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The Asian Experience for Europe: New Perspectives¹

At the end of the second decade of the 21st century, global disruption has become normalised, be it represented by the long shadow cast by 9/11, the USA, Russia, China, Brexit, or climate change. The individual articles in this Special Issue present a diverse array of analyses and topics: what binds them together, however, is the perspective of change. The twentieth-century certainties are no longer adequate explanations as the evolving mosaic of Asia-Pacific relations continues to surprise even the most well-informed commentators. Contemporary developments in China, North Korea, and Japan collectively present a new international relations subsystem of issues that challenge the existing multilateral and strategic context of the Asia-Pacific. Additionally, the different regionalisms as expressed by the Belt and Road Initiative (BRI) and the Asia-Europe Meeting (ASEM) process emphasise the intercontinental connectivity of Asia-Pacific relations, while generating plenty of serious discussions on the topic in the European Union (EU).

The Special Issue falls into two parts: an examination of regional approaches (BRI and ASEM) and country-specific case studies (Singapore, Japan, North Korea, and Taiwan) and how these have been affected by the rise of China. The diversity of the contributions perfectly matches the kaleidoscopic patchwork that represents the Asia-Pacific and articulates the important juxtaposition of EU solidarity with the more pragmatic alliances that help in shaping the region—ASEM, Association of Southeast Asian Nations ASEAN, as well as traditional bilateralism.

This collection is neatly bookended by two broadly regional-based approaches. First, Doidge (p. 6) considers ASEM's influence of “identity building, norm diffusion and dialogue without preconceptions”. Resilience of interregionalism has perhaps surprised many due its modest substantive outcomes; however, the fact that the framework has doubled in size illustrates that there is a mature appreciation of its dialogue-based value and normative cooperation. Second, the concluding articles by Leandro and Galan (pp. 122–151; 152–181) question traditional assumptions concerning borders in the light of the BRI and consider

¹ This research has received funding from the European Union's Horizon 2020 research and innovation programme under the Marie Skłodowska-Curie grant agreement No. 734712.

de-bordering, re-bordering, and co-bordering as new concepts experienced within a European space as well as promoted by the BRI connectivity. Despite integration initiatives in Europe and Asia, borders remain paradoxically resilient. Additionally, the effect of the BRI on the structure of international financial governance is raised and the emergence of new regional players such as the Asian Infrastructure Investment Bank (AIIB) that are reshaping Asia's global role are noted, with China's role characterised (albeit contested) as a Chinese Marshall Plan. What is uncontested, however, is the impact this new financial institutionalism has already had on the Bretton Woods Western influence on Asia's economies.

The five articles sandwiched in between present a series of valuable country-focused analyses that are rich in their local knowledge and help to avoid gross generalisations about Asia, let alone those mythical "Asian values". For example, Chiu (pp. 61–73) offers a discussion on the phenomenon of city-networks in the context of addressing global environmental issues. She examines the case of Tokyo, arguing that cities are important sites of policy experimentation and innovation; evidently, the case of Tokyo demonstrates the potential of cross-country policy diffusion at the city-to-city level. Lay Hwee Yeo (pp. 20–39) approaches the topic from the perspective of a small Asian country that uses regional platforms to enhance its security, influence and relevance. ASEAN, APEC, ARF, and most recently the AEC were premised on open regionalism that was outward-looking and less constrained by internal cooperation. The risk in such a loose regionalism is, of course, a lack of leadership as each Asian partner remains hesitant about the underlying interests of competing economies—be they China, Japan, or the USA. While the case of Japan echoes to some degree the strategic approach of Singapore, the article by Koga Koga (pp. 40–60) reminds us of the geo-political realities of *realpolitik*. Japan's dual-track diplomacy has prioritised economic strength over military prowess and evolved into a broader multilateral concept. Strikingly, the inherent threat to Japan's regional credibility has emanated directly from a single power—the USA.

In contrast, Ting (pp. 74–96) considers the evolving complexities consequential to China's rise, particularly in relation to Sino-Japanese relations and the resolution of North Korean denuclearisation issue. The relative weakness of Chinese soft power is placed into stark relief *vis-à-vis* the normative influence of the EU in the region; the USA's pivot and rebalancing towards Asia also constrains China's hard power in the absence of any effective multilateral regional security architecture. Despite the rise of China, this has yet to result in a fundamental geo-political transformation in Northeast Asia—although the

trajectory is becoming increasingly apparent. Wong's (pp. 97–121) article on Taiwan also echoes the interlinked relationship of the USA and China in its historical review of this 70-year long regional issue. It underlines the analytical importance of adopting a long-term time horizon—in the case of Taiwan, the centenary of the founding of the CCP is suggested as the pivotal moment for change.

The range of topics covered in this Special Issue serve to remind everyone of the global scope and prescience of Europe's policy domains and how these remain important in shaping Asia's future in tandem with changing American and Chinese ambitions. As this volume attests, there are new and emerging players who aspire to be the dominant architects reshaping international relations in the 21st century: the EU's position as a champion of interregionalism is under threat. The Asian experience was relatively slow to emerge and somewhat neglected by Western scholars of the last century. This timely volume helps to correct this imbalance. The first steps for this Special Issue to appear were made in the framework of the joint project run by Tallinn University of Technology, Tallinn University, the University of Tartu, 'Founding a Competence Centre of Asian Studies and Developing Research' project (AUKLASTA). The final stage of this academic initiative was completed with the project 'Institutions for Knowledge Intensive Development: Economic and Regulatory Aspects in South-East Asian Transition Economies', within European Union's Horizon 2020 research and innovation programme under the Marie Skłodowska-Curie grant agreement No. 734712.

*DSocSc candidate **Vlad Vernygora**, University of Lapland, Finland, and Tallinn University of Technology, Estonia*

*Professor **Martin Holland**, University of Canterbury, New Zealand*

*Professor **Natalia Chaban**, University of Canterbury, New Zealand*

*Professor **Tanel Kerikmäe**, Tallinn University of Technology, Estonia*

ASEM's First Two Decades: A Role Discovered

Mathew Doidge

National Centre for Research on Europe,
University of Canterbury
Logie, Level 4,
Christchurch 8140, New Zealand
E-mail: mathew.doidge@canterbury.ac.nz

Abstract: *This article examines the first two decades of the transregional Asia–Europe Meeting (ASEM) from its inception with the Bangkok Summit of 1996. Examining instances of region building and the socialisation of states, it identifies the gradual emergence of a role for the forum, one that stands in some contrast to initial participant expectations. In this respect, rather than a structure for delivering substantive negotiated outcomes around issues such as trade liberalisation, the value of ASEM across its first 20 years came increasingly to be seen in its ideational aspects: identity building, norm diffusion, and dialogue without preconceptions.*

Keywords: *Asia–Europe Meeting, the European Union, interregionalism, transregionalism, the Asia-Pacific region*

1. Introduction

The Asia–Europe Meeting (ASEM) is an iteration of the broader phenomenon of interregionalism that has gained greater currency in international relations over the last five decades, given additional impetus in the post-bipolar period by the emergence of new regionalisms and their prioritisation of engagement with counterpart groupings. Traceable to the first Yaoundé Convention, concluded between the European Union (EU) and the Associated African States and Madagascar in 1963, group-to-group interregional structures were at the outset an innovation of EU external relations, which have, in succeeding years, gained broader recognition as a mechanism of engagement, and have consequently

become a seemingly indelible feature of the international system. That the place of such structures in international relations and global governance has been firmly established is evident in their recognition by, among others, the WTO Secretariat (Crawford & Fiorentino, 2005) and the World Bank (2005).

Simply stated, interregionalism constitutes formalised engagement between groupings of states from different regions, each coordinating to a greater or lesser degree (Hänggi, 2006, pp. 39–40). This group-to-group organising principle is central to the definition of interregionalism which is, therefore, in essence a binary structure, even if at times only notionally (Doidge, 2011, pp. 2–3).¹ Under this umbrella, two forms are identifiable. The first—bilateral interregionalism (Rüland, 1999, pp. 2–3)—constitutes relations between regional organisations (e.g., EU–MERCOSUR, ASEAN–Andean Community). The second—transregionalism—involves dialogues in which at least one of the partner groupings is not a regional integration arrangement, but rather a more-or-less coordinated grouping of states (e.g., EU–LAC, FEALAC). ASEM falls into this latter grouping. Importantly, transregionalism is a more recent phenomenon than bilateral interregionalism, and indeed the first iteration of this variant was the Asia–Europe Meeting itself. As a consequence, ASEM became both the template according to which other similar structures were modelled, as was most notably the case with the Forum for East Asia–Latin America Cooperation (FEALAC) (Doidge, 2011, pp. 164–165), while also being forced to break new ground in terms of establishing a role for itself. It is in this context that this article will consider the Asia–Europe Meeting, examining early expectations as to its role and its consequent evolution over the two decades from its inception in 1996. In so doing it will highlight the way in which certain expectations concerning the forum have transitioned from an emphasis on ASEM as an instrument of substantive Asia–Europe cooperation, to one in which community-building and engagement have come to the fore.

¹ APEC thus does not constitute an interregional forum. While it engages states from multiple regions, it lacks the regional mechanisms of coordination to be expected of interregionalism. As Hänggi (2006, p. 40) notes, APEC was conceived as a regional endeavour, and as a consequence is best characterised as a form of ‘megaregionalism’.

2. ASEM: origins and expectations

ASEM's origins are to be found in a series of meetings convened in the Singaporean Ministry of Foreign Affairs and the Prime Minister's Office during August 1994 to explore mechanisms for improving the Asia–Europe relationship (Pou Serradell, 1996, p. 186). These discussions are generally held to have been the product of Prime Minister Goh Chok Tong reading too much into the Commission's 1994 *New Asia Strategy* (Forster, 1999, p. 752): while the document highlighted a need to push for increased European economic presence in Asia, and to deepen the relationship as a means to extend its role as a global actor (Communication from the Commission, COM(1994)314 final), the reality was that these elements constituted something of a rhetorical flourish rather than the clear, focused statement of intent that Goh perceived. Nevertheless, despite initial European reticence or, in the case of German Chancellor Helmut Kohl, open hostility (Camroux & Lechervy, 1996, p. 443) toward the concept, the Singaporean proposal was eventually accepted by the Council of Ministers meeting under the French Presidency in 1995. Reservations on a new Asia–Europe forum were not solely the domain of the Europeans, however, with ASEAN being forced to exercise considerable diplomacy in recruiting the Northeast Asian states to the cause: Japan in particular was concerned that the new structure would negatively impact its close relationship with the United States, while China feared that it would serve simply as a means to single it out for criticism (Camroux & Lechervy, 1996, pp. 443–444). In spite of this initial scepticism, however, ASEM was quickly added to the roster of international fora, being launched in March 1996 with the convening of the first Summit in Bangkok.

As the first forum of its type, there was no clear model on which to base the functioning of ASEM cooperation. In the absence of prior experience from which to draw, two elements in particular served to structure expectations: (i) the influence of the forum for Asia-Pacific Economic Cooperation (APEC); and (ii) the core economic concerns evident among the founding members. APEC influence derived from the context in which ASEM emerged, with the new forum conceived as filling a “missing link” in interregional relations. This view stemmed from the apparent triadisation of the global economy in which economic de-territorialisation and integration within and between the regions of Europe, North America and Asia were deepening at a pace greater than the broader global trend (Ruigrok & van Tulder, 1995, p. 151). Such economic processes had been accompanied by the building of corresponding interregional dialogue structures between these three core regions in the form of trans-Atlantic

relations and the APEC framework, with the notable exception of a formal tie between Europe and Asia. Goh Chok Tong's proposal was designed to plug this gap, with the call for "Pacific-style" ties between the two positing the new forum as something of a mirror to APEC. With this link drawn, the Asia-Pacific forum inevitably served to structure certain expectations as to the role and functioning of the new Asia–Europe dialogue. While APEC had been operative since 1989, it convened its first Summit in 1993, at which time agreement around a set of reciprocal trade concessions was reached. When this was followed in 1994 by the tabling of plans for a Pacific Free Trade Area, the forum was seen as having taken a significant step forward, leaving behind its reputation as a talking shop in favour of the pursuit of substantive results. Conceived in this context, it was expected that ASEM would move rapidly towards the achievement of concrete outcomes, particularly in the area of trade liberalisation.

Alongside the influence of APEC, expectations for ASEM were also structured around the economic concerns of the founding members, most notably fears of marginalisation. In the early 1990s, the EU had undertaken a reappraisal of its ties with Asia, motivated largely by concern that its competitors—the US and Japan—were stealing a march in the region, and the need to gain a share of the high rates of growth occurring in the Asian economies. The resulting *New Asia Strategy* (Communication from the Commission COM(1994)314 final) made it clear that the primary factor underpinning the EU interest in an expansion of ties was unashamedly economic, with a focus on establishing mechanisms to mitigate potential economic marginalisation. Similar concerns were evident among the Asian states, and particularly the members of ASEAN, with perennial fears over the establishment of a "fortress Europe" enhanced as the common market neared completion (Yeung *et al.*, 1999, p. 99). Such concerns were supplemented in the bipolar period by worries over potential trade diversion as a consequence of Europe's turn towards its eastern neighbourhood: EU exports to the Central and Eastern European countries had increased by 135% between 1990 and 1995, and imports from the region by 93% (EUROSTAT, 2001). A link with Europe mirroring the economic and commercially focused tie with the United States embodied in APEC was therefore seen as essential (Pou Serradell, 1996, pp. 186–188).

Expectations of the Asia–Europe Meeting as an arena for high-end cooperation were, then, elevated from the outset, a situation made clear through the European Council's assertion that the new forum must pursue "concrete and substantial results" (European Council, 1995, p. 43). Notwithstanding the political element to the process, these substantive outcomes were conceived primarily in terms of trade and financial matters, and indeed it was around such issues that the early years of ASEM engagement were structured. Thus, following the first ASEM,

separate sub-Summit fora were established for Economic and Finance Ministers, Senior Officials on Trade and Investment, and Customs Directors-General and Commissioners, alongside which was the creation of an Asia–Europe Business Forum. Further, the first steps were taken towards implementation of a Trade Facilitation Action Plan and an Investment Promotion Action Plan, raising the prospect that institutionalised rules and procedures would emerge to guide the facilitation and liberalisation of Asia–Europe trade and investment relations (Yeo, 2003, p. 155).

Despite the proliferation of such structures, however, the anticipated outcomes in terms of economic cooperation and trade liberalisation failed to eventuate, notwithstanding ongoing rhetorical commitment to these goals. Indeed, institutional proliferation in the absence of substantive engagement quickly became a characteristic of Asia–Europe cooperation, reflecting a form of “cooperation malaise” (Doidge, 2013, p. 151). The result was an increase in the breadth of the process, while depth of engagement remained notably limited: a case in many ways of much “sound and fury, signifying nothing”. This failure is largely the product of two factors. First was an evident capability–expectations gap, with anticipated outcomes requiring a level of cooperation between the partner regions that proved difficult to achieve (Doidge, 2011, pp. 172–174). Second, exacerbating this, was the informal nature of the ASEM framework itself, influencing its ability to pursue concrete goals. The lack of an administrative secretariat, for example, meant that sub-Summit fora were often possessed of a certain amnesia regarding prior meetings, and as a consequence routinely ploughed the same ground with an attendant impact on the pace of cooperation (Commission official, cited in Doidge, 2011, p. 119). Similarly, the preference for soft law instruments and the non-binding and consensual nature of decision-taking limited cooperation, meaning that agreements may be taken only as indicative rather than substantive.

3. A reconsideration of ASEM: role found?

While calls for substantive engagement within ASEM continue, in practice it is broadly recognised that this goal is, at least currently, beyond the capacity of the forum to achieve. Instead, what became increasingly evident over the forum’s first two decades was a reframing of its value in the eyes of participants as a political space, an ideational and discursive process, acting as a framework for dialogue and an arena for socialisation and norm diffusion, and consequently

functioning both as a filter for global fora and as a mechanism for securitisation (Doidge, 2011, pp. 142–143). Intrinsic to this assignation of value has been the gradual accretion of experience in engagement, and the progressive layering of norms and practices of interaction, contributing to the establishment of shared identities and interests, the creation of a “we” feeling that underpins international relations and security. In this respect, ASEM may be seen in constructivist terms as a process of embedding “shared understandings, expectations, and social knowledge” (Wendt, 1994, p. 389), replacing threat perceptions with an element of mutual trust, and establishing a firmer foundation for Asia–Europe relations and thereby contributing to political and economic stability. In part, this altered view of ASEM has been premised upon a recognition of areas of apparent success, with two particular examples foremost among them: (i) the fostering of regional cooperation in Asia; and (ii) the process of socialisation of participant states into the international system.

4. ASEM and Asian region-building

In terms of fostering regional cooperation, ASEM has played a successful role in drawing together the member states of ASEAN with their Northeast Asian counterparts—China, Japan and South Korea. Where earlier visions of pan-Asian cooperation had been unsuccessful—including most notably the 1990 proposal from Malaysian Prime Minister Mahathir Mohamad for the establishment of an East Asia Economic Caucus (EAEC), a concept that proved unable to overcome opposition from the US and Japan who were concerned, among other things, with the potential consequences for APEC (Terada, 2003, p. 258)—the Asia–Europe Meeting is seen to have been instrumental in progressing intra-Asian cooperation. Much of this is attributable to the binary structure of ASEM which explicitly posits an Asian group alongside a European counterpart and reinforces this through the establishment of mechanisms of intraregional cooperation. At a very basic level, the first ASEM Summit in 1996 saw a relatively loose Asia—comprising the then seven ASEAN members and three Northeast Asian states—confronted by a much more tightly coordinated “other” in the form of the European Union.² This underlying asymmetry necessitated closer cooperation and coordination from the Asian states in order to be effective in the various ASEM fora, providing the motive force for subsequent efforts in this direction.

² Characterised in terms of economic dialogue by the extent of its supranational actor-ness, and in political dialogue by the explicit attempt to coordinate to a higher level in ASEM than was usually the case (Doidge, 2011, p. 129).

In practice, intra-Asian coordination preceded the first Summit in Bangkok, a response to the need to establish positions on a number of sometimes contentious issues, including the structure and agenda of the meeting. Given its position as convenor of ASEM 1, Thailand acted in the role of coordinator, facilitating a level of consensus which resulted in a joint Asian discussion paper on the future of the new forum. With the increasing demands for cooperative engagement resulting from the proliferation of structures in the wake of the inaugural Summit, this initial experience was seen as having been sufficiently positive to cement in place the coordinating role. In order to foster both intraregional cooperation and to provide guidance to the interregional process, a system of Joint Coordinators was therefore established, with the EU represented by the Presidency and the Commission, while the Asian states drew one Coordinator each from the ASEAN and Northeast Asian membership on a rotating basis.

The system of Coordinators and the ongoing need for engagement in preparation for meetings of the various ASEM fora subsequently provided a foundation for greater intra-Asian cooperation. With the US resiling from its earlier negative view of the EAEC concept,³ and the 1997 Asian financial crisis highlighting a need for East Asian solutions to regional problems in the face of a perceived lack of commitment by Western powers, the tentative process that had begun with ASEM was given something of a boost. As a result, December 1997 saw the convening of the first ASEAN+3 meeting in the margins of an informal ASEAN Summit, with agreement reached for a semi-formalisation of the grouping through the preparation of indicative agendas and the tasking of senior officials to explore follow-up activities and review the implementation of agreed initiatives. Subsequently, an East Asia Vision Group was established to plot a future path for ASEAN+3 cooperation, and an East Asia Study Group to review its recommendations including towards the establishment of an East Asia Summit (launched in 2005) and an East Asia Free Trade Area. In 2005, the forum was formalised with the signing of the Kuala Lumpur Declaration, which established joint goals and charted the future aim of establishing an East Asian Community. As it now stands, ASEAN+3 is an institutionalised and expansive process, comprising around 60 fora spanning a range of sectoral issues and involving engagement from the technical through to the Summit level. As such, it is seen as a significant outcome of the ASEM process (Hänggi, 2003).

³ Secretary of State for Business and Agricultural Affairs Joan E. Spero made clear at the 29th ASEAN Post-Ministerial Conference in Jakarta in 1996 that the US would no longer oppose the establishment of an EAEC-like structure, so long as this did not split the Pacific Rim (Stubbs, 2002, pp. 442–443).

5. ASEM and the socialisation of states

In a related vein, the Asia–Europe Meeting is seen to have played a key role in the broader institutionalisation of international relations, most notably through facilitating socialisation into, and adherence to, the web of rules, norms and values that underpin global relations. Indeed, such has been defined as the greatest success of the forum (Commission official, cited in Doidge, 2011, p. 135). In the immediate post-bipolar period, there was some concern about instability in the international system: the lack of an overarching security concern drawing states together, combined with the new pre-eminence of economics in international relations, raised fears as to the inevitability of a trade war among the core economic powers (Hänggi, 1999, pp. 58–59). As a consequence, systemic stability became something of a central concern, with a perceived need to further institutionalise international relations and to ensure that all states played by the same rules. ASEM constituted just such an institution, concerned with the implementation of global norms and standards (Forster, 1999, p. 744) or, less positively in the view of Cammack (1999, p. 14), with “imposing—developing and reinforcing—the hegemony capital”. The Asia–Europe Meeting may therefore be seen as a mechanism for embedding both (neo)liberal economic rules and norms of political cooperation and engagement at the global level through the socialisation of its participant states. In this respect, the role of the forum in relation to China, and to a lesser extent Vietnam, is often highlighted (though it is with the former that the following discussion will be concerned).

China’s rise as an economic, political and military power from the 1990s raised certain questions as to its external policies, generating considerable uncertainty around its political and military intentions in its immediate neighbourhood, as well as to whether it would be “an integrated member of the global economic community, or a pariah, an outsider, potentially a rogue” (CAEC, 1997, p. 61). A China not effectively integrated into the global system was seen as having the potential to become progressively more difficult to engage with (Maitland & Hu, 1998, p. 20). This need had been recognised by the European Union prior to the advent of ASEM, with an expressed intent to “integrate into the open, market-based world trading system those Asian countries such as China, India or Vietnam which are moving from state controls to market-oriented economies” (Communication from the Commission, COM(1994)314 final, p. 13). Indeed, it was with issues of non-compliance with multilateral trade rules that the majority of the EU’s trade disputes with China were concerned (Dent, 1999, p. 144). As such, the integration of China into the WTO-led trade regime was identified as a priority.

China was a member of the Asia–Europe Meeting from the outset, but until 2001 it was not a member of the WTO, despite having applied to join the multilateral trading structure as early as 1986.⁴ This lacuna between accession to ASEM and to the WTO therefore saw the former play an important part in drawing China further into the multilateral system. Multilateral norms underpinned the ASEM structure from the outset, with the first Summit formally adopting a “common commitment to market economy, open multilateral trading system, non-discriminatory liberalisation and open regionalism” (ASEM, 1996, §10) and to “complement and reinforce efforts to strengthen the [...] trading system embodied in the WTO” (ASEM, 1996, §11). Subsequently, as the ASEM process developed, a view that it was nested within the broader multilateral framework became firmly entrenched, reinforced for example through efforts to ensure that cooperation remained both WTO and UN consistent. This process was strengthened at the second Summit in 1998 which followed the onset of the Asian financial crisis. The product was a *Statement on the Financial and Economic Situation in Asia* (ASEM, 1998) which addressed the roles of the WTO, IMF and the World Bank in dealing with the crisis, and recognised the rules, norms and values of these institutions as underpinning the fabric of the global economy. The premising of ASEM cooperation on these multilateral rules helped to cement participants into the architecture of global governance, drawing in states such as China which had not previously been a part of that system, and providing an important training ground for engagement in multilateral diplomacy (Commission official, cited in Doidge, 2011, p. 140). In this respect, ASEM served both as a means for familiarising China with the expectations associated with involvement in WTO-led economic multilateralism, while at the same time effectively testing the resolve of Chinese leaders to participate. Indeed, so central to the economic pillar of ASEM was this socialisation function and drive to achieve Chinese (and Vietnamese) membership in the World Trade Organization that in the aftermath of their WTO accession this pillar of the dialogue was seen to have somewhat lost its way (Commission official, cited in Doidge, 2011, p. 140).

⁴ The Chinese application in 1986 was classed in terms of a “resumption of place”. The Republic of China had been a founding member of the GATT (General Agreement on Trade and Tariffs) in 1948 but had withdrawn two years later as the Republic of China (Taiwan). The People’s Republic of China therefore made the claim that the ROC’s withdrawal was not legitimate as it had not been an expression of the will of the majority of Chinese.

6. ASEM re-evaluated

These two examples of success share the underlying fact of dialogue and engagement. They are essentially discursive processes directed towards the building of identities and reaching common understanding, and the acceptance of core norms and practices, rather than toward the achievement of substantive outcomes. As noted previously, it is in these elements that the value of ASEM over its first two decades came increasingly to be seen to reside. As an informal process, ASEM is identified as an important arena for conducting dialogue on a range of issues without preconceptions and without any expectation that partners will be bound by discussions, thus increasing the willingness of those involved to address potentially contentious issues in an open fashion. In this respect, it serves as a useful mechanism for generating an understanding of positions and perspectives among a diverse array of states on issues of consequence, facilitating problem-solving and contributing to efforts at the global level. As such, the forum has proved beneficial in addressing issues, sometimes of a sensitive nature, which are not considered elsewhere—the Myanmar issue, for example. Further, given the breadth of ASEM's sub-Summit engagement, particular value has been found in the facility to organise specific meetings and working groups under the ASEM umbrella which may involve small or large sections of the broader membership and incorporate non-governmental and civil society actors, occur in single or multiple iterations, and involve simple information sharing or be seen as the foundation for greater cooperation on issues of specific sectoral interest, be this on sanitary and phytosanitary standards, customs and border control, quality assurance in higher education, child welfare or whatever the case may be. Finally, the density of ongoing interaction at all levels means that ASEM provides a context in which to establish direct personal contacts with a variety of partners, contributing to the building of trust and mutual understanding, the forging of shared identities, and, as a consequence, strengthening the foundations of regional stability and security.

This change in the way in which ASEM is conceived and valued has become widespread and can be seen in the forum's continuing expansion. From an initial membership of 26 (25 states plus the European Commission) to the current 53 (51 states plus the European Commission and the ASEAN Secretariat), this enlargement has continued despite the lack of concrete outcomes. Indeed, these newer member states, acceding in the period since the establishment of the Asia–Europe Meeting, were arguably possessed of a clearer understanding as to what the forum involves and can deliver than were its founders. That such states have entered with eyes wide open may be seen in the example of New Zealand.

While initially New Zealand's interest in ASEM centred on the anticipation of substantive outcomes around trade liberalisation, by the time of its entry in 2010 this had been replaced by a view of the utility of the process in other areas. For New Zealand, ASEM serves two core functions: (i) as an arena for dialogue and access; and (ii) as a tool for reinforcing presence and identity. ASEM's role in facilitating dialogue and generating understanding is emphasised within the New Zealand Ministry of Foreign Affairs and Trade (MFAT), with awareness building around issues of regional significance seen as potentially the *raison d'être* of the forum (senior MFAT official, cited in Doidge, 2013, p. 155). Of particular significance has been the role of the Asia–Europe Foundation, the Governors' Meetings of which have generated dialogue on a range of topics in a manner not replicated elsewhere. Beyond this general process, however, the Asia–Europe Meeting is seen to offer specific benefit in facilitating access to Asian and European leaders and officials, with the opportunity to engage in bilateral or mini-lateral dialogue in the margins of the various ASEM fora. While this most obviously involves accessing larger powers, it also means engaging with smaller and more peripheral states (insofar as New Zealand is concerned) with which, due to limited foreign policy resources, relations may be only intermittent at best. In this is to be found, from the MFAT perspective, potentially the single greatest benefit of ASEM involvement (senior MFAT official, cited in Doidge, 2013, pp. 155–156).

Beyond such opportunities for dialogue and access, ASEM is also seen as a mechanism for reinforcing New Zealand's presence in the Asian region, a central goal of its foreign policy. Alongside participation in the EAS, APEC and the various ASEAN fora, the Asia–Europe Meeting is seen to provide an additional means for demonstrating New Zealand's Asian credentials, and to cement it more firmly into the Asian regional architecture (senior MFAT official, in Doidge, 2013, p. 156). In other words, the progressive layering of fora (including ASEM) within which New Zealand participates is part of a process of identity building, involving the assertion of a place as part of the Asian caucus, even if it is not necessarily an Asian state.

7. Conclusion

What seems clear then, is that, over the two decades since its inception at the Bangkok Summit in 1996, the role of the Asia–Europe Meeting—including, importantly, participant expectations around the forum—has evolved

considerably. At the most basic level, this transition is a product of the place of ASEM as the first iteration of transregionalism, and therefore the lack of a pre-existing model on which to base initial expectations. The accrual of experience over the succeeding two decades therefore played an important part in defining the role and functioning of such structures. While anticipated substantive outcomes—particularly around trade liberalisation—have so far failed to eventuate, and indeed seem beyond the capacity of the forum to achieve, participants have increasingly come to recognise what the forum does do well. In this respect, ideational aspects such as identity building and norm diffusion, and the value of dialogue without preconceptions, have come to the fore, a product of the breadth and informal nature of engagement. What seems to be the case is that after twenty years of interaction the Asia–Europe Meeting has come somewhat into its own, carving out a role for itself in the increasingly densely institutionalised architecture of global governance. What remains to be seen is whether this vision of ASEM is unique to the Asia–Europe structure, or one that will come to characterise transregionalism more generally. In 1999, for example, the Forum for East Asia–Latin America Cooperation was launched. FEALAC was explicitly modelled on ASEM, both in its three-pillared institutional structure and in its modalities of cooperation, and showed a certain synergy of expectations around engagement, though interaction has been more limited and at a slower pace. Whether it undergoes a parallel transformation to its Asia–Europe counterpart, recognising similar value in the ideational and discursive components of interaction will provide a significant indicator as to the future of transregionalism.

Dr. **Mathew Doidge** is a senior research fellow at the University of Canterbury-based National Centre for Research of Europe, New Zealand. His research interests include the external relations of the EU, with a particular focus on EU development policy and on EU–Asia relations, the international political economy of development, and the Sustainable Development Goals. Currently, Dr. Doidge is involved in research projects on the EU and the SDGs, and on the Bologna process and the internationalisation of higher education in New Zealand. Dr. Doidge is the author of two books: *The European Union and Interregionalism: Patterns of Engagement* (Ashgate, 2011); and (with Martin Holland) *Development Policy of the European Union* (Palgrave, 2012).

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Singapore's Policy in the Asia-Pacific: ASEAN and Open Regionalism

Lay Hwee Yeo

Singapore Institute of International Affairs
60A Orchard Road, 04-03 Tower 1,
Singapore 238890
E-mail: layhwee.yeo@siaonline.org

European Union Centre
11 Slim Barracks Rise,
Singapore 138664
E-mail: LHYeo@ntu.edu.sg

Abstract: *Singapore's policies and approach towards the Asia-Pacific region are guided by conservative pragmatism dictated by two imperatives—the geographical constraints of a small city state without a hinterland or natural resources, and the constant need to stay economically competitive and politically relevant in order to survive and thrive. This chapter begins with an overview of the historical development of Singapore and then zooms in to focus on its foreign policy thinking and development approach and examines how these then translate into actual policy and posturing in its immediate neighbourhood and the broader Asia-Pacific region.*

Keywords: *ASEAN, foreign policy, international relations, regionalism, Singapore*

1. Introduction

Singapore's overall foreign policy approach could be termed as conservative pragmatism. The country's approach to foreign policy is informed primarily by the realist perspective of the international system, the centrality of state as the key actor, and the need to be vigilant and relevant to survive in this system. At the same time, it utilizes a range of tools and instruments, from building a strong military, to a pragmatic approach towards cooperation, active participation in multilateral institutions to emphasizing the international norms and principles as embodied in the United Nations (UN) Charter.

Singapore may be a small state but, through its successful economic development and astute foreign policy, it has transformed itself into a global city with growing international presence and influence. In the Global Presence Index, compiled by the Spanish Elcano Royal Institute, Singapore ranked 17th in 2012, ahead of all its Southeast Asian neighbours and several developed western economies. Here, global presence is divided into three areas, which in turn are composed of diverse indicators: economy (energy, primary goods, manufactures, services and investments); defence (troops and military equipment) and soft presence (migration, tourism, sports, culture, information, technology, science, education and development cooperation). While this presence may not necessarily translate to power and influence, it is still impressive for a small nation-state less than 50 years old then.

Singapore's policies—foreign or otherwise—are dictated by two imperatives: the geographical constraints of a small state without a hinterland or natural resources, and the constant need to stay economically competitive and politically relevant in order to survive. It is evidently informed by a deep sense of vulnerability and a strong desire to survive against all odds. This vulnerability was felt intensely especially in the earlier years of its independence because of the history of confrontation launched by its bigger neighbour, Indonesia, and the unhappy period of merger with the Malaysian Federation (1963–1965), which finally resulted in separation and the birth of a fully independent Singapore in August 1965. Singapore is a predominantly Chinese state (75% of its population are ethnically Chinese), and it is surrounded by two significantly larger states, Indonesia and Malaysia, whose majority populations are ethnically Malay and primarily Muslims. Indeed, already in 1970s, Singapore's presence in Southeast Asia has led Iain Buchanan (1972, p. 19) to note that “Singapore is an aberration in Southeast Asia since its ethnic composition as well as the basis of its economic development differs significantly from other Southeast Asian states”.

Singapore celebrated its 50 years of independence in 2015 and has come a long way to become an economically successful global city. Yet, despite the prosperity and relative peace in the region, the leaders of Singapore have constantly reminded its citizens to be vigilant, and not to take its success for granted. The vulnerability discourse is still very much in vogue today. The geopolitical and geo-economic tensions resulting from the increasing US–China strategic rivalry in the last few years only reinforced the sense of vulnerability. Being a small country ruled by the same political party, the People’s Action Party (PAP), since its independence, has left an indelible mark on the way policies are made and carried out. Long-term planning, underpinned by pragmatism and an abiding sense of vulnerability, was the hallmark of the government’s approach towards the development of Singapore.

The conduct of foreign policy is tied very much to developments to ensure the long-term survival of Singapore as a sovereign state. This contribution will begin with an overview of Singapore’s development before focusing on its foreign policy and examination of Singapore’s overall foreign policy thinking and development approach, and how these translate into its posturing and actual policy towards its immediate neighbourhood and the broader Asia-Pacific region.

1.1 “The little red dot”

Singapore is an island state of 718 square kilometers (up from the 581 square kilometers when it first gained independence due to ongoing land reclamation projects). A former British colony, it was granted self-rule in 1959, and declared independence from the British in August 1963 to join the Federation of Malaysia. Singapore under Lee Kuan Yew then chose to join Malaysia because of communist threats and concerns over its economic viability because of its small size, lack of water and natural resources. However, for various reasons, not the least of which are the ideological differences, clashes of leading political personalities, and ethnic tensions, Singapore was asked to leave the Federation. On 9 August 1965, Singapore became a newly independent state and immediately sought to join the UN to cement recognition of its independence.

Singapore was able to leverage on its strategic geographical location with a natural harbour and build on its role as a regional *entrepôt* under the British rule to become a transport, shipping and trading hub. Its small population size and its lack of natural resources forced the country to adopt a very open approach towards global trade and investments. While many developing countries in the 1960s and early 1970s sought to limit foreign investments and pursue import substitution strategy to protect its own infant industries, Singapore actively courted foreign investments and, in addition, embarked on a state-led

drive towards industrialization to build up its economy. Its economic policy is premised on the broad framework of globalization, and the need to transcend its limitations to become a global city.

Historically, trade was the fundamental reason for Stamford Raffles of the East India Company to “lease” Singapore from the Malayan sultanate that ruled the population then. When Singapore became independent in 1965, its foreign minister in its first major policy speech stated that “the promotion of trade with as many countries as possible will be a major objective” of Singapore’s foreign policy (Chan & Ul Haq, 2007, p. 279). Singapore made it clear right from the day of its independence that it would trade with any country that was willing to trade with it and would not let ideological differences stand in the way. In his thesis, Ting (2010) argued that Singapore’s conception of itself as a trading state influenced how it formulates and implements its foreign policy. The implication of being a trading state is that “it seeks order” and invests much in achieving a “durable and stable balance of power in its environment” (Ting, 2010, pp. 62–73).

Trade is indeed an important lifeline of the Singapore economy, and the country has the highest trade to GDP ratio in the world at over 300%. This is also why Singapore is an ardent supporter of the World Trade Organization (WTO) and global free trade, hosting the very first WTO Ministerial meeting in 1995. At the same time, while supporting multilateral trade liberalization, Singapore also hedges its bets on free trade by actively pursuing bilateral and plurilateral free trade agreements (FTA) in every part of the world. It has an active FTA policy having negotiated and concluded FTAs with all its major trading partners—the European Union (EU), the USA, China, Japan, and a whole array of agreements with partners near and far.

In a significant addition, Singapore inherited from Britain the Westminster Parliamentary system. Its electoral system is based on first-past-the-post system, and this coupled with several other reasons and developments have resulted in the domination of the People’s Action Party (PAP) since independence. The PAP came to power in 1959 as a coalition of a highly competent but elitist group of western-educated professionals led by Lee Kuan Yew, who sought the support of the island’s Chinese-educated majority through alignment with radical trade unionists linked to the then Communist Party of Malaya (CPM). Once in power, the PAP set about the task of carefully managing the development of Singapore. Every social or political group that might have constituted an independent voice in Singapore was either co-opted, intimidated or eliminated during the first decade or so of PAP rule. Alternative paths or options were therefore systematically eliminated (Yeo, 2010a).

Because of the strong political leadership and this long, uninterrupted rule by the PAP, policymakers could take a long-term approach towards economic and urban planning. Together with the generally benign and stable regional environment, Singapore has been able to make a remarkable economic transformation from third world to first in just four decades. By the time Singapore celebrated its 50th birthday, the country had evolved into a highly competitive and diversified market economy. Singapore is ranked consistently in the top three positions by different agencies on economic freedom and competitiveness. It has built up large foreign reserves and is now the fourth largest financial centre in the world. Its GDP per capita has risen to 51,709 US dollars from that of 516 US dollars in 1965. In addition to these economic figures and key infrastructural developments, Singapore has also done well in human development, scoring 0.895 in the UN Human Development Index with a 2012 ranking of 18th out of 187 countries and territories. The nation's educational and health achievements, and life expectancy of its population, surpassed several OECD countries.

Singapore also boasts a well-equipped and modern military force supported by its citizens' reserve trained through military conscription. All Singapore men are conscripted to the military for two years, and they remain in the reserves until the age of 50. Defense spending as percentage of GDP is among one of the highest in the world. Because of its limited land and air space, the Singapore armed forces trained in friendly countries and territories like Brunei and Taiwan, and the Republic of Singapore Air Force (RSAF) maintains a number of overseas air bases in Australia, France, India and the USA. The defence philosophy is one that is based on total defence and deterrence. Total defence here encompasses economic, military, social, civil and psychological defence. For Singapore, military capability, together with economic success, social cohesion and a resilient population is the key to its long-term survival.

Singapore spends a significant amount of its budget to acquire and develop advanced military technology and equipment. However, growing military strength while itself a source of strength can also be a double-edged sword as realists posit the classic security dilemma where any defensive attempt by a state to increase its own security can be interpreted as an offensive measure that reduces the security of its neighbouring state. As a small country, Singapore is keenly aware of its limitations in material hard power. Hence, it has significantly invested in diplomacy, having established diplomatic relations with 187 sovereign states and participated in all major multilateral forums and international institutions. Singapore is a founding member of the Association of Southeast Asian Nations (ASEAN) and an initiator of various multilateral platforms, from the Asia-Europe Meeting (ASEM) to the Global Governance

Group (3G) to encourage dialogue and cooperation. It is also active in the UN, having been non-permanent UN Security Council member in 2001–2002, and its diplomats being called to chair UN conferences such as the UN Conference on the Law of the Sea (UNCLOS) and the Rio Conference.

Yet, despite all these achievements and economic success, Singapore continued to feel a deep sense of insecurity, because of both geo-political and geo-economic reasons. While relations with its two nearest neighbors, Malaysia and Indonesia, have improved considerably, it was also not so long ago that Singapore was reminded by the then President of Indonesia Habibie, that it remained a “little red dot in a sea of green”, alluding to the fact that Singapore is a small island state with a majority Chinese population in a region that is predominantly Muslim (*Asian Wall Street Journal*, 1998). Up to the 1980s, Malaysia also regularly “threatened” the revision of the Water Agreements signed in the 1960s to supply untreated water from Malaysia to Singapore whenever it was politically expedient to do so. This was also the reason why the Singapore government had made such a strategic decision to invest early on in expensive research and technology to recycle water and build desalination plants. Even with three decades of uninterrupted growth, the issue of economic and political survival remains embedded in the national consciousness largely because of constant exhortation by the leaders of the need for Singapore to stay ahead of the competition or be doomed.

While Singapore's siege mentality and abiding sense of insecurity and vulnerability are very much related to the geographical reality of being a predominantly ethnic-Chinese island wedged between two larger Malay neighbours, and to its miniscule size, they are rooted also in part in the tenets of social Darwinism—the survival of the fittest—imbibed by its founding Prime Minister, Lee Kuan Yew. In 1966, he pronounced that “societies like ours have no fat to spare. They are either lean and healthy, or they die. We have calculated backwards and forwards [...] that our best chances lie in a very tightly organized society.” (*ST*, 2006) Singapore's dependence on trade and foreign investments is also a source of vulnerability. It is susceptible to global shifts in economic fortunes and has to constantly change and adapt to remain economically relevant and competitive. Any retreat from globalization and free trade would have significant impact on the Singapore's economy. It is against this backdrop that we will next examine Singapore's approach towards regionalism and its policy in the Asia-Pacific region.

2. Singapore's early approach towards ASEAN and its region

Although Singapore is one of the ASEAN's founding nations, "membership of ASEAN was not valued as a diplomatic asset in its early years" (Leifer, 2000, p. 39). To understand why this was the case, one needs to understand the context in which ASEAN was founded and Singapore's relations with the other founding members, in particular Malaysia and Indonesia, where relations up to even recent decades were colored by ethnic considerations. The organization was founded on 8 August 1967, at the height of Cold War tensions, and with regional disputes, particularly the *Konfrontasi* unleashed by Indonesia in 1963 against its smaller neighbours, Singapore and Malaysia, still fresh in memory. Against this background, the original aim of ASEAN as envisaged by its founding members was modest—to keep the peace in Southeast Asia through respect for each other's sovereignty and adherence to the principle of non-intervention. ASEAN was to be a forum, a tool for member states "to manage common threats of communist insurgencies while balancing internal sensitivities and conflict" (Lee, 2007).

Both intraregional and extraregional relations were to be guided by these principles of sovereign equality, respect for diversities and non-intervention—internally to build confidence among its members and externally, to present a united façade against any possible external interference from outside powers. As S. Rajaratnam, then Foreign Minister of Singapore said in his speech at the founding of ASEAN in 1967, ASEAN was not a grouping against anyone, but simply an instrument to protect the small nations of Southeast Asia from the "balkanization of the region" by outside powers (cited in Acharya, 2008, p. 124). In his later speeches, he repeatedly reminded that the major motivation for setting up ASEAN was fear of a triumphant and expansive communism, and fear of being "manipulated, set against one another, and kept perpetually weak, divided and ineffective by outside forces" (cited in Kwa, 2006, p. 91).

The common fear of communism and external interference kept the members together, suppressing but not eliminating their lingering suspicions of one another. Several ASEAN member states' regimes were pre-occupied with internal challenges, especially active insurgencies and societal cleavages with potential for eruption. Hence, the wish for a secure external environment and a united front so that states can fully concentrate on domestic developments to build up "national resilience". Indeed, the very motto of ASEAN was national resilience for regional resilience, the fundamental belief that individual member states need to be strong for the region to be resilient against outside threats. The

states fulfill the promises to refrain from interference and to respect each other because the regional organization unites them in a higher common interest—a relatively peaceful and stable environment.

In the first decade of ASEAN's existence, ASEAN's growth as a regional organization proceeded very slowly. Singapore only came to appreciate the political advantage of ASEAN as a vehicle for intra-mural confidence building as its relations with Indonesia began to improve. Singapore's attitude towards ASEAN further improved because of this qualitative change in its relationship with its biggest neighbour, Indonesia. External events in the region, with the victory of the communists in Vietnam and the spread of communism in Indochina, was also a driving force that made Singapore realize the importance of having ASEAN as a "protective diplomatic vehicle" to signal that members in ASEAN would stick together and not fall victim to the communist forces (Leifer, 2000, p. 79).

However, even as Singapore participated more actively in forging an ASEAN diplomatic identity, it had no illusions about the security guarantee it could expect from ASEAN since the organization was never meant to be a defence alliance. Hence, in dealing with its security, Singapore took a more pragmatic approach in anchoring the USA as a major player in the region to forestall any undue dominance by any regional power. Singapore is a strong proponent of US presence in the region to prevent any of its neighbouring countries from becoming a regional hegemon. This preference for the USA's presence is premised on its distrust of its neighbours and the fear that regional states are more likely to try to assert dominance over it. While recognizing that Singapore is an integral part of Southeast Asia, it also sought to transcend its neighbourhood by actively drawing in outside major powers such as US into the Southeast Asian theatre.

ASEAN was not originally set up to pursue regional integration, and regionalism was not in vogue in the Southeast Asian region in the early years of the organization. ASEAN thus made little progress in economic cooperation until the post-Cold War era when it was faced with increasing economic challenges with the opening up of China and India. It did try in the 1970s, after its first inaugural Summit meeting in Bali in 1976, to engender closer economic cooperation. The Declaration of ASEAN Concord, signed in 1976, set out the guidelines for concrete regional economic relations. Following this, a number of initiatives and agreements were launched, the most notable of these were the ASEAN Preferential Trading Agreement aimed at liberalizing trade, the ASEAN Industrial Projects Programme to build and encourage joint ventures among ASEAN companies, and the ASEAN Industrial Complementation

scheme aimed at promoting intra-ASEAN investments. However, all these economic endeavors never took off, as they were perceived to run counter to respective national interests. Indeed, the low compatibility and complementarity of ASEAN economies then discouraged ASEAN governments from taking ASEAN economic integration further. The Vietnamese invasion of Kampuchea (Cambodia) in 1978 provided ASEAN with something to focus their attention on. Political and diplomatic energy were invested in facing up to this immediate threat.

With barriers still high in regional economic endeavors, Singapore's economic policy from 1970 to 1990 was geared towards "globalization" in the sense of active participation in the global economy rather than a regionalization strategy. During these two decades, as argued by Acharya (2008, pp. 36–41), "Singapore's trade shifted away from Southeast Asia to become increasingly global [...], [while] [t]he international orientation of Singapore's economy is also evident in the degree to which it relies on foreign investments from the developed economies of Europe, US and Japan". Thus, in the area of economics, Singapore also actively pursued a multi-tiered approach to diversify its links and transcend the region.

This often talked about strategy to leapfrog or transcend the region had at times irritated its neighbors. Yet, Singapore has never been shy of its ambition to be a global city and to transcend the inherent geographical limitations. The Foreign Minister of Singapore, Rajaratnam first coined the concept of Singapore: Global City in a speech in 1972, and called on its citizens to view Singapore's future not as a regional city but as a Global City, and to transcend the limitations of the absence of a hinterland by seeing "the world as its hinterland" (as cited in Kwa, 2006, p. 172).

From above, one sees that Singapore in its earlier years was not a strong advocate or believer in ASEAN regionalism. In the 1970s, as relations with Indonesia improved, "Singapore was willing to go along with the prerogative regional outlook of Indonesia in promoting the corporate identity of ASEAN" (Leifer, 2000, p. 81). As ASEAN developed a habit of dialogue that led to an evolution of healthy intraregional diplomatic ties, in the next stage of development, the ASEAN countries also succeeded in forging a greater consensus of views on various global and regional issues. This is particularly the case after 1978, following Vietnamese invasion of Kampuchea (Cambodia). ASEAN began to speak with one voice in international fora. Its success in the politico-diplomatic sphere was most obvious in its relentless pressure on Hanoi to reverse the latter's action in Cambodia. Singapore played an important part in "promoting

and coordinating the diplomacy of the ASEAN states” during the decade in opposing Vietnamese invasion and occupation of Cambodia (1978–1988), but it was only at the end of the Cold War that “Singapore came out of its diplomatic shell to assert a managerial role in regional politics” (Leifer, 2000, p. 84) and to promote the ASEAN brand of regionalism.

With the sweeping changes brought about by the end of the Cold War, Singapore began to see regionalism as a useful instrument to manage increased economic competition. The unpredictability of post-Cold War geopolitics was certainly challenging. Of particular significance were the economic challenges arising out of the crisis in the international trade regime and shifting balance of power in the Asia-Pacific region with the re-emergence of China and India (Acharya, 2008, p. 32).

3. Post-Cold War environment, open regionalism and ASEAN centrality in the Asia-Pacific

The end of the Cold War brought about opportunities but also challenges to Singapore’s policy. While the Cold War period had its moments of tensions and dangers, there was a greater degree of predictability and balance maintained as long as ASEAN remained under the “Western orbit”. The US bilateral alliances in East Asia, its bases in the Philippines and close military cooperation with several of the other ASEAN member states provided a relatively manageable framework of international relations for Singapore to operate in. In contrast, the post-Cold War environment initially hailed by the West for unleashing a new wave of democratization, and clamor towards greater institutionalization of international norms and institutions, created uncertainties for Singapore. Intensified economic competition, and a more robust human rights and democratization agenda pursued by the US and its European allies in the post-Cold War environment, coupled with the opening up of the China, and the Look East policy pursued by India in the early 1990s, brought about a series of responses from Singapore and ASEAN.

Faced with increased economic competition, ASEAN responded with the decision to establish an ASEAN Free Trade Area (AFTA) in 1992. To cope with the changing regional security environment with the uncertainties over the US presence and its security commitments in Southeast Asia, Singapore worked within ASEAN to launch the ASEAN Regional Forum (ARF), the first Asia-Pacific wide forum for political and security dialogue. The ARF, together with

other multilateral frameworks such as the Asia-Pacific Economic Cooperation (APEC) forum and the ASEM, were used to better engage China.

With the West's optimism towards multilateralism and cooperative security in the post-Cold War era, Singapore was able to seize the opportunity to build on the collective diplomacy of ASEAN developed during the Cambodian crisis and engage the wider Asia-Pacific as an anchor for the growing economic and security interdependence. As Acharya (2008, p. 30) noted, the realist view of Singapore in international relations was “moderated by a recognition of the opportunities for multilateral cooperation and institution building”.

3.1 Open regionalism and transregional forums

With growing trade, economic interdependence and internationalism, a new wave of thinking on regionalism began to emerge in the Asia-Pacific in the 1980s. This new wave of regionalism was in stark contrast to the inward-looking process of building an exclusive integrated bloc epitomized by the European integration project that had begun in the 1950s. In the Asia-Pacific region, regionalism was more outward-looking and focused on building links with other regions. Instead of forming a closed bloc, the new regional bloc acted as catalytic agent, between nationalism and internationalism. This regionalism was not a movement toward territorially based autarkies like those of the 1930s, nor was integration necessarily the end goal as with the EU. Rather it represented concentrations of political and economic power competing in the global economy, with multiple interregional and intraregional flows (Mittelman, 1996, pp. 189–213).

In the Asia-Pacific, this new wave of regionalism led to the founding of the APEC in 1989. APEC was in fact built on the basis of “open regionalism”, a concept taken to mean a non-exclusionary approach towards building regional economic blocs that are compatible with the global trading system, and can be building blocks for further global liberalization (Bergsten, 1997). Comprised initially of 12 economies (Australia, Canada, Japan, Korea, New Zealand, the USA and ASEAN 6—Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand), APEC was an initiative from Japan and Australia for a regional bloc as they face tough negotiations with the European Community in GATT (General Agreement on Trade and Tariffs) during the Uruguay Round.

The end of the Cold War provided further impetus to expand this new open regionalism. With the breakdown of the overarching Cold War structure, states were forced to evaluate their place in the new international system. On the context, Wyatt-Walter noted,

As the common security linkages that helped to underpin post-World War II economic cooperation between Western Europe, US and Japan were eroded, economic competition and the conflicts between different forms of capitalism as practiced in these places intensified and became more visible. The collapse of the Soviet Union also brought new security threats arising from political and economic instability within regions to the global agenda. These included issues such as fair trade, weapons proliferation, mass migration and environmental degradation. (Wyatt-Walter, 1995, p. 93)

Many states also began to appreciate anew how much their own welfare was affected by the stability and economic well-being of the region in which they were located. The collapse of the bipolar system and the decentralization of the international system strengthened the case for regionalism. Buzan (1994, pp. 94–95) noted that the removal of the old overlay patterns of great power influence encouraged multipolarity and contributed to an emerging international system in which regional agreements can be expected to assume greater importance. The new felt independence in the aftermath of the Cold War brought about bolder initiatives and experimentation on regional cooperation, particularly among developing countries. At the same time, the newly found independence also generated a sense of vulnerability as a power vacuum appeared and uncertainties about the new emerging order set in. Regionalism was one way to cope with this. Much of the new wave of open regionalism was focused on intergovernmental transregional and interregional dialogue and cooperation.

Singapore's policymakers are cognizant of these developments and shifting interests, and its policies are geared to deal with the new realities. Singapore has thus embarked on a policy of actively supporting economic regionalization and making a concerted effort to strike a balance between globalism and regionalism. The country was active in promoting the various forums that bring about the dialogue and cooperation between the Western developed economies and East Asia modeled on the ASEAN Way. Besides the ARF, Singapore has also played a significant role in conceptualizing the ASEM, a platform for leaders of ASEAN plus China, Japan and Korea to meet with the leaders of the EU. Though Singapore was not the mastermind behind APEC, which was founded in 1989, it began to take an active interest in promoting APEC after the inaugural summit in 1993.

Singapore's support for open regionalism and ASEAN regionalism was also in tune with the general shifts of the economic outlook and the policies pursued by ASEAN members. As discussed earlier, since its independence Singapore

has opened its economy to Western trade and investments and pursued a global city strategy to secure their presence. In contrast, most ASEAN members flirted with a more protectionist import substitution strategy. However, by the 1980s, most had shifted towards greater acceptance of the neo-liberal economic regime of free trade and welcoming foreign investments. As its neighboring countries started to lower the barriers towards trade and investments and experienced respectable growth rates, opportunities for Singapore to strengthen economic links with its neighbours open up. By the early 1990s, ASEAN countries were highly competitive and able to attract significant investments. The upward trend of the ASEAN economies was brought to a halt by the Asian financial crisis in 1997–1998. While several of the ASEAN economies were able to export their economies back to health within three to five years, they had lost their competitive edge and started to lag behind in competitiveness and attractiveness to other emerging markets, in particular China.

To revitalize ASEAN's economic fortunes and strengthen coordination in response to globalization and the challenges from China, Singapore urged its fellow members in ASEAN to move towards creating an ASEAN Economic Community. This culminated in the idea of achieving an ASEAN Community by 2015. Singapore's stake in ASEAN has increased. The rise of China and its increasing presence in the Asia-Pacific has led to complex issues and linkages between economic and security regionalism. To cope with this challenge, Singapore began to take on an even more active role within ASEAN, and in conjunction with other partners, in particular Indonesia, tried to ensure ASEAN's relevance and centrality in managing the increasing complex situation in the Asia-Pacific.

Much of Singapore's regionalization strategy was effected through ASEAN, and in the aftermath of the Asian financial crisis, also the ASEAN+3 (APT) framework and the East Asia Summit (EAS). With the rise of China and India, Singapore increasingly sees its survival as very much tied to the developments in Asia. Singapore has actively engaged China and India not only on bilateral basis but has also assiduously leveraged on ASEAN to manage the rise of China and India, and to bring these two giants into the various ASEAN-centric frameworks. Its strategy for long-term survival is to support the greater integration of Chinese and Indian economies into the regional and global economy.

3.2 The ASEAN Economic Community, APT and economic regionalism

Singapore was one of the main instigators pushing for an ASEAN Economic Community (AEC). The AEC is a response to the global economic landscape that changed dramatically after the 1997 financial crisis. The loss of economic competitiveness, the challenges posed by China and India, and the increasing importance of production networks in the regionalization of East Asia made it imperative for ASEAN to deepen its economic cooperation. While the ASEAN Free Trade Agreement (AFTA) has succeeded in bringing down tariffs for a number of manufactured goods, non-tariff barriers remained a major obstacle to the free flow of goods and a number of service industries remained highly protected.

A McKinsey study in 2003 found that middle-income ASEAN countries are no longer competitive and that the region needs to look for new sources of growth. One key recommendation that came out of the McKinsey study was for ASEAN to pursue deeper integration in order to take advantage of complementarities between the ASEAN economies to achieve economies of scale, industrial efficiency and productivity. As Yeo (2010b, p. 219) noted, “[r]egional production networks need to be revitalized and the nexus between trade and FDI needs to be emphasized”. The AEC was in part a logical extension of AFTA and a number of economic initiatives such as the ASEAN Investment Area (AIA) and ASEAN Framework Agreement on Services (AFAS) that were discussed throughout the 1990s and early 2000s.

Reflecting the pro-trade policy and open regionalism idea favored by Singapore, ASEAN also embarked on a number of FTAs and comprehensive economic cooperation agreements. Agreements were signed in quick succession with China, Japan, South Korea, Australia and New Zealand and India. Beyond the encouragement from Singapore, there are several other reasons for the proliferation of FTAs in ASEAN. The Asian financial crisis revealed the extent of economic interdependence between Southeast Asia and Northeast Asia, which also catalyzed closer cooperation leading to the creation of the APT framework.

The APT framework, which comprised ASEAN plus China, Japan and South Korea and was launched in 1997, made good progress in promoting Southeast Asia and Northeast Asian cooperation for 20 years before being overshadowed by the EAS and the rising tensions between China and Japan. Within a few years, the APT catalyzed the negotiation and conclusion of the ASEAN–China FTA and ASEAN–Japan FTA. More importantly, during the APT finance ministers meeting in Chiangmai in 2000, agreement was reached on a currency swap scheme, a milestone in East Asian cooperation in the sphere of finance.

When the global financial crisis hit in 2008–2009, the East Asian countries agreed to multilateralize this network of bilateral currency swap agreements. An economic surveillance unit known as the ASEAN+3 Macroeconomic Research Office (AMRO) was also established as part of the support for the functioning of deeper monetary cooperation (Lai & Ravenhill, 2012, pp. 144–145).

The stalled trade negotiations in the WTO and the rapid rise in intra-Asian trade driven by China's and India's rise and the recovery of those economies affected by the Asian financial crisis also leads to greater ambitions for region-wide FTAs. Negotiations also now under way for a Regional Comprehensive Economic Partnership that would tie up the various ASEAN+1 agreements to ASEAN+6 (China, Japan, Korea, Australia, New Zealand, and India). However, Singapore is also keenly aware of the limitations of many of these ASEAN FTAs as they generally trade light and negotiate for more political rather than economic considerations. Hence, while it actively participates in these fora, it has also its own bilateral trajectory for pursuing high quality FTAs to further cement its access to various important markets.

3.3 The ASEAN regional forum and ASEAN's centrality

The strategic uncertainties brought about by the shifts in major power relations with the end of the Cold War and the rise of China in the early 1990s were a concern for several ASEAN member states. On the back of the confidence, which stemmed from the sterling economic growth of its member states, ASEAN began to speak of a need for a wider Asia-Pacific forum that could address some of the fears and uncertainties of a region in flux. ASEAN leaders agreed to use and extend the existing ASEAN Post-Ministerial Conference (PMC) as the forum for promoting political and security dialogue with countries across the Asia-Pacific region (Caballero-Anthony, 2005, pp. 114–128).

The modalities for the forum were further deliberated and planned during ASEAN meetings and agreed on in 1993. In 1994, the inaugural ARF meeting comprising initially of 18 member states (the ASEAN-6, Australia, Canada, China, the European Community, India, Japan, New Zealand, Papua New Guinea, Russia, South Korea, the USA and Vietnam) was convened. The ARF is modeled upon the ASEAN way of consultation and consensus-building which ASEAN believes can be applied to the larger region. The general approach is to first focus on dialogue to build trust and confidence, and foster habits of cooperation. This will then lead to preventive diplomacy followed by genuine conflict management contributing to peace and stability in the region (Narine, 2002, pp. 106–113).

ASEAN currently occupies a central role in the Asia-Pacific, particularly in East Asia because of “the unique qualities of the East Asian environment in which ASEAN operates” (Narine, 2009, p. 370). The major powers in East Asia, Japan and China do not trust each other for historical reasons and, additionally, due to on-going tensions over the Senkaku or Diaoyu islands in the East China Sea. The Asia-Pacific also constitutes a “unique security environment” with major powers (the US, China, Japan, and, to some extent, Russia and India) competing with one another for influence. These rivalries created “a political space within which ASEAN may exercise significant regional influence” and enhance its own strategic importance. However, whether ASEAN can “exploit this advantage is partly contingent on the organization’s internal unity” (Narine, 2009, p. 370). ASEAN needs to move towards deeper integration if it wants to hang on to its centrality in the region.

The question of whether ASEAN’s centrality in the broader region is one of default rather than leadership has often been raised. ASEAN’s solidarity and ability to drive the regional processes have been increasingly questioned over the last few years. So far, ASEAN has been able to maintain a central role in the various regional architectures by default because the major powers in the region have abstained from leadership for fear of arousing suspicion from their rivals. However, as the USA and China, and China and Japan step up their competition in the region more openly, and as some ASEAN member states felt increasingly threatened by China over the claims in the South China Sea, there is a danger that ASEAN itself may be divided.

East Asia, the broader region in which ASEAN is situated, has moved to become a dominant world region where the core dynamics globally are now central to the dynamics of the region. This is true in terms of the shifts within global capitalism and of the geopolitical centrality of 21st-century major power politics, including, of course, US–China relations. While the USA remains dominant in the global order, its leadership is increasingly challenged, and it can no longer act alone to achieve its goals. China is an important emerging power. Particularly in the Asia-Pacific region, Sino-US relationship will be the core consideration for any regional order. There are very powerful external pressures on ASEAN to maintain itself as an effective manager of regional order (Goh, 2007). On the one side is the importance of building regional multilateral institutions that serve to regulate exchanges, develop norms, and institutionalize cooperation, including the incorporation of a rising China. On the other side is indirect balancing *vis-à-vis* China by facilitating continued US security commitment. The increased economic interdependence and the growing dependence of many Southeast Asian countries on the Chinese economy exist

alongside the increasing security concerns that these countries have with regard to a rising China. This growing concern has sparked calls for a heightened US presence, reflecting the fundamental dichotomy between economic regionalism and security regionalism in the Asia-Pacific region.

Singapore is well aware of this conundrum. While in the economic arena, Singapore's strategy is to forge global and regional economic interdependence, in the area of security, Singapore still very much seeks a balance of power approach. Singapore makes it clear that it does not want to be pushed to choose between the US and China, which is also officially the position of ASEAN. However, with increasing tensions in the South China Sea, some members of ASEAN may be prepared to deviate from this position. The increasing strategic rivalry and tensions between the US and China are becoming an uncomfortable situation for ASEAN and its member states.

Singapore is now entering into a post post-Cold War world where the global economic and security situation, in contrast to the immediate post-Cold War period, has become less optimistic. American ability to maintain the international order is declining in the aftermath of the drawn-out wars in Afghanistan and Iraq and the financial and debt crisis of 2008–9. This coupled with the rise and re-emergence of powers like Brazil, China, India and Russia, the general diffusion of power, increased fragmentation of the world and a host of challenges arising from climate change, scarcity, etc., portend an increasingly unpredictable and volatile world. Despite Singapore's success in building an economically developed and politically stable country, Singapore's foreign policy needs to keep pace with changes and be nimble and flexible and geared toward overcoming vulnerabilities, both old and new.

4. Conclusion

The prognosis for an independent Singapore when it was kicked out of Malaysia in 1965 was not good. It has no natural resources, no hinterland and had to rely on Malaysia for its water supply. With a small population, small market size and limited land, it has managed to overcome these handicaps to become one of the most developed countries in the world today. Singapore has surmounted geographical obstacles and embraced policies that transcend inherent limitations; by opening up to the world, it has made itself relevant.

Conservative pragmatism has guided Singapore's policymaking since its independence. Though there are several scholars, such as Michael Leifer, who classified Singapore as a realist in its approach towards international relations and politics because of its hard-nosed approach towards power and interest, realism alone cannot adequately explain Singapore's foreign policy in the Asia-Pacific. In fact, Singapore employs an eclectic mix of approaches, which this article treats as pragmatism, to ensure the best outcome for Singapore. The country understands the constraints of structural power that limit what a small state can do, and often self-effacingly refers to itself as a price-taker, yet it actively participates in multilateral institutions and creates new institutions to ensure its voice is heard. It is conservative in the sense that it places the highest value on order (which is often seen as the pursuit of balance of power) and not on the liberal pursuit of justice and liberty. Yet, it is a mistake to view Singaporean foreign policy as merely ensuring its survival through power-balance. As Amitav Acharya (2008, p. 118) argued, "it has also been about carving out a regional existence through socialization within regional institutions and processes" as reflected in its later activism in ASEAN and various ASEAN-centric frameworks.

Singapore's realism does not allow it to be lulled into believing Francis Fukuyama's thesis that the world is moving towards universalization of values and that globalization has redefined the nature of power and international affairs. In responding to the events in Ukraine, the former permanent secretary of the Singapore's Ministry of Foreign Affairs wrote in an op-ed that while a world ruled by international law is the ideal world for small states, the truth is that "international law is an instrument of state policy, not an autonomous reality. Great powers resort to it only when convenient." He went on to reiterate the importance of our national service commitments and warn that "we must never lose the ability to look after ourselves, because if we cannot look after ourselves, nobody will look after." (Kausikan, 2014)

Dr. **Yeo Lay Hwee** is director of the European Union Centre in Singapore, senior research fellow at the Singapore Institute of International Affairs, and adjunct research fellow at the S Rajaratnam School of International Studies. She also sits on the advisory boards of the Centre for European Studies at the Australian National University and of the KU Leuven's Master in European Studies (MAES) Programme. An international relations expert, her research interests revolve around comparative regionalism; developments in the EU and ASEAN, and on Asia-Europe relations. She participates actively in both academic conferences and policy dialogue and is active in networks such as the Agora EU-Asia Network. She is also the co-editor-in-chief of the *Asia Europe Journal*, published by Springer.

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Japan's Diplomatic Strategy toward East Asia: Creation and Evolution of 'Dual-Track Diplomacy' in the Post-Cold War Era

Kei Koga

Public Policy and Global Affairs,
School of Social Sciences,
Nanyang Technological University
48 Nanyang Avenue, 639818 Singapore
E-mail: kkei@ntu.edu.sg

Abstract: *Japan's diplomatic strategy toward East Asia underwent three main changes in the post-Cold War era. The first change occurred soon after the 1991 Persian Gulf War propelled Japan to consider a potential way to contribute to international security, resulting in the creation of dual-track diplomacy. The second was the consolidation of Japan's dual-track diplomacy by strengthening the US–Japan alliance and supporting the ASEAN's multilateral initiatives in the early 2000s. The third was the enhancement of Japan's own security efforts to maintain regional stability while making the most of the existing political and security mechanisms in East Asia—multilateralizing US alliance networks and enhancing the ASEAN-led multilateral frameworks. In the future, two factors would likely play a critical role in shaping Japan's diplomatic strategy: the degree of the future US commitment to the alliance with Japan and the level of China's assertiveness.*

Keywords: *ASEAN, China, diplomacy, international security, Japan, the balance of power, US–Japan alliance*

1. Introduction

Diplomacy and military power are intrinsically interconnected. As Hans Morgenthau once assured, military power is “the instrument of foreign policy, not its master” (Morgenthau, 1993, p. 386), but the diplomatic credibility of one state is necessarily linked to its “unstated but explicit” military capabilities (Art, 2009, p. 4), because the others would likely consider their statement more seriously when the state has “a threat of punishment for noncompliance” by the use of strong force (George, 2009, p. 70). Given the historical records of international rivalry among great powers, particularly between the United States and the Soviet Union during the Cold War, military power has indeed played a significant role in shaping state’s diplomatic posture, position, strategy, and conduct in international relations. If this realist account is correct, states’ strategy will primarily aim to increase military capabilities, so that they can better position themselves in effectively pursuing their national interests.

However, an outlier state exists in East Asia—Japan. Despite being located in the geopolitically contentious Northeast Asia, Japan has limited its military power since the end of World War II, largely due to Article IX of the Japanese constitution, the so-called “peace constitution”. While this does not mean that Japan renounces the right of self-defense to protect itself from military attacks by external actors, its military power is significantly constrained to defensive means. In addition, Japan created a number of self-restraint security policies to limit its military capabilities, including the political ban on exercising the right to collective self-defense, the “exclusively defense-oriented policy”, the Three Non-Nuclear Principles, the Three Arms Export Principles, and 1% military expenditure ceiling.

Why did Japan pursue such policies? On the contrary to the realist account, this is because these policies did not necessarily compromise Japan’s national interests. In fact, they became a part of the postwar national-reconstruction strategy, termed the “Yoshida Doctrine”. The principle of this doctrine was created by Prime Minister Shigeru Yoshida in the 1950s. The doctrine focused Japan’s national effort on economic development while not rebuilding its national military capabilities by revising its peace constitution, relying instead on the United States for its security through the US–Japan alliance.¹ This strategy was particularly effective in the bipolar system of the Cold War era because the bilateral security tie with Japan was also indispensable for the US strategy to counter Soviet and communist threats in Asia. Accordingly, Japan achieved

¹ The US–Japan defense pact was first created in 1952 and then revised in 1960.

rapid economic development during the 1960s and 1970s, and by 1980 firmly established its place as the second largest economy (The World Bank, 2014a). Through this strong economic leverage, Japan conducted economic diplomacy in the international arena, increasing its economic influence in the developing countries through the Official Development Assistance (ODA) and creating its regional economic development architecture in East Asia on the basis of the so-called ‘flying geese model’.² In other words, Japanese diplomatic strategy rested on its economic rather than military power while maintaining strong defense ties with the United States to ensure its military security.

Near the end of the Cold War, however, the limitations of this strategy gradually appeared. Japan’s economic growth rate significantly slowed falling from approximately 9% in the 1960s and the mid-1970s to around 4% in the period of 1980s.³ While this illustrates Japan’s achievement in gaining the status of fully-fledged developed economy, the economic slowdown meant that Japan would no longer be able to carry out the same strategy. Indeed, as Japan’s international status rose, some countries, particularly the United States, asserted that Japan should play a larger economic, political, and even security role in the world. Japan was thus compelled to reformulate its diplomatic strategy in conjunction with its security policy in the post-Cold War era.

This article explores past and present political, economic, defense, and diplomatic challenges and opportunities in East Asia that Japan has faced since the end of the Cold War. First, the chapter explores the development of Japan’s diplomacy in the 1990s—the emergence of dual-track diplomacy. Second, it focuses on change and continuity of the international security environment that Japan faced in the early 2000s and illustrates how Japan coped with it. Third, it analyzes how Japan’s diplomatic strategy has evolved in the context of the changing regional security environment.

² The ‘flying geese model’ refers to the pattern of economic development, especially industrial development “transmitted from a lead goose (Japan) to follower geese (Newly Industrializing Economies (NIEs), ASEAN 4, China, etc.)” (Kojima, 2000).

³ The data provided by Japanese Cabinet Office, using the 1968 System of National Accounts (UN, 1968).

2. Background: the emergence of Japan's dual-track diplomacy in the 1990s

With the end of the Cold War and the demise of the Soviet Union, the international security environment changed rapidly. No longer facing the potential military threats to East Asia from the Soviet Union, the US–Japan alliance, the most important pillar of Japan's security policy and diplomacy, began to lose its fundamental *raison d'être*.

Admittedly, the geopolitical flashpoints in East Asia remained, namely the Korean Peninsula and the Taiwan Strait, and if conflicts erupted there, they would potentially pose existential threats to Japan's security. Given the fact that North Korea developed its nuclear ambition from the early 1990s and military tension between China and Taiwan rapidly escalated in 1995/1996 due to Taiwan's potential declaration of independence, it became clear that the US military presence was still important in maintaining the regional strategic balance in the region even in the post-Cold War setting. The US–Japan alliance remained the strategic cornerstone for Japan's security and stability in East Asia, just as the 1960 US–Japan Security Treaty stipulated the US role and the use of the US bases in Japan for defense of Japan under Article 5 and for the maintenance of peace and security in the Far East under Article 6 (MOFA, 1960).

However, the real question was the degree to which the strength of the US alliances in East Asia needed to be maintained. With this regard, regional states' perceptions differed from each other. For example, taking advantage of the window of opportunity created by the end of the Cold War, the Philippines took the initiative to negotiate with the United States about a reduction of the US bases, namely the Clark Air Base and the Subic Bay Naval Base, resulting in their closure in 1991. In response, Singapore offered US military access to its military facilities to maintain US presence in the region since it was concerned about further retrenchment of the United States from East Asia. For its part, the United States was eager to share its military burden with its allies. In 1993, the US Department of Defense published the US Bottom-Up Review (BUR) to illustrate its future military posture in the world. While it asserted that the US military commitment to its treaty allies in various regions, including Europe, East Asia, the Near East, and Southwest Asia, was imperative to prevent global instability, the report also called for the reduction of US military forces and possible burden sharing with its allies (Aspin, 1993, p. 3). Since the United States accumulated trade deficit with Japan by absorbing Japan's exports during this period, the United States put strong political pressure on Japan for burden-

sharing. As such, management of the alliance became increasingly difficult without Japan's new security commitment.

In addition, Japan encountered a new international reality during the 1990–1991 Persian Gulf War. In this war, the international coalition successfully expelled Iraq's troops from Kuwait. Japan contributed 13 billion US dollars in financial assistance, yet provided no military assistance. The international community criticized this, stating that it expected more from Japan as the world's second largest economy, and although Japan dispatched the Maritime Self-Defense Force (SDF) for the minesweeping operation in 1991, it was said to be “too little, too late” (MOFA, 1991). This gap between Japan's power status and the international community's expectations forced Japan to reconsider its diplomatic strategy on the basis of the Yoshida Doctrine and triggered its policy shift as indicated in new domestic laws, such as the introduction of the International Cooperation Law in 1992, which enabled the SDF to participate in international activities in non-combatant areas (MOFA, 1996b).

With these pressures, Japan attempted to play a larger security and political role in the world by three means: participating in international security cooperation, enhancing the US–Japan alliance, and reformulating its economic diplomacy toward East Asia. First, Japan aimed to strengthen its security cooperation with the United Nations. In addition to the 1992 International Cooperation Law, a private advisory body to the Prime Minister led by Kotaro Higuchi issued the so-called “Higuchi Report” in 1994 (Advisory Group on Defense Issues, 1994). The report assessed the 1991 Gulf War experience and recommended that the Japanese SDF participate in peacekeeping operations and other forms of multilateral cooperation under the UN authorities. Japan's new defense policy based on the 1996 National Defense Program Outline (NDPO) incorporated this suggestion and emphasized its support for the UN activities and Japan's contribution to creating a stable security environment through international organizations, primarily the United Nations. As such, Japan expanded its security role to the international arena, although the constitutional, legal, and political constraints on Japan's use of force remained.

Second, Japan officially decided to enhance the US–Japan security cooperation in the post-Cold War through the landmark document, the *Japan-US Joint Declaration on Security* in 1996 (MOFA, 1996a). This declaration recognized strategic importance of the US–Japan alliance for both Japanese and American security in the post-Cold War context and built political confidence between them, particularly because some experts on the US side were concerned about the 1994 Higuchi Report and perceived that Japan was drifting away from

the US–Japan alliance and concentrating more on the multilateral security arrangements (Cronin & Green, 1994). The process of this joint declaration was set in motion in 1994, when Joseph Nye, Assistant Secretary of Defense, undertook a comprehensive review of the US–Japan alliance, the so-called Nye Initiative. On the basis of this review, the United States Security Strategy for the East Asia-Pacific Region, the so-called Nye Report, was issued in 1995. It reaffirmed US security commitment to East Asia as well as the US–Japan alliance by recommending the maintenance of approximately 100,000 troops of US forward-deployed force in the Asia Pacific region and considering multilateral institutions in the region, such as the ASEAN Regional Forum (ARF), as “complementary” security tools to the US bilateral alliances. This policy resonated with Japan’s security perception and resulted in political momentum for both states to advance policy coordination and issue the joint declaration.

Through this declaration, both the United States and Japan also created policy objectives at the regional and global level. Regionally, there are three main objectives: fostering cooperation with China and Russia as a way to maintaining regional security; aiming to further cooperation with South Korea in order to ensure stability in the Korean Peninsula; and developing multilateral regional security mechanisms, such as ARF. Globally, the United States and Japan declared a commitment to enhance cooperation and coordination on such issues as UN peacekeeping, humanitarian relief operations, and the Comprehensive Test Ban Treaty (CTBT) negotiations. In order to operationalize these objectives, they decided to review the 1978 *Guidelines for Japan–US Defense Cooperation* and broaden the range of cooperation at the regional and global level, resulting in the new guidelines issued in October 1997. With this enhanced security cooperation, Japan and the United States also gave reassurance to East Asian states that the US presence in the Asia Pacific region through the US–Japan alliance would remain the linchpin of the security arrangement in the post-Cold War.

Third, Japan gradually restructured its economic diplomacy toward East Asia in the 1990s. Previously, Japan considered that East Asian regional economy was intrinsically connected with the United States and that it was extremely difficult to separate the United States from the regional economy. In this context, regional trade blocs, such as the European Union and the North American Free Trade Agreement (NAFTA), emerged after the Cold War, and in Asia, the Malaysian Prime Minister Mahathir Mohammad responded by proposing the idea of creating a quasi-East Asian trade bloc in 1992, the East Asian Economic Caucus (EAEC). Due to US concerns about its exclusivity and some East Asian states’, particularly Japan’s concerns about this US skepticism, EAEC was watered

down to the East Asian Economic Group (EAEG) as a regional consulting group within the APEC framework. However, this idea was revitalized when the 1997 East Asian financial crisis broke out, and the group was institutionalized into the ASEAN+3 (China, Japan, and South Korea) (Koga, 2012, pp. 15–19). In fact, this was the East Asian response to the US unwillingness to bail out East Asian economies. The United States did not do so because it had long criticized East Asia's economic development model as government-driven economy and "crony capitalism", arguing that East Asian states generally tended to quickly intervene in a market economy and they developed its economy through strong personal relationship between leaders, not the laissez-faire principles. ASEAN+3 was, thus, primarily concerned with the creation of a regional economic mechanism that was capable of responding to a future economic crisis without depending solely on the United States or US-led world economic institutions, such as the International Monetary Fund. Later, this cooperative scheme expanded into political, security, and socio-cultural fields, after the creation of the ASEAN+3 joint study groups, namely the East Asia Vision Group (EAVG) and the East Asian Study Group (EASG) (East Asia Vision Group, 2001; East Asia Study Group, 2002).

Due to these three changes, Japan altered its diplomatic strategy and gained its diplomatic flexibility in coping with the international environmental change. Emphasizing its willingness to further international cooperation, Japan relaxed its political constraints in its security policy by creating domestic laws such as the 1992 International Cooperation Law. Continuously relying on the US security guarantee, including its nuclear deterrent, Japan enhanced security ties through the 1996 Japan–US Joint Declaration on Security. Aiming at further institutionalizing ASEAN+3, Japan also sought to foster regional cooperation with neighboring states, including China, South Korea, and ASEAN member states. This was still not diplomacy backed by one's own credible military capabilities, but Japan began to deviate from the Yoshida Doctrine. As such, by the end of the 1990s, Japan pursued a different kind of regional diplomacy from the past—dual-track diplomacy—which focused on the enhancement of the US–Japan alliance and the institutionalization of regional cooperation through ASEAN-led frameworks, particularly ASEAN+3.

3. Security strategy based on the dual-track diplomacy in the early 2000s

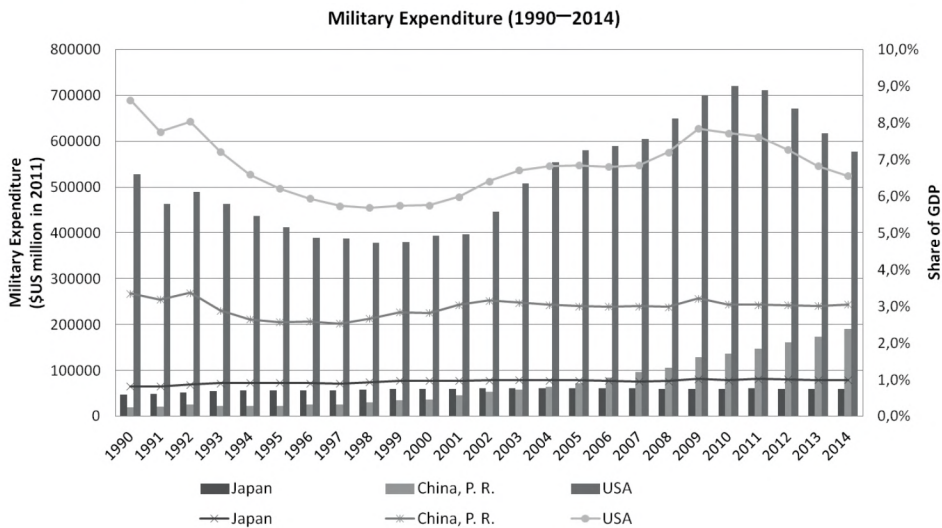
Japan's dual-track diplomacy functioned as its own security strategy—countering a potential adversary through military, political, and economic means while engaging militarily, politically, and economically with a potential adversary.⁴ On the one hand, the US–Japan relations needed to be well maintained in order to keep the US–Japan alliance credible as a balancing function against potential threats. The United States constantly assured that US commitment to Asia and the US–Japan alliance remained high; however, in reality, its strategic priority would not always be Asia. As a global power, the United States concentrated its political, security, and economic commitments to different regions at different times, and its strategic focus was likely to fluctuate. To hedge against this risk, therefore, Japan supported ASEAN's multilateral initiatives and spent significant diplomatic resources in fostering cooperation with regional states in East Asia through multilateral frameworks, such as ARF and ASEAN+3. On the other hand, these multilateral security and economic frameworks in East Asia, which were generally led by ASEAN, also carried some strategic risks. It is true that these regional frameworks provide forums for states to interact with each other and may be useful for confidence building measures (CBMs) and norm creation. East Asia had long lacked a comprehensive multilateral institution covering both Northeast Asia and Southeast Asia, and thus, ASEAN's multilateral institutional-building efforts were invaluable to regional cooperation. Nevertheless, they have yet to be fully institutionalized as concrete regional institutions that provide binding agreements. There is always this risk that these institutions might end up being largely ineffective, and thus, US commitments to the region were still required. In order to cope with these two risks, Japan pursued dual-track diplomacy, although it continued to maintain the US–Japan alliance as a fallback position.

Japan considered this diplomatic strategy could function efficiently because the regional security environment in 2000 remained similar to that in the 1990s. Certainly, there were precarious geopolitical risks: the Korean Peninsula, China's military and economic rise, and existing territorial disputes in Northeast and Southeast Asia. Particularly, China's military expenditure increased exponentially, and its average growth was approximately 15% during the 1990s according to the SIPRI military expenditure database (Fig. 1), while its economic growth was around 10% (The World Bank, 2014b). Yet, for Japan, as

⁴ It is often called a “hedging” strategy; however, this type of behavior is more tactical than strategic. In this paper, I will refrain to use “hedging” in this context (Koga, 2018).

long as the US–Japan alliance remained strong, these risks could be contained relatively easily as Japan and the United States still possessed superior military and economic capabilities at this time. The United States also shared this view, although it recognized that China could be a potential rival in the Asia Pacific region in the long run (e.g., Cohen, 1999; 2000).⁵ Japan alone possessed superior military and economic capabilities compared with China in 2000, and combining with the United States, it was extremely difficult for China to effectively counter US and Japanese forces in the near future. Given this strategic balance among East Asian great powers, the regional balance of power was likely to remain stable, and even if it shifted, it would be a gradual process and would not create an immediate strategic concern to both Japan and the United States.

Figure 1. Military expenditure from 2000 to 2013



Source: SIPRI Military Expenditure 2014 (SIPRI, 2014)

In this context, the 9/11 terrorist attacks in 2001 occurred and disrupted the traditional inter-state strategic thinking. While it had been inconceivable that the United States, the sole superpower in the world, would be physically attacked by another state, it was under attack by non-state actors. Rather than concentrating its political capital on the future management of the global balance of power, the

⁵ This is particularly so after the Hainan Island incident on April 1, 2001, when the US Navy EP-3E collided in the air with People's Liberation Army Navy (PLAN) J-8 fighter and was forced to land on Hainan Island and was thoroughly inspected by China.

United States decided to concentrate its strategic focus on defeating international terrorist groups, primarily Al Qaeda. Since the nature of international terrorism was transnational, the United States sought international cooperation with other countries, particularly its allies, partners, and those who share similar views on terrorism. Indeed, the United States enhanced cooperation in combatting terrorism even with China because their interests converged to some degree: China was concerned about the separatist groups within China, notably the Eastern Turkistan Islamic Movement (ETIM) in the Xinjiang province, which it regarded as domestic terrorist groups that had the potential to build network with global terrorist groups. Consequently, after undertaking the regime change displacing the Taliban in Afghanistan, which had harbored Al Qaeda, the United States expanded areas of cooperation with China, including policy coordination on the future nation-building of Afghanistan (The White House, 2002, pp. 27–28). This cooperative effort also had a spill-over effect on the North Korean issue. In the early 2000s, North Korea's emerging nuclear ambitions propelled China to provide a negotiation table with the United States by using its political and economic leverage, resulting in the creation of the Six-Party Talks. Therefore, 9/11 and its subsequent military actions in Afghanistan and Iraq changed strategic dynamics in East Asia. The United States began to focus its attention more on the Middle East, and the potential Sino-US rivalry was effectively put on hold during this period.

Japan, on the other hand, kept pursuing security strategy by engaging to shape China's behavior while strengthening the US–Japan alliance. Given the superior defense capabilities of the United States and Japan in East Asia, Japan only needed to ensure US commitment to the alliance to retain its credibility despite actual and potential threats from North Korea and China. Enhancing cooperation with the United States thus became imperative, and partly for this reason, Japan provided indirect political, economic, and military support for the US global counter-terrorism strategy by dispatching the SDF to the Indian Ocean and Iraq respectively under the Anti-Terrorism Special Measures Law in 2001 and the Act on Special Measures concerning Humanitarian Relief and Reconstruction Work and Security Assistance in Iraq in 2003 (PMO, 2001; 2003). As the 1996 Japan–US Joint Declaration indicated, Japan already had a political justification to strengthen the global cooperation with the United States, resulting in the official reaffirmation through the joint statement, *The Japan–US alliance of the new century*, which emphasized further bilateral cooperation in the global, regional, and national security issues (MOFA, 2006a).

At the same time, Japan intensified its interactions with China to search for the areas of cooperation and improve their ties. Economically, Japan and China

significantly increased their trade and the amount of bilateral trade increased over two-fold from 85.7 billion US dollars in 2000 to 211.3 billion US dollars in 2006 (NPRE, 2012). In addition to gaining economic benefits by interacting with China, Japan aimed to deepen bilateral economic interdependence with China and to integrate China into the international economic system in order to shape China's behavior through international rules and norms. Politically, however, Japan–China relations became strained due to China's negative response to Prime Minister Koizumi's repeated visits to the Yasukuni Shrine, often perceived as a “war” shrine that enshrined war dead, including the Class-A war criminals in World War II. To manage this political difficulty, both Japan and China interacted with each other through ASEAN-led multilateral frameworks and avoided a complete diplomatic standoff. ASEAN+3 was a particularly useful framework for CBMs. While being consolidated by furthering regional financial cooperation through the Chiang Mai Initiative (CMI) in 2000, a bilateral currency swap arrangement among the member states to stabilize the foreign exchange in times of economic crisis, ASEAN+3 aimed to foster political cooperation in East Asian regionalism, later called an East Asian community. In addition, the Japan–China–South Korea dialogue, “+3” dialogue, was created as a spin-off of ASEAN+3 and was held to discuss development of potential trilateral cooperation in Northeast Asia. To be sure, there was some political tug-of-war between Japan and China, particularly when the ASEAN member states discussed the establishment of East Asia Summit in 2005 to seize the initiative. But Japanese political will to engage in China remained strong. Japan pursued its engagement policy through ASEAN-led frameworks as well as economic interactions. As such, the backbone of Japan's dual-track diplomacy towards East Asia began to be consolidated.

4. Beyond double-track diplomacy: the late 2000s

Nevertheless, in the late 2000s, Japan began to face new strategic pressure to go beyond its security strategy based on dual-track diplomacy. There are two main reasons for this: the rise of assertive China and the uncertainty of US strategic commitment. First, China was becoming increasingly assertive in the maritime domain. In the South China Sea, political tensions began to rise after a skirmish between a Chinese naval vessel and a Vietnamese fishing boat in 2007. International attention increased significantly after the USNS *Impeccable* incident in 2009, in which the US ocean surveillance ship, the USNS *Impeccable*, was distracted by China's naval ships during the US naval mission

to monitor submarine activity in the South China Sea. In 2012, the military and political tension between the Philippines and China rapidly escalated due to the Scarborough Shoal standoff, in which the Philippines' naval ships attempted to arrest eight Chinese fishery boats close to the shoal. China responded immediately by dispatching two patrol ships from the Bureau of Fisheries Administration and blocked Philippines' naval ships to prevent them from arresting Chinese fishery boats, resulting in a two-month maritime standoff. In 2015, China's land reclamation to build military facilities in the South China Sea, particularly in the Fiery Cross Reef, posed concerns among not only the United States and Japan, but also ASEAN member states (ASEAN, 2015).

In the East China Sea, the Senkaku incident of 2010 occurred when a Chinese fishing boat collided with Japanese coast guard's patrol ships, which created strong nationalistic response in both states. China even conducted economic sanctions against Japan by not exporting rare metal during this period. The tension increased again after Japan's nationalization of control over three islands in the Senkaku Islands in September 2012 and China's creation of the East China Sea Air Defense Identification Zone (ADIZ) in November 2013. China's assertiveness was partly supported by its growing national confidence backed by increased military, particularly naval, capability and enhanced economic strength. Indeed, its economic growth averaged 10.4% from 2000 to 2008 (The World Bank, 2014b) and China already surpassed Japan's military budget in 2004 as indicated in Figure 1 (see p. 48). Additionally, the People's Liberation Army Navy (PLAN) acquired a symbolic aircraft carrier and gradually increased Anti-Access/Area Denial (A2/AD) capabilities as an asymmetric warfare strategy against technologically superior US and Japanese naval forces (Office of the Secretary of Defense, 2008, pp. 22–24). Because the East China Sea and the South China Sea are geopolitically important in terms of the Sea Lines of Communication (SLOCs), China's increasing assertiveness in the maritime domain with the rapid growth of these military capabilities began to pose serious security concerns to Japan.

Second, it became increasingly uncertain in East Asia that Japan's foremost ally, the United States, could sustain its military and economic commitment to Asia including Japan in the long run. By 2008, the United States had been fighting a prolonged war in Afghanistan and Iraq for over five years, which had exponentially increased the US military budget. With the 2008 Global Financial Crisis, the situation strained the US economy, and since then there have been intensive discussions over how to reformulate the US global and regional strategy (e.g., Koga, 2011; Posen, 2013; Brooks *et al.*, 2013). The United States sought for the exit strategy from two wars, and in 2009 the newly appointed

US President Barack Obama promised the early US withdrawal from these two conflicts, while attempting to shift the negative American image in the world created by engaging in the Afghanistan and Iraq Wars. Obama emphasized the necessity of a diplomatic approach to resolving the international disputes rather than taking a coercive military approach. China was not the exception. The United States conducted cautious diplomacy to induce China's cooperation through such means as the 2009 elevation of the US–China Strategic Economic Dialogue to the Strategic *and* Economic Dialogue (The White House, 2009; Clinton, 2009) and recognition of China as an indispensable actor to solving global problems (Clinton & Geithner, 2009). However, China did not respond to Obama's renewed diplomacy, as illustrated in the US–China diplomatic row at the 2009 Copenhagen Summit (Johnston, 2013).

The United States then slightly shifted its policy to take a tougher approach to China, particularly in East and South China Sea (Clinton, 2010). As the Quadrennial Defense Review (QDR) Report in February 2010 indicated, the United States explicitly showed its concern by stating “China's growing presence and influence in regional and global economic and security affairs” due to a lack of “transparency and the nature of China's [opaque] military development and decision-making processes” (Department of Defense, 2010, pp. 7, 60).⁶ It also pushed forward its new strategy toward East Asia, “pivot” or “rebalancing,” which was partly intended to check China's assertiveness (Clinton, 2011; Department of Defense, 2012).

Still, political, military, and economic pressures on the United States coming from the two wars and economic crisis persisted, and in 2013, the US government eventually undertook budget sequestration on the basis of the Budget Control Act of 2011 for deficit reduction. The core of this budget cut was focused on the US military budget. According to the Department of Defense report, the cut includes 420,000 active duty soldiers in Army, 315,000 in the National Guard, 185,000 in the Army Reserve, while the Marine Corps would drop to 145,000 active duty personnel and the Air Force would eliminate some equipment, such as KC-10 tankers, and shrink the development of unmanned aerial vehicle (*DoD News*, 2014). In the meantime, new security issues and flashpoints in the world, such as ISIL, Syria, and Ukraine, emerged, which would potentially distract the US declared attention on Asia.

In the face of these strategic changes, it has become increasingly uncertain whether Japan can sustain the current form of its dual-track diplomacy toward

⁶ The report also mentioned China's behavior was “one of the most consequential aspects of the evolving strategic landscape in the Asia-Pacific region and globally.”

Asia because such diplomacy requires strong US commitment and assumes moderate China's military and economic strength. Moreover, Japan faced consecutive domestic turmoil. In 2010, the Democratic Party of Japan (DPJ) defeated the long-reigning political coalition party, the Liberal Democratic Party with the New Komeito, but the DPJ created controversy over the issue of the US base in Japan, namely the Futenma air base, and faced a difficulty in smoothly managing the US–Japan alliance despite the alliance's 50th anniversary (Chanlett-Avery & Rinehart, 2014). Moreover, in 2011, the Great East Japan Earthquake affected Japan's social and economic infrastructure materially and psychologically. Thus, Japan's domestic situation also made it difficult for Japan to formulate a new strategy regarding how best to manage these emerging strategic situations.

Nevertheless, by mid-2014, Japan gradually reformulated its strategy on national security policy, regional security policy, and ASEAN diplomacy. First, Japan began to enhance its own efforts more proactively to cope with the changing security environment. This is well illustrated by the 2010 National Defense Program Guideline (NDPG). This new NDPG focused on the management of the “gray zone”, the situation between peacetime and wartime. Particularly, the tension over the Senkaku Islands was characterized as the “gray zone” due to its non-military nature, such as coast-guard ship / fishing boat confrontation, and thus the NDPG aimed at managing this type of situation. Of course, the United States repeatedly reassured Japan that armed attacks on “the territories under the administration of Japan” would invoke US involvement; however, it was still not clear how the United States should become involved where there was no “armed” attack. As the 2010 Senkaku incident illustrated, it would be hard to imagine that a fishing boat's collision would trigger US military involvement. As such, Japan created a strategy of “dynamic defense”, by which it would fully utilize its Intelligence, Surveillance, and Reconnaissance (ISR) capability as well as mobilize its existing defense forces for the “show of force” to signal China that any *fait accompli* or probing strategy would immediately be detected and responded to accordingly (MOD, 2010; 2012). Later, taking into account an increase in China's diplomatic and political pressures after Japan's nationalization of control over three Senkaku Islands, which Japan saw as China's attempt to “change the status quo by coercion,” the Japanese government took a further step to adopt the 2013 NDPG and aimed at strengthening its defense capabilities to ensure air and maritime superiority (MOD, 2013).

Second, Japan aimed to strengthen security ties with other US allies in East Asia, such as Australia, the Philippines, and South Korea, to keep China in check. In the post-war era, the United States created the US-centered bilateral

alliance network, the so-called ‘hub-and-spoke’ system. However, the US allies began to create a security network among themselves particularly in the post-9/11 era as defeating the transnational terrorist group required international cooperation. Although not all allies could establish such security ties with each other, some developed quickly. The Japan–US–Australia Trilateral Strategic Dialogue (TSD) is a case in point. In 2002, the senior official level trilateral dialogue was created, and it was elevated to the ministerial level in 2005. At this point, these states kept reassuring China that the framework did not aim to counterbalance it (Department of State, 2004; MOFA, 2006b), yet after China’s assertiveness was perceived, the TSD produced a joint statement raising concerns over China’s behavior in East and South China Sea in 2013 (MOFA, 2013). These developments illustrate Japan’s desire to hedge against the risk of fluctuations in US commitment by opening up strategic options as well as the US desire to further promote security burden-sharing with its allies in East Asia given its economic difficulties.

Third, Japan has developed a two-pronged policy to shape the ASEAN-led frameworks. The first policy is Japan’s continuous support for US participation in the ASEAN-led frameworks, such as EAS. East Asian regionalism gained political traction under the umbrella term of an East Asian community from 1997 to 2005, yet since 2005 its momentum slowed, when the establishment of EAS created conceptual confusion about the community-building efforts. The original concept of EAS stemmed from the EASG’s long-term proposal that ASEAN+3 would be elevated to the East Asian Summit, but inventing a new forum, EAS, which co-existed with ASEAN+3, created confusion over how to determine its membership, modality, and division of labor. This became an obstacle to organizing the overall design of the East Asian regionalism, resulting in regional doubt on the future success of regionalism. As such, some states in the region, including Japan, actively considered bringing the United States back into the East Asian multilateral frameworks. This is because such participation could give the United States an opportunity to directly monitor China’s behavior in East Asia and help provide other regional states, particularly US allies, with reassurance by locking in its political commitment to the region. The United States then became a member of EAS from 2011 and actively participated in other new ASEAN-led frameworks, including the ASEAN Defense Ministers Meeting Plus (ADMM-Plus) in 2010 and the Expanded ASEAN Maritime Forum (EAMF) in 2012.

The second policy is to separate Japan’s ASEAN diplomacy from its bilateral diplomacy to the member states (Koga, 2013; 2014a; 2014b). Given ASEAN’s preference to gaining consensus in decision-making and maintaining ASEAN

centrality in its multilateral institutions, it becomes extremely difficult or even counterproductive to push the member states to adopt a similar position, particularly on the maritime disputes' issues. Under this condition, Japan consciously began to foster ASEAN's solidarity by respecting its centrality and does not force its own security agenda onto the multilateral base, instead taking a bilateral approach to strengthen security cooperation with each member state at its own pace, similar to a "coalition of the willing" approach. In fact, recognizing the divergence in threat perceptions and security interests, ASEAN has long allowed each member state to pursue its own security policy (ASEAN, 1976). Prime Minister Abe's trips to all the ASEAN states in 2013 illustrate this point. Such trips provided an opportunity for Japan to hold a bilateral dialogue on future cooperation, including the security field, and at the multilateral level, Japan and ASEAN concluded the Joint Statement of ASEAN–Japan Commemorative Summit in 2013, emphasizing shared principles and norms, including the importance of freedom of navigation, resolution of disputes by peaceful means along with the principles of international law, namely the 1982 United Nations Convention on the Law of the Sea (UNCLOS) (ASEAN, 2013).

As such, Japan's strategy based on the dual-track diplomacy changed in the late 2000s largely due to a shift in the regional security environment, namely the rise of assertive China and the increasing uncertainty of US strategic commitment to the region. To be sure, the United States remains at the core of this emerging Japan's security network. Despite Japan's own efforts, such as lifting of the ban on exercising the right to collective self-defense in July 2014, Japan still depends on the US nuclear umbrella and strike capabilities for its security given Japan's still-existing constitutional and legal constraints on use of the SDF in the international realm. Yet, this change illustrates Japan's departure from relatively heavy reliance on the existing regional security system, consisting of the US-led alliance network and the ASEAN-led multilateral security frameworks. Japan now aims to increase its own defense capability and pursue its own diplomacy for regional stability in East Asia while making most of evolving security frameworks to ensure its security.

5. Conclusion and future prospects

Japan's diplomatic strategy toward East Asia underwent three main changes in the post-Cold War era. The first change occurred soon after the 1991 Persian Gulf War propelled Japan to consider a potential way to contribute to

international security, resulting in the creation of dual-track diplomacy. The second was the consolidation of Japan's dual-track diplomacy by strengthening the US–Japan alliance and supporting the ASEAN's multilateral initiatives in the early 2000s. The third was the enhancement of Japan's own security efforts to maintain regional stability while making the most of the existing political and security mechanisms in East Asia—multilateralizing US alliance networks and enhancing the ASEAN-led multilateral frameworks.

Admittedly, a change in Japan's security policy would likely remain incremental as the policy is inherently constrained by Japan's own political and legal provisions. Japan's core strategic thinking is still founded on the US–Japan alliance, and this is well illustrated by the 2015 *Guidelines for Japan–US Defense Cooperation* (MOD, 2015). Also, the Japanese public is cautious about expanding Japan's security role in the international setting, and this constrains Japan to smoothly become the so-called “normal state”, by which Japan can exercise its military capabilities without its own constitutional and legal restrictions. However, relaxing these constraints, as illustrated by the Japanese government's lift on a ban of exercising a right to collective self-defense in 2014, is not entirely impossible. Ultimately, for the policy shift, two factors would likely play a critical role: the degree of the future US commitment to the alliance with Japan and the level of China's assertiveness. As illustrated in Japan's policy shift during the late 2000s, Japanese diplomatic strategy is likely to evolve in relation to these factors and in turn play a role in shaping the East Asian strategic environment. This is not the exception of the future direction of Japan's newly created doctrine in 2016, the Free and Open Indo-Pacific vision and strategy.

Dr. **Kei Koga** is an assistant professor in the Public Policy and Global Affairs Program, School of Social Sciences, Nanyang Technological University, Singapore. His research interests include international relations theory, international security, international institutions, institutional changes, and East Asian regional security. He has published on topics that include East Asian security, US and Japanese foreign policies, the US–Japan alliance, and ASEAN. Previously, he served as a Vasey Fellow at the Pacific Forum CSIS in 2009–2010, as the RSIS-MacArthur visiting associate fellow at the RSIS, NTU in 2010, and as the postdoctoral fellowship in the Belfer Center, Harvard Kennedy School. He received a PhD in International Relations at the Fletcher School of Law and Diplomacy, Tufts University.

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Cities & International Policy Diffusion: The Case of Tokyo

Nikita Chiu

Centre for Asia-Pacific Studies,
Tallinn University of Technology
Akadeemia tee 3,
Tallinn 12618, Estonia
E-mail: sze.chiu@graduateinstitute.ch

Abstract: *In an increasingly globalised world, today's international challenges such as climate change transcend national boundaries and require multi-level governance responses. Cities, in particular, stand out as an essential governing unit with huge potentials in resolving some of the 21st century's most pressing concerns. The recent explosion of the phenomenon of city-networks reflects intensifying city-to-city interactions in addressing global environmental issues. This article examines the case of Tokyo in addressing challenges posed by climate change. Examining the origin, development, and diffusion of Tokyo's climate change policy, the cap-and-trade scheme was found to have first diffused from Europe to Tokyo, adjusted to adapt to the local context, then further diffused to other Asian cities. Study of Tokyo's experience demonstrates that policy formation does not always follow a centralized, top-down, command-and-control approach. This findings challenge conventional realist conception which emphasises the dominance of central authorities and sovereign states in global policy formation. Under the framework of global governance, this article argues that cities are important sites of policy experimentation and innovation, and that the case of Tokyo demonstrates the potential of cross-country policy diffusion.*

Keywords: *cities, climate change, environmental governance, global governance, Tokyo*

1. Introduction

For decades, states have been considered the dominant unit of analysis in the discipline of International Relations (IR). During the two world wars and the subsequent Cold War, state leaders and IR scholars were driven to find an end to continuous inter-state conflicts in order to establish international peace and stability. Since the United Nations (UN) was established, the emphasis of debates in the IR discipline has been on engaging sovereign entities. However, the 21st century has seen a shift of focus: the world now faces numerous global problems that do not end at national borders. The international community has thus moved its concerns from inter-state conflicts to efforts in tackling challenges posed by a series of transnational problems that require international responses. Global challenges such as the spread of infectious diseases, climate change, nuclear security, and human and drug trafficking demand not only effective inter-state cooperation, but also active engagement of state, sub-state, and non-state actors.

Conventional IR theorists understand states to be the sole relevant actors in resolving international problems. Governance is understood to be hierarchical, with treaties agreed at the international level, translated into national policies, and duly executed at the local level by sub-state authorities such as cities. There is growing evidence, however, that demonstrates otherwise. The academic community began recognising the role that is played by non-state actors such as non-governmental organisations (NGOs) and multinational corporations in contributing to global governance in the area of human rights, environmental protection and poverty reduction (Keck & Sikkink, 1998; Ruggie, 2001). In recent years, however, cities also attract mounting attention from scholars and policymakers. In the environmental domain, cities are now recognised as a pertinent actor in adapting to and mitigating the effects of climate change (Betsill & Harriet, 2003; 2004; 2006). In contrast to the reluctance of major powers such as the US and China in introducing a universally binding reduction quota, cities often stand out as having a more ambitious carbon reduction policy. Gradually but convincingly, cities have emerged as important actors in the fight against climate change.

This contribution argues that cities are relevant and important actors in global environmental governance. Using cases in the Asia-Pacific as indicative examples, it will highlight cities' leadership in the environmental domain. This research shows that cities play a crucial role in filling the governance gap in climate policy, contributing to global carbon reduction in the absence of adequate state intervention. The article further argues that the concentration of population, services and capitals put cities at a distinctive advantage in policy

experimentation and innovation. Cities that enjoy extensive connectedness with the outside world—what Saskia Sassen (1991) defines as global cities—are particularly apt to serve as hubs of exchange of ideas, and in turn, facilitate policy diffusion. This article concludes that states should look to engage cities in order to enhance the effectiveness of their efforts in combating climate change.

2. Limits of the state-centric environmental governance mechanism

Although the topic of climate change has recently dominated discussions in international fora, intergovernmental mechanisms for curbing carbon emission are in fact relatively weak when compared with other more institutionalised regimes (e.g., HIV/AIDS and other infectious diseases regimes, the International Atomic Energy Agency, IAEA, in monitoring civilian nuclear facilities). Until the Paris Agreement, a universally binding climate change deal has failed to emerge despite multiple rounds of negotiations. This article paid particular focus on the period from late 2000s to early 2010s, examining the dynamic policy landscape at a time when multiple levels of governance units (i.e., national governments, cities, local authorities) strive to address climate change by launching a variety of initiatives.

Cities have long been vocal in asserting the importance of tackling climate change. Even before the Paris Agreement and the emergence of the international consensus on pursuing Agenda 2030—the UN Sustainable Development Goals—cities have publicly pledged to ambitious reduction quotas at the Mayoral Summit in Copenhagen in 2010. In contrast, numerous major state actors showed a lack of commitment to a binding quota, and at times showed shifting stances in response to the call of carbon reduction. For example, the US—one of the largest carbon emitters in the world—for a long time remained outside of obligations imposed by the Kyoto Protocol. Although the US is currently bound by the Paris Agreement due to the Agreement's exit process, the incumbent administration had already publicly announced the intention to withdraw from the Agreement. (Mooney, 2018) Another example would be Canada. An influential player during the negotiation period of the Kyoto Protocol, Canada had earlier withdrawn from the Protocol in 2011. The decision came after Ottawa failed to meet her reduction commitments.

In spite of the conclusion of the Paris Accord, the climate change regime is still considered comparatively weak in terms of institutionalisation when compared to other more established international governance mechanisms (e.g., WTO,

IAEA). The climate change regime is yet to witness the emergence of a permanent dedicated agency with a strong verification or compliance monitoring mechanism. A secretariat to the UN Framework Convention on Climate Change (UNFCCC) was indeed established; however, the secretariat's core tasks remain mainly to co-ordinate organisation of conventions under the framework, assist in reviewing reports submitted by states, and maintain the registry for Nationally Determined Contributions (NDC).

During the focused period examined (late 2000s to early 2010s), there was considerable variance in terms of reduction goals among regions. In the European Union (EU), Brussels passed a climate directive, which seeks to reduce 20% of greenhouse gas (GHG) emission by increasing the use of renewable technology by 20% by 2020. These practices of setting explicit reduction targets remain regionally confined. In fact, it appears that states at the time were moving away from legally binding reduction commitments towards voluntary, non-binding goals. For example, after Canada's withdrawal from the Kyoto Protocol, Ottawa opted to join the Copenhagen Accord, a non-binding agreement that does not specify a universal reduction target. Furthermore, Russia, New Zealand and Japan decided against extending their commitments for the second commitment period (2013–2020) of the Protocol (Arsenault, 2012; Carrington & Vaughan, 2011).

More recently, the latest conclusion of the Paris Agreement did not entail a binding quota of reduction. Instead, parties to the Agreement are requested to prepare and communicate Nationally Determined Contributions (NDCs) that they seek to achieve. (Paris Agreement, Art. 4, para. 2, 2015)

3. Global cities and global environmental governance: the case of Tokyo

The inadequacy of states' contribution to tackling climate change has created space for cities to lead the global effort of reducing greenhouse gas (GHG) emissions. In the US, where the Kyoto Protocol was not ratified, progressive cities formed an alliance and declared that they would bypass national reservation, and directly uphold or surpass the reduction targets set out in the Kyoto Protocol in 2018 (US Conference of Mayors Climate Protection Agreement, 2008). Similar efforts can also be found across the Asia-Pacific region, where cities became the sites for more progressive policies that drive innovation in sustainable policy and contributed greatly to the reduction of carbon emissions. Global cities, in

particular, lead the international carbon reduction effort in spite of previous stalemate at inter-state negotiations.

Based on research on New York, London and Tokyo, Saskia Sassen, the winner of the Prince of Asturias Award in Social Sciences in 2013, defines global cities as

sites for (1) the production of specialised services needed by complex organisations for running a spatially dispersed network of factories, offices, and service outlets; and (2) the production of financial innovations and the making of market, both central to the internationalisation and expansion of the financial industry. (Sassen, 1991, p. 5)

Cities are where flow of capital, information, and human resources occur. As such, cities occupy key positions in the international economic network (Sassen, 1991). Emphasising cities' crucial economic role in the global economy, Peter Taylor shares similar understanding of the term. In 2004, he commenced a project entitled *Globalization and World Cities* (GaWC). The project ranks all major cities of the world based on data that indicates their flow of financial and business activities. According to Taylor *et al.* (2014), New York and London are consistently ranked on top of the list, occupying Alpha ++ world city status. The second-tier status, Alpha +, includes Tokyo, Hong Kong, Paris, Singapore, Shanghai, Beijing, Sydney and Dubai. It is interesting to note that the majority of Alpha + cities come from the Asia-Pacific region. With these cities supporting advanced service needs in the Asia-Pacific, such findings suggest that the region is highly integrated in the global economic network (Taylor *et al.*, 2014).

This article looks more specifically at cities and city-networks in the Asia-Pacific region. In particular, it further focuses on investigating the environmental policies of Tokyo. The examination of Tokyo serves as a representative case-study to understand how global cities could play a role in addressing today's most pressing challenges. The case of Tokyo is chosen for various reasons. First, according to both Sassen (1991) and Taylor *et al.* (2014), Tokyo is widely considered to be a global city highly integrated into the international economic network. Second, the study of Tokyo could shed light on the role of cities in global governance when national efforts are inadequate or lacking. Despite having hosted the Kyoto negotiations, Japan refrained from setting new reduction targets for the Kyoto Protocol's second commitment period. Nonetheless, this national decision did not hinder Tokyo's climate effort. The city most notably launched the Asian continent's first carbon cap-and-trade programme in 2010. Thus, the study of Tokyo could show the multilevel dynamics under the wider

context of global environmental governance, which will highlight the interplay between regulation attempts at the international, national, and local level.

4. Tokyo's contributions to implementing the Kyoto Protocol

The Kyoto Protocol, understood to be the cornerstone of the global carbon reduction architecture, consists of three initiatives which aim to address the issues of climate change mitigation and adaptation. These include emissions trading (also known as carbon trading), clean development mechanism (CDM), and joint implementation. CDM and joint implementation allow for countries to generate certified emission reduction units (ERU) which could then be traded and used to meet reduction targets. Since the introduction of the three initiatives, carbon trading has attracted the highest degree of interest from scholars and policymakers. Economists were particularly keen to understand how the trading mechanism of immaterial item (i.e., ERU) could be implemented effectively. While the majority of interested parties tracked the development from an economic perspective, the focus has exceedingly emphasised the role of states and overlooked the involvement of sub-state authorities.

Calculation for carbon emissions is not a straightforward task. While the principle of applying measurement, reporting and verification (MRV) was discussed as early as in 2007 at COP13 in Bali (United Nations Climate Change, 2018). In 2014, the governance architecture was still seeking to standardise methods of measuring, reporting and verifying (MRV). Considering the difficulties in assessing reliable data, the national level may not be the most appropriate governance level to introduce carbon trading. After all, national calculation heavily depends on reporting of reduction percentage submitted from lower level of governing units.

5. The world's first urban carbon trading programme: Tokyo's cap-and-trade scheme

As a matter of fact, the first carbon-trading programme in Japan and in Asia was launched by the Tokyo Metropolitan Government (TMG). Based on a revised version of the Tokyo Metropolitan Environmental Security Ordinance in June 2008, the TMG introduced the first cap-and-trade in 2010 in an effort to curb carbon emissions. The programme was not only the first carbon trading programme in Asia

but was also the first urban trading programme in the world (TMG, 2010, p. 48). The launch of the programme has huge implications for future development of the carbon market in Japan and Asia. As the first cap-and-trade system in the region, it has the potential to serve as a blueprint for developing the Japanese national carbon market. Tokyo, in this case, functioned as a site of policy experimentation, where pilot projects could be tested, perfected and then diffused in a bottom-up manner to the national and even the international level.

The cap-and-trade programme came after earlier policy experimentation of a voluntary reduction scheme that failed to effectively achieve the reduction objective. Koji Miyazawa, Director of Emissions Trading from the Tokyo Government, observed that voluntary reduction became exceedingly difficult (Allianz Knowledge, 2010). On top of carbon trading and other voluntary measures, the city also considered other carbon reduction programmes, such as enhancing energy efficiency in its public transport. However, Miyazawa contends that Tokyo's public transport system already upheld a high standard of energy efficiency. As a result, introduction of a carbon trading mechanism was considered the preferred policy (Allianz Knowledge, 2010). The Tokyo cap-and-trade programme was introduced after learning from previously launched foreign trading system, namely, the EU Emissions Trading Scheme, or EU ETS (Allianz Knowledge, 2010). After studying the EU's model, Tokyo learned that in its early days the EU ETS lacked an energy reporting system, which was found to be essential for the carbon market to function; thus, the Tokyo programme then ensured that a verification mechanism is in place and that energy usage data is submitted and checked by a third party (Allianz Knowledge, 2010).

Based on studies and evaluation of the EU ETS, the Tokyo Metropolitan Government decided to introduce a compliance period of five years, instead of one. The programme first targeted facilities that consume fuel, heat, electricity more than 1,500kl a year in crude oil, including universities, hospitals, office buildings, and factories. (TMG, 2010, p. 48) Over one thousand facilities were included in the first phase. Together these facilities were responsible for around 20% of the city's carbon emissions. (Allianz Knowledge, 2010) In the first compliance period from 2010 to 2014, buildings in the programme were required to reduce emissions by 8%, and factories by 6%. If the targeted facilities failed to meet the reduction targets, they would be penalised to make further cuts in the second compliance period at 1.3 times the shortfall. (Allianz Knowledge, 2010) During the first compliance period, successful carbon reduction generates carbon credits, which could then be used later in the second compliance phase. Carbon credits were not lendable, thus at the time, Tokyo authorities also considered introducing auctions for allowance credits during the second

compliance period. The reduction target for the second compliance period was much more ambitious: targeted facilities were expected to collectively reduce emissions by 17%. This reduction objective reflects the overall goal of cutting 25% of GHG emission in the city by 2020 in comparison to the 2000 level (Allianz Knowledge, 2010).

6. Global cities: sites of learning, experimentation and knowledge diffusion

The introduction of the cap-and-trade programme created the opportunity to experiment and address various technical concerns in implementing urban carbon reduction initiatives. Global cities like Tokyo enjoy extensive connections with the outside world, allowing them to obtain knowledge from similar programmes that are already implemented elsewhere. Tokyo also possesses the requisite infrastructure and personnel support to efficiently manage the pilot project of the cap-and-trade programme. The city's robust bureaucratic structure allows it to closely monitor compliance, as well as to identify means of improvement of the programme. Tokyo then serves as a site where new policy is tested before it is introduced nationwide. With their experience and knowledge, cities like Tokyo are in a more informed position to give policy advice to national authorities.

Facilitated by its extensive network ties that reach far beyond Asia, Tokyo serves as a prominent example, which demonstrates the potential of city-to-city, as well as city-to-state policy diffusion.

According to Sassen (1991), cities are hubs where extensive flows of information, services, goods and capital occur. In the age of information and globalisation, cities do not respond to global challenges in isolation. Rather, they form links with other cities that face similar challenges and seek to address the problem in city-networks. In the case of Tokyo, the city has entered numerous city-networks that enable regular city-to-city exchanges. Most prominently, Tokyo is part of the international city-network of C40—Cities Climate Leadership Group—along with other major global cities such as London, Hong Kong, Shanghai, Seoul, and Los Angeles. Since the launch of Tokyo's cap-and-trade programme in 2010, other cities in the network have expressed interest in learning from Tokyo. The proceedings of an international workshop of C40 cities in East Asia show that the Tokyo cap-and-trade project was discussed in detail and shared with other cities like Shanghai, which later followed Tokyo's example and launched its own cap-and-trade scheme (The World Bank, 2013).

7. Overcoming divergence of national interests at the international level: filling the governance gap

The relevance of cities and local governments in addressing global problems have long been systematically overlooked in IR literature. The above case suggests that policy change and diffusion lie at the local, rather than at the national level. This is due to the divergence of national interests at international negotiations. It is a known fact that agreement for universal legally binding treaties requires tremendous effort. The international community in general is disappointed at the pace of the negotiation process of the UNFCCC, where the interests and priorities between individual states, and between developed and developing countries, become exceedingly difficult to reconcile.

The much anticipated Copenhagen Summit ended without conclusion of any binding quotas (Lynas, 2009). China, while considered a key player in the fight against climate change, has for a long time been criticised for holding back progress at the negotiation table (Lynas, 2009). Known for prioritising their domestic need for economic growth over other global concerns, China, along with other major carbon emitters, appeared slow to commit to binding international reduction quotas. States that originally adopted a favourable stance towards the Kyoto Protocol, namely, Canada, Japan, Russia and New Zealand, all decided to withdraw their commitments when they failed to sufficiently reduce GHG emissions. Nevertheless, at the city level, progressive carbon reduction efforts persist and grew broader in scale. In China, pilot carbon trading projects were being introduced in Shenzhen, Beijing, Shanghai, Guangdong, Tianjin, Chongqing, and Hubei. The rollout of large-scale carbon trading programmes across major Chinese cities in the early 2010 have occurred despite a conservative national climate policy. This highlights the potential of cities in filling the governance gap. In this case, cities serve to supplement states' effort in tackling climate issues.

8. Diffusion of knowledge, ideas and policy through city-networks

Once the competence of cities in addressing global problems is established, one can identify a wide array of measures already employed by cities in contributing to global environmental governance. Recent development shows that cities are becoming increasingly active in city-networks—a voluntary, flexible and non-hierarchical form of exchange that allows cities to share knowledge and

experience (Chiu, 2011; 2014; Keck & Sikkink, 1998). Reports of Tokyo's international activities show that Tokyo participates in numerous city-networks (TMG, 2010). In addition to the network of C40 mentioned above, Tokyo also took a leading role in the Asian Network of Major Cities (ANMC). The network, launched in 2001, has its headquarters in Tokyo. It was formed with the objective of facilitating and promoting co-operation between Asian cities in the area of crisis management, environmental countermeasures and industrial development.

The inclusive and flexible membership policy of city-networks enables cities to engage in knowledge transfer and best practice exchange on a regular basis. It creates an institutionalised channel of communication between cities, facilitating diffusion of ideas and policy. In the network of C40, it is evident that member cities examine and explore possible measures from their network peers when devising new carbon reduction policies. For example, the White Paper produced by TMG extensively studied concrete policies introduced in other C40 cities. These include the imposition of congestion charges in London city centre, exclusive median bus lanes created to supplement other means of public transport in Seoul, priority to one-way driving in Los Angeles, and a parking space levy in Sydney. These studies, enabled by Tokyo's network connections with various C40 network members, contributed new ideas for consideration during the period of policy consultation. It allows Tokyo to make informed decisions in adopting appropriate measures based on evaluating the best practices and the previous experience of cities that face similar urban problems (TMG, 2010).

As noted above, inter-state negotiation is a long and complex process. National representatives are obligated to prioritise national interests. As a result, an international policy acceptable to all parties requires time and efforts to develop. On the other hand, city-to-city exchanges are more flexible, and in turn serve to facilitate more direct city-to-city policy diffusion. As the opening remarks of the report of the 9th Plenary Meeting of the ANMC declared, exchange between Asian cities "is much more flexible than state-level negotiations" and allow member cities to "pursue tangible discussions" (ANMC, 2010, p. 8). This highlights the fact that global environmental governance does not stop at the global level when international agreements cannot be reached, nor at the national level when central governments have other more pressing economic and political concerns. Global environmental governance extends to include policies implemented by local authorities, as well as joint efforts facilitated by city-networks. In this sense, city-networks could bypass the inherent difficulty in introducing progressive climate policy at the international or the national level, and directly allow effective city-to-city policy diffusion.

9. The role of global cities in city-networks

The above paragraphs examined the role of city-networks in facilitating policy and best practices diffusion, as well as exchange of information and experience. This section further asserts that global cities, in particular, are essential actors in maintaining city-networks. Through connecting cities from diverse background across the globe, city-networks emerged as an increasingly influential actor under the larger framework of global governance. It has already been established that local authorities and cities possess the relevant competence in legislating and implementing climate policy (Betsill & Harriet, 2003; 2004; 2006). However, global cities—defined as cities with a high level of connectivity with the global world—further stand out as main drivers of policy innovation and diffusion. Situated at the core of the global economy, global cities provide the necessary services, human and financial capital to maintain regular exchanges of city-networks (Sassen, 1991).

First, interviews with TMG officials reveal the importance of an efficient bureaucratic force. Exchanges with foreign cities require staff with the necessary language competence. This may appear a trivial detail. However, with comparatively limited transaction of information, financial and human capital, smaller cities are less connected to the international economy and may find that multilingual staff and services are less readily available. Global cities, on the contrary, have the advantage of having a readily available multilingual labour force to serve specific needs. Consider cases of many smaller towns, where the elected mayor could very often face a limited budget, and shoulder the heavy workload of running an office with a support staff of one. This means that the mayor may be tasked with both clerical and financial responsibilities. The mayor could be the secretary, the accountant and technician in his/ her office. In such localities, not only is multilingual staff difficult and expensive to hire, it may also be financially challenging to maintain multilingual staff to engage in regular exchanges with their foreign counterparts.

Second, global cities are hubs that witness regular and sizable capital transactions. As such, global cities generally possess more resources for maintaining a robust bureaucracy. One of the largest expenses in running international organisations such as the UN and the EU is maintaining the translation operation and a dedicated multilingual administration (Owen, 2005). Active city-network activities can only be ensured by dedicated multilingual staff. Despite the advances of technology, real-time discussions remain the preferred means of communication for important issues. For example, interviews with Tokyo

officials reveal that scheduling real-time conference calls is one of the major challenges in the day-to-day functions of C40. Member cities of C40 can be found across the globe in different time zones, making it extremely difficult to arrange a mutually acceptable time for real-time discussion. To accommodate the time differences, it has been noted that weekly C40 conference calls have to be conducted in the evening in Tokyo. Hence, additional time and commitments from staff are required in order to ensure the full participation of members from across the globe, including those located in the Americas and the Pacific. These kinds of activities thus incur cost and create a burden on human resources, and arguably bar active participation of cities that do not enjoy the luxury of maintaining such bureaucratic institutions (Interview with TMG Official, 2011).

10. Conclusion

This contribution argues that cities are relevant, if not often overlooked, actors in global environmental governance. Not only do cities launch individual initiatives in fighting against climate change, they also engage in network exchanges with other cities to share their knowledge and experience in curbing GHG emissions. Furthermore, the position of global cities in today's world economy facilitates the transfer of ideas, information and technology. Global cities' advantageous concentration of human and financial capital allow the maintenance of an effective bureaucracy. The flow of services, capital and human resources that are channelled through global cities serve to empower these cities to lead policy experimentation in the area of climate change. The bureaucratic structure and resources provided by global cities ensure effective implementation of innovative projects like Tokyo's cap-and-trade programme. Technical focus on directly addressing global challenges allows cities to overcome the political deadlock that can occur at intergovernmental fora. With cities becoming increasingly involved in city-networks, policy diffusion no longer follows a conventional top-down model. Instead, policy can now bypass national authorities and become diffused directly between cities. Successful pilot projects can also serve as models for introduction at the national and international level. Tokyo is a particularly prominent example of this. To date, the TMG has proposed a national model of carbon trading based on its own cap-and-trade programme. As the first programme of its kind in the Asia-Pacific region, Tokyo also has the ambition to link its own cap-and-trade programme to the international carbon market in the future (TMG, 2010, p. 49). Finally, in 2014, the International Council for Local Environmental Initiatives (ICLEI) was developing a common

methodology in measuring, reporting and verifying (MRV) GHG emissions in partnership with the C40 (Chiu, 2014). Should such a collaboration found to succeed in standardising MRV methods, it will serve once again to demonstrate the influence and relevance of cities in the global fight against climate change.

Dr. **Nikita Chiu** is an Ad Astra distinguished fellow in Robotic and Outer Space Governance at Space Engineering Research Center, USC Viterbi School of Engineering. She is the former research fellow in Robotics at the Department of Politics and International Relations at the University of Oxford and was the 2015 AUKLASTA fellow at Tallinn University of Technology.

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The Rise of China and Its Implications to Northeast Asia

Wai Ting

Advanced Institute for Contemporary China Studies &
Department of Government and International Studies,
Hong Kong Baptist University
AAB 1110, 11/F,
Academic and Administration Building
Baptist University Road Campus, Hong Kong
E-mail: tingwai@associate.hkbu.edu.hk

Abstract: *The rise of China has aroused heated debates on whether the country would become the “revisionist” power in challenging the supreme position of the “status quo” power, the United States. This paper aims to examine whether the rise of China would, firstly, empower Beijing to solve the long-term crisis in the Korean Peninsula, and secondly, complicates the picture in solving the difficult historical and political issues in Sino-Japanese relations. It is argued that the increasing economic and military capabilities of China are not instrumental in fostering significant changes within North Korea and in monitoring the external behavior of its leaders. A more nationalistic China which lacks soft power also hinders a favorable solution to the challenges of Sino-Japanese relations.*

Keywords: *balancer, brinkmanship, Diaoyu Islands, international norms, nationalism, Pivot to Asia, Rebalancing, revisionist power, Six-Party Talks, soft power, status quo power*

1. Introduction

The rise of China has attracted worldwide attention since the end of the last century. The central question is whether the “revisionist” power, China, would challenge the “status quo” power, the US, in the new millennium. Going back to the 20th century, the then “revisionist” powers like Germany and Japan challenged the “status quo” powers, Great Britain and France, as they were

discontented with the dominance of the international political order by the status quo powers. The results were two “total wars”. Though the pessimistic view of John Mearsheimer, epitomized by the label “offensive realism”, is not necessarily shared by many scholars (especially scholars in China) during this “power transition” process, many observers argue that the possibility of potential conflicts between China and the US cannot be dissipated.

China’s rise is accompanied by two major phenomena noted by scholars from both inside and outside China. First, the lack of soft power and the vicissitudes of developing soft power in China make it difficult for Beijing to appease and convince the whole global community that the nation is going to become more advanced and civilized so as to benefit the whole world. The remarkable increase in economic and military capabilities could only frighten its neighbors if China is not able to accomplish major achievements in developing its culture, values, ideas and institutions to make China attractive to the whole world (Ting, 2009). Second, the People’s Republic of China (PRC) does not seem to have a coherent and well-thought “grand strategy” in its foreign policies corresponding to its rapid rise (Ting, 2013a). Beijing urgently needs to consider the fundamental questions relating to its grand strategy. For instance, should the legacy of Deng Xiaoping, *Taoguang Yanhui* (‘Bide the time and conceal the abilities’) be maintained, taking the form of a low-profiled approach to foreign policies, or does the Chinese government need to be more high-profile and assertive in world affairs especially in regional issues where its core interests are at stake, with an influence commensurate with its rapidly growing capabilities? How to build up a better image of China in the world nowadays depends not only on the principles and practice of Chinese diplomacy, but also on the “performance” of the Chinese companies as well as the Chinese people who flood the world in pursuit of business, tourism, studies, etc. How does the Chinese government facilitate a better image among people all over the world, given the fact that the opinions of the outside world towards China tend to be more negative than earlier surveys? How to “democratize international relations”, in order to achieve a breakthrough in the “uni-multipolar” world has been a long-term goal of Chinese diplomacy since the end of Cold War. It is another major theme that should be included in conceptualizing the “grand strategy” of China.

Parallel to China’s rise is the relative decline of the US. After ceding its place as the number one producer of industrial products to China, the US also ceded its position as the number one trading nation to China in 2013. Its status as the biggest economic entity in the world will likely be ceded to China by 2020 (Lin, 2013, p. 16). In 2014, the number of tourists from China who travel abroad was greater than the number of tourists from the US. Facing the rise of China, people

have been talking about “Chimerica” or G-2, and Chinese scholars as well as leaders have launched the idea of a “new type of great power relationship” since 2012. They would seek to steer away from the fatalistic prediction assumed by the power transition theory that the newly emergent power, the revisionist power, will seriously challenge leadership and dominance of the status quo power, thus resulting in wars. It goes without saying that in the near future China will not be able to catch up with the US in terms of high-technology development, scientific innovation and military capabilities, as the cultural-social atmosphere as well as education are not so well suited to creative ideas owing to the lack of liberty. Washington, on the other hand, has had to cut government expenditure given the enormous debts accumulated over the past years, thus restricting its freedom to maneuver in foreign security actions. The policy of “rebalancing to Asia”, seen as a synonym of “pivot to Asia”, is perceived in Asia as the dominating thinking of the US leaders today who wish to maintain and consolidate the American role as “balancer” or “stabilizer” in the changing regional balance of power caused by the rapid growth of China. In reality, facing the enormous budget cut in defense expenditure, the US must reduce some components of its military forces, while shifting the focus of its national defense. Rebalancing is simply a result of limited and reduced resources, imposed by the US Budget Control Act 2011 (Liu, 2013, p. 87). Under the leading principle of rebalancing, the Washington administration has to decide on how to make the difficult choices to maximize its diminishing expenditure and best secure its national defense; some components of military power may need to be developed further, while some other components will need to be cut. Geographically, Washington has to “withdraw” its armed forces from the Middle East and put more emphasis on the Asia-Pacific region (Department of Defense, 2014). This practice is already well known as the “pivot to Asia” policy. Rebalancing is the result of diminishing budget in national defense, so it is also the symbol of relative decline of the US.¹

This paper aims to answer two sets of research questions. First, how does the rise of China, which results in strengthening China’s economic and military capabilities, empower the Beijing authorities to solve the long-term crisis in the Korean Peninsula? Investigating the North Korea crisis further, would it

¹ Rebalancing is the policy needed to cope with the diminishing defense budget in the US. According to the *Quadrennial Defense Review 2014* (Department of Defense, 2014), rebalancing will be proceeded in various ways: rebalancing for a broad spectrum of conflicts, rebalancing the counter-terrorism efforts, rebalancing and sustaining the US presence and posture abroad to protect US national security interests, rebalancing capability, capacity and readiness within the Joint Force, rebalancing within the Army, and rebalancing within the Department of Defense (cutting costs in some areas).

be possible for the two great powers, US and China, to collaborate in pressing North Korea to succumb to the conditions jointly laid down by the two in order to maintain stability on the Peninsula? Or, on the contrary, is the North Korean regime strategic in continuing its nuclearization, as it stands to benefit from the divergences between China and the US? Second, does the rise of China complicate the picture in solving the difficult historical and political issues in Sino-Japanese relations, as a more nationalistic and overly confident China would empower the regime to become more assertive in its relationship with the neighbors, and the relative decline of Japan in relation to China would thus become an impetus for the revival of Japanese nationalism, thus paving the way for nationalist rivalries between the two countries?

2. China's policies towards North Korea

The former President of South Korea, Park Geun-Hye, has a somewhat different policy *vis-à-vis* North Korea in comparison to her predecessor President Lee Myung-bak. The policy of President Park can be summarized as a “sweeter carrot and harder stick” policy. On the one hand, she has proposed to ameliorate the relationship with North Korea, based on the simple reason that people of the same race should cooperate among themselves despite any ideological, historical and political divergences. She has no hesitation to offer assistance to North Korea on humanitarian grounds. On the other hand, she makes it very clear that if the DPRK instigates further provocations using violence, Seoul will definitely riposte with prompt and forceful actions. In other words, the carrot offered to North Korea should be sweeter, while the use of stick, if necessary, should be much harder and stronger and employed without any hesitation (Park, 2013, p. 23).

Even though China is commonly seen as occupying a pivotal role in solving the Korean Peninsula crisis, as it is indeed the only power that continues to offer assistance to North Korea, China's policy towards North Korea is caught in a dilemma. The Chinese leadership is not able to find the best way out from the domestic divergence between the so-called “traditionalists” and the “strategists” among the Chinese strategic thinkers. On the one hand, Beijing has never wished to apply overly stringent pressure on the Pyongyang government, as Beijing is totally unwilling to see the collapse of the North Korean regime. Under the influence of the “traditionalists”, who are mainly composed of scholars and strategic analysts in the northeastern provinces of China, in addition to

government officials of this region and military leaders, Beijing seeks to offer assistance to Pyongyang, which includes mainly food, energy and industrial machinery. The energy is supplied in the form of crude oil as well as assistance in building electricity generating companies. The collapse of the Pyongyang regime will inevitably lead to the absorption of the North by South Korea. A re-unified Korean Republic with a democratic system that continues to be an ally of the US with the stationing of American soldiers is considered to be totally unacceptable in the eyes of these Chinese observers. The continual existence of the DPRK as a kind of buffer is seen as crucial for the Chinese security, as these observers are mindful of the overwhelming influence of the US in Northeast Asia. They stress that the nuclear question provides a “handle” for the US to realize its strategic and security objective. The US will not be satisfied with the denuclearization of North Korea, as their main concern is to induce fundamental change in the Korean Peninsula order, that is, to extend its sphere of influence and strategic deployment towards the Yalu River so as to press against China (Wang, 2013, p. 44). This is the reason why Beijing government opposed to the joint military naval exercises at the Yellow Sea between the US and South Korea after the DPRK launched its missile on 12 December 2012 and exploded its nuclear device for the third time on 12 February 2013. Beijing’s warning to all the countries “not to create trouble outside our home door” is directed not only against Pyongyang, but also to Seoul and Washington.

However, the rescue of North Korea offered by the Chinese government in times of critical crises helps sustain the Pyongyang regime, which was then able to launch other “brinkmanship” activities against its three powerful adversaries, the US, Japan and South Korea, thus creating ongoing instability in the Korean Peninsula. There are two kinds of crises on the Korean Peninsula: those launched by the Pyongyang regime, such as missile launches or nuclear tests under the pretext of national security, and the domestic crises that DPRK needs to overcome due to its inexpedience in governance and mismanagement in macroeconomic control. After being rescued by China in solving its domestic crises, the North Korean authorities would proceed to initiate crises again for its neighbors so as to secure the maximum benefits possible. The simple corollary for China’s actions is that if the PRC declines to offer assistance to North Korea, or stands beside US in sanctioning the Pyongyang regime, Pyongyang’s freedom to maneuver will be very limited. It may go bankrupt or collapse, or to avoid this it may need to abide by what the neighbors and international society prescribe. However, this strategy has never been considered as a viable choice of the Beijing authorities, and the Xi Jinping regime does not seem to deviate from the “traditionalist” line of thought.

According to the “strategists” line of thinking, the major flaw in Chinese policies towards North Korea is that among the strategic goals of China, stability of the Peninsula always overrides denuclearization (Zhang, 2013). The “strategists” maintain the idea that, domestically speaking, the DPRK government has done nothing beneficial for the North Korean people, while its external actions always create crises for its neighbors, including China. The regime itself is the major source of instability. What the North Korean regime has been doing is detrimental to Chinese national interests as well. Why then should China help a nation that consistently creates instabilities in China’s border areas? The “traditionalists” put emphasis on stability as the primordial goal of China’s Korea policy. But does this mean stability of the DPRK regime, or stability of the Korean Peninsula? If the source of instability of the Korean Peninsula is the North Korean regime, consolidating the regime or making the regime more stable and robust might mean inducing more instability to the whole Peninsula.

The so-called strategists can best be represented by a prominent Chinese expert in North Korean studies, Zhang Liangui, the professor of International Strategic Studies at the Central Party School, Beijing. In one of his papers, Zhang mentions four scenarios regarding the future of the Korean Peninsula in relation to the nuclearization of North Korea, and in no circumstances is China placed in a favorable position as a result of nuclearization (Zhang, 2013, p. 24). According to Zhang, the US’ freedom to maneuver is much greater than that of China or North Korea. There are two strategic choices for Washington: either take forceful actions against the nuclearization of North Korea or abandon the policy of denuclearization commonly agreed upon by all the neighbors. For the first choice, if China decides to participate in any joint actions adopting compelling actions against North Korean nuclearization, the US would create a counter-proliferation united front against the DPRK. Thereafter the United Nations Security Council, under the joint approval of both US and China, could pass a resolution “not to exclude any choice” in order to press Pyongyang to abandon its nuclear forces. If the North Korean regime abandons its nuclear power under the threat of extremely severe sanctions, then denuclearization can be achieved. If the regime continues to promote its nuclear development, Washington might try to contain or isolate North Korea, and even consider using military forces to destroy the nuclear facilities of DPRK. If the PRC does not want to join the US on such forceful actions (from sanctions to warfare), as Beijing may think that stability of the Korean Peninsula (or simply stability or at least survival of the Pyongyang regime) prevails so no forceful means should be considered, then the US might simply unite various nations to act upon North Korea, without seeking even the approval of the Security Council. The final

solution to the Korean Peninsula might then totally exclude the participation of China, even though Chinese interests are at stake.

For the second choice, if Washington abandons its policy of denuclearization, this means the formal recognition of North Korea as a nuclear power. The US might simply adopt a laissez-faire attitude by leaving the North Korean nuclear question to neighboring countries. This prevailing isolationist attitude of the US is accompanied by the reality that Washington is not afraid of the nuclear threat from Pyongyang, as the rudimentary nuclear forces of the latter are not able to inflict substantial damage on the US continent. The American government might even consider achieving an agreement with the North Korean authorities, so as to minimize the potential “harm” incurred. It has already been proposed by Pyongyang that it is possible to limit the horizontal proliferation (exporting nuclear materials and technology to other countries) and vertical proliferation (developing more and better nuclear weapons), and not to fabricate ICBM, in exchange for the US recognizing DPRK’s nuclear status. If such an agreement were accepted by the US, then the North Korean nuclear forces only threaten the surrounding countries of the Peninsula. This can be considered as a setback for Washington in its counter-proliferation efforts, but indeed this is the worst scenario for Beijing (Zhang, 2013, p. 24).

In a nutshell, it is in the common interests of both Washington and Beijing to have a denuclearized Korean Peninsula, and only by close cooperation of the two great powers can this be achieved. Thus, the first scenario of the first choice is the most effective way to solve the North Korean nuclear problem forever. However, as the dominant thinking of the Chinese leaders is characterized by opposition to the overwhelming presence of the US in the Asia-Pacific region where it allegedly uses its superior power to act as a counterweight to the rise of China, it is difficult, if not impossible, to imagine that a scenario of US–China cooperation could happen. Collaborating with Washington in forcing China’s closed ally to abolish its lethal weapons is definitely out of consideration of the “traditionalists” in Chinese strategic community. Nevertheless, the remaining three scenarios are absolutely detrimental to Chinese national interest. If the US destroys the DPRK nuclear force unilaterally (with the support of other powers except China), that means the denuclearization of North Korea is achieved without Chinese contribution. If the US accepts DPRK as a nuclear power and deliberately leaves the nuclear question to the Asian powers, China has to face the gruesome reality of an even more challenging security environment. North Korea is added to the two nuclear powers of India and Pakistan. This is a frightening prospect.

Indeed, the analysis of Zhang reveals the shortfall in China's North Korea policy. The North Korean leaders know how to maneuver skillfully between the US and China. They benefit enormously from China's continual support, which provides indispensable assurance of the survival and stability of the Pyongyang regime. With such a guarantee, the regime is thus able to proceed towards becoming a nuclear power, and apparently all kinds of diplomatic actions initiated by the neighboring powers are unable to obstruct its determination to nuclearize, an ambition that has been underway since the nineties. The PRC is really caught in a paradox. Its policy is to have a denuclearized Korean Peninsula, but it continues to support the Pyongyang regime, enabling it to sustain its survival, which is the necessary condition for the North Korean leaders to develop nuclear armaments. A stable DPRK would lead to a more unstable Korean Peninsula. The central question is that the Chinese efforts to consolidate the stability of the North Korean regime simply enhance instability in the whole Korean Peninsula, as Pyongyang is able to develop its missile technology and nuclear weapons after its survival and security can be well assured.

It is clear that "certain elements within the constellation of Chinese foreign and security policy seem to be gaining an upper hand in shaping policy toward North Korea. They include individuals and institutions related to CCP international relations and propaganda bodies, the Chinese military and internal security apparatus, provincial governments in China's northeast, and companies with growing economic interests in North Korea." (Gill, 2011, p. 8) These people can be roughly categorized as "traditionalists" as mentioned above. They are more concerned with stability within North Korea, and they gain an upper hand in influencing the top decision-makers, as "party bodies and the military are far more experienced and effective as bureaucratic leaders in having their voices heard and heeded" (Gill, 2011, p. 8). The common ideological background in the past as well as the comrade relationship built during the Korean War still matters in the thinking of the "traditionalists". Moreover, those traditionalists that appear to be more conservative as they would not accept a radical change of status quo within North Korea, are keen to make sure that "adversary powers" (which means US and Japan) are not in a position to control the whole Korean Peninsula. So, a Chinese scholar even advocates the role of "balancer" and "coordinator" to be played by China to check upon the actions of these foreign powers with vested interests (Zhu, 2011). On the contrary, the so-called "strategists" are those "progressive or more internationalist advocates for a more constructive approach of cooperation with concerned foreign partners" (Gill, 2011, p. 8). Their influence is nevertheless somewhat limited, as the aforementioned "traditionalists" tend to adopt a more realistic attitude. From

the perspective of “strategists”, it is certainly in China’s interest to have a stable DPRK hopefully evolving towards economic reform. But strategically speaking, if what Pyongyang is doing is detrimental to Chinese national interests, then cooperation with other concerned foreign powers to enforce common actions against the North Korean nuclear armaments should not be excluded as a major strategic choice.

The above discussion inevitably leads us to a crucial question. Does this mean that China has to succumb to a tacit consent to North Korea as a nuclear power? It goes without saying that this is contradictory to China’s strategic consideration, but the appeasing attitude of Beijing authorities is helping to sustain the Pyongyang regime, which is then able to pursue its long-term strategic goal of gradually becoming a credible nuclear power. It can be argued that the DPRK leaders ably and calculatingly play the game between China and the US (Zhang, 2013).

If there is no other way to denuclearize North Korea, then neighboring countries have to think about how to accommodate a nuclearized DPRK. There have already been discussions on returning the US tactical nuclear weapons to South Korea so as to enhance deterrence against North Korea, or at least to improve bargaining leverage. Some South Koreans even think of developing nuclear weapons by themselves as a security guarantee since the US nuclear umbrella might not be totally reliable (Dalton & Yoon, 2013).

Both Chinese and US authorities are worrying about the future directions of the Kim Jong-un administration. His father Kim Jong-il had developed superb expertise in launching crises and managing the continuous brinkmanship activities to seek the maximum benefits for the national interests of North Korea. The brutal purge of the former leaders by Kim Jong-un, especially the execution of his uncle Jang Song-thaek and his extended family members as well as their entourage, serves to eliminate those leaders who are considered to be menacing the Kim Jong-un rule (*Wen Wei Po*, 2014). But it may also reflect the lack of confidence of the young Kim, whose inexperienced performance in economic development and diplomatic actions may lead to further deterioration of the North Korean domestic situation. A possible implosion of the system might be the result of economic collapse, as Jang already warned in his last words, that Kim has no way to eliminate the enormous difficulties in the national economy and people’s livelihood (*Ta Kung Pao*, 2013). Increasing uncertainties in North Korea are likely and have aroused serious anxieties in both the US and PRC. Though it is impossible to arrive at joint actions of the two powers *vis-à-vis* the North Korean crisis, it is imperative for Washington and Beijing to have

more exchanges, and to consider serious actions that could reduce the threat and danger originated from the future hostile actions of North Korea or the possible collapse of the regime.

China persistently emphasizes the significance of solving the problems of Korean Peninsula by diplomatic and peaceful means. But all six rounds of the Six-Party Talks have proved to be a failure. Pyongyang leaders have created an illusion that the crises could be solved through diplomacy, but in fact they never stopped their research into nuclear armaments, especially the enriched uranium process. So, the Six-Party Talks only served the purpose of buying time for the DPRK authorities in the production of fissile materials as well as developing its nuclear technology.

The series of events since the sudden death of Kim Jong-il in late 2011 have demonstrated the helplessness of China in appeasing the situation on the Korean Peninsula. Already in April 2012, the right to possess nuclear armaments was written into the DPRK Constitution. In the same month, Pyongyang failed its attempt to launch a satellite. However, later that year, on 12 December 2012, it succeeded in launching the satellite which demonstrated that the country has well and truly acquired missile technology. Since possession of this technology is against United Nations Security Council Resolution 1718 passed in October 2006 after the first North Korean nuclear explosion, and also Resolution 1874 after the second nuclear test in May 2009, international society condemned the move. The Security Council eventually passed Resolution 2087 on 22 January 2013, imposing “mild” sanctions against North Korea. In fact, the Resolution only repeats the contents of the previous two resolutions. The next day, Pyongyang condemned China. It announced that the 19 September document which resulted from the Six-Party Talks would become void, and its commitment to denuclearization ended.

Just two months later, on 12 February 2013, DPRK exploded a nuclear device for the third time.² The US thinks that imposing sanctions including possible military actions can be instrumental in fostering change in the attitude of Pyongyang leaders, but China opposes this, as it thinks this would be ineffective and rather humiliating to North Korean leaders. However, China agreed to stand beside the US and other powers in condemning the irresponsible behavior of Pyongyang. The United Nations Security Council passed Resolution 2094 on 7 March 2013, imposing sanctions in the economic, financial and political arenas. Overall, the sanctions imposed were relatively mild, and thus cannot

² North Korea has previously exploded twice its nuclear devices in October 2006 and May 2009.

be really instrumental in inducing changes within the Pyongyang regime. At the same time, Pyongyang declared that the Armistice agreement of Korea was void. It withdrew its representation office from Panmunjom, and the telephone line for liaison between the two Koreas located at Panmunjom was cut off.

The PRC government has been patiently encouraging DPRK to adopt the Chinese way to modernization through open door and reform policies without upsetting the communist-dominated political institutions, but apparently Pyongyang does not regard the current Chinese model of development as “socialism”. It is particularly cautious about the establishment of special economic zones in order to attract investments from China. Optimism was expressed in the Chinese media when new foreign investment laws were enacted in March 2012 for the two special economic zones established in Rason in the northeastern part of Korea, and Hwanggumpyong and Wihwa Island at the Yalu River, just next to the Chinese border. In 2011, trade between North Korea and China accounted for 60% of North Korea’s total trade, and Chinese companies are keen to extract rare earth in the DPRK, one of the few products of the country that can be bought (Committee on Foreign Relations, 2012, p. 7). China supplies 95% of DPRK’s energy, 80% of its consumer goods, and 45% of its food (Bajoria & Xu, 2014). The increasing participation of China in North Korea’s domestic economic development might be just an extension of the Chinese leadership’s thinking to help developing the less developed regions within China, such as Tibet and Xinjiang, through investments and construction of infrastructure. This has attracted the attention of US researchers, who claim that “China-launched investment and trade offensive directed at North Korea reflected an incremental economic integration with the North. [...] China quietly establishing an extensive business and trade infrastructure with North Korea that China will be prepared to protect” (Committee on Foreign Relations, 2012, p. 5). However, given the high degree of skepticism and cautiousness of North Korean authorities regarding China’s maneuvers, we have reasons to be doubtful of such diagnosis. The influence of China towards the domestic economy of its communist neighbor is seriously constrained.

An Indian observer said, “as a responsible world power, China would like its influence to prevail on its immediate neighbor. Helplessness regarding North Korea does not befit China’s image as a global power. However, China is acutely aware that the moment it tries to implement the West’s agenda with North Korea, it will lose influence with Pyongyang.” (Chakravorty, 2013, p. 39)

Helping to stabilize a regime that is the source of serious instability in the Korean Peninsula, yet being unable to foster evolutionary domestic changes within North Korea, simply illustrates the fact that even with growing power and

capability, China is not yet able to induce any significant change to the status quo. Pyongyang obtains the critical assistance from Beijing, but diplomatically it acts unilaterally according to its own interests, irrespective of China's feelings. This puts China into an enormous diplomatic dilemma.

2017, the first year after Donald Trump's advent to power, witnessed a series of missile launches by Pyongyang, but both Trump and Kim Jong-un need to successfully achieve diplomatic breakthrough so as to appease their domestic audiences respectively. Their mutual wish to meet eventually resulted in their Singapore summit meeting in June 2018. The US did not obtain any commitment from North Korea on total nuclear disarmament, which should be "comprehensive, verifiable, irreversible". However, the summit was a great success for Kim as North Korea has been longing for bilateral negotiations with the US on an equal basis since the 1990s, while the US leaders in the past always insisted that high-level meetings and normalization of relationship cannot be achieved before total denuclearization. The second summit, held in Hanoi in February 2019, seemed to be a failure as it was cut short. According to Washington, no lifting of sanctions is possible unless full disarmament is effectuated, including the demolition of North Korea's enriched uranium program, while Pyongyang said that it was merely asking for partial lifting of sanctions in exchange for the destruction of the Nyonbyon reactors. In any case, the middle-man role of China is further "marginalized", as the US and North Korea can maintain high-level contacts and continue to express their goodwill for peace and negotiation. Despite the UN sanctions in place, Beijing continues to covertly provide assistance to Pyongyang in various aspects, so as to continue to exert its influence over North Korea's plans for the future.

3. Revival of nationalism in Sino-Japanese relations: historical injuries and security dilemma

Economic integration between China and Japan does not necessarily produce the 'spillover effect' in facilitating mutual understanding and acceptance. Rather the opposite is true. Scholars have already proven that

the relationship between interdependence and conflict appears to be curvilinear, where low to moderate degrees of interdependence reduce the likelihood of dyadic disputes, and extensive economic linkages increase the possibility of militarized disputes. Extreme interdependence, whether symmetrical or asymmetrical, has the

greatest potential for increasing the likelihood of conflict. (Barbieri, 1996)

This is contrary to the liberalist perspective. The relationship between China and Japan has been long dominated by political conflicts resulting from historical lessons. Economic interdependence cannot help resolve the conflicts, yet existing rivalry could cause a downturn of economic interdependence between the two nations even though both rely on each other economically.

Just like the US, after twenty years of stagnation, Japan is also suffering from relative decline. With a shrinking population (a decrease of 200,000 per year), a rapidly growing aging society, the lack of job opportunities for the young people, unending natural disasters, Japanese society is becoming more and more pessimistic regarding its future (Ting, 2013b). In addition, the government proves to be incompetent in solving the numerous problems. Many of the problems are structural and have their roots in the rigid societal structure and stagnant economy. Radical reforms are needed in order to restructure the societal and economic structure, but no Japanese Prime Ministers have succeeded in launching meaningful reforms, with the exception of the privatization of postal service when Premier Junichiro Koizumi was in power. In sharp contrast to the stagnation of Japan's development and the lack of vision for Japan's future, the Japanese people are witnessing the rapid rise of China and even the rise of their smaller neighbor, South Korea. There is a strong sense of crisis and powerlessness among ordinary Japanese people. In such circumstances, society is turning to the political right. A revival of the Japanese "grandeur" is the dream of many people and it has become the foundation of Japanese modern nationalism. The resort to nationalism and the urgent need for the revival of Japan paved the way for the success of Premier Shinzo Abe in returning to the political stage in December 2012.

Parallel to the revival of Japanese nationalism resulting from the stagnation of Japan's economy and society, is the development of Chinese nationalism which displays a kind of arrogance resulting from the "renaissance" of China after a century of national humiliation. On the one hand, the revival of Japanese nationalism is epitomized by the visit of the Japanese Prime Ministers, including Koizumi during the period 2001–2006 and Abe on 26 December 2013, to Yasukuni Shrine, the national shrine where the Japanese pay tribute to all those Japanese soldiers and nationals who died for the nation. On the other hand, in the eyes of the Asian neighbors, Chinese nationalism is expressed by Beijing's recent challenges to the status quo in East China Sea and South China Sea. The general perceptions of China's neighbors like Vietnam, the

Philippines and Japan are that the increasing economic and military capabilities of China empower the Beijing leaders to become more assertive and aggressive in maritime and territorial issues. However, both Japan and China blame the belligerent attitude of the opposite side as the source of nationalism in their country. Japan has criticized the rapid rise of military expenditure as well as the lack of transparency in the growing capabilities of Chinese national defense, and Japan has no choice but to respond by significantly improving its naval and air power. Beijing feels critically offended by the increasing nationalistic attitude of the Japanese government and the revisionist view of history of the new Abe administration. Beijing is perplexed by the “alignment” of its Asian neighbors with Washington following its policy of “rebalancing” to Asia (Luttwak, 2012). It perceives this alignment as a kind of “containment” against the rise of China, despite the fact that China has been practicing a policy of “developing better relations with, appeasing, and enriching her neighbours” (*Mulin, Anlin, Fulin*). Popular nationalism in China continues to rise, as many Chinese nationals hold the rather simplistic and erroneous view that since China’s GDP is number two in the world, China has already become the second most powerful nation in the world. As a result, they ask for a more assertive and even aggressive posture of the nation in response to the challenges from the US, Japan and other neighbors. The rise of popular nationalism in both China and Japan is closely related to the relative change in capabilities and shifting equilibrium of the two strongest powers in Asia (Huang & Lv, 2011, p. 41).

The Chinese policy regarding the disputed maritime areas and the sovereignty of islands is epitomized by the following principle: “sovereignty belongs to me, putting aside the disputes, jointly developing the areas” (Shi, 2014, p. 22). During the normalization of the relationship between Japan and the PRC in 1972, Premier Tanaka raised the issue of Diaoyu Islands, but Zhou Enlai did not want to have this issue obstructing the normalization process, so he proposed to put it aside. This is considered to be a tacit consensus between the two governments, and later Deng Xiaoping reiterated the Chinese principle, emphasizing that the issue could still be put aside and let the future generations of leaders and people of both nations to solve the issue as they are more intelligent. If for both countries development around the Diaoyu Islands is deemed to be necessary, it could be executed jointly by the authorities concerned and benefits can be equally shared between the two. The Chinese attitude has always been the same. The Diaoyu Islands can be regarded as a kind of treasure that both countries want. In order to prevent the escalation of conflict, it is imperative for both parties to refrain from landing or occupying the islands, or even to sail within the territorial waters of the Islands, that is, within the 12 nautical miles from the

Islands. Joint development in any case is referred to the maritime areas, such as fishing and exploitation of petroleum, and there is no point for both parties to station people on the Islands. Refraining from approaching and landing the Islands is considered by Beijing to be part of the tacit consensus between China and Japan.

However, from time to time the Japanese authorities allowed the right-wing activists to embark on the Islands. The most serious case happened in 1996 when Japanese activists painted the Japanese flag on the Islands and established a second lighthouse (the first one in 1988) in order to demonstrate that the Diaoyu Islands were under Japanese sovereignty. This provoked serious rebukes from people in Taiwan and Hong Kong and, as a consequence, some Chinese activists from these two enclaves sailed to Diaoyu Islands to “declare sovereignty”. Even in such circumstances, no civilians from the Mainland were allowed to leave for Diaoyu Islands, and the official Chinese ships did not even appear in the neighboring waters. In other words, even if Japan appeared to be more aggressive, Beijing adhered to the “tacit consensus” of not approaching or “touching” the Islands. In February 2005, the lighthouse erected by the right-winged Japanese activists was placed under state control and protection (Beuket, 2011, p. 15). In spring that year, there were massive demonstrations in various cities of China against “Japanese militarism”. But the Chinese official reaction to these manifestations was cautious. After the demonstrations continued for some days, the top Chinese leaders requested the demonstrators to return life to normal. Just like the demonstrations against the US in May 1999 and April 2001, the Beijing authorities worried that if the manifestations continued and remained uncontrolled, they would be targeted towards the central government in Beijing, by asking it to act more strongly against foreign interference. If the attention shifted from Tokyo to Beijing that would probably become another source of instability.

The status quo was changed when the Japanese central government decided to buy the Islands from private owners in September 2012. The pretext of the then Premier Yoshihiko Noda is that it is better to have the central government buying the Islands, rather than by the Mayor of Tokyo, Shintaro Ishihara, who is a well-known right-wing nationalist that would arouse more negative feelings among the Chinese. Beijing considers Noda’s action as breaking the tacit consensus of the two governments, so it categorically changes its actions, albeit the principle of “setting aside the dispute” remains unchanged. Again, massive demonstrations took place all over China, but again, they were under scrutiny of the Beijing authorities. The author was in Hangzhou in late September 2013 and he witnessed a demonstration in the city. Interestingly, although the roads were closed and traffic was blocked for the demonstrators, the several hundred

young demonstrators were simply marching in the streets, without shouting any slogans, or displaying any banners in order to show their disapprobation of Japanese aggressiveness. In front of them, there were police motorcycles that led the demonstration, and at the back there were two buses of policemen following the demonstrators. Obviously, the protest was closely monitored by the authorities and was not allowed to affect the stability of society. This suffices to prove that the Chinese government wishes to express its dissatisfaction, through accepting the requests for demonstrations from the masses, towards the unusual Japanese action of “nationalizing” the Diaoyu Islands. But Beijing does not allow the domestic anti-Japanese movements to get out of control. It simply wishes that the Japanese government would return to the original tacit consensus in place since 1972.

Japanese scholars tend to think that the change of attitude of the Chinese government from April to August 2012 illustrates the divergences among the Chinese leaders, between the “non-nationalist” President Hu Jintao and Premier Wen Jiabao, and the nationalist President Jiang Zemin and Vice-President Zeng Qinghong (Takeuchi, 2014, p. 28). During the period of 2006 to 2012, under the leadership of Hu, Sino-Japanese relations were found to be rather cordial but Hu did not fully control a strong enough power base for him to advance his own policies. Jiang with Zeng represent the interests of “state capitalists”. China only hardened its position in August after the summer conference at Beidaihe, while its position in April was relatively mild when Tokyo Major Ishihara proposed to buy the Diaoyu Islands. Beijing did not want Ishihara to buy the islands, and its reaction was “initially low key when the Japanese national government tried to buy the islands to prevent Ishihara from doing it” (Takeuchi, 2014, p. 29). However, the strong stance of nationalistic Chinese leaders like Jiang eventually prevailed and, as a result, Beijing’s position was hardened in August.

Indeed, it is true that the best period in recent Sino-Japanese relations started in 2006 under the Hu administration. During that period, no demand for apology from the Chinese government was requested, while no Japanese prime ministers (altogether six of them) visited the Yasukuni Shrine from 2006 to 2012. Premier Hatoyama from the Democratic Party adopted a friendly attitude to China, while during the short tenure of Premier Fukuoda, the two governments even succeeded in achieving a “principled consensus” on 18 June 2008 to proceed on joint exploitation of natural resources at the East China Sea. The Chinese government even accepts Japanese investments in the oilfields that are found in the Chinese Maritime Exclusive Economic Zone. Nevertheless, in essence, although factions do exist within the core leadership of the Chinese Communist Party, it is difficult to imagine that Hu Jintao could accept the purchase of

Diaoyu Islands by the Japanese government. Hu had the chance to meet Premier Noda in Vladivostok in September 2012, warning him that the purchase of the Islands was illegal and invalid. But two days later, on 4 September 2012, the decision was made. Former Chinese State Councilor Tan Jiaxuan made it clear that this “had caused the Chinese people to lose face and triggered their anger” (Przystup, 2013, p. 5). What is most striking for Chinese leaders and people is that Noda asserts there is no territorial dispute between the two nations and buying the Islands by the central government is just a domestic matter. This is unilateral destruction by Japan of the tacit consensus achieved since 1972.

In order to show its dissatisfaction, from September 2012 onwards, the Chinese government decided to send official ships to the territorial waters of Diaoyu Islands to declare its sovereignty; however, it still refrains from disembarking on the Islands. Since then, no Chinese civilians from the Mainland and even Hong Kong were allowed to land on the Islands, although previously some Hong Kong Chinese succeeded to sail to and disembark on the Diaoyu Islands in August 2012, apparently under the tacit consent of the central authorities in Beijing. Ships from the Chinese Maritime Surveillance and the Fisheries Law Enforcement Agency started to patrol in the surrounding areas of Diaoyu Islands from September 2012, and later the different administrations for maritime affairs have been merged into a new department, the Marine Police. Since December 2012, airplanes have been sent to provide surveillance of the Islands.

Since Abe became the Prime Minister, his “revisionist” approach to history has aroused worldwide attention and unease. He did even ask for a re-examination of the Kono statement on Comfort Women declared in 1993, and the Socialist Premier Murayama’s apology offered in 1995 regarding the atrocities and damage caused by Japanese militarists in Asia. His high-profile visit to the Yasukuni Shrine in December 2013 was condemned by South Korea and China, and even the US expressed its “disappointment” about such a move, saying that this adds insult to injury. Since then there has been a well-coordinated action launched by Beijing in fighting an international public opinion war, with 59 Chinese Ambassadors contributing articles to the local newspapers condemning the Japanese path towards militarization. This has attracted rebukes from the Japanese diplomats, who wrote to the same newspapers criticizing China for challenging the status quo in East and South China Sea (Lin, 2014, p. 25). The Chinese decision that establishes the Air Defense Identification Zone (ADIZ) in East China Sea, and the establishment of the new regulations in managing traffics in South China Sea, entitled *Regulations for the Management of Coastal Border Security and Public Order in Hainan Province*, are considered not only by Japan but by other Asian states as posing a serious challenge to the status

quo through forceful actions of China. The popular nationalism of China and the increasingly negative image of China as perceived by the others, render the Chinese public opinion efforts rather ineffective in convincing the Asian neighbors that China occupies a moral high ground. In any case, the Chinese foreign policy decision-makers prefer to be cautious as the military capabilities do not suffice to support aggressive activities against the neighbors. Notably the US–Japan alliance is still considered as the fundamental force that maintains stability of the vast Asia-Pacific region and the security of many Asian states.

The lack of regional multilateral security architecture is a fundamental reason for the general ill feeling surrounding the territorial disputes that happen between China and her neighbors, most notably Japan, the Philippines and Vietnam. There is an urgent need to establish confidence-building measures between China and the others, or at least some kinds of mechanisms that can alert the adversaries to prevent any miscalculations and misinterpretations of a country's real intentions. Both China and Japan have established new state institutions to strengthen their domestic coordination of policies relating to state security. Following the creation of the State Security Council in November 2013, the Japanese government passed three important documents on 17 December 2013. The first one is the 'National Security Strategy', which asks for reforming the 'Three Principles for the Export of Weapons'. The other documents include the revised version of 'National Defense Outline', and the new edition of 'Mid-Term Defense Plan', from 2014 to 2018. The new defense plan of Japan stresses the increasing pressure from China. As a result, it asks for "strengthening Japan's capabilities in the areas of Intelligence, Surveillance and Reconnaissance (ISR), its ability to respond to attacks on Japan's remote southern islands, ballistic-missile defense, cyber warfare, natural disasters, and the country's joint operations capabilities" (Mizokami, 2013). The defense budget will be increased 5% over the next five years, to a total of 247 billion dollars. China's new National Security Committee under the leadership of State President and Party Chief Xi Jinping highlights the authorities' key concern regarding the domestic security and external security and the possible liaison between the two.

The possible reconciliation of the conflict between Japan and China depends on whether new thinking, or thinking outside the box, can liberate both parties from the security dilemma. This creative thinking requires leaders of both sides to be clear-sighted as well as use appropriate strategies to achieve a breakthrough in the deadlock. It also requires the leaders to possess the power in ascertaining that the strategies could be sustained (Bush, 2010, p. 334). According to a Chinese strategist, the reconciliation of Sino-Japanese relations should be founded on three achievements: mutual functional benefits, mutual political trust, and mutual

strategic gains (Qi, 2014, p. 20). While economic interdependence has largely rendered mutual economic benefits to both parties, the mutual political distrust that has grown since the development of popular nationalism in both countries further aggravates the difficulties and uncertainties in the bilateral relationship.

4. Conclusion

The rise of China is a developmental process, and China's military, economic and technological capabilities have not yet arrived at a stage that enables Beijing to set the rules of the game, or international norms, for the global community. China's influence is increasing given its enormous trading transactions and massive investments overseas, but it is not yet ready to play the role of leader of the global system. In fact, if we treat the whole world as a global capitalist market, the US is clearly the true leader of capitalism, consistently initiating new ideas to raise the performance of private companies so as to significantly augment their profits. China uses market mechanisms, but the "state capitalists", that is, the state-owned enterprises that monopolize the key industries domestically and secure enormous profits, are not considered beneficial to the development of "perfect" capitalism as they imply the intervention of state or political power in the market. However, they are increasingly aggressive in overseas markets. Washington under the Obama administration attempted to use Trans-Pacific Partnership (TPP) negotiations to foster changes in the Asian nations, such as the privatization of state enterprises, and completely opening up their markets, including agriculture. In other words, the US urges them to move towards the perfect model of capitalism. Exercising leadership in the capitalist world and maintaining its status as superpower in military deployment are seen as symbols of American leadership in the world. China is far from such a position. As we can see from North Korea and Japan, the rise of China is not yet able to incur significant geo-political transformation in Northeast Asia, even though nationalists within China claim that their country should be more assertive and able to forge ahead in establishing a more favorable geopolitical environment.

The top security priority of North Korea is to establish a bilateral relationship with the US on an equal basis so as to eliminate hostilities from the US. Many aspire to see the PRC playing an intermediary role in between the US and the DPRK, but Chinese officials used to lament on the limitations of Beijing's influence in Pyongyang. The increasing economic and military capabilities of China cannot be instrumental in fostering significant changes within North Korea, especially

when the latter is equipped with nuclear armaments that produce an “equalizer” effect in its relations with the greater powers. The relationship between DPRK and the US can be perceived in the same vein, as Pyongyang firmly believes that possessing nuclear capabilities is the most effective means to deter potential American invasion. Perhaps the best moments to eliminate the rudimentary nuclear facilities have already passed. All the neighboring powers, plus the US, must now consider how to deal with this new nuclear state, North Korea. It is troubling that the totalitarian regime in North Korea remains steadfast.

In the case of Japan, Premier Abe indicated in March 2014 that he was not going to revise the declarations made by Kono in 1993 and Murayama in 1995. Still, the revisionist historical view of the Abe administration would result in the promotion of national education, further “normalization” of its defense force, and the upgrade of its military facilities. The security dilemma between Japan and China will then be further enforced. In order to achieve a breakthrough, it is imperative for both countries to identify and develop complementary interests. After Trump’s advent to power, both Japan and China have suffered from his protectionist measures under the “America First” policy. Since the two Asian economic powers have achieved a high degree of economic interdependence, their political relationship has been improving in recent years in response to their shared burden imposed by Trump.

Although China is clearly on the rise, the country has not yet arrived at a stage where it commands respect as a leader in the international community. Although a fast-growing power, it has enormous difficulties in dealing with the crises in the Korean Peninsula and the challenges of Sino-Japanese relations. A lack of soft power may be one of the reasons for this, as it has little to offer to the whole world in terms of ideas, culture, values and institutions. The rise of China has already rendered a more nationalistic and arrogant China, but the developing popular nationalism might just hinder a favorable solution to the problems impeding China’s relationship with the outside world.

Dr. **Wai Ting** obtained his doctorate in political science and international relations from the University of Paris X, Nanterre. Formerly research fellow at the Institute of Southeast Asian Studies, Singapore, he is now professor of the Department of Government and International Studies, Hong Kong Baptist University. His research interests include China’s domestic politics and foreign policies, and theories of international relations. He has published extensively on Sino-American relations, Sino-European relations, China and Asia, Chinese nationalism and visions of regional cooperation, Chinese nuclear strategy, and external relations and international status of Hong Kong. He has

been a visiting professor at Ateneo de Manila University, Harvard University, Oxford University, Institut d'Etudes Politiques of Lille, and University Montesquieu Bordeaux IV.

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Independence or Reunification? The Evolving PRC–Taiwan Relations¹

Yiu Chung Wong

Department of Political Science,
Lingnam University
Dorothy Y L Wong Building, Room 202, 2/F
Tuen Mun, N T, Hong Kong
E-mail: wongyc@ln.edu.hk

Abstract: *The article attempts to examine the relationship between Taiwan, a de facto political entity, and the People's Republic of China (Mainland China) since 1949, the landmark year when the then ruling party KMT (The Nationalist Party) was defeated by the CCP (Chinese Communist Party) in the Mainland. Essentially, the narrative is focused on the government policies by the two respective political entities. The PRC pledged to unify Taiwan again and subsequently its unification policies are delineated. A two-stage schema is proposed for the analysis, albeit the second stage can be further divided into three phases. As for Taiwan, a five-stage categorization is proposed. Moreover, three sets of factors influencing the cross-Straits relations would be discussed, namely the power dynamics within the PRC, internal development inside Taiwan and the role of the USA. Finally, the implications of the coming of Trump era are outlined.*

¹ In denoting the relationships between Taiwan and PRC, three forms have been prevalent, namely, cross-Straits relations, cross-Taiwan Strait relations and Taiwan–PRC relations, depending on which side you are talking about. I would use them interchangeably in this chapter. The first is the most common one. However, for readers who are not familiar with Asian Pacific affairs, they might not know what the word Strait means. This terminology can be dated back to the first communique signed by the USA and the PRC when President Nixon visited the PRC in 1972. The second is less common but it describes correctly the geographical positions of two independent political entities. The last one is the least used one for it has a political connotation that Taiwan is not covered by the PRC and therefore the PRC will see it as a violation of the One China policy. I prefer to use it in the title because the terminology reflects better the current political reality in that Taiwan and the PRC are two independent political entities. In the text, I do use the other two terms quite frequently.

Keywords: *cross-strait relations, “one China, respective interpretations”, “one country, two systems”, two-state theory, unification*

1. Introduction

The chapter aims to examine the relationship between Taiwan, as a *de facto* independent political entity, and the People’s Republic of China (PRC, or Mainland China) since 1949. Since that year, the ruling Chinese Communist Party (CCP) has pledged to reunify the renegade island but to date has been incapable of doing so. The chapter begins by analyzing Taiwan’s Sunflower Student Movement, which occupied the legislature for almost three weeks. The conflict typifies, indirectly, the increasing tensions in relations across the straits. This is followed by the delineation of the Beijing’s reunification policies on Taiwan over more than six decades and Taiwan’s mainland policies since 1949. Finally, three sets of factors influencing cross-strait relations will be analyzed, in particular, the political implications of the PRC’s proposition delivered by the top Chinese leaders. Taiwan cannot delay the unification process forever. In the process the role of the USA is critical.

2. The Sunflower Student Movement

From 17 March 2014 to 10 April 2014, a large-scale and popular student movement in Taiwan emerged, triggering the greatest crisis for the Ma Ying-jeou government since he became President of Taiwan (Republic of China, ROC) in 2008. On 17 March 2014, the Legislative Yuan (Chamber) decided to pass the Cross-strait Service Trade Agreement (CSSTA), which was subsumed under the Economic Cooperation Framework Agreement (ECFA) between Taiwan and the People’s Republic of China (PRC), signed in June 2013, because the Kuomintang (KMT, Nationalist Party) had a majority in the Yuan which currently has 113 elected representatives. The CSSTA had been negotiated by Taiwan and Mainland China for years and the conclusion of the package was thought to be indispensable to Taiwan’s economic regionalization and development. Furthermore, the package had been scrutinized by the legislators, especially the opposition party Democratic Progressive Party (DPP) since September 2013. The KMT legislators sought to reach a conclusion and called the debates to a halt. However, the hasty passing of the Agreement provoked a

strong reaction from the public and about 20,000 protestors, mostly university students, surrounded the building of the Legislative Yuan.

Without any resistance from the guards, about 200 students, led by two student leaders Lin Fei-fan and Chen Wei-ting, broke into the building and occupied the Chamber (see *South China Morning Post* on 21 March 2014, p. 6; 24 March 2014, p. 6) until 10 April 2014. Without causing any injuries, the students' occupation of the Chamber won support across Taiwan, including support from the academics and university presidents. On the sixth day of occupation, some radical students even attempted to seize the Executive Yuan, which is the power centre running Taiwan, but they were rebuffed by the police. Fifty-five students suffered injuries in the violence, but they continued to stay in the Legislative Yuan (see *Apple Daily*, 25 March 2014, A1).

The package was thought to be asymmetrical: its conditions more favourable to Taiwan than the PRC. Under the agreement, Taiwan would open its investments to Mainland investors in about 64 industries and about 80 industries in the Mainland would accept Taiwanese investments. Investments in Taiwan include computers, Internet, publishing, courier post, elderly homes, recreation facilities, sports gymnasiums, sewage management facilities, financial branches among others, while Mainland industries opened to Taiwan investments include publishing, Internet companies (the Mainland shares must account for 55%), hospitals, travel industries, theatres, cinemas, environmental industries, etc. Despite the favorable terms, both the Taiwanese public and academics commenting on the arrangement have long been suspicious of the agreements. In particular, concerns have been raised about the national security of Taiwan.

They fear that because of the nature of the one-party dictatorship, the PRC would make use of investment opportunities to infiltrate Taiwanese society and facilitate the process of reunification. Taiwan is a democracy and a small island and its investments have little influence on the PRC because of the size of the country and the restrictions imposed on foreign investments in mass media. Immediately after the students occupied the Chamber, the polls on the agreement showed that 31% of the population supported it, and 45% was against; moreover, 63% of the public expressed hope that the ruling party and the opposition party could have a transparent debate on the pros and cons of the agreements (see *Ming Pao*, 20 March 2014, A2). One week after the occupation, a weekly *Today* in Taiwan published a survey showing 56.3% against the agreement, 22.3% in favour, and 76.1% favouring a reexamination of the package by legislators (Lam, 2014).

This crisis crystallized the crisis of the Ma Ying-jeou administration of Mainland policies. Reversing the adversarial politics of Lee Teng-hui and Chen Shui-bien, Ma hoped that his policies of rapprochement could stabilize cross-Strait relations. Indeed, it was successful in the first two years, but the increasing contacts between the two sides created ever-increasing conflicts stemming from cultural, political and social differences. The passing of the agreements brought the hidden tension to the surface. Ma's government was facing a dilemma. On the one hand, there was no turning of the clock—the move to a pro-independent stance would certainly destabilize cross-Strait relations. On the other hand, the more integrated Taiwan with the PRC is, the more domestic conflicts it invites, which, in fact, had a disastrous effect for the KMT in the presidential election in 2016. The popularity of Ma has declined to one-digit figures, which is hardly sufficient for maintaining its legitimacy in running the government. Besides the “China” factor, the failed experiment of “one country, two systems” in Hong Kong further alienated more Taiwanese. (Lam, 2014)²

The crisis was finally resolved as the students withdrew from the Legislative Yuan on 10 April 2014, after Wang Jin-pyng, the speaker of the Legislative Yuan, promised that the Legislative Yuan would formalize the mechanisms monitoring cross-Strait relations before scrutinizing the specific provisions of the agreements.³ However, the Beijing authorities were not happy with what happened and, while they did not criticize the students openly, they expressed the view that they would not re-negotiate the Agreement. Worse, they identified the Sunflower Student Movement as a sort of separatist or pro-independence activity. In a meeting on 7 May 2014 with the leader of the Close-to-the-People Party Sung Cho-yu, General Secretary Xi Jinping stated that the policy of the PRC on Taiwan remained “four nos”—namely no change of policies on the cross-Strait relations, no change of the reciprocal exchanges between two sides, no reduction of the solidarity between two sides, and no change of the will of strongly opposed the pro-independent activities (see *Asiaweek*, 25 May 2014, p. 20).

² Hong Kong was supposedly a showcase of the “one country, two systems” to lure Taiwan into accepting the formula. However, more than 17 years after the handover in 1997, Hong Kong was completely subservient to the PRC: the Basic Law was subject to the arbitrary interpretations of the National People Congress; politically, democratization of the system stalked, the influx of the nearly 40 million Mainland tourists (2013) in such a small place made people breathless. Furthermore, the influx also boosted the housing prices, making milk powders scarce and paralyzed the public transport. A history of the failure of the democratization in Hong Kong has been presented by Margaret Ng (2008).

³ In fact, what Wang promised was contradicted by the Ma government who insisted on passing the agreement first (see *Apple Daily*, 8 April 2014, A23).

How have the PRC policies on the reunification of Taiwan evolved over the past decades? We must start with 1949, the year the PRC was founded and the KMT settled in Taiwan. This chapter will provide a historical narrative of the policies on both sides.

3. Beijing's policies of reunification on Taiwan

The year 1949 was certainly the watershed both for the ruling party the KMT (GMD), and the Chinese Communist Party (CCP) across the Strait. Devastated in the civil war, the KMT government withdrew to Taiwan, which had been handed back to the Republic of China (ROC) in the aftermath of World War II. The People's Republic of China (PRC) was established in 1949, its capital in Beijing. Since then, the CCP has never given up hope of unifying Taiwan again, this would allow the CCP to claim that it has unified the whole of China. To date, the aspiration remains unfulfilled. Since he became the General Secretary in 2012, Xi Jinping has often talked about the "China Dream". One of the ingredients of the "China Dream" is the unification of China. For more than six decades, Beijing's policies of reunification with Taiwan have changed constantly, often in response to external international conjunctures as well as domestic politics. Hickey (2006, pp. 31–70) has identified the following eras in policymaking:

- 1) 1949–1979: Armed liberation;
- 2) 1979–1987: "One country, two systems";
- 3) 1987–2005: Reconciliation and conflict;
- 4) post-2005: Carrots and sticks.

This essentially shows a general schema in which the CCP policies operated under various constraints but it is too sketchy and lacks delineation of the subtle changes of important policies on reunification. I propose another periodization which better summarizes the major policy changes. Essentially, there are two periods:

- 1) Armed liberation: 1949 to 1978; and
- 2) Peaceful reunification: 1979 to the present.

However, the second period can be further divided into three phases:

- a) Reconciliation ("one country, two systems"), 1979–1999;
- b) Confrontation 1999–2008;
- c) Rapprochement (economics first, politics second), 2008–present.

The following narrative is based on this schema. Setting up as the sole legitimate government in China in 1949, the CCP aimed to unify China as fast as possible. The official policy on Taiwan was that Taiwan was an inalienable part of China and liberation of Taiwan was the sacred duty of the ruling party. Its confidence was boosted as it captured the Hainan Island in April 1950 and the military was prepared to launch an attack on Taiwan island itself. This was thwarted by the outbreak of the Korean War on 25 June 1950. The Korean War lasted for three and half years, resulting in the deployment of the Seventh Fleet in the Taiwan Strait to protect Taiwan and subsequently leading to the signing of the formal US-ROC Mutual Defense Treaty in 1954. To date, the Chinese leaders have repeatedly said the most significant obstacle between the USA and China relations is the Taiwan issue.

The death of Mao Zedong in 1976 marked the end of radical politics in the PRC. The era of “politics in command” came to a halt. The leadership of Hua Guofeng from 1976 to 1978 was the transition from Maoist cult-like theocracy to comprehensive reform, and the opening up of the regime was dominated by the supreme leader Deng Xiaoping. The Third Plenum of the Eleventh CCP Congress was a turning point in the history of the PRC, which heralded in an era of modernization. The communiqué of the Third Plenum endorsed the decision to shift the focus of the Party work from “class struggles” to “socialist modernization”. It called on “the whole Party, the army and the people of all nationalities to work with one heart and one mind. [...] mobilize themselves and pool their wisdom and their efforts and carry out the new Long March to make China a modern, powerful socialist country before the end of this century.” (ZZWY, 1987, p. 5)

In January 1979, the Standing Committee of the National People’s Congress (NPC) issued a ‘Message to compatriots on Taiwan’, formally abandoning the “military liberation” of Taiwan and calling for the “peaceful reunification of the motherland”. The message also suggested to start what later became to be called “three links (air, shipping and postal) and four exchanges (academic and cultural, sports, sciences and technological, trade and economic exchanges)” as soon as possible. This is the most important policy shift by the CCP in more than three decades over the cross-Strait relations. In September 1979, Marshal Ye Jianying, President of the NPC, issued a document titled ‘Policy on the return of Taiwan to the motherland and peaceful reunification’, later to be called ‘Ye’s nine-point proposal for unifying China’. Taiwan was again urged to allow the establishment of “three links and four exchanges” between the two sides. The proposal also mentioned that, after the unification, Taiwan was allowed to have a high degree of autonomy in a special administrative region administered by local people.

Taiwan's existing socio-economic system was to remain unchanged. In January 1982, Deng Xiaoping declared publicly that the institutional arrangements in Taiwan after the reunification would be the realization of the concept of "one country, two systems" (1C2S), which had been incorporated into the Chinese Constitution of 1982 (Deng, 1987, pp. 15–17).⁴ In June 1983, at a meeting with Winston L.Y. Yang, an American Chinese academic from Seton Hall University, Deng Xiaoping reiterated that the concept of 1C2S could be applicable to Taiwan, and he even added that Taiwan would be allowed its own army, and that Beijing authorities would send neither army personnel nor administrative personnel to Taiwan, and Taiwan could exercise its own authority on its party, governmental and military affairs (Deng, 1987, p. 16).

As charismatic as Deng Xiaoping was, his official ranking in the Chinese bureaucratic apparatus was only a vice premier in the State Council, although his supreme power was guaranteed by his being the chairman of the Central Military Commission. It was not until May 1984 when Zhao Ziyang, Premier from 1983 to 1987, announced the concept of 1C2S as the state policy for the reunification of Taiwan.

The significant policy change had a thawing effect on cross-Straits relations. This will be discussed in detail in the section on Taiwan's Mainland policies. The ROC President Chiang Kai-shek died in 1975 and his son Chiang Ching-kuo became the Premier of Executive Yuan (Chamber) but he was in fact the *de facto* President. In 1978 he was elected President of the ROC and initiated a transition from a period of "hard authoritarianism" to "soft authoritarianism" (Fell, 2012, pp. 10–11).

The 1980s was the most liberal era in the history of the PRC. With Deng Xiaoping as the chief architect, Hu Yaobang, the then General Secretary of the CCP, was in charge of the party/state ideological work, and Zhao Ziyang, the Premier, exclusively devoted to the commodification (demise of planned economy) of the economy. The economic and political reforms went in tandem. And they have changed the party/state polity significantly (Wong, 2005, pp. 73–120). With hindsight perhaps, the massacre on 4 June 1989 was unavoidable. With the withdrawal of the party/state coercive force, society was liberated, and the social forces rose to challenge the one-party Leninist dictatorship. It was a life and

⁴ The concept of "one country, two systems" was first developed for Taiwan. As the sovereignty issue of 1997 of Hong Kong was raised by the United Kingdom and China was pressurized to devise negotiation strategies with the UK government, this concept was applied to Hong Kong first. The Chinese government used this concept to resolve the 1997 issue of Hong Kong in the negotiation between two governments. (Chen, 2009)

death conflict between the liberated social forces and the party/state bureaucratic machinery. The bloody crackdown indicated that the CCP's monopoly on political power would not tolerate any opposition. The reformist premier Zhao Ziyang was removed and replaced by the new conservative General Secretary Jiang Zemin. However, despite domestic turmoil, in July 1989, Jiang Zemin reaffirmed that Beijing's policy of unification was the formula of "one country, two systems" in an attempt to assure Taiwan's authorities that despite the extensive reshuffle of CCP leadership in the aftermath of 4 June 1989, the original policy on Taiwan reunification outlined in the early 1980s remained unchanged. In December 1990, Jiang reaffirmed the two working principles in dealing with the Taiwan issue: (a) peaceful unification by "one country, two systems"; (b) promoting political solution through people-to-people contact. Beijing was strongly opposed to Taiwanese flexible diplomacy under President Lee Teng-hui, who succeeded Chiang Ching-kuo as President of the ROC in 1988.

In December 1992, Beijing set up the Association for the Relations across Taiwan Straits (ARATS), in response to the establishment of the Straits Exchange Foundation (SEF) by Taiwan in November 1990. The main reason for the setting up of two quasi-governmental bodies across the Strait was that Beijing was opposed to the so-called government-to-government contacts, which to Beijing would be violating the One China policy. Moreover, in the early 1990s, under the tenure of Lee Teng-hui, the foreign policy aimed to be flexible, which implicitly accepted "one China, two governments" across the Strait. In 1992, secret negotiations were conducted between two sides in Hong Kong and reached a consensus of "one China, respective interpretations".

In April 1993, the first talks between Wang Daohan (Head of ARATS) and Koo Chen-fu (Chief of SEF), held in Singapore, formalized the consensus and concluded with four minor agreements on cross-Strait relations.⁵ In August 1993, the first White Paper titled *The Taiwan Question and Reunification of China* was published in which the PRC reiterated that "[a]s a sovereign state, China has every right to us whatever means it needs including military means to preserve its territorial sovereignty" (TAO, 1993).

In January 1995, the Chinese President Jiang Zemin issued an eight-point proposal titled 'Continue to strive for accomplishment of the great cause of

⁵ Despite the consensus between two sides, Taiwanese government and various political parties in Taiwan always refer to the whole statement, i.e. "one China, respective interpretations", in the discussion of the cross-Strait relations. However, Beijing never mentions the latter part of the statement, and only emphasize the former part, "one China" and in fact, it has set "one China" as the pre-condition for any political talks between two sides over the years.

national reunification', which included the following main points: (1) Adhering to the One China principle is the basis of peaceful reunification; oppose any activities in support of "Taiwan independence", "two Chinas"; (2) Oppose Taiwan's expanding of the so-called "international living space"; insisting development of non-governmental cultural and economic exchanges; (3) All negotiations must be conducted under the One China principle and the first step could be to end the cross-Strait hostility formally; (4) Chinese should not fight with each other; (5) The 5,000 years old Chinese culture should be the spiritual tie that constitutes an important basis for the peaceful reunification. In April 1995, Taiwan's President Lee Teng-hui responded by making a six-point statement (cited in Cai, 2011, pp. 27–28).

Between July 1995 and March 1996, Beijing conducted a series of military and missile tests in the eastern coastal areas. These were conducted in response to the visit of Lee Teng-hui to the USA, which Beijing considered as violating the One China principle. Lee delivered a speech in the Cornell University, his alma mater, entitled 'Always in My Heart'. In the face of the heightened tension, the USA sent a carrier to the Taiwan Strait and stationed another carrier 200 hundred miles offshore of Taiwan, a confrontational situation that had never been seen in the reform and open era. As a result, to calm the PRC, the American President Bill Clinton visited Beijing in June 1998, declaring for the first time in public that the US "three nos" policy in cross-Strait relations (no support for Taiwan independence, no support for "one China and one Taiwan", and no support for Taiwan's enlarging international space). In mid-1997, however, Beijing seemed to be sending out message that even though it insisted on the One China principle the PRC government was at the same time offering Taiwan a carrot. It was willing to discuss the national title of the state in order to lure Taiwan to the negotiating table. As Taiwan was called the Republic of China and the Mainland was called People's Republic of China, the message implied that a new national title could be envisaged if both sides were willing to talk about reunification (*Apple Daily*, 7 April 2000). Instead of the legitimacy of the PRC, Beijing apparently embraced Chinese culture as the foundation of talks on both sides.

In November 1998, the second talks between Wang Daohan (ARATS) and Koo Chen-fu (SEF) were held in Mainland China. However, the talks were inconsequential, and the only important consensus reached was to enhance exchanges at various levels and keep on with the dialogues on various issues. The end of the second Wang–Koo talks signaled the end of the phase of peaceful reconciliation. With the announcement of the two-state theory by Lee Teng-hui in Taiwan in July 1999, cross-Strait relations embarked on a phase of confrontation.

In February 2000, the PRC's second White Paper titled *The One China Principle and the Taiwan Issue* was published (TAO, 2000). For the first time, the PRC delineated three conditions where it would use military force to unify Taiwan:

- 1) Declaration of independence by Taiwan;
- 2) Uncontrollable domestic turmoil in Taiwan;
- 3) Peaceful talks indefinitely delayed.

The first point had already been widely discussed but the second and third points were new. Under Lee Teng-hui, the ROC Constitution had been amended in that now the ROC territories were confined to Taiwan and its outlying islands but excluding the Mainland. If Taiwan were to go one step further and change ROC to Taiwan in the Constitution, this would complete the act of declaring independence. The PRC was watching closely. Nonetheless, the definition of “indefinitely” was not specified by the White Paper.

The period under the presidency of Chen Shui-bien saw increasing tensions between Beijing and Taiwan. At the CCP Party Congress (CCPPC) held in October 2002, when Hu Jintao replaced Jiang Zemin as General Secretary of the CCP, the Party basically called to adhere to two principles laid down by the previous leaders, namely peaceful reunification with Taiwan by using “one country, two systems” and following Jiang Zemin's eight-point proposal.

In May 2004, the new General Secretary set out his policies for peaceful reunification. He pronounced the “four nevers”: never compromising on the One China principle, never giving up the efforts for peace negotiations, never changing sincerely in our pursuit of peace and development across the Strait with the compatriots in Taiwan, never wavering in our resolve to safeguard China's sovereignty and territorial integrity, and never tolerating “Taiwan independence” (Cai, 2011, pp. 33–34). In March 2005, while attending sessions of the National People's Congress and CCP Party Congress, Hu again expressed the “four nevers”, but slightly changing the emphasis: never swaying in adhering to the One China principle, never giving up on efforts to seek peaceful reunification, never changing the principle of placing hope on the Taiwan people, and never compromising on opposing the secessionist activities of Taiwan independence (Cai, 2011, pp. 33–34).

On 14 March 2005, the NPC passed the Anti-Secession Law. This meant that it was enshrined in law that China could now attack Taiwan to achieve reunification. Previously, peaceful reunification by “one country, two systems” was a policy by the CCP only. By enacting this law, Beijing was prepared to seek international recognition for reunification achieved through military force.

Throughout the first term of Hu Jin-tao, cross-Strait relations remained tense. However, the people-to-people exchanges increased greatly. The approach by the PRC could be labeled as “economics first, politics second”.

The re-election of the KMT candidate Ma Ying-jeou signaled the halt in the era of confrontation and the advent of the era of rapprochement in the cross-Strait relations. In January 2009, General Secretary Hu Jintao expressed six points on the current cross-Strait relations:

- 1) One China principle is the foundation of mutual political trust;
- 2) Both sides could sign a comprehensive trade and economic package;
- 3) Cultural and educational exchanges should be strengthened;
- 4) Contacts between the KMT and CCP should be preserved; if the DPP could change its independence position, the PRC would respond positively to them;
- 5) The PRC could handle the issue of Taiwanese participation in the international organization in a more flexible way;
- 6) There is a need to explore the possibility of establishing a military mechanism of mutual trust and the different forms of political relations before unification (see *Apple Daily*, 1 January 2009, A16).

Xi Jinping became the General Secretary in 2012 and it seems that Xi has not formulated his own policies on Taiwan so far.

4. Taiwan's policies on the PRC

With regard to Taiwan's policies on the PRC, Hickey (2006, pp. 31–70) identified clear eras:

- 1) Cold War: 1949–1987;
- 2) Warming ties: 1987–1994;
- 3) Economic convergence and political divergence: 1995–2008; and
- 4) A new start under Ma Ying-jeou: 2008–present.

Again, these demarcations are too sketchy and mostly overlook the transition period between Lee Teng-hui and the death of Chiang Kai-shek. The stages of Taiwan's mainland policies may not coincide with Beijing's policies on Taiwan, as the shaping factors on these two sets of policies were determined both by respective international and internal dynamics in the two locations. The policy stages in Taiwan seem to be more varied, mainly because over this period Taiwan had transformed from hard authoritarianism to a democracy (Rigger,

1999). Unlike the CCP's complete dominance in the Mainland, the ruling party in Taiwan could no longer exclude public participation in the decision-making process. Therefore, Taiwan's policies on the PRC could be delineated as follows:

- 1) Armed confrontation: 1949–1978;
- 2) Political stalemate: 1979–1987;
- 3) Consensus and escalation of tension: 1988–1998;
- 4) Confrontation: 1999–2008;
- 5) Rapprochement: 2008–present.

As a legitimate government in Mainland China, the KMT lost the civil war to the CCP, which lasted for four years from 1945 to 1949 and re-established its basis of power in Taiwan. Calling the CCP leaders “bandits”, the KMT still thought that it had the chance of recovering the Mainland by force. In fact, Hong Kong was the conduit through which the KMT infiltrated the Mainland and conducted sabotage activities. In the mid-1950s, there were clandestine negotiations between the KMT and the CCP on the reunification of the whole China (Wong, 2012). However, on the one hand the defense treaty with the USA in 1954 protected Taiwan from attacks by the PRC; on the other hand, it also forced the KMT to abandon to recover the Mainland by military measures. The 1950s saw a period of iron-fisted rule by the KMT in the island. Political repression was extensive, particularly targeting CCP suspects or elements. To maintain Chiang Kai-shek's authority unchallenged, even moderately political opposition was crushed. One of the examples was the case of Lei Chen, who once served as secretary of Chiang Kai-shek in the KMT on the Mainland. He founded the liberal *Free China Fortnightly* and later started to form a political party (Fell, 2012, p. 20). He was immediately arrested for treason.⁶ However, economically, the land reform was successfully launched and paved the way for economic development. It was in this period that Taiwan's export-oriented industrialization began to take off and ultimately became one of four “Little Tigers” in Asia in the 1970s (Gold, 1986).

Chiang Kai-shek died in 1975 and was succeeded by a party veteran Vice-President Yen Chia-kan, who was totally dominated by Chiang Ching-kuo, the premier of the Executive Yuan (son of Chiang Kai-shek). Becoming the Premier in 1972, Chiang emerged as a reformer within the ossified KMT party apparatus. He was able to attract a large group of intellectuals who had urged to reform the political structure, such as the “thousand years parliament”. Three years later, in 1978, Yen stepped down and Chiang Ching-Kuo became President of ROC. To promote localization, he chose Taiwanese Hsieh Tung-min as Vice

⁶ Lei Chun was later found guilty and imprisoned for ten years from 1960–1970.

President in the first term and later Lee Teng-hui in the second term. To develop Taiwan, he committed Ten Infrastructural Projects that propelled Taiwan into the modern era. He was a populist leader and lived an austere life style (Roy, 2003, pp. 156–158). It was said that Chiang had visited every village of Taiwan and knew what happened at grassroots level.

However, his political success in Mainland China was ensured by the dismantling of the belligerent mentality formed in the Cold War era by his father. In response to the peace offence by the CCP leadership in the late 1970s, he gave up the Cold War rhetoric and adopted a mild approach. Still upholding the One China concept, he effectively abandoned recovering the Mainland by force, and instead emphasized the idea of unifying the Mainland with the “Three Principles of the People” (nationalism, human rights, and people’s livelihood) promulgated by Dr. Sun Yat-sen, the founding father of the ROC. In reality, Taiwan practiced the “three nos” policy: no negotiation, no contact and no compromise with the Mainland. However, perhaps partly due to the reform dynamics inside the KMT and partly due to the impact of the CCP’s peace offences, Chiang Ching-kuo began to liberalize Taiwanese society. The KMT began to relax the ban on economic and cultural exchanges with the PRC in the mid-1980s, and in 1987, the KMT also lifted the ban on Taiwan’s aging soldiers visiting their relatives and families in Mainland. At the same time, the four-decade long martial laws in Taiwan were lifted. In 1986, when the *Tangwai* political force⁷ formed an opposition party, Chiang did not crush it, instead he said: “[t]he trends have changed and times have changed” and consequently ushered in a new era of multi-party politics in Taiwan.

Chiang Ching-kuo died in January 1988, and was succeeded by Lee Teng-hui, a veteran Taiwanese politician. When Chiang selected him as his vice-president in 1984, Chiang had three sons and one daughter.⁸ From the beginning, he had no intention of grooming his sons as his successor. In December 1985, Chiang had already stated publicly that the next president would not and could not be a Chiang family member.

⁷ Tangwai means literally “outside the Party” in Chinese. The Party means the KMT. In the early 1970s, political forces critical of the KMT policies emerged and these forces gradually consolidated into a larger force which embraced all oppositions after mid-1970s.

⁸ Chiang Ching-kuo’s eldest son was Chiang Hsiao-wen, who was in poor health. The second son Chiang Hsiao-wu was involved in an alleged murder of Chiang Ching-kuo’s biographer Henry Liu; the third son Chiang Hsiao-yung was a business man with no interest in politics. He had two illegitimate sons while he was serving post in Mainland before 1949.

Having succeeded Chiang as President, Lee continued the policies of liberalization and democratization. He implemented an extensive political reform and constitutional amendments and it was in the tenure of Lee that Taiwan became a full-blown democracy and achieved the rotation of ruling party in 2000.⁹

His tenure was characterized by two stages in regard to the Mainland policies, first by consensus as far as the One China concept was concerned and then the escalation of disagreements and even tensions after early and mid-1990s. Lee maintained the same posture as Chiang Ching-kuo in the beginning: there were no talks between the ROC and PRC but he changed his attitude by saying that no talks between the two sides would be held as long as the CCP insisted on the “four cardinal principles”.¹⁰ In February 1988, he suggested that the ROC should adopt “flexible diplomacy” in foreign affairs and expand international space and he accepted that there could be One China but there should be “two governments”. In May 1990, he added that if talks were to be held between Taiwan and the Mainland, they should be on a government-to-government level, not between party-to-party.

In October 1990, perhaps to show his sincerity or perhaps motivated by tactics to achieve consensus on One China, Lee established the National Unification Council (NUC) and a government ministry, the Mainland Affairs Council (MAC) to handle important issues/policies relating to Mainland. Moreover, the quasi-government agency the Strait Exchange Foundation (SEF) was established in November 1990 to conduct negotiations and talks with the Mainland. In response, the PRC set up the Association for Relations Across the Taiwan Strait (ARATS) in 1991. From then on, these two units have served as “white gloves” for ROC and PRC governments in all subsequent negotiations. Naturally, in his so-called “practical diplomacy”, Lee Teng-hui rejected the formula of the “one country, two systems” offered by the PRC.

In July 1991, still adhering to the One China concept, the ROC government announced the *Guidelines for National Unification* (GNU) with its goal of achieving unification by three phases: a short-term phase of exchange and reciprocity, a medium term period of mutual trust and co-operation, and a long-term phase of consultations and negotiations on unification (GNU, 1991).

In April 1993, the first Wang–Koo talks in Singapore reached the consensus of “one China, respective interpretations” formula to lay the foundation of the

⁹ For a concise history of democratic development in Taiwan see Weng (2010).

¹⁰ Four cardinal principles denote the following: the dictatorship of the CCP, the dictatorship of People’s Democracy, Marxism–Leninism–Mao Zedong Thought, and the Socialist Road.

bilateral talks.¹¹ After more than two decades, the formula still remains the cornerstone of bilateral relations. It was followed by a period of harmonious mutual exchanges. In April 1995, Lee Teng-hui proposed a six-points principle in respond to Jiang Zemin eight-point proposal, in which Lee expressed his willingness to conduct high-level talks with the PRC but to pursue unification on the premise that the country had been separated. Both sides would join international organizations based on equality. Moreover, the talks must be held in the international arena. The PRC was irked that Lee insisted on his “one China but two governments or two political entities” (*China Times*, 9 April 1995). Naturally, the proposal was ignored by the PRC.

In June 1995, Lee was prepared to visit his US alma mater, Cornell University, from which he had graduated with a PhD. In the previous year, during his visit to Central America, Lee had stopped over in Honolulu, but he was refused a transit visa by the US government and was humiliated by being confined to his airplane on the airfield. The US State Department had promised the PRC that it would not grant a visa to Lee’s visit but in a power struggle between the Congress and the Clinton administration, the Congress was able to win a landslide majority, forcing the executive branch to grant Lee a visa. The Cornell visit by Lee threw the US-Sino relations into an abyss and almost propelled the two sides to a military confrontation. The People’s Liberation Army fired missiles off the Taiwan coast and conducted the largest military drills since the 1960s, while the US sent an aircraft carrier, the *Nimitz*, through the Taiwan Strait (Roy, 2003, pp. 196–197). Another aircraft carrier was employed in international waters beyond the Taiwan coast. In fact, this remains the greatest crisis between the two countries after the 4th of June 1989 Massacre. The USA dispatched the largest naval force to Asia since the Vietnam War (Zhao, 1999). The Taiwan Relations Act, passed in 1980, did not guarantee the USA’s intervention in case Taiwan was attacked by the PRC, but it did provide an option for the US government to act in defense of Taiwan (Lee, 2000, pp. 183–187).¹²

¹¹ It could be argued that this “one China, respective interpretations” principle has become the foundation of the cross-Strait relations in that both sides selectively make use of the principle. To my knowledge, I have never seen any government papers or speeches of the officials from the PRC who mentioned the second part of the principle. On the other hand, the whole principle was repeated all the time by Taiwan officials.

¹² The US Congress was much more assertive in defending Taiwan. In a resolution passed on 19 March 1996, with a vote of 369 to 14, the House of Representative stated that “The United States is committed to the military stability of the Taiwan Straits and United States military forces should defend Taiwan in the event of an invasion, missile attack, or blockade by the People’s Republic of China.” (Lee, 2000, p. 192)

Amidst the military confrontation between the USA and the PRC, a new chapter in political development opened up in Taiwan. Following the direct election of the provincial governor of Taiwan in 1994, Lee extended the direct election to the presidency of the ROC. In March 1996, Lee won the presidency by taking 54% of the popular vote. Analysts estimated that the People's Liberation Army's (PLA) military exercises at least increased the vote to Lee by about 5% (Roy, 2003, p. 201).

Despite the explosive tensions, the PRC was not prepared to launch a full-scale attack on Taiwan, partly because it did not want to confront the USA in case of war and partly due to the economic development on the Mainland. The peaceful strategy remained unchanged. After three years, Taiwan and the PRC resumed talks and the second Wang–Koo talks were held in November 1998. This time the talks were held in Mainland China, the first time by two sides. However, the talks did not produce any fruitful results aside from the signing of relatively minor agreements.

Perhaps in a retaliatory reaction to the pro-Beijing visit by the US President Clinton in 1998, who declared the “three nos” policy relating to Taiwan international status publicly, Lee declared the “two state” theory to a German reporter in July 1999. On 12 July 1999, Taiwan formally declared that it had abandoned the policy of One China. Until then, since Lee became the President of Taiwan in 1988, Lee had always delineated cross-Straits relations as under one country but with “two governments”, two equal political entities. Limited government contacts were made through the SEF and ARATS and exchanges of private individuals were encouraged but Taiwan investments in Mainland were discouraged under the policy of “be patient, don't rush”.¹³

Lee had always emphasized the establishment of democracy in Mainland to be the prerequisite of the unification negotiation. Now, he declared to give up the One China principle and refused to abide by the principle in any future contacts with PRC (*Ming Pao*, 13 July 1999, A1). This, of course, infuriated Beijing which immediately suspended the on-going contacts between the SEF and ARATS. Cross-Straits relations stalled. In fact, this almost amounted to a formal declaration of independence by Taiwan. Beijing's reaction seemed to be relatively mild compared with the 1995–1996 crisis. The spokesperson in Beijing accused of Lee of “moving a big step forward on the road of splitting the country, this is an extremely dangerous step for him. It will seriously affect the stability of the cross-Straits relations and the peaceful reunification of the country.” (*Ming Pao*, 14 July 1999, A1) Even more surprisingly, the PRC

¹³ In Chinese, 戒急用忍.

extended an olive branch to Taiwan, perhaps in a gesture of good will to the new President-elect Chen Shui-bien, the ARATS Chairman made an unprecedented move by declaring that even the national title of PRC could be the item for discussion in any future bilateral political negotiation. (*Apple Daily*, 7 April 2000, A31).¹⁴

The lack of strong reaction from Beijing was mainly due to the fact that Chen Shui-bien had just been elected as Taiwan's second President by popular election. Adopting a "listen to his words, observe his behavior" attitude, Beijing was watching intently. Due to the pressure from the US and also attempting to show good will to the PRC, Chen declared in his inaugural speech the central themes in his approach to cross-Straits relations "four nos, one without": no independence, no change in national title of the state, no change of the ROC Constitution, no referendum for the unification or independence; without the issue of abolishing the GNU and NUC (*Ming Pao*, 21 May 2000, A10). Though Beijing still accused of Chen of "lacking sincerity" in accepting the One China principle, the ties between two sides, however, seemed to be warming up. In the first term, Chen's government allowed charter flights to operate and it also permitted the partial ferry schedules between the outlying islands Kinmen and Matsu between Fukien province, establishing the so-called "mini three links". Chen also adjusted the restricted investment policy of "be patient, don't rush" for Taiwan businessmen. In November, Taiwan lifted the 50-year ban on direct trade and investment in the Mainland. Nonetheless, the honeymoon period was short-lived.

Showing his pro-independence gesture and in a move to alienate the PRC, Chen argued that there was no consensus by Koo and Wang on the One China principle, instead there was only the "spirit" which encouraged the dialogues and negotiations which could facilitate the negotiations in future unification talks. In a public speech in August 2002, Chen stated that Taiwan and Mainland China were "each a country on each side of the Strait". This is no doubt another version of the Lee Teng-hui's "two states" theory. In November 2003, Chen announced his plan to hold a defensive referendum (on the position of Taiwan regarding the 1,500 missiles in China's coastal area pointing at Taiwan) on 20 March 2004, the date of presidential election. Then, the PRC published articles that claimed his defensive referendum was extremely provocative and aggravated the already tense cross-Straits relations.

¹⁴ Wang, however, asserted that his idea is purely his personal opinion and he did not know if it would be accepted by the Central Government. Moreover, he said that he had just seen the special envoy sent by Chen Shui-bien to discuss the issue, but it was denied by Chen (*Apple Daily*, 7 April 2000, A31).

On 20 May 2004, Chen began his second presidential term. This term was destined to be full of tensions as Chen implemented more pro-independence policies and the US President George W. Bush called him a “trouble maker” in cross-Straits relations. On 1 October 2004, Chen announced that “Taiwan is the ROC and the ROC is Taiwan”. China reacted by passing the Anti-Secession Law in the NPC in 2005. In February 2006, Chen abolished the *Guidelines for National Unification* and terminated the National Unification Council. In March 2007, Chen reiterated his policy on cross-Straits relations as “five wants”, including: “want independence, want rectification of the Taiwan’s name, want a new constitution, want development, and want no disparity between right and left but between unification and independence” (Cai, 2011, p. 347). Beijing had completely lost hope in Chen and was now hoping that the next president would be more conciliatory and, indeed, with the election of Ma Ying-jeou of KMT as President of ROC in 2008, cross-Straits relations entered a new era of rapprochement.

5. Rapprochement under President Ma Ying-jeou

In May 2008, Ma assumed his presidency, and his policy theme was “no unification, no independence and no use of force”. He resumed the contacts between the SEF and ARATS which had terminated for 10 years. Within one and a half years, the so-called “three big links” had materialized. In fact, within two years of his term, a comprehensive trade and investment pact, the Economic Cooperation Framework Agreement was signed and, in fact, another more detailed trade and service pact was being discussed by both sides. Free travel schemes by Mainland tourists were arranged. Taiwan was more integrated with the PRC socially, economically and culturally. After his presidential victory, Ma stated that there would be no political talks on unification in his first term; “economics first, politics second” is his strategy of dealing with the PRC, a strategy shared by the PRC. However, privately, Beijing was not happy about that. On several occasions, the officials named Ma as a sort of “hidden independent-ist” in contrast to Lee and Chen’s open advocacy for independence. However, the contradiction is that Ma’s Mainland policies did not prevent the Taiwanese economy from decline and his popularity rating fell to its lowest point. The more integrated with the PRC the more unpopular he became. The Sunflower Student Movement was a revolt against his rapprochement policies with the Mainland.

6. Recent developments in the US–Taiwan–PRC relations

Ma stepped down after eight years of President and his dismal economic record enabled the DPP presidential candidate Tsai Eng-wen to be elected. Stressing the need to develop economy and hoping to maintain stable cross-Straits relations with the PRC, nonetheless, Tsai abandoned the One China policy and refused to recognize the principle of “one China, respective interpretations”. Beijing considered the recognition as the political bottom line upon which mutual relationships had been built. In retaliation, Beijing suspended all official and semi-official exchanges with the central government in Taiwan in Taipei, leaving only unofficial communications such as tourist visits, cultural and trade exchanges with the mayoral level cities or counties. Taiwan–PRC relations entered a period of stalemate.

On the other hand, Beijing’s unification offensive seems to be more aggressive after Xi eliminated the two-term limitation on his position as state president of PRC in March 2018. The two-pronged tactics (politics and economics separated) remain valid, however, politically, Beijing is becoming more aggressive. On 3 January 2019, on the occasion of the 40th anniversary of the delivery of the *Letter to the Taiwan Compatriots*, Xi proposed a five-point package to resolve the issue of unification. Besides it reiterated some previous points, such as aiming at peaceful reunification but not abandoning armed force if necessary, Chinese not fighting with Chinese, etc. The new element in the package is that, in emphasizing the formula “one country, two systems” is still valid, however, he went on to argue that the formula could be further enriched. In other words, the present forms of 1C2S as implemented in Hong Kong for 22 years and in Macau for 20 years might not be the finalized form of 1C2C and they could be refined. Expectedly from the Taiwan side, President Tsai immediately rejected the package with a six-point rebuttal, claiming that the appeal was nothing more than a fraud (*Apple Daily*, 3 January 2019, p. A1).

In the international arena, Beijing has been exerting diplomatic pressures as well as giving lucrative economic assistances to states that recognized Taiwan, hoping that these countries would turn away from Taiwan. The tactics have been successful and Taiwan’s diplomatic friends were reduced to less than 30 countries. However, an important friend comes to the Taiwan side—The US President Donald Trump. Besides imposing high tariffs on the Chinese goods and launching a trade war with China, the US’ long-standing One China position was beginning to change when President Trump made a phone call to Tsai Eng-wen as soon as he was elected in 2016, calling her President Tsai. To strengthen

the liaison with Taiwan, in 2017, the US Congress passed the National Defence Authorization Act to allow American warships to conduct port calls in Taiwan. Moreover, in March 2018, the Taiwan Travel Act was enacted to encourage visits between officials on all levels. In April 2018, the State Department announced the sale of a more advanced submarine to Taiwan, in an effort to reinforce Taiwan's defence capabilities. In a more stunning posture, on 24 May 2019, the Taiwan Ministry of Foreign Affairs announced that it would change the name of the Co-ordination Council for North American Affairs, CCNAA, an agency which handles US–Taiwan affairs, into Taiwan Council for US Affairs, TCUSA. For the first time since 1979, USA is put on an equal footing with Taiwan. The two political entities carry equal weight. As such, the USA drastically modified its position of One China policy into “one China, one Taiwan” policy (*Apple Daily*, 26 May 2019, A7). As the US–China relations undergo a period of dramatic reversal of previous policies, its impact on the cross-Strait relations will be huge, and its future full of uncertainties.

7. Future scenarios

The CCP leaders have repeatedly said that the reunification issue “cannot be delayed indefinitely”,¹⁵ but political reunification is certainly not as easy as the CCP leaders think. The future of Taiwan depends on three factors: internal development of the PRC, internal development of Taiwan, and the role of the USA.

Inside the PRC, there might be moderates and hawks *vis-à-vis* the making of foreign affairs policies but there is no such distinction in cross-Strait relations: only one unified voice is articulated from Beijing. The central domestic tasks for the CCP leaders are to maintain social and political stability within, maintain a booming economy, keep pressure on Taiwan, lure Taiwan to the negotiating table by cultural, social, and economic exchanges and, in the meantime, expand military facilities and weapons, and thus extend its influence. Everybody can see that China's foreign diplomacy postures are now much more assertive than before. The CCP is brutal in crushing political dissents inside the country and despite thousands of so-called “collective incidents” (riots), social and political stability have been maintained. In terms of the total GDP, the PRC is now the second largest economy in the world, second only to the USA. To date, the “coming collapse” thesis for the PRC has disappeared (Chang, 2001).

¹⁵ The most recent case was the speech by Xi Jinping at the APEC meeting in October 2013, see Xi (2013).

The second set of factors is the internal development of Taiwan, including the party politics, economic situation, and national identity politics. Taiwan has become a routinized democracy in which rotation of party rule is a norm. It is expected that, after the Ma Ying-jeou's rule of incompetence, the DPP might be able to win back the presidency in 2016. However, with the socio-economic integration advanced with Mainland China so far, it is difficult to envisage a turning back of the clock to the era of Chen Shui-bien.¹⁶ Assuming the DPP will win the presidency, it is interesting to see how the DPP will adjust its Mainland policies, whether it will discard its "independence" posture or it will embrace Ma's formula of "no independence, no unification or no use of force". Or will the CCP accept this policy again after eight years of trial? Will the CCP change the time frame of unification from "indefinitely" to a fixed time span, for example 20 years? Or realistically speaking, will the Taiwanese economy be so dependent on Mainland China that Taiwanese simply support the reunification by CCP. However, would the young generation support reunification? Identity politics plays a significant part in democratic politics. Nowadays, the young population accounts for most of the turnout rate in democratic elections thanks to the mobilization factor of social media. Seeing what happened in Hong Kong in implementing "one country, two systems" more than 17 years after the Handover in 1997 (in the Sunflower Student Movement, there was a slogan "today Hong Kong, tomorrow Taiwan") (Lam, 2014). The young people in general were against unification with the PRC. It is obvious that democratically elected political leaders could not ignore the voice of the youth.

Therefore, it is doubtful if in the future either DPP or KMT presidency would support unification by "one country, two systems" principle. In fact, the polling over the past decades in Taiwan show that "one country, two systems" has been

¹⁶ The economic and social integration have accelerated since 2008. The total of 4.3 million Mainland tourists have visited Taiwan (until the end of August 2012), and the number of individual tourists coming to Taiwan (not joining tourist groups) has reached about 130,000. The applications by the Mainlanders coming to Taiwan handled by Taiwan government shot to more than 5,000 daily. The number of Taiwan tourists going to Mainland has reached 6.7 million since 1987. In economics, Mainland has become the largest exporter country for Taiwan, accounting for 28.1% in 2012, and the second largest importer country, accounting for 14.2%. According to statistics, Taiwan's dependence rate on cross-strait trade is more than six times than that of Mainland (Sun, 2011, p. 70) in the mid-2000s. However, experts have argued that the economic ties between the two sides are still functional rather than institutional. "Functional integration refers to close economic ties that are naturally established as a result of autonomous, close economic activities rather than institutionalized on the basis of official agreements between the parties involved." (Sun, 2011, p. 84). However, the tides might be changing with the conclusion of the ECFA in 2010 and also the Trade and Service Agreement in the future.

rejected by the landslide majority of Taiwanese. Internal turmoil uncontrollable by the political establishment is not possible in Taiwan. As a mature democracy it has devised effective mechanisms of conflict resolution. The pretext of attacking Taiwan on the grounds of internal turmoil simply does not exist.

In the long term, is it possible that an authoritarian PRC would launch an attack on a democratic Taiwan in order to achieve reunification? It could be suggested that the answer to this question is yes, but only if the PRC is sufficiently strong in military terms.

I believe that a military attack on Taiwan would be the only way to achieve unification by the PRC. However, the PRC is not currently prepared militarily. The contemporary CCP leadership does not care about democratic values, whereas it used to subsume all values to the political value of unification, which is the supreme value of Chinese political culture. Neither does it care about economic development in China. I believe that if the CCP could unify Taiwan at the cost of economic prosperity of half of China, they would do it. The key concern for the CCP is that whether it could win the war and take back Taiwan. The leaders are not sure. The main stumbling block is the US. The US's "pivot" to Asia is a welcome news to Taiwan and in addition, the US's continual sales of advanced arms to Taiwan guarantees Taiwan's national security. The PRC has repeatedly stated that the Taiwan issue is one of the core interests of the PRC. The PRC cannot afford to confront the US. In the meantime, China's growing military clout will one day finally enable the PRC's unification of Taiwan by force.

8. Conclusion

Having considered all the relevant factors, a war on reunification launched by the PRC perhaps cannot be ultimately avoided. Fortunately, for ordinary Taiwanese and Mainland Chinese, only the global superpower status of the US has the capability to stop it; war could be delayed indefinitely. It is generally estimated that the gap between the USA and China in terms of military weapon systems is about 30 years (Kazianis, 2013). China is making every effort to catch up. The question for the US is not whether it has the capability but whether it has the political will to defend Taiwan. If the US has the political will, then the issue of unification for Taiwan might linger for another 30 years. In a dialogue with Henry Kissinger at a meeting in 1973, the late Chairman Mao Zedong once said that "we can do without Taiwan for the time being, and let it come after one

hundred years” (Burr, 1998, pp. 186 & 392). In other words, PRC can wait for a hundred years. Now that more than 65 years have passed, the CCP leadership sometimes expresses frustration and impatience on the issue. Nonetheless, the solution is not yet in sight. Will the CCP leaders have to wait another 30 years? They are unwilling but the CCP leaders are pragmatists and unless they can win the war they will not attack Taiwan. For now, the medium scenario (10 to 15 years) would be preserving the status quo intact, with increasing contacts between two sides; sometimes slow, sometimes not, depending on which party is the ruling party in Taiwan. For the long-term scenario (15 to 30 years), the role of the US will be the deciding factor.¹⁷ The years 2049 and 2047 will be critical. The year 2049 is the hundredth anniversary of the founding of the PRC and 2047 is the year marking the completion of the historical experiment of 50 years (1997–2047) of “one country, two systems” for Hong Kong. By then, Hong Kong is to become part of PRC entirely (“one country, one system”). Is it possible that the CCP leaders may attempt to capture the renegade province militarily to celebrate the occasion? The answer is very likely yes. By 2049, if PRC could achieve unification of Taiwan, then “China Dream” would be fully realized.

Dr. **Yiu Chung Wong** is former head of the Department of Political Science at Lingnan University, Hong Kong, currently serving as an adjunct professor in the department. He graduated from the Chinese University of Hong Kong with a BA degree and obtained an MA degree in sociology from SUNY Binghamton, USA. He was conferred a PhD from the University of Queensland, Australia. His research areas include Chinese politics, Hong Kong democratic transition, politics of education reform and cross-strait relations. He is the author of *From Deng Xiaoping to Jiang Zemin: Two Decades of Political Reform in the People's Republic of China* (University of America, 2005), and editor of *‘One Country, Two Systems’ in Crisis: Hong Kong's Transformation Since the Handover* (Lexington Books, 2004). He has also edited four volumes of articles on the politics and foreign policies of the People's Republic of China over the years.

¹⁷ Richard Bush argued that in dealing with the cross-Straits relations, Washington has several approaches, including opting out, context creation, deterrence, intermediation. But opting out is not an option because it simply does not serve the national interest of the USA. (Bush, 2005, pp. 258–259).

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The Mesmerizing Journey from Gyeongju¹ to Lisbon: The BRI as a Mechanism of De-bordering, Re-bordering, and Co-bordering

Francisco José Leandro

Institute for Research on Portuguese Speaking Countries,
City University of Macau
Avenida Xian Xing Hai 105,
Centro Golden Dragon, Room G512A,
Macau SAR, People's Republic of China
E-mail: franciscoleandro@cityu.mo

Abstract: *This paper argues that the Belt and Road Initiative (BRI) as a de-bordering mechanism makes a positive contribution to border security. Three central concepts—de-bordering, re-bordering and co-bordering—are used to examine the future of borders, and further develop the notion of the “cycle” of borders. This research adopts a political science perspective and combines the theory of borders with the Copenhagen School and Paris School of security, bearing in mind the BRI as an access strategy. Furthermore, the BRI elements of connectivity are central to de-bordering. Finally, this paper maintains that the BRI makes different contributions to border security, that borders are “alive”, and that they are the result of cooperative or antagonistic human interactions in which asymmetry in perception is the leading cause of conflict.*

Keywords: *border theory, BRI, co-bordering, de-bordering, re-bordering, security*

¹ South Korea.

1. Introduction

*As we Chinese say, “A close neighbour is better than a distant relative.”
Vice-foreign Minister Zhang Zhijun (2012)*

Borders are the unnatural outcomes of historical hurdles, political struggles and social constructions, which create collective narratives of self-perception. Feudal societies were based on hierarchical social dependency structures and not on territorial delimitation. Borders, if they existed then, were virtually invisible. It was the Westphalian concept of sovereignty and the transformation of the nation-state into the sovereign state that brought significance to border studies, because borders function as limits of direct action in the exercise of sovereignty. Borders represent the maximum reach of state sovereign limits, measured from a centre of political gravity. Borders embody lines of opportunity for cooperation or lines of tension, which may disrupt the balance between two contiguous political units. The latter lines of tension depend upon the way neighbours perceive one another. That is why borders perform different functions and possess dissimilar value, depending on how balanced or unhinged the relationship is between sovereign neighbouring political units. Nevertheless, post-modern state borders are a sort of “mix” combining the hard, closed and bi-dimensional borders of the classic Westphalian state with permeable, immaterially framed, and multidimensional borders of the post-modern state. In light of this reasoning, Castells (2000) distinguishes between the “space of places”, in which people’s experiences and activities literally take place, and the “space of flows” of the increasingly rapid mobility of capital investment, communication and data, and people from one place to another. This notion of the “space of flows” is currently transforming the classic understanding of borders as the most securitized state physical limit, no longer under the exclusive and direct sphere of action of a single sovereign state.

The Great Wall of China, the Berlin Wall and the Brandenburg Gate were President Ronald Reagan’s points of reference when he famously urged, “Mr. Gorbachev—tear down this wall!” Other notorious borders that come to mind are the barbed wire fence on the border between Serbia and Hungary to divert migrants during the migration crisis in 2017, and President Trump’s resolute declarations in 2017 to build a wall along the US-Mexican border. When this paper was drafted, instances of hard bordering (fenced or walled) were taking place, and hard bordering continues to exist in more than 67 states and territories around the world.

This paper argues that the Belt and Road Initiative makes a positive contribution to border security, because this initiative promotes de-bordering, re-bordering and co-bordering. The paper further aims to understand how the BRI-associated elements of connectivity contribute to these three types of border effects. We begin by clarifying three important concepts. The first is *de-bordering*, which refers to concurrent, voluntary, involuntary, multilevel, material and immaterial processes of fading, weakening, trespassing or removing the physical, cultural, legal and economic barriers which are preventing or impeding direct interactions between agents of two contiguous sovereign states, without compromising the exercise of sovereignty. A simple free trade agreement (FTA) is a good example of a de-bordering process because it allows for a more intensive flow of trade in goods between sovereign units. The main idea of these processes is to eliminate restrictions to the cross-border free interplay of national agents, with the intention to promote “harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions” (EU Commission, 2018, PR IP-85-38). These processes should occur at all levels and involve a structured and intentional cross-border collaboration that aims at regionalization. The regionalization concept used here refers to a process of creating local development opportunities, not a political devolution of power. According to Blatter (2001, p. 76), “In Europe, cross-border collaboration is producing another soft, but formalized, comprehensive and territorially defined layer in the European “multilevel system”. In North America, by contrast, only informal, specific and non-territorial institutions are evolving across the national borders”. Delissen (2015) calls our attention to the fact that de-bordering creates opportunities and changes the attitude towards others, introducing a form of elasticity which accommodates different interests. McCall (2012, p. 214) emphasizes that within EU “de-bordering is underpinned by the process of Europeanization eliciting nascent notions of supranational citizenship and identity as well as more substantial form of supranational governance and territoriality”.

De-bordering does not necessarily suggest the removal of physical borders nor does it entail terminating the demarcation of sovereign limits. Indeed, de-bordering refers to simultaneous processes of boosting cross-border interactions, through the implementation of facilitating mechanisms compatible with the exercise of sovereign power. De-bordering however does not eliminate the special divide as Genova (2017, p. 21) points out: “Europe’s borders, like all borders, are the materializations of socio-political relations that mediate the continuous production of the distinction between the putative inside and outside, and likewise mediate the diverse mobilities that are orchestrated and regimented

through the production of that spatial divide”. Examples of de-bordering include the constitution of the Schengen space, free trade agreements, status of forces agreements, bilateral investments agreements, cross-border water management agreements, programmes of academic exchange and recognition of joint degrees, visa exemption regimes as well as the BRI economic corridors and special economic zones. De-bordering also creates opportunities for intensifying immaterial flows such as capital, social media, culture, networks and digital content.

The second concept is *re-bordering*, which advances the idea of reshaping and relocating the “power” of sovereignty and the “space” in which sovereignty is exercised. “Re-bordering refers to challenging, expanding or altering the idea of Europe in order at once to accommodate Eastern Europeans, and potentially other neighbours, as new citizens of the EU, and to define its new spatial, cultural and conceptual boundaries” (Paasi, 2009; Wallace, 2002). Re-bordering calls for the relocation of a sovereign perimeter and transformation of a substantial portion of the perceptions of insecurity. Marcu (2015) puts forward the following notion: “As action, re-bordering includes the bureaucratic legal and police practices aimed at establishing a tight perimeter around the EU, while opening up the internal EU borders (de-bordering). Thus, re-bordering, as I conceive it, is at once about inclusion and exclusion and its limits”.

To a certain extent, re-bordering implies facilitating the ease of crossing internal borders, while simultaneously exerting a higher level of control on a common external border. In the context of the so-called Brexit, some scholars used the idea of swinging borders (Colin, 2015, pp. 67 & 82) as an exercise of variable inclusion and exclusion limits, emphasizing the ideas of reinforcing the external common requirements to be allowed in and joint effort to harden the external common controls. Re-bordering also seems to produce an interesting phenomenon of transferring perceived insecurity from the centre to the periphery, and applying Genova’s argument (Genova, 2017, p. 4), re-bordering entails the “unprecedented securitization of the external borders of the EU’s Schengen zone of free mobility”. Arguably, both concepts of de-bordering and re-bordering are intertwined, and they correspond largely to the material processes of domestic economic and political integration. Likewise, in de-bordering processes, the external border is more exposed to illegal and unreported immigration, to new immaterial processes of digitalization disruption, and the formation of new transnational networks. Re-bordering applies to both soft and hard borders, and re-bordering calls for new considerations such as multi-layered borders combining perspectives on hard, soft and immaterial borders. The most evident example of re-bordering is the integration of states into federations, establishing

a political re-bordering. However, there are other types of re-bordering, as illustrated by the African Economic Communities such as the ECOWAS or the SADC. In addition, the EU-bound Monetary Union and Schengen can also be seen as co-bordering mechanisms. Finally, in terms of the BRI, the constitution of the economic corridors and the memorandum of understanding to use seaport facilities in the context of the maritime Silk Road are also sound examples of re-bordering.

The third concept is *co-bordering*, which appears to be the most demanding level of de-bordering, requiring a certain “joint” dimension exercised voluntarily by contiguous states. Longo (2017) describes essential elements that define the co-bordering concept:

Co-bordering appears to [...] creat[e] overlapping jurisdictions in which two sovereigns can exercise authority over the same stretch of territory (p. 92). [...] States form tandem political institutions, and even create terms for overlapping legal zones, while at the same time preserving basic aspects of sovereignty [...] re-pooling of state sovereignty (p. 111) [...] Co-bordering would provide the glue, adhering member states, which would be compatible with supranational constitutional structure. (Longo, 2017, p. 123)

Creating joint institutional mechanisms for common action such as joint border controls, joint management of separation zones, facilitation and recognition of local transit visas, joint management of hydrographic basins, cross-border exchange of information, and joint security units patrolling external maritime borders, entail deliberate political efforts to use a common physical border as a positive point of contact between two sovereign entities. Such co-bordering policies intensify border dynamics between two contiguous sovereign units, accepting that borders are not lines of mono-sovereignty but active domains for an international interplay of agents and institutions at multilevels to serve common interests. Co-bordering concerns both sides of voluntary active processes, avoiding the uneven exercise of power. Co-bordering is a sort of joint extension of sovereign power, seeking the maximization of mutual interests. Some real examples of co-bordering are the Rovuma Joint Water Commission between South Africa and Mozambique; the Framework Agreement on the joint development of hydroelectric resource (Mekong River) between China and Myanmar; the Khorgos River arrangements between China and Kazakhstan.

This paper is organised as follows. Firstly, for the purpose of conceptualizing borders we will address two questions—what is a border in the Westphalian

sense, and which are the leading effects of borders? Secondly, we will inquire about the future of borders to understand the current trends in border theory; thirdly, we will address the leading causes of interstate border disputes to identify the best options for curbing border conflicts; fourthly, we will argue that the BRI holds a significant potential to contribute to border security; and finally we draw a few conclusions. In terms of methodology, we use comparative qualitative research to combine political science, security theories, and empirical first-hand observations.

2. What is a border? Which are the leading effects of borders?

We live in an odd world. On the one hand, the public narrative says that the world has become increasingly interdependent and globalized; that states are keen to join economic zones to overcome trade barriers, to be recipients of foreign direct investments (FDI) and to engage in bilateral trade agreements (BTA), preferential trade areas (PTA) or FTA; and the political discourse acknowledges that common challenges cannot be tackled by single states in isolation. The emergence of multilevel multilateralism is another manifestation of interdependence and globalization. The main function of organizations such as the World Trade Organization, the Internet Governance Forum, the United Nations High Commissioner for Refugees, the International Organization for Migration, the International Labour Organization, or even informal groups like such as G-20, is to ensure that trade, information, labour and people flow as smoothly, predictably, securely and freely as possible and at all levels. We talk about movements across regions all the time: capital, people, goods, labour, services, culture, electronic waves, transportation means, submarine cables, and innovative ideas. In this context, it appears that hard borders are doomed to fade away and will eventually disappear. We all want to be connected to the global cloud, which probably represents the virtual anti-idea against any sort of divide. Moreover, global natural occurrences, such as climate warming, pollution, fauna migration movements, the proliferation of flora species, spread of diseases, river flows, typhoons, high and low tides, winds and rain, digital connectivity, have rendered the idea of borders almost useless.

On the other hand, the concept of political borders appears to swing between sovereign fault lines, which constitute tense points of contact and lines of opportunity facilitating the management of common problems. Likewise, political borders may reflect fundamental imbalances that induce antagonism, or

they may provide opportunities for joint efforts to meet common needs. Anghie (2004, pp. 89–95) suggests that borders were created by the push provided by the Berlin Conference (1844–1845), as part of the European access to raw materials and markets, which excluded African nations. Most of the time, borders do not depict a fair transition from nations to states, but they represent the compromise to end colonialism or circumstantial nation-building processes, bearing in mind what Fukuyama (2005, p. 10) christened as “minimal state functions”. As Kristof (1959, p. 220) argues, the primary function of boundaries is their use as a legal instrument in order to have some stability in the political structure, both on the national and international level, because of which a clear distinction between the spheres of foreign and domestic politics is necessary. Boundaries help to maintain this distinction and they establish a difference in identity between “us” and “others”—enforcing the recognition of the parties as equals. Therefore, borders are a human creation that materializes the concept of the Westphalian state, and as a consequence, states build lines of separation (sometimes in the form of physical walls), reinforce the external protection of common borders, enter into exclusive bilateral agreements, criminalize in the strongest ways any allegiance to foreign states, do their utmost to prevent illegal border trespassing, and safeguard their borders in the most assertive ways, often with a high degree of militarization. The degree of militarization in the context of the securitization narrative becomes part of their natural reality as Gelézeau (2015, p. 28) puts it, “The thorough militarization of the border regions contributes in evident ways to their “cultural” identity and is an integral part of the daily lives of the inhabitants.” Physical border security and foreign affairs are central concerns of sovereign states, whose aim is to protect their nationals from the “outside world”. In this vein of thought, “sovereign” borders, as a Westphalian creation, represent lines of separation, dividing equal power and differentiating national identities. Political borders are conventional lines that distinguish national interests, and they sometimes function as catalysts promoting mutual interests. They are the result of historical processes and were established by the dynamics of political power. According to Ulc (1996),

European borders are unnatural, political constructions [...] border drawing has been a consequence of the struggles about formation and re-formation of nation states. [...] Borders are the “scars of history” [...] as they divide geopolitical spaces, states, nations, ethnic groups and families. They divide people due to political decisions; they are often the outcome of violent conflicts between nation-states, but they may be determined peacefully, such as it was the case [...] after a referendum that divided into the Czech Republic and Slovakia in a so-called Velvet Divorce. (Ulc, 1996)

Border stability, and the type of physical barrier standing as a border, depends on a correlation of forces, the circumstances determining the exercise of political power, the ability of the existing institutions from both sides of the border to entail stable communication, the perceived asymmetry of power, the regularity of social and economic interactions within an arch of historical time, kept alive in the memory and identity of people separated by a border.

After World War II, the number of fenced or walled borders was less than ten. In 1989, soon after the fall of the Berlin Wall, the world had 15 hard borders, with walls or fences. In 2018, the number of this sort of physical barriers was between 67 and 77, according to different sources. Our research has already identified 67 states with hard borders and is not yet complete. Hard borders all over the world have steadily increased after the year 2000, in response to terrorism and immigration (Table 1).

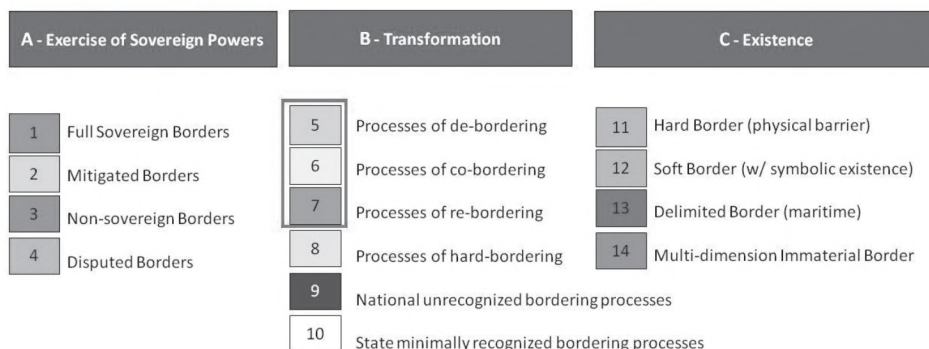
Table 1. Percentage of the world's hard borders in 2018

	Africa	Asia	Europe	Latin America & Caribbean	Middle East	World
States with fenced borders	9	33	17	7	12	78
Percentage of the number of states or territories	17% (54)	65% (51)	35% (48)	21% (33)	66% (18)	34% (204/193)
				Exclude dependencies or other non-sovereign territories		UNGA representation 193 sovereign states

Middle East and Asia are the regions with a highest percentage of hard borders, but the number is growing fast in Europe, especially after 2010. Likewise, hard borders are being built as a protective measure against illegal immigration and as a security measure against transnational crime.

In this paper we consider an interactive typology of borders classified into three intertwined types: (A) the exercise of power associated with the existence of a border; (B) the processes of border transformation; and consequently (C) a border's material existence (Figure 1). Therefore, the physical appearance of borders is the result of a certain way of exercising sovereign power and linked to on-going processes of transformation.

Figure 1. Typology of borders



The exercise of sovereign power according to perceptions of cross-border security is at the centre of the border's existence as a living structure. There are four categories:

(A1) refers to the exercise of full sovereign rights between contiguous states, in which asymmetry is a condition for the existence of hard-border solutions—e.g., Ceuta (SP), Melilla (SP), Gibraltar (UK), Cyprus, North–South Korea, Israel–Palestine, Uzbekistan, Brunei–Malaysia, Norway–Russia and Lithuania–Russia (Kaliningrad);

(A2) denotes the exercise of mitigated sovereign rights when one of the contiguous states responds to the other, as in the case of some European states, federated states, or the classical case of quasi-states, with limited external exercise of sovereignty—e.g., federated states, Schengen states, San Marino, Andorra, Lichtenstein, Portugal, Spain, and Luxembourg;

(A3) refers to the so-called borders within borders, which applies to non-sovereign borders within a sovereign state, as in the case of the special economic zones (SEZ) or the Chinese Special Administrative Regions (SAR)—e.g., China's SARs, international zones in international airports and seaports, and the three-mile-long wall in Calais (FR);

(A4) refers to the borders of states that are not capable of or willing to exercise full control over their borders due to international disputes or their own material incapacity—e.g., Somalia, Colombia, Myanmar, China, India, Pakistan, Israel, Syria, Nepal, Russia, Japan, Kuwait, Saudi Arabia, Kosovo, Malaysia, and the Philippines.

Depending on regular cross-border interaction, this second group of borders undergo processes of border transformation from de-bordering to hard bordering. B5 to B7 can be considered processes of softening borders. Thus, there are:

(B5) Processes of de-bordering, combining economic and political dimensions—e.g., BRI, the European Union, ECOWAS, ASEAN, MERCOSUL, ASEAN, EEU, international pipelines, submarine cables, cloud centres, international academic programmes, meetings, incentives, conferences and exhibitions (MICE), air and shipping lines;

(B6) Processes of co-bordering—e.g., BRI, federated states, European Union, joint management of international institutions, joint border-checkpoints, and joint border patrols;

(B7) Processes of re-bordering—e.g., federated states, and European Union;

(B8) Processes of hard bordering—e.g., Uzbekistan–Afghanistan barrier, Estonia–Russia border fence, Turkey–Iran border barrier, and Belize–Guatemala;

(B9) Unrecognized attempts to materialize non-existent political borders—e.g., Kurds, Igbos, Bavarians, Catalans, Puerto Ricans, Rohingya, and Užupis (Lithuania);

(B10) Bordering developments recognized by a small group of states. These developments are based on current circumstances and driven by past political-legal historical events—e.g., South Ossetia (Georgia), Abkhazia (Georgia), Nagorno-Karabakh, Transnistria (Moldova), Turkish Republic of Northern Cyprus, and Saharawi Arab Democratic Republic (Morocco).

The exercise of sovereignty and transformation processes result in four types of borders:

(C11) A hard border refers to the existence of a fenced, walled, militarized or non-militarized physical barrier, imposing a high level of control on cross-border interactions, according to criteria defined by the sovereign power. Trans-border physical movements are seen as threats to the state, and therefore often criminalized;

(C12) A soft border symbolizes only the maximum extent of sovereign power, but there is no physical border to obstruct cross-border interactions. Trans-border physical movements are encouraged and considered cultural and economic assets;

(C13) An immaterial border differs from a political border (hard, soft or maritime) as it refers to interaction flows, such as culture, beliefs, traditions, ideas, capital, digital waves, radio waves, pollution, wild fauna crossing, and the effects of natural elements, which transcend physical barriers. Each of the previous forms of borders have a certain degree of complex consequences of the common immaterial nature of all borders. Nail (2016, pp. 2–3) pointed out the problematic nature of border theory when he argued that “it is not strictly a territorial, political, juridical, or economic phenomenon but equally an aterritorial, apolitical, non-legal and noneconomic phenomenon at the same time”; and

(C14) A delimited maritime border refers to non-physical conventional limits, with different degrees of sovereign rights, governed by the UNCLOS.

According to the classical theory of borders, borders are recognized, conventional demarcation lines, delimiting contiguous spaces of sovereignty exercised over a territory and a population. Borders result from the transformation of nations into states, and they craft states across nations or transform a nation into multi-states. Borders mark the maximum range of the direct effects of state institutional actions within a system of public values enforceable by domestic law. In the case of the DMZ between South (SK) and North Korea (NK), the border represents first and foremost a deep division between the public values of both countries, and incompatible political ideals. However, the identity divide seems to be the most significant dimension. The programme to reunite families is an affirmation of their common Korean identity and is part of the very few measures to de-border the “hardest” border in the world. Borders depict a certain conception of space and, as Chauprade (2003, p. 18) clearly puts it “borders are part of our geopolitical referential [...] they are the visible result of interaction between different forces composed of ethnic, religious, language, relief and the rush for resources”. In this sense, borders represent the territorial and physical limits of political systems, binding all individuals whose presence within that territory is legally relevant. But borders go further, because they are also conditioning elements of a state’s perception over its own physical geography and therefore a very important element when considering foreign affairs options. Chauprade (2003, p. 201) concluded that “physical geography is a constant factor, which stands as the foundation of the continuity of states’ foreign affairs”. Again, in the case of the DMZ between SK and NK, this border not only represents a separation between two completely different models of establishing relations with the international system of the world’s nations, but also depicts a great ideological, political and economic asymmetry on many levels. The DMZ appears to be a

border of two tragedies—the tragedy of living with a persistent fear (SK) and the perceived tragedy of being forgotten by the world (NK).

In the traditional categorization of borders, alongside the current political narrative, it seems that there is an acceptance of the narrative of “interdependence”, insofar as it concerns soft borders. Inversely, the idea of a hard border is met with a completely different reception. The classic concept of hard borders portrays a world of exclusion, confrontation, fear, separation of cultures, incompatibility of interests, deploying the unknown and a rooted perception of antagonism. Hard borders frequently represent lines of “protection” to prevent access and reinforce the national sense of belonging where the uncertain is to be feared. As Mostov clearly explains,

Hard borders and hard border thinking undermine people’s access to resources, opportunities, and protections; limit possibilities for democratic processes of social choice; and encourage relationships of domination and violence [...] promotes and exacerbates political conflicts, blocks sustainable peaceful conflict resolution, and maintains skewed relationships of power in international markets and development programs (Mostov, 2008, pp. 3–4).

He further asserts that

hard border concepts fuel politics of fear and exclusion, fixing notions of membership and belonging and exacerbating vulnerabilities of those over whose bodies symbolic borders are constructed and for whom physical borders are lethal (Mostov 2008, p. 123).

Unquestionably, even when we refer to hard borders determined by natural features of geography, there are different types of hard borders, each with its own challenges, for example, mountains (difficult to oversee and control and they represent the natural separation of waterways), rivers (seen as natural barriers and as natural communication routes), lakes (require common management), deserts (their unstable and changing landscape is difficult to manage), and forests (difficult to exercise control). Borders are used to separate what is different but not necessarily incompatible. Sometimes borders represent long-standing separators, and they function as “dividers” in the historic, religious or economic context. Laroche (2017, p. 32) explains why borders have become sites of conflict and contestation “international politics is now characterized by several cleavages (North/South, South/South, legal/authoritarian states, etc.). They are determined by major social economic disparities and large dissimilarities between actors on the international stage (undeveloped/developed countries).”

To separate what is thought to be incompatible creates a dilemma, and this dilemma is based on the fact that states are ready to invest more and more to improve the strength and the resilience of their hard borders. However, it appears that the greater the asymmetry between contiguous states, the harder a border becomes. Consequently, the harder a border becomes, the higher its potential as a source of fear, discomfort, cleavages and violent conflict.

The Copenhagen School of security has put forward a two-stage process of securitization, using the central concept of “speech act”, which is defined as the discursive representation of a certain issue that poses an existential threat to security. In fact, the Copenhagen School claims that any specific matter can be non-politicized (it is not a matter for state action, and it is not included in the public debate); politicized (a matter managed within the standards of the political system, is part of public policy, therefore requires government decision and resource allocations); or securitized (the end of the spectrum, requiring emergency actions beyond the state’s standard political procedures) (Emmers, 2010, pp. 138–139). An act of securitization refers to the accepted classification of a certain and no other phenomena, persons or entities as existential threats requiring emergency measures. This is precisely the problem of conceptualizing hard borders, because they immediately trigger existential threats requiring emergency measures. Military border protection is a classic example of securitization based on a speech of act, using fear as a central justification for action.

The material representation of a border is connected to risk perceptions associated with or arising from border governance techniques based on three levels of the public narrative. In fact, the Copenhagen School of security (Leandro, 2018, pp. 141–142) claims that any specific matter depicting the relationship between the sides of the border can be non-politicized and not treated as a matter for state action and therefore will not be put under the spotlight of public scrutiny. Or it can be politicized as a state matter to be managed within the institutions composing the political system as part of public policy and the object of governmental decision-making and with a fair amount of public resources allocated in the pursuit of public objectives. On the third level, a matter can be securitized, which places it at one end of the spectrum of political action, requiring extraordinary and urgent measures, far beyond the state’s standards of political procedures and if necessary, allocating a considerable part of the present and future resources of the state. Securitization in this sense represents an exceptionality of the state action as “opposition to normal politics”, which in the case of borders leads to extreme hard borders with an unsustainable militarization solution. Fear fuels asymmetric perceptions and paves the way to antagonism, sometimes

violent antagonism. Confidence induces cooperation and de-escalation, and as a consequence, joint solutions in de-bordering actions.

Hard borders extend far beyond the simple divide between political systems. Most of the time, they represent firewalls against a perceived evil, and are capable of undermining the existence of a state. Thus, when we discuss the perception and function of hard borders, very much depends on the relationship with neighbouring regions and countries, the balance of power, the levels of non-military securitization, the communication tools, and state regional integration as a determinant of the domestic securitization narrative. In any case, hard borders either represent the symbolism of a historical context and a pursuit of singular individuality, or they are physical barriers built on fear, unbearable differences and the uncertainty of “odd neighbours”. According to Asad (2017, p. 220), “The representation of Europe’s borders is, of course, symbolic. But the signs and symbols have a history.” This historical representation also impacts on the perceived “need” for strong and resilient hard borders which are often merely instruments of a narrative of political reassurance.

The DMZ on the SK side appears to be the most militarized border in the world, while the Israeli-Palestine border is the most “hostile” (Marshall, 2018, p. 1). From these two examples of hard physical borders, four substantial physical effects and three intertwined psychological repercussions can be identified.

Substantial physical effects

- Borders are capable of inhibiting the “evil” from invading or occupying our space. Borders represent a protective barrier and shield our psychological “comfort” from an array of harm and threats. Borders protect and isolate political units and they function as “filters” setting the conditions for inter-border interaction. Borders prevent us from stepping freely into “uncertain lands”. According to Mostov (2008, p. 2), “While boundaries are regularly and easily traversed today by capital, electronic information, a wide class of goods, environmental hazards, and certain categories of people (privileged passport holders and traffickers), other categories of people are held hostage within the hard borders of their ‘home’ states or blocked at the hard-borders of potential ‘hosts’.” Borders protect us from others by setting criteria, operating as a filter that regulates entry into alien space and that determines how we share our space with aliens;
- Borders are there to reorganize our space and differentiate it from “enemy domains” according to a certain security rationale. Borders are conventional, historical and political constructions, resulting from the necessity to impose

limits on us or to enforce barriers on others perceived as different from us. Borders offer protection from fear, because they are intended as an instrument to consolidate a union of identities and to promote the sense of belonging. In addition, borders are “arrangements” made with others, acknowledging the space which others occupy and at the same time forcing others to recognize us and the space where we exist and exercise our values;

- Borders rationalize the space in their vicinity according to security needs. Borders are not defined simply by the physical separation between two sovereign entities. Borders command a set of collocated infrastructures whose number, type and organization depend on the perceived security needs. Borders influence the organization of the space within their vicinity and the rationale of domestic interactions. Gelézeau (2015, p. 30) argues that “despite the dream of a Peace Belt on the 38th parallel, the Korean border is still a militarized “hot border” and profoundly structures the spatial organization of the region and its way of life. Yet, despite its apparently static nature, the border continues to shift.” Therefore, depending on the level of securitization, borders make different impacts on spatial architecture, structures, assets, occupation, and land use. Land borders are a haven for wild life because they function as a protected sanctuary, allowing for fauna and flora to be out of human reach. The land borders between Croatia and Serbia, between Guinea-Bissau and Senegal, between Syria and Jordan and between South and North Korea are examples among many. Gelézeau (2015, p. 27) asserts that “the inter-Korean border is a space where two types of gaze meet: that of defensive military surveillance and that of the inquisitive tourist for whom the border is a monument to the past and an ecological marvel”. Nevertheless, it appears that the same idea does not apply to disputed maritime borders which are mostly the loci of illegal and unreported fishing, human trafficking and polluting activities, precisely because of the lack of exercise of sovereign power;
- The excessive securitization of borders as a mechanism of exception is a governance technique, resulting from a perception of threat and the formulation of a narrative of “preventive” fear. As Paasi argues (2012, p. 2307), understanding borders is inherently an issue of understanding how states function, and understanding their perceptions in relation to others and to their own vulnerabilities because “borders can be exploited to both mobilize and fix territory, security, identities, emotions and memories, and various forms of national socialization”. A policy of borders based on abnormal politicization as an attention-grabbing model opens the door to the politics of pure realism (and extremism) and is a kind of mobilization of conflictual or threatening relations (Leandro, 2018, p. 146).

Intertwined psychological repercussions

- In most of the cases, borders represent the limits of fear or the beginning of hope. Borders create an intentional gap, capable of generating psychological relief (protection from threats) or anxiety (as a result of a widening wealth gap). Borders are a safety protection from the unknown or a window on what is desired;
- Borders exercise a sort of secret hold or power of attraction. Borders as physical locations exercise the magnetism of the unknown, because they represent the closest point of “safe” contact with “evil” or offer the virtual opportunity to experience hope and dreams. Kolossov and Scott (2013) mentioned that borders “often become ‘memory landscapes’ with abundant monuments, museums and historical sites; they become sacred spaces of national or ethnic memory. In some cases, border regions can take on a dramatic theatrical character in which specific national interpretations of past conflict and the culpability of the other side are carefully staged. This is particularly the case of the South Korean side of the demilitarized zone, of Cyprus [and Turkey], the border between Turkey and Armenia, and of borders between Bosnia and other former Yugoslavian republics.” (Kolossov & Scott, 2013, p. 5)
- Borders are artificial dividers of culture, identity, families and social groups. Borders categorize individuals according to their “native hood” or their “foreign” nature. Borders imply emotional divisions among the populations on either side of the border. Risse (2004) asserts that “borders are multidimensional”, that they exist in the minds of people, and reinforce the perception of differences. Delanty (2006) stresses that “borders are spatial representations of power relations, and they become reflected in the minds of the people who live with and along the borders” and according to Genova (2017, p. 23), “The struggles of migration and borders reanimate race and post-coloniality as central to adequately addressing the most fundamental problems of what ‘Europe’ is supposed to be, and who may be counted as ‘European’.”

Border theory, especially in the study of border conflicts, should combine the two perspectives of physical effects and psychological repercussions of borders on both sides. Yndigegn (2011, p. 48) provides an apt description of borders and stresses, “Borders produce meaning and significance beyond their mere existence. Borders are social constructions, but they construct social relations as well. Borders signify the relationships between actors and institutions in the borderland.”

3. What is the future of borders?

Will soft borders eventually replace hard borders? No. Hard borders are unlikely to change significantly, except in the face of complex and significant political processes. Regardless of different approaches to global interdependency, immaterial borders will expand and intensify at different levels, due to the advancement in digital technology, communication facilitation processes, and transnational trade networks. Physical borders will remain but some of them will be transformed into hard borders, and others will undergo de-bordering processes, but all will acquire complex multi-dimensions. The number of fenced or walled borders appears to be growing and the number is likely to grow even more. Alongside this proliferation of hard borders stand immaterial flows that will intensify and, consequently, new immaterial borders will appear. The intensification of asymmetric perceptions will influence the design of the physical configuration of borders. While interdependency does not necessarily imply physical de-bordering, it does entail a softening of borders in the classical sense. According to Mostov (2008, p. 123), “Softening of borders does not mean creating a world without political borders—it means recognizing the fluidity and malleability of such borders [...]. Softening means facilitating legal movement and exchange across political units and also opportunities for political and economic participation in multiple polities.” As a result, softening borders reduces asymmetry, encourages sustainable solutions, economic prosperity and social stability.

The major challenge that the post-modern state faces is precisely the compatibility between the processes of softening borders, intensification of immaterial flows, and the exercise of sovereign power. Softening the border leads to an increase in cross-border flows, since the process creates “windows of mutual penetration” based on common interests. It contributes to de-bordering but raises new issues in relation to other levels of re-bordering—for example, in the cyber domain. However, the process of softening borders does not necessarily create mechanisms of co-bordering which requires concrete public policies and negotiated international solutions, for example, international water management in riparian and upstream states. The future of borders lies in the mobility of goods, capital and people. In relation to human mobility, Genova explains that

borders are not simply spatial technologies but also operate in ways that are fundamentally dedicated to the temporal processing of distinct mobilities, ultimately consigning various categories of mobile people... The ongoing crisis of European borders, therefore,

corresponds above all to a permanent epistemic instability within the governance of transnational human mobility, which itself relies on the exercise of a power over classifying, naming, and partitioning migrants/refugees, and the more general multiplication of subtle nuances and contradictions among the categories that regiment mobility. (Genova, 2017, p. 9)

Indeed, we will see more and more de-bordering actions in the digital, capital and science domains. Inversely, transnational human mobility will be the subject of processes of hard bordering, despite the need for the mobility of human resources. The future will bring dilemmas. On the one hand, as the process of border softening gains momentum, so will digital globalization and economic interdependency. On the other hand, and despite the fact that ageing societies will require higher levels of transnational human mobility, the fear of losing national identity will harden cross-border access criteria, especially inter-continental cross-border movement.

4. Which are the leading causes of interstate border disputes?

We must return to the concept of hard bordering. Mostov argues about

the negative consequences of hard-border policies and the potentially positive consequences of soft border practices [...]. Hard borders and hard border thinking undermine people's access to resources, opportunities, and protections; limit possibilities for democratic processes of social choice; and encourage relationships of domination and violence. Hard border thinking promotes and exacerbates political conflicts, blocks sustainable peaceful conflict resolution, and maintains skewed relationships of power in international markets and development programs. (Mostov, 2008, pp. 2–3)

In international cross-border conflicts, the leading cause seems to be the level of “multi-sector asymmetry along the border”, due to human insecurity—exacerbated by military, ethnic and economic complexities. Hardening hard-border policies contributes to an escalation of crisis. Premature hard-border militarization is a tangible policy measure, which is, even for self-defence purposes, capable of triggering violence. Therefore, it is possible to put the leading causes of interstate border disputes into three categories, all of them related to processes of hard bordering.

(1) *Geo-identity factors* are the leading causes of border conflicts, ignited by the exploitation of religious narratives, cultural clashes, ethnic unity, nationalistic narratives, and ideological alignments; the failure to recognize and empower national identities and protect national groups; confused, inconsistent, and conflicting communication discourses; and extremist narratives that induce fear and uncertainty. The perception of being in a position in which an external factor is harming the sense of “who are you?” and the identity of “who are we?” threatens the very basic human security needs. These feelings are often exploited by populist and extremist narratives of intolerance, which are capable of galvanizing factors of violence;

(2) *Geo-economic factors*. These correspond basically to the failure of fulfilling the essential elements of the social contract—namely, not addressing the development gap, the wealth imbalance, social and environmental inequalities, endemic corruption, uncurbed pollution, lack of sustainability, failure to provide an acceptable level of social capital, low level of foreign investment, economic isolation, rush for natural resources (especially livelihoods), depletion of natural resources, and non-competitive or unfair trade barriers. Indeed, the high competition over scarce natural resources, which is worsened by environmental issues, is among the most pressing causes of current conflicts in Africa (UN-OCHA, 2008). Extreme asymmetric geo-economic realities generate disproportionate development levels, communication barriers, economic insecurity and reckless behaviours;

(3) *Geopolitical factors*. Among an array of leading causes of cross-border violence are water management (and sustainability), migration movements, discriminatory border regimes, treatment of asylum seekers, colonial legacies, military-power disparity, transnational crime, failed states, dispute over sea access (landlocked states), and border demarcation (territorial disputes) especially in connection with problems of resources control. Gibler (2012, pp. 12–14; 25–29) proposed four types of disputes: territorial, catch-all, policy and ethnic. However, territorial disputes affect the state for a long period of time, tend to encourage the building of large standing armies, and hold a great symbolic charge. This symbolic charge, constitutes an opportunity for an empowerment of an elite, capable of securitizing disputes, inducing political concentration, promoting hard-line leadership, deviating from political tolerance, and advancing hard border solutions. Territorial disputes are probably among the most important causes of cross-border armed conflicts and therefore, they should be object of particular attention. According to Mancini (2013), “[t]erritorial disputes are traditionally regarded as the most common sources of conflict and a vast number of scholars have

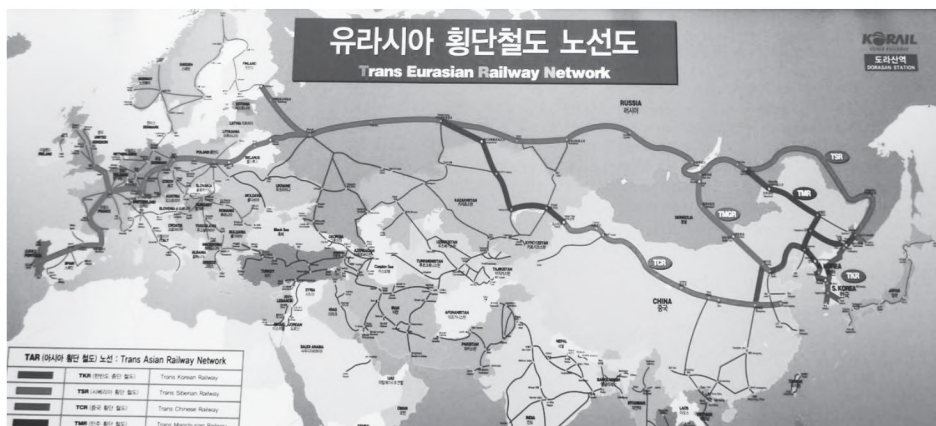
analysed the connection between disputed territory and the outbreak of war”.² Indeed, John Vasquez (1993, p. 307) concluded that “if you want to avoid war, learn how to settle territorial disputes non-violently”. Yet, it is important to emphasize that not all territorial disputes lead to war. “Since 1953, ninety-seven territorial disputes have been solved through bilateral negotiations, third-party mediation, arbitration, or adjudication at the International Court of Justice. Many other disputes remain dormant.” (Wiegand, 2001, p. 2). Mostov (2008, p. 134) emphasizes that “[c]ontrol of economic resources, however, is a significant motivation for technocracy and the violence of hard border politics.” It is particularly interesting that bays as convergent points of access diminish the perceived need for hard border protection on the part of individual countries. According to the UN-OCHA (2008), although geography may be important it is the lack of resources and ability of local governments to manage and prevent cross-border conflicts that seem to be the leading causes of conflicts.

5. To what extent does BRI contribute to border transformation processes?

Visiting the DMZ on the SK side, it is difficult not to miss the enormous billboard displayed inside the Dorasan Railway Station (Fig. 2), depicting “the mesmerizing dream” of travelling from Gyeongju (South Korea) to Lisbon (Portugal) by train. This long journey symbolizes an ideal intercontinental de-bordering process, which induces significant material and immaterial flows. Unfortunately, the number of hard borders is growing and the level of militarization of national borders is also growing. Uzbekistan is an interesting case of a landlocked state, that between 1999 and 2006 barricaded itself off its four neighbours (Kyrgyzstan, Turkmenistan, Afghanistan and Kazakhstan), with a tall electrified barbed-wire 380-volt fence, land mines and army patrols. New physical walls are being built and more have been proposed: Costa Rica–Nicaragua, Pakistan–Afghanistan, and Guatemala–Belize. Fortunately, there are no-walled processes taking place such as the Aral Sea border (Kazakhstan–Uzbekistan), the new agreement on the sea border of the Caspian Sea (2018) between Russia, Iran, Azerbaijan, Kazakhstan and Turkmenistan. Lastly, there is the “peculiar” example of a “moving internal border” in China—the West Kowloon Railways Terminus in Hong Kong, which operates in the framework

² Such as Gary Goertz, Paul Diehl, Paul Hensel, Stephen Kocs, John Vasquez, Rongxing Guo, and Krista Wiegand.

Figure 2. The Trans-Eurasian Railway Network



Source: Billboard displayed at Dorasan Railway Station, South Korea
(October 2018)

of three concurrent jurisdictions, under a singular sovereign: trains are under Chinese jurisdiction, tracks are under Hong Kong jurisdiction and the railway station is divided into different zones, which are under Chinese jurisdiction or Hong Kong jurisdiction. Thus, it appears that de-bordering and hard bordering are taking place concurrently.

The BRI is a Chinese concept with a global reach, subjected to national scrutiny by the participating states, which aims to induce multilevel de-bordering processes without modifying the limits of sovereign borders. According to the World Bank (WB),

the Belt and Road Initiative is an ambitious effort to improve regional cooperation and connectivity on a trans-continental scale. The initiative aims to strengthen infrastructure, trade, and investment links between China and some 65 other countries that account collectively for over 30 percent of global GDP, 62 percent of population, and 75 percent of known energy reserves. (The World Bank, 2018)

Furthermore, the WB has emphasized three very important facts about the BRI: “it can transform the economic environment in the regional economies of its operation”; “it can substantially reduce trade costs and improve connectivity” and “the cost reduction will have significant consequences for certain goods impacting the mode choice and total flows of international trade” (The World Bank, 2008). In fact, the BRI is based on a network of elements of connectivity between economic agents: domestic land development axes, international

economic corridors, joint transit routes, sea lines of communications with a myriad of sailing options, and special economic zones (and similar arrangements).

The BRI has been studied and talked about by state institutions and scholars. The National Development and Reform Commission and the State Oceanic Administration Vision for Maritime Cooperation under the Belt and Road Initiative to build a peaceful and prosperous 21st Century Maritime Silk Road comes under the umbrella of the Silk Road initiative. This document must be read in the framework of the socialism with Chinese characteristics for the new era, as a model under construction, based on market innovation elements and the idea of social redistribution. Entrepreneurship has taken on another dimension because the concept of the BRI stands for much more than creating sustainable wealth. Indeed, in light of the Chinese vision, responsible entrepreneurship fosters a positive contribution to the common good. As an infrastructural access strategy, the BRI envisages a global contribution, connecting trade agents for the benefit of all. Thus, the combination of the BRI the land belt with the maritime Silk Road is intertwined with exceptional interface gateways (SEZs) between economic agents, using the elements of connectivity to promote and facilitate cross-border flows. The idea of shortening the distance between markets and production centres worldwide, under the principle of free trade, creating harmonized policies and respecting sovereign boundaries, appears to be a powerful de-bordering global initiative.

The BRI has turned global and extended far beyond Eurasia. The three Chinese domestic development axes are extended to six economic corridors and the maritime Silk Road. This '3=6+1' structure is the core network of a global strategy existing in Central and Eastern Europe (the BRI for the Western Balkans, the Arctic Silk Road and the Greenland Arctic Base); in Africa (the Maghreb-Sahel Silk Road, Great Lakes Silk Road, the Trans-Africa Highway, the Western-Africa Railways, the Angola-Tanzania Railways, and the Great Lakes infrastructure plan); in Asia (the ASEAN integrated master plan of connectivity—The Thailand Regional Connectivity Plan, the Southeast Asia Railways Plan—The Pan-Asia Railway Network, the Mekong India Economic Corridor), in the Pacific (Trans-Pacific Maritime Silk Road); and on the American continent (the Latin America Silk Road, the Inter-Oceanic Railway, the Nicaraguan Canal, and the Cartagena-Caribbean Railway), all of which are complemented by other domains such as the Digital Silk Road, the Green Silk Road, Education Silk Road (EU/China), Cultural Silk Road, and the Space Silk Road. But common to all these different domains are five development pillars: (1) promoting the construction of vital infrastructure through elements of connectivity; (2) advancing new financial institutionalism; (3) encouraging multilevel bi- and multilateralism;

(4) fostering domestic functional integration; and (5) nurturing people-to-people exchange. These pillars have been constructed according to the Chinese model of socialism with Chinese characteristics for the new era, which has at its core the de-bordering of the development borders inside China.

- *Promoting the construction of vital infrastructure through elements of connectivity.* In the context of the BRI, the articulation of the different infrastructural connectivity elements, such as domestic development axes, economic corridors, fast transit routes, special economic zones and sea lines of communication, are based on ad hoc cross-border economic and legal arrangements. The main objective is to facilitate exchanges between markets and production centres, having as a common denominator the fact that all the arrangements should be subjected to national scrutiny. The positioning of these sets of key infrastructure corresponds to a geopolitical strategy to connect China, Eurasia, and Indochina and to make direct access to two oceans possible—the Pacific and Indian oceans. Infrastructure also operates to support immaterial connectivity, especially in the context of digitalization of the economy. Partnerships, and financial arrangements as MOU, FDI, BTA, FTA, and special loans operate as instruments of co-bordering and re-bordering;
- *Advancing new financial institutionalism.* In the context of the BRI, the new financial architecture is composed of new international banking institutions, new international funds, new strategy for domestic banks, and new financial centres. Alongside China's active participation in the existing global financial institutions, and the cooperation between the WB and new financial institutions, other positive developments that have taken place include the de-bordering of access to funds, the creation co-bordering mechanisms of financial sustainability, and since 2016, the inclusion of the RMB in the Special Drawing Rights of the IMF;
- *Encouraging multilevel, bilateralism and multilateralism.* China has used the BRI to move from a sort of “historical isolationism” to a wider engagement with the relevant international actors. In the context of the BRI, China is attaching great importance to multilevel relations which encompass all levels of state administration and private entities. Furthermore, bilateral relations with key relevant partners in the form of “partnerships”, tailored to the different interests, levels and possibilities are growing—ASEAN, European Union, and African Union are among the best examples. China has also developed bilateral relations in “third country market cooperation” involving special arrangements with partners for a collaborative approach to Africa, for example, between China and Italy. Along the same lines

is trilateral cooperation which began in 2010 when the United Nations Development Program (UNDP) and the Chinese Ministry of Commerce (MOFCOM) signed a Memorandum of Understanding on Strengthened Partnership, in the presence of the then Chinese Premier Wen Jiabao and UNDP Administrator Helen Clark. This marked the beginning of UNDP's support for China's South-South and trilateral cooperation, which its China office established as a main pillar of its engagement with the country in its current Country Programme Document (2016–2020). Likewise, multilateral relations with regional and global institutions have been given a high priority in the form of forums: the Forum on China–Africa Cooperation and the Forum for Economic and Trade Cooperation between China and Portuguese-Speaking Countries, also known as Forum Macao. China has also pushed for stronger participation in global forums such as the World Economic Forum (Davos), advocating free and fair global trade rules and market access. All of these actions aim at de-bordering global trade and commerce;

- *Fostering domestic functional integration.* In the context of the BRI, Chinese domestic functional integration, combined with the elements of connectivity and a massive investment in innovation, will create an economic dynamism throughout Chinese territory and de-border economic asymmetries and promote the so-called five happiness industries. In China there are 23 provinces; 5 ethnic autonomous regions; 4 municipalities directly under the control of the central government; the Special Economic Zone in Hainan Province—Beibu Gulf Region; the 2 Special Administrative Regions of Hong Kong and Macao; the 5 sub-provincial SEZs of Shenzhen, Zhuhai, and Shantou in Guangdong, Xiamen in Fujian, and Kashgar in Xinjiang; the Pearl Delta River experimental free trade zone (EFTZ) (Guangdong), Hengqin district of Zhuhai (financial centre)—Nansha district in the south of Guangzhou (logistical centre), Qinghai district in Shenzhen (HK duty-free); experimental free trade zones in Shanghai (2013) (HK Synergies), Fujian (2014) (to boost economic interactions with Taiwan), and Tianjin (1984) (Bohai Rim Region); the '9+2' integration policy which envisages functional integration of 11 cities in the Pearl River Delta area—Shenzhen (national high-tech R&D and manufacturing centre), Dongguan (manufacturing base), Guangzhou (automobile, electronics, petrochemical, electric power, electrical machinery, general-purpose equipment, large-scale transportation and aerospace equipment, medicine and medical equipment), Foshan (high-tech industries, energy conservation and environmental protection, and new energy vehicles), Huizhou (petrochemical and electronic information

industry base), Hong Kong (international finance, shipping and trade centre), Macao (one centre—world tourism and leisure centre—and one cooperation platform with Portuguese-speaking countries), Zhongshan (clusters for home appliances, clothing, lighting, and furniture), Jiangmen (automobile equipment and motorcycle industry base), Zhuhai (high-tech manufacturing and international leisure tourism island), Zhao Qing (the main grain-producing areas of the province and the gateway city connecting the southwest hub); the 6 Yangtze River ports and the Yangtze River Delta area; the 11 border cities and the 14 coastal development areas of Dalian in Liaoning, Qinhuangdao in Hebei, Tianjin, Yantai and Qingdao in Shandong, Lianyungang and Nantong in Jiangsu, Shanghai, Ningbo and Wenzhou in Zhejiang, Fuzhou in Fujian, Guangzhou and Zhanjiang in Guangdong, and Beihai in Guangxi. These and a number of cluster cities are the most visible domestic de-bordering mechanisms and “entry doors” to international flows of trade;

- *Nurturing people-to-people exchange (P2PE)*. In the context of the BRI, the base of P2PE is the advancement of human social capital, entrepreneurship and corporate social responsibility. China is promoting and investing in short- and long-term academic programmes in the country and abroad, joint academic degrees, cultural industries, cultural exchanges such as festivals, dance, arts, sports, tourism, exhibitions and seminars, language courses, language technologies, business training, and joint participation in corporate incubation areas. The number of overseas students in China has been growing and in 2017 there were more than 450,000 foreign students in the country. Likewise, the number of Chinese students overseas is also increasing. China is paying attention to the Chinese diaspora as part of cross-border facilitation, adopting a pragmatic approach to the interests of Chinese diasporic communities, and combining their interests with its national interests. China is paying increasing attention to corporate responsibility, especially in relation to the SOEs operating in less developed countries. Finally, China has put into place a number of visa facilitation measures. One example is worth mentioning—the 2016 Agreement between the European Union and the People’s Republic of China on short-stay visa waivers for holders of diplomatic passports and holders of passports issued by 49 countries. They do not require a visa for a 72-hour or 144-hour stay if they are transiting through a number of ports/airports of entry. This set of measures carries a strong potential to de-border immaterial borders constituted by science, knowledge, and perceptions of fear. P2PE also contributes to re-bordering because it promotes the expansion of areas of scientific exchange to support common interests. Finally, it encourages

joint academic and scientific institutions to promote areas of knowledge.

The Macao Forum, established by the People's Republic of China, is an excellent example of a joint institution working in the area of development, clearly operating as a co-bordering institution, capable of promoting de-bordering through re-bordering and strongly contributing to immaterial de-bordering.

6. Conclusions: Borders are alive

*"Choose a leader who will invest in building bridges, not walls.
Books, not weapons. Morality, not corruption."
Suzy Kassem (2011)*

Building fenced and walled borders based on a narrative of fear is not a quick fix, and it mobilizes a sort of popular response to perceived threats. Hard borders are part of an array of governance instruments, thought to be capable of delivering fast development results, in the area of asymmetric perceptions, unbalanced power relations or diffused threats. The real investment in security is the one that accommodates asymmetries and at the same time preserves sovereignty. While de-bordering contributes to peace and development, it also calls for balanced solutions to avoid the dilemma of asymmetry in perceptions. The purpose of this paper was to show the positive contribution of the BRI to border security because it promotes de-bordering, re-bordering and co-bordering. It is reasonably fair to conclude that borders are alive, and therefore borders change with transmuting asymmetric perceptions on both sides. Physical border structures are the result of perception and governance. Borders are living structures and their physical shape and the level of their "openness" depend upon the interaction asymmetry between two or more neighbouring states. In other words, physical and immaterial borders are a direct result of how neighbours perceive one another. As the level of perceived asymmetry mounts, the border as a physical obstacle tends to intensify. The more the perceived level of confidence deepens, the easier it is to implement cooperative solutions, making a higher level of de-bordering possible. Furthermore, borders are multi-dimensional, and we have observed a shift from the bi-dimensional Westphalian border concept to a multi-layered and material-immaterial concept of borders, which the classic sovereign powers struggle to curb. Even fenced or walled borders do not represent a sealed physical isolation of sovereign domain or offer full protection from external harm. The BRI aims precisely at creating a

set of economic, non-economic, material and immaterial mechanisms to clarify misperceptions and to balance asymmetries. The future is expected to bring more walled borders and more immaterial flows moving across borders. In this context, the BRI is a bridging initiative. As a multilevel and multi-state initiative, the BRI operates under a Chinese approach, but it will be the result of multi-state scrutiny of national interests and active participation. The BRI offers not only domestic and international physical mechanisms of de-bordering but also a platform for immaterial global governance.

The cycle of physical borders entails not only the dilemma of balancing the asymmetry and correspondent hardness of the sort of divide that borders should represent, but also the dilemma of curbing the threats of deeper de-bordering processes which open the doors to organized crime and virtual piracy. In this regard, the future of borders will remain a struggle between the contending needs of integration, protection, and growing digitalization.

The BR elements of connectivity (domestic development axes, economic corridors, special economic zones, special administrative zones, and fast transit routes) contribute to all these three types of border effects, in different ways and with dissimilar intensity. They promote the fading, weakening, trespassing or removal of obstacles and encourage cross-border interplay, as a multilevel process to create opportunities and change attitudes and perceptions, without compromising sovereignty. They foster the voluntary relocation of a sovereign perimeter, transfer insecurity perceptions and often correspond to a sectorial dimension of sovereignty. They encourage new joint dimensions of exercising sovereign power and the creation of joint institutions. They nurture the exercise of overlapping jurisdictions over a portion of sovereign territory or an immaterial domain, and they generate synergies and intensify cross-border cooperation. All in all, the BRI holds the potential to de-border material and immaterial domains, making the dream of land travel, the mesmerizing journey, from Gyeongju to Lisbon, come true.

Francisco José Leandro received his PhD in political science and international relations from the Catholic University of Portugal in 2010. From 2016 to 2017 he took part in a post-doctoral research programme on state monopolies in China—One Belt, One Road studies. In 2014 and 2017, he was awarded the Institute of European Studies in Macau (IEEM) Academic Research Grant, which is a major component of the Asia-Europe Comparative Studies Research Project. From 2014 to 2018, he was the programme coordinator at the Institute of Social and Legal Studies, Faculty of Humanities at the University of Saint Joseph in Macau, China. He is currently an associate professor and assistant dean of the Institute

for Research on Portuguese-Speaking Countries at the City University of Macau, China. His most recent book is titled *Steps of Greatness: The Geopolitics of OBOR* (University of Macau, 2018).

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The Belt and Road Initiative: The Cornerstone of the New-Fangled Financial Institutionalism Led by China

Enrique Martínez Galán

ISEG-Lisbon School of Economics and Management,
University of Lisbon
Asian Development Bank
6 ADB Avenue, 1550,
Mandaluyong City, Metro Manila, the Philippines
E-mail: egalan@adb.org

Francisco José Leandro

Institute for Research on Portuguese Speaking Countries,
City University of Macau
Avenida Xian Xing Hai 105,
Centro Golden Dragon, Room G512A,
Macau SAR, People's Republic of China
E-mail: franciscoleandro@cityu.mo

Abstract: *The debate about the benefits and the risks brought both to People's Republic of China and to the other participant countries by the Belt and Road Initiative (BRI) has been gaining momentum in the academic and in the political landscapes. We argue that the BRI is the main pillar of the new financial institutionalism proposed by China to redefine the current global financial architecture and that, consequently, the initiative needs to be considered in that context. This paper (i) reviews the timeline that led to this Chinese-led new financial institutionalism, (ii) proposes two theoretical frameworks to define the concept of multilateral financial statecraft and of new financial institutionalism led by China, and (iii) enumerates the main differences and similarities observed between this new financial institutionalism and the one dominated by the Bretton Woods-related institutions that gradually emerged after World War II, such as the International Bank for Reconstruction and Development, the Marshall Plan, and the Asian Development Bank.*

Keywords: *Asian Infrastructure Investment Bank, Belt and Road Initiative, China, development finance, economic diplomacy, financial institutionalism,*

financial statecraft, international financial institutions, multilateral development banks

1. Introduction

The current global financial architecture has been dominated by the international financial institutions that were created during the Bretton Woods conference in 1944. The World Bank and the International Monetary Fund (IMF), jointly with the several regional development banks that emerged since then, namely the Inter-American Development Bank (IADB) in 1959, the African Development Bank (AfDB) in 1964, the Asian Development Bank (ADB) in 1966, and the European Bank for Reconstruction and Development (EBRD) in 1990, have been setting the rules of the global financial game. The distribution of voting power in the two original institutions continue to largely reflect today the geopolitical and economic weight that emerged from World War II. The leading role attributed to the United States (US) and to Western Europe has been preserved. The regional development bank created in the 1960s emerged as a first attempt by developing members to have a greater say in the global financial architecture. Borrowing shareholders, defined as those countries eligible to borrow from the World Bank's International Development Association (IDA) or International Bank for Reconstruction and Development (IBRD), own the majority of the voting power in all these three institutions, namely 59.2% in the AfDB (AfDB, 2018); 52.3% in the ADB (ADB, 2018); and 50.1% in the IADB (IADB, 2018). However, the US managed to keep enough capital in the IADB to veto (30.7%) and in the ADB to strongly influence (15.6%) key decisions. The US also keeps a sizeable position in the AfDB and in the EBRD (EBRD, 2018). Table 1 shows a comparison between voting power in MDBs and economic weight.

Emerging and developing countries gradually increased their relative weight in the world economy, from 16.5% in 1993 to 38% in 2017, as shown in Table 2. In that same period, China's weight alone increased from 1.7% to 15.2%. Nevertheless, the Chinese increasing relative weight in the world's economy had no reflection in their relative voting power in international financial institutions. In 2009, the Chinese economy represented 8.5% of the world's GDP, but just 2.8% of the IBRD's voting power. The demands made by several emerging and developing economies led to the World Bank Group voice reform approved by its Governors in April 2010 (The World Bank, 2010).

*Table 1. Voting power distribution in major international financial institutions
(% of total voting power in a given institution), as per 31 December 2017*

Shareholder	Voting Power						
	IBRD		IMF	ADB	AfDB	IADB	EBRD
	(2010)	(2017)					
US	16.4	16.0	16.5	12.8	6.6	30.0	10.1
Japan	7.9	6.9	6.2	12.8	5.5	5.0	8.6
Big Four European countries	15.9	14.3	16.4	9.6	12.1	6.7	34.4
China	2.8	4.5	6.1	5.4	1.2	0.004	0.1
IDA & IBRD borrowing members	37.1	39.3	n.a.	39.1	59.2	50.02	14.4

Sources: The World Bank, 2010; 2018a; IMF, 2018; IADB, 2018; ADB, 2018; AfDB, 2018; EBRD, 2018. Big Four European countries include France, Germany, Italy, and the United Kingdom. The World Bank (2015) lists the IDA & IBRD borrowing countries.

Table 2. Relative weight in world's Gross Domestic Product measured in current US dollars (% , 1993–2017)

Shareholder	1993	1997	2001	2005	2009	2013	2017
US	26.6	27.4	31.8	27.6	24.0	21.7	24.0
Japan	17.2	14.0	12.9	10.0	8.7	6.7	6.0
Big Four European Countries	21.4	20.6	18.3	19.9	17.8	14.8	13.4
China	1.7	3.1	4.0	4.8	8.5	12.5	15.2
IDA & IBRD Borrowing Members	16.5	19.2	18.9	21.6	29.2	37.0	38.0

Source: World Bank, 2017. Big Four European countries include France, Germany, Italy, and the United Kingdom. The World Bank (2015) lists the IDA & IBRD borrowing countries.

The aftermath of the 2007–2011 economic and financial crisis, which showed the fragilities of major high-income economies, opened a new opportunity for emerging and developing economies to demand a bigger say in international financial institutions, although with limited success. Despite its growing economic and financial clout, China opted not to initially take a leading role in the debate. China followed first a soft and more pragmatic approach focusing on progressively gaining a presence in regional development banks. China progressively became a shareholder of the World Bank (and of the IMF) in 1980,

the AfDB in 1985, the ADB in 1986, the IADB in 2009 and, more recently, of the EBRD in 2016. In all cases, the primary goal was to offer Chinese firms the possibility to become eligible for the procurement (public works, goods and equipment, and engineering and consulting services) of those institutions.

However, China seems now to be pursuing a different strategy that challenges the status quo and might even systemically transform the global financial multilateral architecture, based on the following pillars:

1. Step-by-step internationalization of the renminbi;
2. The Chiang Mai Initiative Multilateralization, increasingly seen as the “Asian IMF”;
3. The Contingent Reserve Arrangement, or the “BRICS IMF”;
4. The recently re-named New Development Bank (NDB), or BRICS Bank;
5. The Asian Infrastructure Investment Bank (AIIB); and
6. The Belt and Road Initiative (BRI).

We will focus in this paper on the last three of these pillars, which are those related to project finance for infrastructure, and, particularly, on the BRI. This will allow us to review the strategy followed by the Chinese government of exporting beyond its frontiers the domestic financial statecraft model that has been feeding its economic development in recent decades. By internationalizing the activity of Chinese agents, this new strategy not only increases demand for Chinese goods and contractors, mitigating the risk of a slow landing of the growth rates of the Chinese economy both in the short and in the medium run, but it also creates a Chinese-led new financial institutionalism that emerges as an alternative to the current global financial institutionalism, led by the US, which was inaugurated by the Bretton Woods institutions. Section 2 reviews the steps that China took to build an alternative to the current US-led global financial institutionalism and proposes a theoretical framework for the concept of multilateral financial statecraft. Section 3 defines the four pillars of the new financial institutionalism proposed by China. Section 4 discusses the role played by the BRI in this new financial institutionalism. Section 5 enumerates the main differences and similarities observed between the Chinese-led global financial institutionalism and the one dominated by the Bretton Woods-related institutions that gradually emerged after World War II. Section 6 concludes.

2. How China got to know the global financial institutionalism that emerged from and after Bretton Woods: a theoretical framework

The role played by China in the international financial institutions that emerged from and after the Bretton Woods conference could be divided in three periods: (i) the inward-looking period; (ii) the learning curve; and the (iii) period of increasing demands.

The inward-looking period started in 1944 and continued until 1980. In that period, China, defined as the People's Republic of China for the purpose of this paper, had no contacts with international financial institutions. In 1980, the Chinese Government based in Beijing took over from the Government based in Taipei the representation of China at both the World Bank and the IMF.

The learning curve of China with the international financial institutions started immediately, right in 1980. While the Republic of China had been one of the founder members of both Bretton Woods institutions back in 1945, they have never borrowed from the World Bank. The first loan (of the IBRD) to China was approved only in 1981, one year after the recognition of Beijing as the representative of China in the institution (see Economy & Oksenberg, 1999, for further details). Since then, the World Bank Group lending to China increased significantly, as shown in Table 3. Internal data obtained from the World Bank shows that annual lending committed to China increased, first, from 400 million US dollars in 1981 to an all-time record of 6.8 billion US dollars in 1994 and, again, from a relative low figure of 1.2 billion US dollars in 2001 to 4.5 billion US dollars in 2017. In addition, internal data obtained from ADB shows a very gradual and stable increasing pattern to a peak of 2.7 billion US dollars in 2017 and a relative weight in total ADB lending consistently ranging between 15% and 20%. Total cumulative lending committed by both institutions in 31 December 2018 amounted 163.3 million US dollars (126.7 billion US dollars, in 537 projects, by the World Bank and 40.6 million US dollars by ADB).

After the World Bank and IMF, China became shareholder of the AfDB in 1985. The motivation for China to join the AfDB was not borrowing, but granting access for Chinese contractors, goods, equipment and consultants to procurement contracts financed by the Bank. After the World Bank, IMF and AfDB, China also joined the ADB in 1986 (both for borrowing and procurement purposes), the IADB in 2009 (for procurement), and the EBRD in 2016 (also for procurement). Table 4 shows the amounts obtained by Chinese contractors in the World Bank, ADB, AfDB and IADB from 2012 to 2017, cumulatively

amounting 30.8 billion US dollars. China was in that period the most successful country in procurement in those banks, representing 19.2% of the procurement of these institutions in volume, followed by India with 12.8%.

Table 3. Chinese borrowing from the World Bank and from the Asian Development Bank (committed amounts in current billion US dollars, 1981–2018)

	Annual average							Total
	1981–1986	1987–1992	1993–1998	1999–2004	2005–2010	2011–2016	2017–2018	1981–2018
World Bank Group	1.4	3.3	5.7	2.5	3.4	3.4	3.9	126.7
ADB	-	0.3	1.0	1.1	1.6	1.9	2.4	40.6
Total	1.4	3.6	6.7	3.6	5.0	5.3	6.3	167.3

Source: Internal data obtained by the author from the World Bank and from the ADB.

Table 4. Absolute and relative weight of Chinese contractors and consultants in the procurement of the main Multilateral Development Banks (MDBs) (2012–2017)

	Absolute weight (billion US dollars)	Relative weight (% of total procurement)
The World Bank	15.4	19.3
ADB	11.6	28.5
AfDB	3.1	21.5
IADB	0.7	2.7
Total	30.8	19.2

Source: Internal data obtained by the authors from the MDBs referred.

The first signs of a change in the Chinese approach to MDBs occurred in 2004, when China voluntarily¹ contributed for the first time to a concessional window, namely to the ninth replenishment of the Asian Development Fund

¹ China had already contributed to the African Development Fund (AfDF), the concessional window of the AfDB, when the country had become a member of the Bank. According to Article 3 of the Agreement Establishing the AfDB (AfDB, 2011), non-regional members of the bank need to contribute, on a compulsory basis, to the replenishments of its concessional window. This legal requirement applies retroactively, so when China became a shareholder of the AfDB in 1985, it not only had to contribute to the fourth replenishment of the AfDF, but also retroactively to the three previous replenishments (AfDF-I, AfDF-II and AfDF-III).

(ADF-IX), with a small but emblematic contribution of 30 million US dollars (ADB, 2004). It was the additional learning step taken by China to add the role of donor to the two initial two roles of borrower and business promotor. This role was strengthened in 2008, not only with China's contribution to the tenth replenishment of the ADF, amounting 35 million US dollars (ADB, 2008), but particularly with China's first contribution to the fifteenth replenishment of the concessional window of the World Bank, IDA (IDA-15), with 30 million US dollars (The World Bank, 2008). In 2011, China increased its contribution to IDA-16 to 50 million US dollars and made a voluntary early repayment of its own IDA credits of 1 billion US dollars (The World Bank, 2011).

Having consolidated its activities as borrower, business promotor and donor, China continued demanding a more diversified and relevant role in MDBs by broadening its role to a fourth area: co-financier, based on the very significant presence of Chinese state-owned banks overseas. Dyer and Anderlini (2011) noted that the China Development Bank and the Export-Import Bank of China had jointly lent 110 billion US dollars to developing countries in 2009 and 2010 combined. This amount was already higher than the lending approved by the World Bank Group in the same period, despite of both banks being relatively recent (created in 1994). But the co-existence of the Chinese state-owned banks and the MDBs is not just one of competition. In May 2007, the Export-Import Bank of China and the World Bank signed a Memorandum of Understanding to collaborate and co-finance investment projects in Africa (The World Bank, 2007). This same instrument was replicated by the Export-Import Bank of China in 2012 with the IADB (IADB, 2012). China had, in fact, enlarged its presence in MDBs to the IADB in 2009. In this membership, although the shares available for subscription represented just 0.004% of the Bank's voting power (due to the opposition of the US to increasing IADB's authorized capital for this purpose), the People's Bank of China signed in 2013 a massive 2 billion US dollars' contribution to a brand new trust fund set by the IADB for co-financing investment projects in Latin America and the Caribbean (IADB, 2013), strengthening its role as co-financier in MDBs. One year later, another contribution of 2 billion US dollars was announced for co-financing with the AfDB in Africa under the name Africa Growing Together Fund (AfDB, 2014).

Having a financially stronger and more diversified role in MDBs, the next step was logically demanding higher voice and representation in the governance and in the decision-making of the MDBs. The discussion about higher voice for developing and emerging economies had been initiated in the Spring Meeting of the World Bank in 2003, in response to the conclusions of the 2002 United Nations International Conference on Financing for Development held in

Monterrey, Mexico. In April 2003, the World Bank’s Development Committee “urged the Bank and the Fund to consider steps that might be taken to enhance the voice and effective participation of developing and transition countries in the work and decision-making of both Institutions” (The World Bank, 2003). The topic became a regular item in the final communiques of the meetings of the Development Committee that followed. However, the final decision was only taken seven years later, in the 2010 Spring meetings (World Bank, 2010). After all capital subscriptions materialized, the shareholding realignment agreed increased China’s voting power from 2.8% to 4.4%, an increase of 1.6 percentage points, the highest of all shareholders. Table 5 shows the main realignments observed. More recently, the agreement reached for a 2018 IBRD General Capital Increase would represent, when materialized, a further increase in the voting power of China, to 5.7% (The World Bank, 2018b). In the case of the ADB, the discussion for higher voice and representation never started, prevented by the strong control exerted both by Japan and the US, much higher in a 67-member than in a 189-member bank, by definition.

Table 5. *Main realignments observed in the shareholding of IBRD members after the implementation of the 2010 voice reform (percentage points)*

Countries with the highest increase in voting power (from higher to lower)	Countries with the highest decrease in voting power (from higher to lower)
China (1.64)	Japan (-1.01)
South Korea (0.58)	France (-0.55)
Turkey (0.55)	United Kingdom (-0.55)
Mexico (0.50)	US (-0.51)
Singapore (0.24)	Germany (-0.48)

Source: *The World Bank, 2010*

However, the relatively narrow realignment of shares observed under the World Bank’s voice reform (China, with 4.4% of the voting power, became the third largest shareholder of the IBRD, but far from the voting power of the US, 15.9%, and even Japan, 6.8%; see The World Bank, 2010) and the maintenance of the status quo in the ADB² forced China in 2013 to take another step in its relationship with MDBs. And a ground-breaking one: from demanding

² Examples of countries barred from ADB membership are several (e.g., Brazil, Iran, Kuwait, Russia), for many reasons, but all of them having in common the opposition of US and Japan, despite a gentlemen’s agreement informally agreed in the G-20 that, in time, all G-20 members should be shareholders of all major MDBs.

shareholder (fifth stage) to leader (sixth). China moved forward with the setting of two new MDBs: first, a more efficient MDB aiming to finance infrastructure for the sake of promoting connectivity and economic development in Asia, and, second, jointly with Brazil, India, Russia, and South Africa, a MDB to finance domestic infrastructure in these five countries.

Table 6 proposes a theoretical framework that enumerates the six stages for a country to build a multilateral financial statecraft: from borrower to business promotor, then donor, co-financier, demanding shareholder and, finally, leader. These are sequential but, at the same time, co-existent.

Table 6. Stages of a multilateral financial statecraft

Borrower	Business promotor	Donor	Co-financier	Demanding share-holder	Leader
Joining current MDBs with the purpose of (gradually increasing) borrowing domestically	Joining MDBs with the purpose of promoting business opportunities for domestic firms abroad	Joining on-cessional windows of MDBs as contributor	Using domestic financiers to co-finance project infrastructure abroad	Seeking greater voice and representation in the governance of existing multilateral institutions	Build regional (and eventually global) financial institutions, taking a hegemonic position or disproportionate influence in them

Source: Authors, inspired by Armijo & Katada, 2014

The BRI emerges in this theoretical framework simultaneously covering the six stages. First, it increases borrowing domestically. Second, the BRI promotes the internationalization of Chinese firms abroad. Hillman (2018) found that 89% of all contractors participating in Chinese-funded transportation projects between 2006 and 2017 were Chinese firms, 8% were local companies; and 3% were from third countries. Third, the BRI offers concessional assistance overseas: although around three-quarters of the Chinese lending overseas is offered on commercial, non-concessional, terms (normally ranging from 6% to 7%), one quarter is offered in concessional terms, with interest rates of sovereign long-term lending by Chinese state-owned banks ranging from

1% to 3%³. Fourth, the BRI allows domestic financiers to finance project infrastructure abroad: Deloitte (2018) estimated that the Big Four state-owned banks, namely the Industrial and Commercial Bank of China, Bank of China, China Construction Bank, and Agricultural Bank of China, were responsible for 51% of total BRI financing by December 2016 in terms of outstanding loans and equity investment. In addition, the China Development Bank and the Export-Import Bank of China accounted for 38% and 8%, respectively. In total, these six institutions provided 97% of the financing of the BRI. Fifth, the initiative gives China a greater voice and representation overseas. Sixth, the BRI puts China in a hegemonic position, with disproportionate influence. The European Commission, through its European Political Strategy Centre (EPSC), emphasised that “Chinese actions are not restricted to the economic and financial spheres; they seem to have a clear geopolitical and geostrategic component. The plethora of initiatives that are ostensibly economic—AIIB, NDB, the Silk Road—are clearly aimed, and overtly used, to increase global influence and political reach.” (EPSC, 2015)

Historically, only three countries have fully followed, to different degrees, this chronology until the final stage, namely the United States (the Marshall Plan, Bretton Woods institutions and IADB), to some extent Japan (ADB), and, more recently, China (AIIB). The Big Four European countries, India, and Russia could be considered as very advanced in these stages, being sizable founding members of regional financial institutions (the EBRD and the NDB). However, none of them took a hegemonic position or disproportionate influence in those institutions.⁴

3. The Chinese-led new financial institutionalism

The new financial institutionalism proposed by China is a multi-pillar strategical umbrella that conglomerates national and multilateral financial institutions to promote Chinese domestic and foreign interests overseas. The participating states have scrutinized their own interests and chosen to participate in the financial mechanisms that, in their view, best protect and promote their national interests, acknowledging the inevitability of interdependence.

³ See Sirimanna, 2011, Government of Timor-Leste, 2015, and Zhang & Miller, 2017, for further details and examples.

⁴ We do not consider for this exercise sub-regional development or investment banks, such as the Nordic Investment Bank, or the Eurasian Development Bank.

We argue that China is promoting a new global financial institutionalism involving four types of intertwined mechanisms: (i) the creation of new multilateral financial institutions; (ii) extended multilateralism; (iii) bilateral initiatives; and (iv) partnerships.

First, China created and takes a leading role in two new multilateral quasi-global financial organizations, namely the AIIB and the NDB. We will elaborate on the role played by the AIIB in the new financial institutionalism proposed by China in the next section. In addition, apart from some sub-regional MDBs (China is a shareholder of the Caribbean Development Bank, but not of the Eurasian Development Bank or of the Development Bank of Latin America), China is a shareholder of all major multilateral banks.

Second, regarding extended multilateralism, China has been recently increasing its participation in global systemic organizations. China became a member of the World Trade Organization in 2011. In 2016, the renminbi was included in the IMF's Special Drawing Rights currency basket. In addition, China had established, by the end of 2017, fifteen official renminbi clearing centres worldwide, according to SWIFT (2018).⁵ In 2018, China initiated the importation of oil from Iran, Venezuela, Russia and Saudi Arabia, using the renminbi. Third, regarding bilateral initiatives, China has developed a network of Domestic Development Banks (DDB), quite active overseas in emerging and developing economies. EPSC (2015) observes that these banks have a joint capital base of over 100 billion US dollars and that "along with funds originating from the MDBs, they are also used to finance external infrastructures by supporting the investments of Chinese companies abroad". The China Banking Regulatory Commission (2016) noticed that, by the end of June 2015, 11 Chinese banks had established 15 subsidiaries, 31 branches, 8 representative offices, and 1 joint venture bank in 23 BRI countries. The Chinese banks, mainly the four state-owned commercial banks (Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, and Bank of China), and the three policy-oriented development banks (China Development Bank, Agricultural Development Bank of China and Export-Import Bank of China) act as a "conglomerate of financial interests", guided by the central government's objective and supporting the same cooperation model shaped by the priorities of the BRI geo-economy.

Fourth, China is using partnerships to foster cooperative investment joint ventures.

⁵ Namely in Australia, Canada, France, Germany, Hong Kong, Luxembourg, Macao, Russia, Singapore, South Korea, Switzerland, Taiwan, United Kingdom, United Arab Emirates, and the US.

This type of financial institutionalism is particularly interesting bearing in mind that it represents an evolution from bilateral relations and outside the realm of multilateral relations, but also an adjustment of relations with third powers. Partnerships are not static, and they do not have a single model as they are the result of ad hoc bilateral diplomatic will. They are built in common international projects, operationalized through a financial joint venture, and directed to a set of integrated infrastructures. The partnership financial dimension displays an important diplomatic function, as asserted by Nadkarni (2010, p. 46). Strüver (2017) defines “partnership diplomacy”, for the specific case of China, as the “diplomatic instrument that allows for hedging against all eventualities while allowing for the common pursuit of mutual interests”. Alternatively, Heath (2016) referred to China’s approach as “neighbourhood diplomacy”. In fact, China’s neighbourhood is strategic for its diplomacy. In a key address to the Central Conference on Work related to Foreign Affairs, held in Beijing on 28–29 November 2014, President Xi, when presenting the BRI and the AIIB, referred to the need for China to

turn its neighbourhood areas into a community destiny, continue to follow the principles of amity, sincerity, mutual benefit and inclusiveness in conducting neighbourhood diplomacy, promote friendship and partnership with our neighbours, foster an amicable, secure and prosperous neighbourhood environment, and boost win-win cooperation and connectivity with our neighbours (Swaine, 2015).

The BRI emerges as the corollary of these partnerships. It is also a critical of China’s neighbourhood diplomacy.

Finally, following the principle that the sum of the parts is more than the parts of the sum, it is worth noting that these four pillars will not only increase (i) the financing available for infrastructure and development in the Asia-Pacific region (also in renminbi); (ii) Chinese influence overseas; and (iii) business for (mostly) Chinese contractors, but these four intertwined mechanisms will in addition intensify the “chains of (financial) interdependence”, as referred by Laroche (2017, p. 46). The fourth dimension, the partnerships, reinforces and is simultaneously reinforced by the other three dimensions, solving specific contextual challenges within the BRI. We will elaborate on the role played by the BRI in the new financial institutionalism proposed by China in the next section.

4. The role of the Belt and Road Initiative in the new financial institutionalism led by China

In September 2013, President Xi proposed the launching of the Silk Road Economic Belt during an official visit to Kazakhstan. One month later, he complemented the Belt with a proposal to create the 21st-Century Maritime Silk Road (the Road) during an official visit to Indonesia for a meeting of Heads of State and Government of the Association of Southeast Asian Nations (ASEAN). In this same meeting, President Xi also announced China's intention to set a new MDB led by China, later named Asian Infrastructure Investment Bank (AIIB). All three announcements were made in one month's time.

First, regarding the BRI, the “project of the century”, as President Xi named it, is a colossal infrastructural, intergenerational, multilevel and multidimensional access strategy to promote connectivity between economic agents and to bring about the next level of global prosperity. It is fundamentally a network of major infrastructures carefully collocated, providing different platforms for regional integration and interregional connectivity. The State and its institutions are at the centre of the “new economic cooperation model”, where they perform different economic roles. The rationale for the BRI rests on a network of elements of connectivity that includes domestic development axes, economic corridors, fast transit routes and special economic zones or similar arrangements, along with land, maritime and immaterial dimensions (see Martínez-Galán, 2019, for a more detailed discussion about the boundaries of the initiative). All of these are trade integration initiatives that rely on infrastructure as a precondition for access to markets and production centres. This paper therefore inquiries into the extent to which the creation of a new financial institutionalism supports the setting of an extended network of infrastructural elements of connectivity.

Second, regarding the new MDB proposed by China, the AIIB, its aim was two-folded: “(i) promoting economic development and regional integration in Asia; and (ii) showing to the world that China was capable of leading a new MDB with the highest international practices in matters of governance, safeguard policies including environmental protection, resettlement, and debt sustainability, among others”.⁶ The latest was an implicit message for the two most relevant MDBs operating in the Asian continent, which had shown little willingness to give China greater voice and representation, namely the World

⁶ Referred in an internal document with Frequently Asked Questions prepared by AIIB's Multilateral Interim Secretariat in charge of leading the negotiations of the Bank's Articles of Agreement (non-public).

Bank and the ADB. China claimed that a better MDB was possible, particularly in efficiency and speediness. Regarding efficiency, AIIB implemented universal staff recruitment and procurement policies, meaning that the Bank can hire staff and firms regardless of their nationality, while the ADB limits recruitment and procurement to the nationalities of its 68 shareholders. Consequently, AIIB hires staff and firms from a wider pool, so, in principle, the likelihood of having the best staff or the best firm for the job is higher. As per 1 November 2018, 21 out of 178 AIIB staff were nationals from non-AIIB member countries, including 8 US nationals (AIIB internal document). For example, AIIB's first Legal Counsel was Natalie Lichtenstein, former Assistant General Counsel of the World Bank, and US national. Regarding speediness, Beijing aimed at having an MDB that is faster in delivering than the other Banks operating in the region of Asia and the Pacific, repeatedly described as too slow by beneficiary countries. According to internal assessments of those two banks, they take on average two years to prepare a given project from its concept note to Board approval, plus nine months from Board approval to the first disbursement. However, China needs now to make proof that, when operative, the AIIB will commit to transparency, efficiency, best practices, and that the Bank will deliver real value for their clients. AIIB will take some time to become fully operational and, at least in the beginning, it will not be easy for AIIB to compete with almost 50 years of ADB's experience with projects and clients and with ADB's vast network of resident missions in the 40 borrowing members, providing crucial support with technical assistance and capacity development to national country systems.

Finally, one year and a half before the proposal to create the AIIB, in March 2012, India had proposed during the fourth BRICS summit held in New Delhi, the creation of a new MDB for the five BRICS members. The agreement for its creation was reached in March 2013 during the fifth BRICS summit held in Durban. Both institutions, the AIIB and the NDB, started their activities in January 2016. Their creation revealed Beijing's willingness to employ its national financial capacities to set institutions and initiatives of global governance that might challenge the processes, institutions and norms of post-World War II global financial system.

Since Deng Xiaoping's leadership, economic sovereignty has been a driving force of Chinese foreign affairs. All the initiatives (BRI, DDBs, AIIB, NDB) are part of a larger package of measures put in motion by agents of economic diplomacy. Woolcock and Bayne (2013, p. 308) observed that "economic diplomacy [...] is about reconciling domestic and international policy objectives in an increasingly interdependent if not global economy [...] domestic policy objectives cannot be achieved independently of what is happening in the global

economy or of the policies of other countries”. Chinese economic sovereignty appears to be grounded on three intertwined pillars: (1) the promotion of human capital by breaching the gap between the littoral and the remote provinces and between different generations of Chinese workers; (2) the construction of physical infrastructure and technology production, with a rationale of domestic regional integration connected to overseas economic corridors; (3) and a set of political measures delivered by the political system as a whole. These three pillars require financing at a national, regional, interregional and perhaps global scale. Financing is central to advancing human capital, to constructing physical infrastructure and to producing advanced technology. Armijo and Katada (2015) define in this regard “financial statecraft” as “the intentional use, by national governments, of domestic or international monetary or financial capabilities for the purpose of achieving foreign policy goals, whether political, economic or financial”. We claim that these financial capabilities are being served by a broad network of Chinese, Chinese-led or Chinese-influenced financial institutions, both bilateral and multilateral, that constitute a new financial institutionalism.

The BRI relies on infrastructural access and connectivity and, therefore, the financial institutional structure that supports the initiative requires two critical elements. The first is financial security and the second concerns attractive conditions to induce voluntary participation of other sovereign states. Financial security depends on the promotion of financial networks to rebalance the current state-of-affairs and the existing global financial institutions. Sovereign participation rests on national scrutiny *vis-à-vis* other sovereign units, assuming that interdependence is unavoidable.

This new financial institutionalism aims at becoming global. First, as of 5 September 2019, out of the 138 countries that have signed Memorandums of Understanding in support of the BRI with the Chinese government,⁷ more than half (85) are outside the Asia-Pacific region: 39 in Africa, 27 in Europe, and 19 in America (see Fig. 1). Second, NDB shareholders originate from three continents. Third, as per January 2019, out of the 100 members and prospective members of the AIIB, 50 were non-regional members (AIIB, 2019). Both AIIB’s purpose (AIIB, 2015, Art. 1) and its allocation of voting powers (75% to regional members and 25% to non-regional members) shows the Bank’s regional nature, while also anticipating its relevance on an interregional scale: “we are the AIIB, a MDB with a mission to improve social and economic outcomes in Asia and beyond” (AIIB, 2018). In fact, the AIIB finances infrastructure projects outside Asia if they contribute for the connectivity of the continent (a vague concept).

⁷ This memorandum constitutes the basic notion of belonging to the BRI.

As an example, the Bank approved in September 2017 the financing of eleven greenfield solar power plants in Egypt (AIIB, 2017).

Figure 1. BRI member countries (in dark gray), as per 5 September 2019



Source: Government of China, 2019

All in all, the impact of the BRI is also global, and significant. Zhai (2018) estimate the preliminary quantitative impact of the BRI for the next 15 years, using a global general equilibrium model and making just a moderate assumption of BRI investment, as (i) annual global welfare gains of 1.6 trillion US dollars in 2030, accounting for 1.3% of the global GDP; (ii) more than 90% of this gain expected to be captured by BRI countries, and (iii) global trade boost of 5% in 2030. In addition, the World Bank (2018c) estimates that it currently takes about 30 days to ship goods from China to Central Europe, with most goods being transported by sea, and that shipping goods by train can cut transit time in half. BRI's potential impact in reducing time transportation is meaningful. Ruta *et al.* (2018) estimate that the average decrease in shipping time caused by the BRI ranges between 1.2% and 2.5% across country pairs in the world and that the BRI reduces aggregate trade costs between 1.1% and 2.2% for the world. As for shipping times, the gains in trade costs vary widely across pairs of countries, with East Asia and Pacific as well as South Asia being the regions with the largest average reductions. For the BRI economies, the change in trade costs will range between 1.5% and 2.8%. Djankov *et al.* (2006) also estimate that one-day delay in getting an item from the factory to the consumer reduces trade by 1%. Shen and Chan (2018) argue nonetheless that it is still too early to draw conclusions about the impact of the BRI.

Regardless of its impact, these three initiatives (BRI, AIIB, NDB) demonstrate an acceptance of the Chinese regional vision of cooperation based on connectivity access. The goal of playing a relevant role in the regional and even interregional financial architecture seems to be a major objective in China's new global financial institutionalism, despite the absence of certain countries such as Japan, Mexico, and the US. However, the isolationism advocated by the US and Japan, which not only refused participating in either the AIIB or the BRI, but actively lobbied their geo-strategical allies not to join them as well, had little success. The US' harsh but sterile complaints about the first request of AIIB membership made by a Western and also by a G-7 country, namely the United Kingdom, in 12 March 2015, less than three weeks before the deadline for founding membership request, were symptomatic (see Dyer & Parker, 2015). In fact, seventeen other Western countries requested the status of prospective founding member in AIIB before the deadline of 31 March 2015.

Both the BRI and the AIIB share the same overarching pillars of open participation, non-interference, extensive consultation, joint contribution and shared benefits. Chhibber argued that

The AIIB, the Silk Road Fund, the NDB and the US\$ 100 billion Contingent Reserve Arrangement represent Chinese-backed new financial institutions that are not part of the existing Western dominated financial architecture. They will adhere to the Paris declaration but will not abide by the conditionality driven Development Assistance Committee (OECD DAC) framework. They are designed to help address issues of infrastructure underfunding, to create new pathways to sustainable development, south-south cooperation and mutually compatible solutions to development problems. (Chibber, 2017)

Ikenberry and Lim further argued that the

AIIB [helps] illuminate the logic of institutional creation as a strategic choice and tool of statecraft, including its opportunities, limitations, and likely impacts. Institutional statecraft may in some ways reinforce China's integration into, and stakeholder role and position in, the international system, while in others it may present various sorts of challenges to the existing system of rules and institutions. (Ikenberry & Lim, 2017)

In terms of demand, infrastructure needs in Asia are vast. ADB (2017) estimates that developing Asia alone will require 26 trillion US dollars in infrastructure investment between 2016 and 2030 to maintain its growth momentum, eradicate

poverty, and respond to climate change. This amount is equivalent to nearly 1.7 trillion US dollars annually. In addition, one should also bear in mind that this amount is estimated for the ADB's definition of Developing Asia, meaning that countries such as Russia, developed Asian countries, Middle Eastern countries and Turkey are not included in these figures. The financing needs are enormous, and the institutions and initiatives that serve the new financial institutionalism proposed by China can play a significant role in helping to meet them. Chinese banks held more than 22.6 billion US dollars in deposits in 2016 (Statista, 2018) and foreign exchange reserves in China exceeded 3.1 trillion US dollars in August 2018, nearly 9% of the world's total (*Trading Economics*, 2018). The AIIB and the NDB have 100 billion US dollars of authorized capital each. Individually, the capital of each one of these institutions equals two-thirds of the capital of the ADB and about half that of the World Bank. The financing available for the BRI is estimated at 1 trillion US dollars, including the 40 billion financial endowment of the Silk Road Fund.⁸ Liquidity is therefore rapidly available for this new financial institutionalism.

The Chinese initiative aims at matching the needs of the BRI participating countries, the financing available by Chinese financial actors and the capacity to implement projects by Chinese constructors. The main actors implementing the BRI are, in fact, Chinese state-owned banks on one hand and Chinese state-owned enterprises on the other hand (referred to as “the SOE mobilization” in the context of the BRI by He, 2019). Regarding the Banks, the world's four largest banks by assets are Chinese, namely, in the following order, the Industrial and Commercial Bank of China, the China Construction Bank, the Agricultural Bank of China, and the Bank of China, totalling 13.5 trillion US dollars in assets according to Standard & Poor's (2018). The same source includes 18 Chinese banks in the world's top 100. In addition, Chinese banks enjoy low borrowing costs, because their bonds are treated like virtual sovereign debt by the markets⁹ and they have access to direct lending from the People's Bank of China. Regarding the firms, Hillman (2018) mentions that the number of Chinese firms included in Fortune's Global 500 list of the world's largest companies by revenue increased from ten in 2000 (nine state-owned) to 120 firms as of July 2018 (81 state-owned). This increasing trend was especially

⁸ The Silk Road Fund provides investment and financing support, mainly equity, for the BRI. The Fund has a financial endowment of 40 million US dollars and 100 billion renminbi. Its shareholders are the State Administration of Foreign Exchange (65%), China Investment Corporation (15%), Export-Import Bank of China (15%), and China Development Bank (5%) (Silk Road Fund, 2018).

⁹ China's sovereign credit rating is A+ according to Standard & Poor's and Fitch and A1 according to Moody's.

evident in the construction industry. In 2017, seven of the world's ten largest construction firms, by revenue, were Chinese.

The relationship between the traditional MDBs and the BRI is very diversified. While the BRI is, according to the Chinese government, open to the voluntary participation of all countries and all institutions worldwide, three major global and regional powerhouses, the US, Japan, and Australia, have been actively advocating, both bilaterally and multilaterally, for the isolationism of the initiative, as it was also the case (unsuccessfully) of the US and Japan in the negotiations for the creation of the AIIB back in 2015. Several bilateral initiatives have been proposed in recent years to counteract the influence exerted by the BRI. First, the 110 billion US dollar Partnership for Quality Infrastructure proposed by Japan in 2015, financed by the ADB together with the Japanese International Cooperation Agency, the Japanese Bank for International Cooperation and the Japanese Overseas Infrastructure International Corporation (see Ministry of Foreign Affairs, 2015). Second, the creation of a 60 billion US dollar new finance development agency acting in Asia by the US (see Chandran, 2018). Third, the Strategy for Connecting Asia and Europe presented in September 2018 by the European Commission and the Council of the European Union (EU) (European Union, 2018), significantly increasing financial resources for infrastructure connecting the two continents in the EU 2021–2027 Multiannual Financial Framework. Finally, the creation of a 2.2 billion US dollar Pacific Infrastructure Fund by Australia announced in November 2018 (Packham, 2018). Second, in multilateral terms, the US–Japan–Australia dominated institution, ADB, has been very reluctant to any coordination with the BRI. While the other relevant MDBs operating in Asia, the World Bank and the EBRD have dedicated section in their websites dedicated to the BRI,¹⁰ the website of the ADB, the largest MDB in the region by approvals, makes no reference to the BRI at all. In response to the claims made that the projects financed under the BRI has several potentially negative effects in the borrowing members, such as increasing indebtedness, environmental and social fragilities, transparency and the lack of local labour force in the projects (see Martínez-Galán, 2019, for further details), China has been promoting initiatives that could mitigate those effects by attracting MDBs to the projects. Remarkably, the Chinese Finance Ministry signed a 'Memorandum of Understanding on collaboration on matters of common interest under the BRI' on 14 May 2017 at the margin of the Belt and Road Forum in May 2017 with six MDBs (ADB, AIIB, EBRD, NDB, European Investment

¹⁰ <https://www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative> and <https://www.ebrd.com/what-we-do/belt-and-road/overview.html>, respectively.

Bank, and the World Bank) (see Ministry of Finance, 2017). In that document, the seven stakeholders committed to collaborate in: (a) enhancing support to infrastructure and connectivity projects; (b) building stable, diversified, and sustainable development financing mechanisms; (c) strengthening coordination and capacity building; and (d) supporting the implementation of the United Nations 2030 Agenda for Sustainable Development, the Achievement of the Sustainable Development Goals, and the Paris Agreement on Climate Change (Ministry of Finance, 2017, Art 1).

In its Article 3, China refers “its commitment to establish the Multilateral Cooperation Center for Development Finance (MCCDF) to promote concrete actions and cooperation in the five areas above and will invite collaboration with MDBs” (Ministry of Finance, 2017, Art. 3). In this regard, China internally distributed to those MDBs in the second half of 2018 a concept note that mentions the World Bank as Secretariat and trustee of the Center, as well as the constitution of six trust funds, one per MDB. China would contribute with a total of 100 million US dollars for the financing of the Center, which would act in three areas: (i) capacity building, (ii) project preparation; and (iii) exchange of information and good practices. The last meeting of the consultation group for the MCCDF was held in Beijing on 10 January 2019. For the first time, a bilateral donor joined the consultation meeting. UK’s DFID participated and signaled its availability to be a potential donor of the facilities of the center.

With 138 countries participating on a voluntary basis and building bridges between the Chinese DDBs and all the major MDBs worldwide, including two institutions led by China itself, the coverage and size of the BRI has no precedent. It constitutes the corollary of the new financial institutionalism proposed by China.

5. A comparison with the US-led financial institutionalism

The new financial institutionalism proposed by China envisages complementing and rebalancing (not replacing) the current financial order that is controlled by the IMF, the World Bank Group and the regional development banks created in the 1960s and the EBRD in the 1990s.

We argue that China’s BRI followed similar motivation and rationale to those observed in the US Marshall Plan (see Marshall Foundation, 2018, for further details about the Plan), for the following reasons. Both initiatives provide

significant added geo-political weight. Both the BRI and the Marshall Plan occur as a macroeconomic response to a deficit in global demand, of overproduction, and of disinflation. Both initiatives emerge also as a change in nature of their foreign policy relations, from pure bilateral to pooled bilateral and ultimately multilateral. Both the Marshall Plan and the BRI are complemented by the creation of MDBs that leverage them: the IBRD (US-led), whose first loan ever, of 250 million US dollars, was granted to France,¹¹ and the AIIB (Chinese-led), respectively. Both initiatives represent also a critical step forward to underpin the internationalization of their currencies. Both the BRI and the Marshall Plan make use of a given foreign policy that financially supports large infrastructure projects abroad (in a pure Keynesian fashion) not only to (i) internally serve as a significant stimulus to the development of domestic demand; but also to (ii) increase the Chinese commercial, cultural and political influence beyond frontiers, critically consolidating a move towards global hegemony (Mee, 1984, characterizes the Marshall Plan as a central contribution to the American world hegemony). Finally, both initiatives offer a sizable comparative advantage to their domestic firms. The Marshall Plan was fully tied to US goods and equipment, while, although the Chinese financing is not officially tied in the BRI, Hillman (2018) estimates, as mentioned in previous sections than, 89% of all contractors participating in Chinese-funded transportation projects overseas between 2006 and 2017 were Chinese firms.

Nonetheless, there are several important differences between the Marshall Plan and the BRI. First, their size. Despite the flexibility of BRI financial and geographical boundaries, estimates about BRI's size vary between the nearly 1 trillion US dollars committed by the Chinese in its first stage (Perlez & Huang, 2017; Kohli, 2017; Hillman, 2018) and the 8 trillion US dollars estimated in total investment if the full pipeline of projects in BRI participant countries was to materialize (Wo-lap, 2016; Balding, 2017; Moser, 2017). In comparison, the Marshall Plan amounted to 13 billion US dollars (approximately 127 billion US dollars in current value as of August 2015 according to our estimates). Second, its coverage. The Marshall Plan was narrowly focused in its geographic coverage, limited to 16 western countries, while the BRI, despite, again, some vagueness in the definition of its geographical coverage, is more inclusive, allows for participation on a voluntary basis, and fully covers at least the Asia-Pacific Region, Middle East, Eastern Europe and Eastern Africa. Third, financing nature. While the Marshall Plan financed mostly grants (just 1.3 billion

¹¹ Interestingly, complemented with non-financial commitments such as limiting public expenditure in France and removing members of the French government linked to communist associations and movements (Bird, 1992).

out of the 13 billion US dollars were loans, according to Marshall Foundation, 2018), the BRI finances loans, both concessional and non-concessional, and equity. Fourth, eligibility. While the Marshall Plan financed first shipments of food, staples, fuel and machinery and later investment in industrial capacity, the BRI finances mainly infrastructure, so it has a more structuring impact in the economy. Finally, the Chinese government claims that the shared and mutual benefit principle of the BRI critically differentiates the initiative from the Marshall Plan (see Mitchell, 2018).

6. Conclusion

Chinese financial institutionalism represents an important centralized step by the Chinese government towards new models of cooperation based on access connectivity, especially in Eurasia and South Asia. These financial institutions are vectors of geopolitical presence, based on geo-economic considerations for the provision of regional and interregional financial options as an alternative to the Western financial institutionalism. They are not able to replace the current global financial institutions, but the massive influence, networks and operations of the AIIB and the BRI and their success so far may contribute to the expansion beyond their initial boundaries and objectives. These financial structures already represent a regional alternative to the established global financial organizations.

The progressive internationalization of the renminbi, especially in the regions of Eurasia and South Asia, with the contribution of the BRI (as pointed out by Chan, 2017), will contribute to de-dollarize bilateral and multilateral trade, which will reinforce the success of the Chinese quasi-global financial institutions. Along the same lines, the impetus provided by the BRI, the AIIB, and the NDB; the possible synergies with the Eurasian Development Bank; and the accession of India and Pakistan to Shanghai Cooperation Organization all anticipate a new dimension of regional financial institutionalism, capable of gaining global momentum and intensifying financial interdependence. Indeed, the BRI structures of pervasive connectivity creating a network of interdependent economic agents, the simplification of payment methods, the digitalization of the Silk Road, the easy access to bond and stock markets, the volume of loans provided by Chinese lead institutions, the security and stability of the domestic development banks, and the balancing of governing rules in global financial institutions, will enhance the internationalization of the renminbi.

The stated purpose of this article was to inquire into the extent the creation

of a new financial institutionalism to support the BRI access-connectivity strategy follows the same pathway of the US-led financial institutionalism. We found that it does follow the same pathway to a large extent. The four types of financial institutionalism—the creation of quasi-global financial organizations; the boosting Chinese participation in existing global financial organizations; the engagement of financial conglomerates of national organizations (the domestic development banks); and the financial component of China’s partnership strategy—are intertwined constituents of a financial institutionalism to advance Chinese BRI and vision on a global scale. Therefore, the centre of the global scale access–connectivity initiative is Asia and Eurasia. The land corridors extend trade connectivity to almost everywhere in Asia and Eurasia, and the maritime road and the non-material Silk Roads, such as the digital Silk Road (see *The Economist*, 2018), have a global reach. Exceptions aside, all the major European, Eurasian, South and West Asian, African and American economies are involved, and all are looking to establish a reliable network of financial institutions capable of providing financial security to boost large scale development. Apart from the US, Japan is the only major player that has not yet become directly involved in this financial institutionalism; and Japan’s involvement is crucial for regional stability. But the Prime Minister Shinzo Abe did not shut the door. He said in 2017 that Japan “could be open to joining the China-led AIIB if questions surrounding its projects’ environmental impacts and other issues are resolved” (see Reynolds *et al.*, 2017). China is likely to continue to invest in these new quasi-global financial institutions, to promote its domestic development banks conglomerates, to develop bilateral partnerships, and to entice Japan at the expenses of US isolationism.

Enrique Martínez Galán received his PhD in economics from the University of Lisbon in 2018. He is currently member of the Board of Directors of the Asian Development Bank with previous professional experience in the Asian Infrastructure Investment Bank, European Investment Bank, the World Bank, European Commission and Portuguese Finance and Foreign Affairs Ministries. He is a researcher, lecturer, reviewer and author of several books and book chapters in development finance, international trade, foreign direct investment, and the Belt and Road Initiative. Galán has co-authored several recent scientific articles published in the following academic journals: *The World Economy*, *Applied Econometrics and International Development*, and *Portuguese Economic Journal*. His most recent book is titled *A Contribution to Evaluate the Impact of Global Value Chains* (University of Lisbon, 2018).

Francisco José Leandro received his PhD in political science and international relations from the Catholic University of Portugal in 2010. From 2016 to 2017 he took part in a post-doctoral research programme on state monopolies in China—One Belt, One Road studies. In 2014 and 2017, he was awarded the Institute of European Studies in Macau (IEEM) Academic

Research Grant, which is a major component of the Asia-Europe Comparative Studies Research Project. From 2014 to 2018, he was the programme coordinator at the Institute of Social and Legal Studies, Faculty of Humanities at the University of Saint Joseph in Macau, China. He is currently an Associate Professor and Assistant Dean of the Institute for Research on Portuguese-Speaking Countries at the City University of Macau, China. His most recent book is titled *Steps of Greatness: The Geopolitics of OBOR* (University of Macau, 2018).

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