).

government's in Beijing and Washington, have changed their policy and attitude towards Taiwan's security and cross-strait relations. In other words, Taiwan's democratization has changed the triangular relationship among Taiwan, China and the U.S. Taiwan's democratization has caused the Beijing government to scrutinize Taiwan's elections and policy shifts and also the domestic political situation in the U.S., which often calls for Taiwan having a larger say in the security environment in the Taiwan straight.

Third, current conflicts in cross-strait relations and international diplomatic restrictions come as a result of Taiwan's push for a distinct national identity and localization policies. The so-called One-China principle and China's alienation of Taiwan also influences the balance of Taiwan's security environment and causes misjudgment and military struggle across the Strait.

However, with democratization Taiwan's leaders must respond to the will and opinion of the majority of people on the island. As most people are interested in maintaining the status quo, quickly changing cross-strait relations and offensive military policies are unlikely to become mainstream policies due to the democratic mechanism and the pressure of the people's will.

Militarily, many argue that the balance of power is gradually shifting against Taiwan, partly because the rise of Chinese economic and military powers and partly because Sino-US relations has become complex and complicated – increasing the cost for the U.S. to defend Taiwan. On the other hand, the growth in trade and investment between the mainland and Taiwan could ease the political stalemate and military tension. Taiwanese who live on the mainland are now over one million. In fact, Taiwan has advantages over other countries as a platform or stepping-stone for multinational cooperation to do business in China. But, whether or not the closer economic ties will lead to some sort of political integration remains to be an open question¹³.

The 2008 presidential election will be the key influencing the cross-strait relations. However, no matter which camp – blue or green – wins the election, three

¹³ Philip Yang, "Rise of China and the Cross-Strait Relations," *Tamkang Journal of International Affairs*, Vol. IX, No. IV, April 2006, pp. 1-32.

factors will seriously influence cross-strait relations and security in the Taiwan Strait. First, Taiwan's national identity and the consciousness of Taiwanese independence. Second, the possibility that China will use military force. Third, U.S. and Japanese intervening to peacefully resolve the cross-straight impasse. In other words, the problems in the Taiwan Strait are key issues affecting the three powerful countries, all of which have varied concerns.

In conclusion, the Beijing government will continue their policy of treading carefully during an election year. Taipei could provoke tensions in cross-straight relations. Though Washington used to play the role of mediator, over the past few years the U.S. has been unsupportive of the DPP's policies, evidence of which can be seen in their lack of support for the defensive referendum, constitutional revisions as well as the transferring of planes in the U.S. by Taiwan's leaders and changing Taiwan's official name. The reason why the US takes this kind of actions is because they are playing the role of double balancer and double deterrence double balancer means balancing the military force and politic landscape between China and Taiwan. Double deterrence involves requesting that Taiwan refrain from declaring independent and China avoiding the using of military force to resolve cross-straight issues¹⁴. Washington has developed a crisis management approach to ensure that neither Taiwan nor China alters the balance of power in the Taiwan Strait. Actively announcing their stance and attitude, and even force Taipei or Beijing to alter their policy and stopping each side's provocative actions, will go a long way to avoiding potential conflicts on both sides of the Strait.

¹⁴ Philip Yang, "Doubly Dualistic Dilemma: U.S. Strategy towards China and Taiwan," *International Relations of the Asia Pacific*, August 2006, Vol. 6, No. 2, pp. 209-225.