

The Impact of China's Resurgence on the Political Economy of East Asia: Economic Integration and Security Challenges?

Junyi Wang

Thesis submitted for the Degree of Doctor of Philosophy
School of International Studies
Faculty of Social and Behavioral Sciences
Flinders University
August, 2012

Declaration

I certify that this thesis does not incorporate without acknowledgment any material previously submitted for a degree or diploma in any university; and that to the best of my knowledge and belief it does not contain any material previously published or written by another person except where due reference is made in the text.

Junyi Wang

August 2012

Acknowledgements

Many people have helped me to make the eventual completion of this thesis possible.

First and foremost, I would like to express my thanks to my supervisor Michael Sullivan, for his encouragement and support in all academic aspects during my PhD candidature. His broad knowledge of political economy of East Asia has expanded my understanding of the driving forces behind the evolution of East Asia over the past six decades. In particular, his insight into Chinese issues has helped me to develop the thesis framework and has enabled me to examine China's rise/resurgence against an overarching historical background.

My special thanks to Peter Burns, my *Laoshi* and (unpaid) co-supervisor, for his mentorship and emotional support which helped me to go through the most difficult time of my PhD journey when I was stuck in a 'black hole' and could not see any light at the end of the tunnel. His care and friendship gave me the strength that pushed me through and moved me forward.

My deep thanks to my husband, Richard Leibbrandt, for his kindness, tolerance, and whole-hearted support. He spent numerous nights sitting next to me, helping me to clarify my thoughts, providing constructive suggestions and serving as a professional editor. His contribution in accompanying me and guiding me in the final year of my PhD was enormous.

Thanks are also due to my friends and colleagues, Diane Lewis, Brian Lewis, Michael Barr, Minako Ariyama, Zatul Himmah Adnan, Jane Horgan, Julie Rayner, Tracey Kohl, and my co-supervisor Richard Leaver, for providing me with support at varying stages. In particular, Diane and Brian, your kindness and friendship have always been invaluable to me.

I am also grateful to my family for their support. Even though I was far away from my home country, I could always know that I could rely on them for help and encouragement.

Finally, I would like to express my gratitude to three friends who helped to ease my way during the course of my PhD research, but who have each passed away. My first supervisor, Noel Tracy, who persuaded me to come to Australia to study for a PhD, helped me to find a place to stay and gave me both academic and emotional support, my friend Francis Regan, who helped to ease my transition into life in Australia and was always there when I needed support, and my office-mate and friend Peter Trainor, who never lost faith in my ability to complete my thesis, and who through his kind encouragement and generosity of spirit helped me to push on.

In any event, words are not strong enough to express all that I have in my heart for all these people who love me, and have hoped along with me for the completion of this process.

Abstract

The economic reforms embarked upon by China after 1978 allowed it to re-emerge as a major player in the political economy of East Asia, drawing Northeast and Southeast Asia together through linkages with the Overseas Chinese Business Sphere and participation in East Asia's regional processes and arrangements. Growing economic ties with Taiwan played a crucial role in this process of regional integration. At the same time, China's rise meant that various Northeast Asian security challenges in which it was a key protagonist, especially over Taiwan, became significant issues on Southeast Asia's regional agenda via ASEAN and the East Asian Summit after 2005.

The growing economic and security linkages between Northeast and Southeast Asia raised important questions about whether China's rise will follow a peaceful path, or result inevitably in military conflict, as realist theorists in International Relations argue, and whether the mechanisms for managing regional tensions in East Asia are resilient enough.

This thesis considers these contemporary issues in historical context. The evolution of the political economy of East Asia was marked by three phases of influence after 1945, beginning with US hegemony during the Cold War and followed by Japan's economic leadership. The rise of China, which challenged both US military primacy and Japanese economic dominance, is the third phase. An historical perspective shows many themes unchanged in East Asia: Southeast Asia was concerned about preserving its independence in the face of the great powers, and the security challenges confronting Northeast Asia in 2011 were the same as during the Cold War. Nonetheless, China's rise shifted great power relations in the region. The thesis shows how this happened historically and how the shifts impacted on East Asia's political economy and the security challenges centring on the Korean Peninsula, Taiwan and the East and South China Seas.

The thesis argues that China was committed firmly to rising peacefully in support of a domestic political strategy aimed at maximising economic growth, which is essential for social stability. Growing regional economic interdependence and the desire to avoid war saw China manage tensions by seeking to preserve the status quo in East Asia via bilateral negotiations and regional engagement. China became more, rather than less, constrained by its rise, a conclusion broadly in line with liberal International Relations theories.

China's regional engagement was conducted in line with the "ASEAN Way" of consensus seeking dialogue and non-binding declarations. Unlike many analysts, the thesis argues that the "ASEAN Way" of regionalism was sufficiently robust and will continue to serve future regional security arrangements as they evolve. The key questions, though, are whether the US, which recommitted to East Asia after 2009, and reasserted its determination in 2011 to lead an "Asia Pacific Century", will accept the "ASEAN Way" or seek greater institutionalisation of regional arrangements and a commitment to binding treaties, and how China will manage relations with the US, especially if it seeks to strengthen its historical alliance network and forge new ones as a basis for managing regional tensions.

China's rise was the subject of extensive debate among Chinese scholars of International Relations. The thesis makes these debates available to an English-speaking readership, highlighting the insights they provide into how China's rise impacted on the political economy of East Asia and the historical security challenges it faces, and contributed to a distinctive East Asian regionalism.

List of Tables

Table 2-1	American Military and Economic Assistance to Southeast Asia in \$ millions (1946-1974)	42
Table 2-2	Japanese Manufacturing FDI in Asia by Major Host Country in \$ millions (1981-1990)	52
Table 2-3	Japan's Bilateral ODA to ASEAN in \$ millions	56
Table 3-1	Japan-China Foreign Trade in \$ millions (1950-1993)	70
Table 3-2	Japan's ODA to China in \$ millions (1979-1995)	71
Table 3-3	Foreign Direct Investment in China in \$ billions (1979-2002)	74
Table 3-4	China's Foreign Trade in \$ billions (1978-2001)	77
Table 3-5	Change in China's foreign trade since WTO accession (2002-2009)	93
Table 3-6	China's percentage annual GDP growth (2000-2008)	93
Table 4-1	China's foreign trade with selected ASEAN countries in \$ million (1995-1998)	112
Table 4-2	China's foreign trade with ASEAN in \$ millions (2000-2008)	124
Table 4-3	The percentage share of bilateral trade in China's total global trade	124
Table 4-4	ASEAN's foreign trade with Japan in \$ millions (1993-2008)	133
Table 4-5	Japan's FDI inflow to ASEAN in \$ millions (1995-2008)	134
Table 5-1	China-US bilateral Trade in \$ 100 millions (1990-2000)	167
Table 5-2	US Foreign Direct Investment in China in \$ millions (1990-2000)	168
Table 5-3	China-US bilateral Trade in \$ 100 millions (2001-2010)	174
Table 5-4	China's Year-End Holding of US Treasury Securities (2002-May 2009)	175
Table 7-1	China's foreign trade with Taiwan in \$ billions (2000-2008)	262

List of Figures

Figure 5-1	Map of the Korean Peninsula and surrounding areas	177
Figure 7-1	Map of Taiwan and the Taiwan Strait (map of China and Taiwan as inset)	236
Figure 8-1	Map of the South China Sea, showing the area claimed by China as its territorial waters	274
Figure 9-1	Map of East China Sea, showing Japanese- and Chinese-claimed boundaries	305

Acronyms

ADB	Asian Development Bank
AFC	Asian Financial Crisis
AMC	Asset Management Corporation
AMF	Asian Monetary Fund
APEC	Asia-Pacific Economic Cooperation
ARATS	Association for Relations across the Taiwan Straits
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
BSA	Bilateral Swap Agreement
CAFTA	China-ASEAN Free Trade Area
CASS	Chinese Academy of Social Sciences
CBRC	China Banking Regulatory Commission
CCP	Chinese Communist Party
CRS	Congressional Research Service
DOC	Declaration on the Conduct of Parties in the South China Sea
DPP	Democratic Progressive Party
EAEC	East Asian Economic Caucus
EEZ	Exclusive Economic Zone
FDI	Foreign Direct Investment
GATT	General Agreements on Tariff and Trade
GFC	Global Financial Crisis
IAEA	International Atomic Energy Agency
IMF	International Monetary Fund
KMT	Kuomintang
LDP	Liberal Democratic Party
MFN	Most-Favoured Nation
NAFTA	North American Free Trade Area
NIE	Newly Industrialised Economy
NPL	Non-Performing Loan
NPT	Nuclear Proliferation Treaty
NUC	National Unification Council
ODA	Official Development Assistance
PBC	People's Bank of China
PLA	People's Liberation Army
PRC	People's Republic of China
SALT	Strategic Arms Limitation Treaty
SEATO	Southeast Asia Treaty Organisation
SEF	Straits Exchange Foundation
SEZ	Special Economic Zone
SLOC	Sea-Lanes of Communication
SOE	State-Owned Enterprise
TAC	Treaty of Amity and Cooperation in Southeast Asia
TRA	Taiwan Relations Act
TVE	Town and Village Enterprise

UNCLOS United Nations Convention on the Law of the Sea
WTO World Trade Organisation

Table of Contents

1	Introduction	1
1.1	Background: a review of the literature on China’s rise	2
1.1.2	Chinese perspective	18
1.2	The approach taken in this thesis	24
2	The Evolution of the Political Economy of East Asia from 1945 until the Asian Financial Crisis ..	27
2.1	Introduction	27
2.2	The history of China as the Middle Kingdom of East Asia	27
2.3	The US and East Asia in the post-war era	33
2.3.1	Reconstruction of Japan-from political reform to economic recovery.....	34
2.3.2	Implementation of containment in East Asia: a triangular strategy.....	36
2.3.3	The Korean War boom	38
2.3.4	US-Japan economic cooperation	40
2.3.5	US military hegemony established through security treaties with East Asia	41
2.3.6	Vietnam War boom for Japan and Southeast Asia	42
2.3.7	The Nixon Shock and the decline of American economic hegemony.....	43
2.4	East Asia in “Japan’s embrace” 1970s-1990s.....	45
2.4.1	The post-war return to East Asia: Japan-Southeast Asian economic cooperation in the 1950s and 1960s	45
2.4.2	East Asia in “Japan’s embrace” (1970s-1990s)	49
2.5	Conclusion.....	57
3	The path to resurgence: China’s economic reforms since 1978.....	59
3.1	“Crossing the river by feeling the stones” – China from the Mao era to twenty years of economic reform.....	59
3.1.1	Background: China’s economic development 1949-1978	59
3.1.2	China’s economic reform	62
3.1.3	China’s opening up to the world.....	69
3.2	Rising to the opportunity: China during the Asian Financial Crisis and beyond	78
3.2.1	Characteristics of the Chinese financial system at the time of the Asian Financial Crisis 80	
3.2.2	Effective measures to respond to the crisis.....	82
3.3	Continuation of economic reform and development after the Asian Financial Crisis.....	87
3.3.1	Promoting financial reform.....	87
3.3.2	Continuing rural reform	89

3.3.3	China's accession to the WTO.....	91
3.4	Conclusion.....	94
4	China and East Asian regionalism	95
4.1	Relations between China and its East Asian neighbours during the Cold War.....	95
4.2	The beginning of China's multilateral engagement with ASEAN (1991-1996)	97
4.2.1	The "good neighbour policy"	98
4.2.2	China as ASEAN dialogue partner and member of ASEAN Regional Forum	100
4.3	The Asian Financial Crisis	104
4.3.1	The Asian Financial Crisis and international responses	105
4.4	Consolidation of China's engagement with regional institutions and processes (1997-2003) 114	
4.4.1	The ASEAN+3 framework.....	114
4.4.2	Regional financial cooperation: the Chiang Mai Initiative	117
4.4.3	China's accession to the Treaty of Amity and Cooperation (2003)	120
4.5	Economic cooperation between China and ASEAN	123
4.5.1	Trade	123
4.5.2	Investment and aid	125
4.5.3	China-ASEAN Free Trade Area (CAFTA).....	127
4.5.4	ASEAN's economic relations with Japan in the post-Cold War era	132
4.6	The outlook for Chinese leadership in East Asia.....	134
4.7	Conclusion.....	137
5	The relationship between the US and China from the Cold War to the era of China's rise	139
5.1	China-US relations: from confrontation to rapprochement (1950-1972)	140
5.2	The path toward China-US normalisation (1972-1979).....	149
5.3	The years of partnership (1979-1988)	156
5.4	Redefinition of China-US relations (1989-2000).....	160
5.4.1	China-US relations in the wake of Tiananmen (1989-1992)	160
5.4.2	China-US relations during the Clinton era (1993-2000).....	162
5.5	China-US relations during the George W. Bush era: from strategic competitor to responsible stakeholder (2001-2009)	172
5.6	China's leadership role in the Six-Party Talks on the North Korean Nuclear Crisis	176
5.6.1	China-North Korea relations during the Cold War.....	176
5.6.2	China-North Korea relations in the post-Cold War era.....	177
5.6.3	The first North Korean nuclear crisis	179

5.6.4	Second North Korean nuclear crisis, China, the Six-Party Talks.....	181
5.7	Toward a comprehensive relationship or further conflict?	189
5.8	Conclusion.....	196
6	The changing China-Japan relationship in the wake of China’s rise	198
6.1	Economic engagement, political disconnection (1945-1972).....	199
6.1.1	The first phase of China-Japan relations (1952-1962)	201
6.1.2	The second phase of China-Japan relations (1962-1972)	202
6.2	The political honeymoon of friendship relations (1972-1989)	204
6.3	The readjustment of China-Japan relations in the era of uncertainty (1989 to 2001)	211
6.4	Historical antagonism, economic interdependence, political mutual distrust (2001 onwards)	216
6.4.1	Tensions over the issue of history	216
6.4.2	“New thinking on Japan?” - China’s public debate	225
6.4.3	Economic interdependence	227
6.4.4	The importance of history in the Sino-Japanese relationship	230
6.5	The security dimensions of an integrating East Asian political economy	232
7	Taiwan: maintaining the status quo is China’s reluctant option	234
7.1	The origins of the Taiwan factor in Sino-US relations.....	235
7.1.1	The origin of the Taiwan issue	236
7.1.2	The “unsinkable aircraft carrier”: US-Taiwan ties before Sino-US rapprochement ...	238
7.1.3	The Taiwan issue during rapprochement and the “golden years”	239
7.1.4	The renewal of the Taiwan issue in response to China’s rise	241
7.1.5	Maintaining the cross-Strait status quo - the American stake	246
7.2	From confrontation to peaceful and stable development: China’s Taiwan policy	248
7.2.1	From Mao Zedong’s confrontation to Deng Xiaoping’s peaceful reunification.....	248
7.2.2	Jiang Zemin's eight-point proposal	253
7.2.3	Moves towards Taiwanese independence	256
7.2.4	China’s policy toward Taiwan under Hu Jintao’s leadership	263
7.2.5	Cross-strait relations under Ma Ying-jeou’s leadership.....	266
7.2.6	Taiwan issue-China’s core national interests.....	268
7.3	Conclusion.....	269
8	China’s South China Sea dilemma: striking a balance between sovereignty, development and security.....	272
8.1	The South China Sea disputes: genesis and overlapping claims.....	273

8.1.1	The emergence of the Spratlys dispute	273
8.1.2	Strategic significance of the South China Sea	275
8.1.3	The overlapping claims over Spratlys	276
8.2	China's South China Sea policy and its impact on Sino-ASEAN relations	279
8.2.1	China's view of territorial sovereignty over the Spratly Islands	280
8.2.2	China's reassertion of its rights over the South China Sea in the era of economic rise 280	
8.2.3	Balancing China's strategic interests against international relations with ASEAN	283
8.2.4	Shelving territorial disputes in favour of joint development.....	285
8.3	The role of the US in the South China Sea dispute	288
8.3.1	American policy on the South China Sea during the Cold War.....	288
8.3.2	American policy on the South China Sea after the Cold War	289
8.3.3	China's "core interest" vs. the US's "national interest": Can the US and China calm troubled waters?.....	294
8.4	Conclusion.....	302
9	China's East China Sea dilemma: a sea of conflict or cooperation?	304
9.1	The Sino-Japanese dispute over the East China Sea.....	304
9.1.1	Sovereignty dispute over Diaoyu/Senkaku Islands	305
9.1.2	Dispute over delimitation of East China Sea.....	309
9.1.3	The background of the Sino-Japanese dispute over the East China Sea	311
9.2	The re-ignition of the Sino-Japanese dispute over the East China Sea.....	313
9.2.1	The escalation of the sovereignty dispute over Diaoyu Islands.....	313
9.2.2	The dispute over gas and oil in the East China Sea.....	317
9.2.3	Deng's dictum: shelving the dispute, conducting joint development--nothing but rhetoric? 319	
9.2.4	Toward joint development?.....	322
9.3	The role of the US in the Sino-Japanese dispute over the Diaoyu Islands.....	324
9.4	Toward a settlement, or maintaining the status quo?	327
9.5	Conclusion.....	328
10	Conclusion.....	330
	Bibliography	336