

## **Promoting Long-Term Economic Growth: America and East Asia Working Together**

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### **Abstract**

A deep recession and a dramatic financial crisis have shaken the global economy. Although Asian countries could not help but be affected, the impact on the region was less than many predicted. The surest strategy to a speedy economic recovery and prosperous future is strengthening economic cooperation within the Asia-Pacific and between the Asia-Pacific and the United States.

That means maintaining an open trading system, encouraging bilateral investment flows, and working together to resolve economic disputes. Protectionism remains a dangerous temptation, but history suggests that all countries lose when they sacrifice economic ties in an attempt to win short-term financial advantage.

Equally important is preservation of peace through creation of stronger political and security arrangements in the region. Peace and stability are necessary for Asia's economic miracle to continue. In the aftermath of World War II the U.S. sought to promote stability through a series of essentially unilateral alliances. This system is now obsolescent. The basis of security and stability should shift from unilateral military alliances to multilateral cooperative relationships.

Implementing the correct economic and security policies is important not just for Asia, but for the rest of the world. Despite today's short-term economic difficulties, the future appears to be bright. At least as long as Asian nations, as well as their partners elsewhere, most obviously the U.S., do not repeat the mistakes of the past.

Keywords: Asia, Republic of Korea, China, Japan, U.S., Economic Cooperation, Regional Institutions, Region Security, Free Trade, Investment, Economic Reform, Asia-Pacific, APEC, ASEAN, Free Trade Agreements

## **Introduction**

In late 2008 a deep recession and a dramatic financial crisis shook the global economy. Both the United States and Europe were at the epicenter of the world economic slowdown, but the impact radiated outward to countries rich and poor alike in every region.

Although Asian countries could not help but be affected by the significant drop in demand in some of their largest markets, the impact on the region was less than many predicted. Long led by Japan, Taiwan, and the Republic of Korea, now dramatically joined by the People's Republic of China, Asia increasingly has become a separate engine of economic growth, working alongside the United States and European countries. The surest strategy to a speedy economic recovery and prosperous future is strengthening economic cooperation within the Asia-Pacific and between the Asia-Pacific and the United States.

The best means of obtaining this prosperity lies in maintaining an open trading system, encouraging bilateral investment flows, and working together to resolve economic disputes, whether over currency valuations or regulatory standards. Tough economic times may tempt national leaders to turn economics into political battlefields. However, history suggests that all countries lose when they sacrifice economic ties in an attempt to win short-term financial advantage. Indeed, a policy of isolation helped turn the once great Chinese Empire which dominated Asia into a geopolitical weakling, one vulnerable to Western imperialism. Unfortunately, Washington seems to be following in Imperial China's path with the refusal of Congress to approve the U.S.-South Korea free trade agreement and the unwillingness or inability of President Barack Obama to make the case necessary to win congressional backing.

But Asia's future depends on more than economics. Equally important is the preservation of peace through creation of stronger political and security arrangements in the region. Peace is necessary for Asia's economic miracle to continue: the Korean, Japanese, Chinese, and other peoples have direct experience with how violence, both internal and external, can inhibit national development. Thankfully, Asia's conflicts since World War II have been limited. In the aftermath of World War II the U.S. sought to promote stability through a series of essentially unilateral alliances with Australia, Japan, New Zealand, the Philippines, South Korea, and Taiwan (though nominally bilateral or multilateral, the defense guarantee ran only one way, from Washington). Whatever the merits of this system at the time, it is now obsolescent.

First, the geopolitical context has changed with the disappearance of the Cold War which led to hostility and conflict among the region's most important powers. Second, countries which were weak and poor after being ravaged by years of war now are strong, prosperous, and confident. The basis of security and stability should shift from unilateral military alliances to multilateral cooperative relationships. Although policy disagreements and vigorous competition among the United States, China, Japan, ROK, and other states are inevitable, these countries have a powerful incentive to resolve their differences amicably while limiting military competition and pressure for an arms race.

Getting both economic and security policies right is important, not just for Asia but for the rest of the world. The dynamic core of world economic affairs long has been shifting to the Asia-Pacific. Japan remains an economic power even while stuck in the doldrums. South Korea continues to grow after recovering from the Asian financial crisis. Even more significant is China's growing economic role. Beijing's relative immunity from the worst of last year's financial crisis merely reinforces Asia's economic importance.

The region's economic transformation has most obviously benefited people throughout Asia. As growth continues, those elsewhere around the world also will benefit greatly. Despite today's short-term economic difficulties, the future appears to be bright, if we do not repeat the mistakes of the past.

The 21st Century may prove to be the Asian Century. But that is likely only if the 21<sup>st</sup> Century in Asia also proves to be a time of peace, liberty, prosperity, and stability. Tensions in the region have dropped dramatically with the end of the Cold War, along with increased

international understanding and economic interdependence. All of these trends are embodied in Asia's growing role as part of the international community. Still, neither peace nor prosperity can be taken for granted. Cooperation and goodwill will be necessary throughout Asia and across the Pacific. We all are benefiting from today's environment of peace and prosperity. We all must work together to preserve it.

### **The Importance of the Asia-Pacific Economy**

China once was a global power. But by turning inward the empire ceded economic dominance to Europe and later America. The reasons the West prospered are many and complicated.<sup>i</sup> However, economic freedom and innovation were critical to the rise of many traditional, rural societies out of poverty. The resulting wealth improved the living standards of Westerners. The growing economies also financed advanced militaries which enabled the West to rule much of the world, and to impose its influence widely, including Asia, in general and China in particular.

Today, the global balance of power is shifting away from the West. Although the United States retains the world's largest economy, and Europe collectively is even larger, Japan and China hold the second and third positions (the exact order depends on the measure used). Germany, at number four, is the European state with the largest economy. Other East Asian nations, led by South Korea, have been moving up rapidly. India remains poor, but it, too, is on its way to becoming an economic superpower.

Making predictions about the future is risky since the unexpected is inevitable and even the fastest-growing economies slow as they mature. Nevertheless, one Goldman Sachs forecast has the U.S. only slightly ahead of China in 2025, followed by Japan and India, with Germany in fifth place. By 2050 China is first and the U.S. is number two, barely ahead of India. The United Kingdom is the highest ranking European economy at nine, with Germany at ten.<sup>ii</sup>

Some analysts argue that this economic shift will take more time, and they may be right. South Korea's future growth could be greatly affected by events in the North. China and India face enormous challenges as well as opportunities. And even as these populous nations, along with Indonesia, generate large economies, their per capita incomes will remain relatively low. The West will remain a, if not the, dominant economic influence for decades.<sup>iii</sup>

However, Asia increasingly will act as a second engine of growth. South Korea, Taiwan, and Japan all have become advanced industrialized nations and major trading states. China is pairing rapid economic growth with a large population. Asia's role in spurring economic recovery is evident in the aftermath of last fall's financial crisis. The U.S. and Europe fell into severe recessions while facing a crisis of confidence in their core financial institutions. Some small countries, such as Iceland, found their banks disastrously overextended, while others, such as Greece, have seen their governments veer close to *de facto* bankruptcy.

Such a large economic shock could not help but affect the Asia-Pacific, especially given the importance of the U.S. and Europe as a market for exports from the ROK, China, Japan, and other Asian nations. Nevertheless, the PRC, in particular, weathered the Western economic turbulence surprisingly well. China appears to have maintained growth and its exports, though still down, have rebounded. "The export recovery is proceeding steadily," explains Xing Ziqiang, an economist with China International Capital Corp. in Beijing, who has predicted an eight percent increase in exports this year.<sup>iv</sup>

The PRC is now estimated to play an even larger global economic role than before. Reports John H. Makin of the American Enterprise Institute: "During 2009, China's contribution to world growth has gone from 15 percent of the total to nearly 20 percent, underscoring China's extraordinarily early and rapid acceleration of growth during the first three quarters of 2009."<sup>v</sup>

The PRC's increased economic importance obviously benefits the Chinese people, allowing them to escape the tragic poverty that trapped their ancestors. Of course, there remain critical challenges for China to overcome, particularly unequal distributions of income that have

contributed to social unrest.<sup>vi</sup> Nevertheless, the transformation of China remains one of the most astonishing, and astonishingly positive, developments of the last three decades.

Beijing's increased wealth has also greatly benefited the Asia-Pacific. As the West had to learn before it could grow so dramatically, economics should be treated as a positive-sum game. China has become an increasingly important investor in, buyer from, and seller to its neighbors. Between 1987 and 2007, note Douglas H. Brooks and Changchuan Hua of the Asian Development Bank and Hong Kong Monetary Authority, respectively, "PRC trade increased over 30 times—with PRC becoming the largest trader in Asia."<sup>vii</sup> China has become a leading importer from as well as exporter to the developed Asian countries of South Korea, Japan, and Taiwan. Beijing trades more with the ROK than does America. Last year the PRC surpassed the U.S. in total trade with Southeast Asia. China still trails Japan, but not by much. Even the *Wall Street Journal* acknowledged that "Chinese capital has helped fuel" the region's rapid economic growth.<sup>viii</sup>

Some analysts in America fear that the PRC is displacing the U.S.—the PRC's growing relationship with traditional American ally, Seoul, is particularly notable—but Asians benefit from having an additional source of finance and markets. In 2004 K.C. Fung of the University of California (Santa Cruz) termed China "a locomotive in the Asia-Pacific region."<sup>ix</sup> That was well before the economic crisis last fall. Today, with Western economies only slowly and uncertainly emerging from recession, China's regional role is even more important.

For similar reasons the U.S. and Europe also are beneficiaries of China's economic rise. Many in the West are reluctant to acknowledge their gains since competition from Chinese industry has hurt individual firms and workers. However, the goods and services coming from China and the rest of Asia have enriched the West, and will be even more beneficial in the future. Two-way trade between the U.S. and PRC hit \$409 billion in 2008, up from just \$94.9 billion in 1999, and is likely to continue its steady rise. China is buying as well as selling: it purchased \$224.7 billion worth of goods from America in 2008. Trade between China and the rest of the world ran \$2.56 trillion in 2008, twice the level of four years earlier.<sup>x</sup>

South Korea, Japan, and Taiwan all moved from inexpensive to quality producers; other, less-developed Asian nations, including China, are moving along the same path. For instance, output per worker in East Asia rose from one-eighth that of industrialized states in 1996 to one-fifth in 2006. Annual East Asian productivity rates exceed those of industrialized states.

Moreover, Asia is awarding more degrees in science and engineering, publishing more papers in those subjects, and filing more patent applications. High-tech Asian exports also have been rising rapidly, far faster than (the still larger) U.S. production.

Direct investment likely will follow as ever more Chinese and other Asian companies become global leaders. Japan started down this road years ago; the ROK and Taiwan, though possessing smaller economies, also have spawned leading international corporations. The PRC already is a large purchaser of U.S. government assets, and last year Chinese companies invested in such troubled firms as Citigroup and Morgan Stanley. Although the PRC continues to lag behind the U.S. in number of companies in the Fortune Global 500 (37 versus 140) and in the 50 top firms by market capitalization (9 versus 21), China is catching up.<sup>xi</sup> Moreover, the real issue is not who is number one but who is wealthy and productive enough to contribute to the global economy. Now the PRC must be included, along with the South, Taiwan, and Japan.

Despite the unfortunate controversy over the proposed acquisition of Unocal by the Chinese National Offshore Oil Corporation (CNOOC), significant future direct investment and control by Chinese enterprises in America seems likely. Obviously, the U.S. remains the largest investor: as of 2008 American firms had invested \$62.2 billion in 58,000 projects in China.<sup>xii</sup> However, more Chinese money is coming to America. Lenovo purchased IBM's laptop operation. In his new book on Asia's economic miracle, Michael Schuman writes of Haier, which has opened the first Chinese manufacturing plant in America.<sup>xiii</sup> Just as U.S. investment has helped China grow, in the future Chinese investment will help the U.S. as well as China's neighbors grow.

The importance of a two-way relationship has been highlighted by the financial crisis. In the past, Europe and the rest of the world would have had to wait until the U.S. recovered to grow again. Now the rest of the world can keep moving, and even help jumpstart the U.S.

### **Policy Challenges to Maintain a Growing Economy**

Asia's, and particularly China's, relative economic importance will continue to expand. How smooth and swift the journey will be we do not know. But Asia has discovered the path to prosperity and is not likely to depart from it. The future then should be bright.

Nevertheless, improved economic policies will increase economic cooperation. There are many varied proposals emanating from governments, think tanks, analysts, and pundits. We can argue about the details, but all of us should acknowledge that there are serious questions which must be confronted and answered.

*Fiscal Responsibility.* The short-term challenge after the fall of 2008 for most countries was moderating the recession and reigniting economic growth. In large part that has been achieved. The continuing human pain is obvious: the U.S. may face a jobless recovery, where growth returns while employment lags. Although many leading European countries appear to have emerged from their recessions, there are some important exceptions. The travails of Iceland and Greece have been well-publicized; Great Britain, one of the world's largest economies, remains in parlous condition.

Nevertheless, the longer-term issue of fiscal responsibility is taking on greater importance. For instance, the U.S. ran a \$1.4 trillion deficit in Fiscal Year 2009, faces a \$1.6 trillion deficit in Fiscal Year 2010, and is expected to have to borrow another \$10 trillion over the next decade. That comes on top of an existing national debt of \$12.6 trillion, as well as very large pension and health care obligations to America's elderly, and the ultimate costs of the new health care reform legislation. Estimates of the future U.S. account deficit rise to 15 percent or more over time.<sup>xiv</sup> Chinese leaders understandably have indicated their concern over U.S. fiscal policy and its impact on the value of the dollar and of Chinese investments in U.S. government securities, about \$1.2 trillion worth as of last year. The *New York Times* observed of President Barack Obama's visit to Beijing: "he will, in many ways, be assuming the role of profligate spender coming to pay his respects to his banker."<sup>xv</sup>

*Generational Transfer.* Most industrialized nations, especially the U.S., Europe, Japan, and China, face challenges from the impact of aging societies. Many of the consequences will be economic: fewer workers, more pensioners, and much higher medical expenditures. The resulting change in the work force also will affect economic productivity and growth. Although the demographic challenge facing each nation varies, all of these countries will be forced to address similar problems. Policies might not cross boundaries, but consultations can. Affected nations should share information, discuss the impact of policies, and search for strategies to care for a growing number of elderly as well as preserve the strong economies necessary to provide for young and old alike.

*Financial Regulation.* How to properly structure financial markets so as to discourage irresponsible risk-taking while encouraging innovation remains complicated and controversial. Although the issue has mainly been debated within and between the U.S. and Europe, it also concerns Asia. Indeed, the financial crisis has left Chinese banks in a stronger relative position internationally. At the same time, concerns continue to be expressed over the lending practices of some institutions; in fact, failings in domestic banking sectors contributed to the Asian financial crisis a decade ago. The ROK has struggled with economic reform from the Asian economic crisis through the celebrated assault on vested economic interests by Kim Dae-jung's government and beyond.

Thus, it is in the interest of many Asian states to clean up their banking balance sheets as well as coordinate with other leading economic powers to ensure effective and efficient international oversight. There was a time when such rules would and could be set in Washington, with perhaps

some contribution from London, Frankfurt, or Brussels. Today Asia is too important as an economic and financial center not be directly and fully involved as well. In advance of the latest APEC meeting, Treasury Secretary Timothy Geithner joined with the finance ministers of Indonesia and Singapore to call for financial regulation which prevented a recurrence of 2008 while creating “deeper and more efficient financial markets [that] will enable better intermediation of savings and enhance investment productivity.”<sup>xvi</sup>

*Investment Barriers.* Foreign investment complements foreign trade, but also is greatly affected by policy. Secretary Geithner and his colleagues also urged reforms “to promote cross-border private investments, while ensuring an institutional capacity and prudent regulatory framework to enable markets to absorb capital flows that may be large and volatile.”<sup>xvii</sup> That is an agenda with which all Asia should agree.

The U.S.-South Korean economic relationship is long-established. Given the disparity in sizes of the two economies, however, the weight of investment always will flow from America to the ROK. The relationship of U.S. and Japan has been closer to one of equality. That between America and China is moving in that direction too.

The U.S. and the PRC have important bilateral controversies to resolve, however. Existing American investment in China is substantial, roughly \$28.3 trillion as of 2007, nearly three times as much as in 2002. Nevertheless, U.S. investment remains hampered by insufficiently secure property ownership, independent legal regime, and transparent political system. Analyst Pete Sweeney has called for “equalizing the regulatory treatment of foreign firms (who already operate under an information and ‘guanxi’ deficit) so that everyone plays on a level field.”<sup>xviii</sup> Corruption poses another challenge for foreign investors.

Chinese direct investment in America remains, understandably, far less than U.S. investment in the PRC. The total was about \$1 trillion as of 2007, making the PRC number 30 in terms of sources of investment in the U.S. The relative disparity most importantly reflects different levels of development and income. However, the U.S. also has allowed political and security concerns to impede Chinese investment in America. In particular, the CNOOC controversy ran counter to Washington’s claim to favor an open economy. Sweeney complained that “many of the U.S. security concerns regarding China are paranoid.”<sup>xix</sup> Zachary Karabell of Fred Alger Management more politely suggested that “the unwillingness to acknowledge the benefits of China’s rise is part of a pattern of China bashing that raises questions about the ability of the U.S. to compete in the global economy that it did so much to create.”<sup>xx</sup>

In any case, both countries can and should adopt reforms to encourage direct investment by the other. The two governments need to encourage liberalization while addressing each other’s non-economic objectives.

*Trading Practices.* Trade dominates the U.S.-Asia economic relationship. During the 1980s controversies dogged commerce between America and Japan; Tokyo-bashing became common political sport in the U.S., and one analyst even wrote a book predicting war between the two countries. Those concerns receded long ago, especially after Japan entered its long and enduring recession.

Trade also is important between South Korea and the U.S. That relationship, despite past friction, was cemented by the free trade agreement negotiated by Presidents George W. Bush and Roh Moo-hyun. Yet rising protectionist sentiments have prevented ratification by the U.S. Congress, where many Democratic members are especially upset over provisions governing the auto industry. It is incumbent on the Obama administration to press for ratification to strengthen geopolitical ties between the two nations as well as to spur economic growth across the Pacific.

The rise of China has turned trade into the most important aspect of that bilateral relationship. Explains the Congressional Research Service: “In 2008, bilateral trade hit \$409 billion, making China the second largest U.S. trading partner (after Canada), the third largest U.S. export market, and the largest source of U.S. imports. In recent years, China has been one of the fastest growing

U.S. export markets and the importance of this market is expected to grow even further as living standards continue to improve and a sizable Chinese middle class emerges.”<sup>xxi</sup>

The most contentious issues tend to center around import restrictions and currency values.<sup>xxii</sup> Both subjects have led to strong disagreements between the U.S. and PRC. Ironically, even though U.S.-China trade was down last year about 15 percent over 2008, trade disputes had increased. The importance of these issues has been magnified by the substantial increase in Asia’s share of global trade in recent years. The trans-Pacific linkages have grown particularly strong and beneficial. Many of the same issues are in dispute between the European Union and Asian countries, particularly China. Yet no country is exempt: popular resistance emerged after the EU negotiated a free trade agreement with the ROK.

Like many complex economic controversies, the “correct” answer to these questions is not clear. The political challenge was captured by the *Financial Times*: “China and the U.S. resolved several thorny trade disputes yesterday even as Beijing confirmed it was investigating potential dumping of U.S.-made cars in the Chinese market.”<sup>xxiii</sup> Neither side is free of responsibility.<sup>xxiv</sup>

After all, there is no proper currency value other than that set in the marketplace. Both the U.S. and China have restricted trade. Nevertheless, both countries share an interest in continued and growing commercial relations. Although the impact of trade competition falls differently upon different nations, the other residents of the Asia-Pacific share these same broad goals.

Thus, all of the region’s economic leaders, and especially the ROK, Japan, China, and Taiwan, should work with the U.S. to better integrate all economies in a freer trade network. That would suggest moving from politics to economics to determine currency values and expanding the scope and reach of existing free trade agreements.

Obviously, policymakers will emphasize strategies believed to serve their own nations’ advantage. This will be the case for America and Asian countries. However, all governments should recognize their overriding shared interest in promoting deeper and wider economic cooperation. All nations—and that goes as much for the U.S. as for the ROK or China or anyone else in Asia—must be willing to face down domestic interests which hope to stall and even reverse commercial cooperation.

In America the U.S. business community has remained largely supportive of trade with and investment in the PRC, but some domestic manufacturers, labor unions, and human rights activists are hostile to proposals for increased economic cooperation. There reportedly also are serious divisions of opinion in China over varying bilateral economic issues. Despite mutual frustrations, however, neither government can afford to allow the relationship to founder. The two countries have been said to be “trapped in the economic equivalent of the mutual assured destruction described by theorists of nuclear deterrence in the Cold War.”<sup>xxv</sup> To destroy the relationship would harm both parties, and that ultimately would hurt other countries in East Asia as well.

One obvious strategy would be to broaden existing free trade agreements to include additional nations and link the accords to each other. Washington also must reassert its traditional leadership role in pushing to liberalize international markets. Of 168 free trade agreements currently in force in Asia, only two involve America. This is a travesty. The U.S. Congress should approve the pending US-South Korean FTA; the Obama administration should propose new FTAs with other Asian countries, starting with Japan and Taiwan. At the same time, potential FTA partners should work with the U.S. to eliminate political barriers to negotiation and ratification.

### **The Economic Necessity for Peace and Stability**

Economic cooperation has long been recognized as having beneficial political consequences. Commerce draws people together, substituting a real human partner with a name and face for an anonymous potential adversary. This process appears to have helped draw the people of China

and Taiwan together, despite years of political contention. Economic ties have supplemented a military alliance between America and South Korea. In the case of the U.S. and China, many more people on both sides of the Pacific have a far better understanding of the other nation as a result of trade, investment, and other business dealings.

But prosperity also depends on the right political environment. For the last three decades all of the major powers in East Asia have been at peace. There have been tensions among them, to be sure. North Korea has been a particular problem. Nevertheless, the diminution of the threat of war has allowed countries throughout the Asia-Pacific to concentrate on economic development. To ensure that the region continues on its present course, China, other leading Asian nations, and the U.S. should resist the temptation to engage in an arms race, instead cooperating to create regional institutions likely to encourage both peace and stability.

Obviously, the outbreak of war between any of the major states in the region would disrupt commerce between them and would, depending on its nature, scope and severity, have destabilizing effects throughout the region. Preventing conflict thus is the first responsibility of nations seeking to ensure continued regional growth.

Also important is avoiding a sustained regional arms race. Military outlays always divert economic resources to unproductive ends and often increase political tensions. With the world's number 1, 2, 3, and 5 military spenders (U.S., China, Russia, Japan)<sup>xxvi</sup> either part of Asia or involved in Asia, as well as other nations with substantial military outlays (ROK, India), there is potential for wasteful military outlays to stoke fears, promote miscalculation, and raise tensions. We all would be poorer as a result.

Although military spending per se does not create wars, it is more likely to spark instability where countries already share difficult histories and conflicting geopolitical interests. The perception of a regional "zero sum game" is enhanced by the survival of Cold War relationships even though the Cold War is long over. The U.S. has been particularly creative in developing new justifications for old alliances.

Many countries are affected, but the greatest potential for serious confrontation is between Washington and Beijing. Some American hawks now treat the PRC as the next security threat, warranting increased U.S. military outlays.<sup>xxvii</sup> In turn, Washington's military activities and international intentions engender skepticism among many Chinese policymakers. Conflict between these two countries inevitably would draw in other East Asian states, starting with America's closest allies, the ROK and Japan.

Other national pairings reflect varying degrees of hostility and fear. China and Japan, the two Koreas, North Korea and Japan are three of the more important. If Moscow continues to roughly assert itself, it might again enter more into the regional military equation. There are no reasons for any of these nations to come into conflict with any others, though the conduct of the Democratic People's Republic of Korea remains uniquely problematic. The fears sparked by the most recent sinking of the South Korean warship in the Yellow Sea in 2010, though apparently not caused by DPRK military action, well illustrates the problem.

All of these countries should consider the impact of their policy objectives, military outlays, and rhetorical outbursts on other interested nations. North Korea's perpetual policy of brinkmanship is beyond the control of more responsible nations. However, Washington's determination to maintain regional military dominance, Russia's more belligerent outlook, and China's sometimes harsh stance toward Taiwan also are among the factors affecting regional perceptions and responses. In particular, these three countries—superpowers former, current, and future—should emphasize defense transparency, military cooperation, and geopolitical moderation.

Especially important is integrating the PRC into security as well as economic arrangements. Doing so should not be viewed as concessions by Beijing, since the latter would benefit in a number of ways, including from the greater international trust that would result. Fruitful areas for

future initiatives include humanitarian assistance, peace-keeping missions, search-and-rescue training, joint operations against pirates and smugglers, and military exercises.<sup>xxviii</sup>

There are practical reasons for such cooperation. Observes Jonathan Holslag of the Brussels Institute of Contemporary China Studies: “why should China not work with the United States? Both powers have many security interests in common. Maritime piracy is an obvious example. Collaboration on energy security can be explored as well, given shared concerns about violence in areas such as the Gulf of Guinea and eastern Africa. The United States should also seriously consider the added value of working with China in stabilizing Afghanistan/Pakistan.”<sup>xxix</sup> Similar arguments apply to cooperation by both the U.S. and PRC with other Asian nations.

The ROK can play a particularly useful role, given its active military as well as economic role in the region. Seoul’s closer economic relationship with the PRC has reduced the possibility that the latter will support military adventurism by Pyongyang, despite the continuing bilateral alliance between the two traditional friends. South Korea should seek to establish ongoing military contacts and cooperation as well.

A positive response by China would aid those in the U.S. who are committed to peaceful cooperation. Polls indicate that many Americans are worried about the prospect of China becoming a superpower. Unsurprisingly, those suspicious of Beijing use the public’s relative ignorance to advocate confrontational policies. There is support even among mainstream academics and analysts for increasing America’s military deployments in the region.

### **International Structures for Peace and Stability**

Maintaining peaceful relations and moderating military build-ups will be easier if nations in the region as well as countries with which they are closely linked, such as the U.S., work together in strong institutions. Expanding its UN role has helped Japan move beyond its imperial past; the ROK has taken on greater political as well as economic roles as it has moved onto the international state. One of the most important ways in which the PRC has demonstrated its commitment to a “peaceful rise” is its increasing participation in international organizations.

Notes China specialist Ann Kent: “Formerly castigated as a ‘rogue’ or ‘renegade,’ China has changed its international behavior under the impact of international institutions. Its rapid integration into the international system since it replaced Taiwan as formal representative of ‘China’ in the UN in 1971 is indicated in the expansion of its membership from only one intergovernmental organization (IGO) and fifty-eight international nongovernmental organization (INGOs) in 1966, to forty-six conventional IGOs and 1,568 conventional INGOs in 2003.”<sup>xxx</sup>

Obviously, quality participation as well as quantity membership matters. Nevertheless, placing nations within a web of international organizations and obligations is more likely to promote the peaceful resolution of conflicts. Of the existing international system, notes G. John Ikenberry of Princeton: “the postwar Western order has an unusually dense, encompassing, and broadly endorsed system of rules and institutions. Whatever its shortcomings, it is more open and rule-based than any previous order.”<sup>xxxi</sup>

Such a system helps shape the decisions of all participants. Asian nations such as the ROK and Japan long ago joined with other nations internationally. This approach will prove particularly valuable for a nation like the PRC as it moves toward the center of the international order. It also offers a positive benefit for a dominant power such as America. Multilateralism emphasizes constructive engagement and helps shift policy from coercion to cooperation.<sup>xxxii</sup>

However, Asian regionalism remains far behind that of Europe, epitomized by the European Union. In fact, observes Scott Snyder of the Asia Foundation: “The failure to develop official regional security cooperation stands in stark contrast to the economic regionalization that has developed along with China’s economic rise.”<sup>xxxiii</sup> Important barriers to enhanced Asian political integration remain. Still, as the countries of the Asia-Pacific continue to develop and expand their influence, interest in creating effective regional institutions continues to grow. How far and how fast residents are willing to go is difficult to predict, but ultimately they are likely to go far

and fast. This process can and should promote geopolitical stability, creating an even stronger foundation for ongoing economic cooperation and growth.

What form this cooperation should take remains up to the nations in the region, of course. The resulting institution or institutions should place first responsibility on regional parties for resolving disputes peacefully and countering threats to peace. This process could be supported by including both America and Russia in some form, given their long-standing and significant interests in Asia. With the end of the Cold War, the conflict between these two contending superpowers no longer dominates regional affairs. However, America's economic and military role in the Asia-Pacific remains huge, while that of Moscow could again increase. At least some of their activities could be channeled through regional institutions.

A number of structures currently exist; others have been proposed.<sup>xxxiv</sup> For instance, the immediate purpose of President Barack Obama's recent trip to the region was the Asia Pacific Economic Cooperation (APEC) forum. Created in 1989, APEC is largely an economic "talk-shop." The forum has been encouraging discussion of the development of a Free Trade Area for the Asia-Pacific. (Separately, the U.S. has indicated its interest in restarting discussions of the Trans-Pacific Partnership agreement, which even includes Chile, though it is open to all Pacific nations.) However, APEC also has provided a venue for the discussion of political issues, such as the violence in East Timor a decade ago.<sup>xxxv</sup> The forum could evolve into a more formal structure with greater responsibility for regional issues.

In a similar vein comes the idea from Dmitri Trenin, of the Carnegie Endowment for International Peace, for "a security-minded G20."<sup>xxxvi</sup> This proposal also would take an informal system of economic consultations and turning it into something more formal and comprehensive. Trenin's initiative would be global, but the principle could be applied to East Asia.

ASEAN provides another potential foundation. Beijing appears to prefer an ASEAN Plus 3 (China, Japan, South Korea) forum to new organizations or meetings. In fact, ASEAN has spawned a variety of venues, including the ASEAN Security Community and ASEAN Regional Forum. The organization is flexible enough to include Washington in some venues. For instance, the U.S. has decided to ratify ASEAN's Treaty of Amity and Cooperation, which could expand its involvement. So far, however, the organization has failed to live up to its potential. Observes Amitav Acharya of American University: "Non-ASEAN members have grown a little frustrated with ASEAN's lack of resolve in shaping the direction of Asian multilateralism."<sup>xxxvii</sup>

The East Asian Summit was first held in 2005 and recently convened in Thailand. In it Australia, India, and New Zealand joined the ASEAN Plus 3 members; Washington is not a participant, but that could change. ASEAN Plus 3 has discussed creating an East Asian Economic Community, which mimics the 1990 Malaysian proposal for an East Asian Economic Caucus. Australia has proposed the Asia-Pacific Community. Japan has suggested the East Asian Community. They all differ in details; one of the most important questions is the role for America. For instance, the APC, in contrast to the EAC, would authorize U.S. participation.<sup>xxxviii</sup>

Although none of these new ventures appear to be close to acceptance, let alone implementation, Snyder argues that the frustrating dealings with North Korea offer hope for ultimate success. He writes: "Ironically, North Korea—as the actor that has catalyzed common concerns that have created a basis for cooperation among the other parties in the region—might be regarded as the biggest promoter of multilateral security cooperation in the region."<sup>xxxix</sup>

Snyder points to the (now defunct) Korean Peninsula Energy Development Organization, four-party talks among North and South Korea, China, and the U.S., the Trilateral Coordination and Oversight Group involving Japan, South Korea, and the U.S., and the Six-Party Talks (adding China, Russia, and North Korea to cover Pyongyang's nuclear program). The latter forum, argues Snyder, "has arguably laid the foundations for the development of a permanent regional security mechanism in Northeast Asia."<sup>xl</sup> He sees the potential for the equivalent of the Helsinki Final Act and the resulting Commission on Security and Cooperation in Europe. Other analysts have recommended turning the six parties minus North Korea into the Northeast Asia Regional

Forum to meet regularly. In fact, in 2006 when the North was boycotting the Six-Party Talks, the other five members joined with Australia, Canada, and Malaysia to discuss the nuclear issue at the ASEAN Regional Forum meeting.

The U.S. also has a variety of security alliances and consultations in place, including the trilateral U.S.-Japan-Australia security dialogue, initiated in 2005. It would, however, be difficult to turn such obviously America-centric processes to broader regional use. The ROK might be willing, but China, especially, is likely to be skeptical of dialogues which proceed from organizations seen as potentially directed against the PRC. Nevertheless, Washington and its allies might be able to help allay such suspicions by inviting Beijing to join in mutual consultations.

In contrast, China and Russia belong to the Shanghai Cooperation Organization, which the U.S. sees as largely directed against the American government. As a result, it is no less an improbable base for regional security cooperation as are Washington's alliance-based security dialogues.

There are other options as well, but the security visions of nations throughout East Asia vary substantially.<sup>xli</sup> Pulling so many different countries into a single organization or forum will not be easy. Creating an effective institution will be even harder.

However, the very process of attempting to create such an entity itself would be useful, especially if Asian countries like the ROK take the lead. Since the goal would be to promote peace and stability, creating an ethic of cooperation itself would be valuable. Getting regional leaders together with America to discuss the best means to develop a positive regional order would be useful even if practical progress remained slow. Success might not be guaranteed, but the search for solutions alone would offer potential benefits for the future.

### **Conclusion: Economic Cooperation after the Financial Crisis**

East Asia has been transformed over the last half century. Michael Schuman calls the process simply "The Miracle."<sup>xlii</sup> Poverty and stasis have given way to plenty and transformation. The miracle of development occurred centuries ago in the West, but the process took centuries. In the East countries are rushing into the industrial age in decades and even years. Japan, Taiwan, and the ROK successively joined the high-income, industrialized world. China and several smaller "tigers" are traveling along the same track. The benefits of Asian economic growth are evident around the globe.

However, it would be foolish to assume that continued progress is inevitable. There are challenges aplenty. Countries like South Korea, which have been ravaged by war, most understand the danger of failing to meet those challenges.

Nations in the region, and those with which they are most closely linked, must continue to promote responsible economic policies, especially fiscal responsibility and open markets. Asia, and China in particular, has become an increasingly important engine of economic growth. We must keep that engine running.

Second, members of the Asia-Pacific must promote regional stability. That means easing tensions and moderating military expenditures. An important objective should be to either transform existing or create new regional institutions capable of promoting peace and stability. Although multilateralism is no panacea, it offers a potentially powerful stimulant for countries to resolve their differences cooperatively.

We live in exciting times. All of us benefit from East Asia's enormous economic progress in recent years. It is our responsibility to help protect past gains while seeking greater prosperity and more enduring peace.

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ii Jacques, 3.

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v John H. Makin, "China and the United States, Economic Outlook, American Enterprise Institute, December 2009, p. 2.

vi See, e.g., Zheng Bijian, "China's 'Peaceful Rise' to Great-Power Status," *Foreign Affairs*, September/October 2005, [www.foreignaffairs.com/print/61015](http://www.foreignaffairs.com/print/61015)

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xviii Peter Sweeney, "American Paranoia or Prudence: Why Block Chinese Direct Investment?," June 20, 2008, [www.danwei.org/business/paranoia\\_](http://www.danwei.org/business/paranoia_or_prudence_why_block.php)

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xix Sweeney.

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xxii For a detailed summary, see Morrison, pp. 14-26.

xxiii Geoff Dyer, "China and U.S. Resolve Trade Disputes," *Financial Times*, October 30, 2009, p. 6.

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xxiv See, e.g. "Playing with Fire," *Economist*, September 19, 2009, pp. 37-38; David M. Dickson, "Festering Trade Rift Awaits Obama in China," *Washington Times*, November 15, 2009, A1, A9.

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