HOW EAST ASIA COULD AMPLIFY ITS VOICE IN GLOBAL ECONOMIC GOVERNANCE

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Abstract: East Asia’s voice in global and economic governance is far smaller than it should be given the region’s contribution to world growth and its general significance. The region is under-represented, by any measure, on the International Monetary Fund, the Bank for International Settlements, and the Financial Stability Board. Only in the G20 does the region have fair representation, but because it doesn’t speak with a unified voice, even there the region’s impact is limited. This article explores how regional nations might work together to rectify this situation and what keeps the region’s three largest economies apart on so many issues. In particular, the article explores how Japan needs to take responsibility for its history and understand the price it is paying for not doing so. The article also contrasts China’s generally adroit use of aid, soft loans, and other measures to garner influence, with its highly counter-productive belligerence over territorial claims in the South China and East China Seas. The article advances a thesis that might explain this ‘split-personality’ behavior by China, why in some fora its behavior is subtle and highly effective in attaining its national interests, yet when it comes to territoriality issues it behaves utterly differently and in ways quite adverse to its larger agenda.

Introduction

The globalization of the international financial and economic systems necessitates stronger organs of international economic governance.¹ The architecture crafted by White and Keynes at Bretton Woods in 1944 was designed to promote international trade and keep finance

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¹ See infra notes 2–12 and accompanying text.
The globalization of finance, which commenced in the 1970s with the dismantling of the Bretton Woods system of fixed exchange rates, began to change all that. The globalization of production completed the transformation of our world from separate but interconnected national markets, to, in many areas, a series of global markets. These truly profound changes required greater coordination and regulation of these global markets and so over time an alphabet soup of organizations was established or expanded to fulfill these roles. These include: the Group of Seven (G7), Bank for International Settlements (BIS), Financial Stability Forum (FSF), International Organization of Securities Commissions (IOSCO), Basel Committee on Banking Su-

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5 See infra notes 6–12 and accompanying text.

6 Group of Seven–G-7, Investopedia, http://www.investopedia.com/terms/g/g7.asp (last visited Nov. 22, 2013). The Group of Seven (G7) was formed in 1975 as a forum of the world’s seven most industrialized economies: France, Germany, Italy, Japan, Canada, the United States and the United Kingdom. Id. The G7 expanded to become the G8 when Russia joined in 1998. Id. Officials from the G8 member states meet annually to discuss international economic issues. See The G-8, Summit D’Evian 2003, http://www.g8.fr/evian/english/navigation/the_g8/questions_about_the_g8.html#question1 (last visited Nov. 22, 2013).

7 About BIS, Bank for Int’l Settlements, http://www.bis.org/about/index.htm (last visited Nov. 22, 2013) (“The mission of the Bank for International Settlements (BIS) is to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks.”).

8 About the FSB History, Fin. Stability Board, http://www.financialstabilityboard.org/about/history.htm (last visited Nov. 22, 2013). The Financial Stability Forum (FSF) was established by the G7 in 1999 and aimed to bring together national authorities responsible for financial stability in significant international financial centres. Id. In April 2009 the FSF was re-established as the Financial Stability Board (FSB) by the leaders of the G20, who expanded the organization’s membership and mandate to further promote financial stability. Id.

pervision, International Accounting Standards Board, and International Association of Insurance Supervisors.

Until 2009 the lead role in global economic governance was exercised by the G7 grouping of nations, in which Japan was the only Asian member. With the advent of the global financial crisis in 2008, it quickly became apparent that the G7 nations did not have the moral authority, or the right nations at the table, to craft a credible response to the crisis. In response, the G7 resolved to pass its role on to the Group of Twenty (G20), a pre-existing meeting of Finance Ministers that was promptly upgraded to a heads of government meeting. The G20 grouping includes all members of the G7 plus China, Indonesia, and Korea, as well as other developing nations including Brazil, India, and South Africa.

So for the first time, of late, East Asia had four representatives seated at the high table of economic governance: Japan, China, Indonesia, and Korea; five given the Association of Southeast Asian Nations (ASEAN) is usually extended an invitation to participate; and seven if one includes Australia and India as Asian nations. Even though India is indubitably Asian and Australia is arguably so from an economic perspective, this article focuses upon East Asia rather than the region more broadly conceived.

Although global economic governance is in the G20 politicians’ hands, global financial governance is managed by the technocrats of the International Monetary Fund (IMF), Bank for International Set-

10 About the Basel Committee, Bank for Int’l Settlements, http://www.bis.org/bcbs/about.htm (last visited Nov. 22, 2013). The Basel Committee on Banking Supervision (BCBS, formerly known as the Committee on Banking Regulations and Supervisory Practices) is the main global standard-setter for the prudential regulation of banks. Id.

11 About the IFRS Foundation and the IASB, IFRS Found., http://www.ifrs.org/The-organisation/Pages/IFRS-Foundation-and-the-IASB.aspx (last visited Nov. 22, 2013). The International Accounting Standards Board is the standard setting board of the IFRS Foundation, an independent private sector organization responsible for the development of international financial reporting standards. Id.

12 Int’l Ass’n Ins. Supervisors, http://www.iaisweb.org (last visited Nov. 22, 2013). The International Association of Insurance Supervisors was established in 1994 to promote effective and globally consistent supervision of the insurance industry. Id.

13 See Daniel Bradlow, A Framework for Assessing Global Economic Governance, 54 B.C. L. Rev. 971, 975; Group of Seven–G-7, Investopedia, supra note 6.

14 See About the G20, Global Partnership for Fin. Inclusion, http://www.gpfi.org/about-gpfi/countries/about-g20 (last visited Nov. 22, 2013). The G20 was established in the late 1990s in recognition of the fact that key emerging market countries were not included in the G7. Id.; see also Bradlow, supra note 13, at 975–76.

15 Arner & Buckley, supra note 2, at 207–08.
tlements (BIS), and Financial Stability Board (FSB). Yet East Asia lacks adequate representation in each of these bodies. Even after the reallocation of voting rights in the IMF in 2010–11, the ten Association of Southeast Asian Nations plus China, Japan, and Korea possess only 17.59 percent of the total votes available to be cast, whereas these thirteen nations generate 24.56 percent of global gross domestic product (GDP).

There are sixty member central banks of the Bank for International Settlements, yet only nine originate from East Asia (China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, The Philippines, Singapore, and Thailand). Further, although the BIS Board consists of nineteen members, only two are from East Asia, both from Japan.

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16 See Bradlow, supra note 13, at 975–79; About BIS, supra note 7; About the FSB History, supra note 8; About the IMF, Int’l Monetary Fund, http://www.imf.org/external/about.htm (last visited Nov. 22, 2013). The International Monetary Fund (IMF) was established in 1945 and today has a membership of 188 countries. See id. Its main purpose is to contribute to international financial stability. See id.

17 See infra notes 8–26 and accompanying text.

18 ASEAN Member States, Ass’n SOUTHEAST ASIAN NATIONS, http://www.asean.org/asean/asean-member-states (last visited Nov. 22, 2013). The ASEAN Member States include Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam. Id.


21 Organisation and Governance, Bank for Int’l Settlements, http://www.bis.org/about/orggov.htm (last updated July 29, 2013). In relation to voting shares, the BIS website states that “The BIS currently has 60 member central banks, all of which are entitled to be represented and vote in the General Meetings. Voting power is proportionate to the number of BIS shares issued in the country of each member represented at the meeting.” Id.

22 See About BIS: Board of Directors, Bank for Int’l Settlements, http://www.bis.org/about/board.htm (last updated July 1, 2013). The Board at the time of writing comprised: Christian Noyer, Paris (Chairman); Ben S Bernanke, Washington, DC; Mark Carney, London; Agustin Carstens, Mexico City; Luc Coene, Brussels; Andreas Dombret, Frankfurt am Main; Mario Draghi, Frankfurt am Main; William C Dudley, New York; Stefan Ingves, Stockholm; Thomas Jordan, Zurich; Klaas Knot, Amsterdam; Haruhiko Kuroda, Tokyo; Fabio Panetta, Rome; Stephen S Poloz, Ottawa; Baron Guy Quaden, Brussels; Paul Tucker, London; Ignazio Visco, Rome; Jens Weidmann, Frankfurt am Main; and Zhou Xiaochuan, Beijing. See id.
The Financial Standards Board (FSB) has fifty-two seats on it for nations and eighteen for organizations, totaling seventy seats. Yet China has three seats; Hong Kong one; Indonesia one; Japan three; Korea two; and Singapore one—giving East Asia as a region only eleven seats. Article 10(1) of the FSB Charter, however, provides that the number of the seats in the Plenary (the decision-making body of the FSB) “reflects the size of the national economy, financial market activity and national financial stability arrangements of the corresponding Member jurisdiction.” Nevertheless, East Asia’s representation fails to come close to this, at least in terms of the sizes of the national economies.

Therefore, it is only in the G20 that East Asia’s representation equals its economic heft—the region has 20 percent of the seats (i.e. four seats out of twenty) and 24.56 percent of global GDP. Furthermore, the pattern has become to invite the Chairperson of ASEAN to G20 summits to represent ASEAN’s position on issues. The ASEAN Chair was first invited to the summit in London in 2009, and has been invited to all subsequent summits. ASEAN is pushing for a formal seat at the G20, rather than relying on ad hoc invitations from the nation hosting the relevant G20 summit, but a permanent seat for ASEAN has

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24 Id.
26 See id.; The World Factbook Field Listing: GDP (Official Exchange Rate), supra note 20 and accompanying text.
27 See About the G20, supra note 14; The World Factbook Field Listing: GDP (Official Exchange Rate), supra note 20 and accompanying text.
28 See infra notes 29–30 and accompanying text.
not yet been institutionalised. Provided this materializes, or the tradition of ad hoc invitations continues, East Asia will have 24 percent of the representatives at G20 meetings, which means the region’s representation very nearly equals its contribution to global GDP.

The G20 is the primary body directing global economic and financial regulation—a role it has been given by the G7. The G20 often directs the activities of the more technical bodies like the IMF or the FSB. In this sense, if East Asia had been able to choose just one organ of global governance on which to have fair representation it could not have done better than to choose the G20. The G20 is certainly the region’s best chance to play a major role in global economic governance. This article examines what stands between the region and it playing that sort of role.

The next section explores the history of how our international system grew to where it is today and argues that the relatively recent rise of East Asia calls for a recalibrating of the system. Section II explores the four reasons why East Asia has had relatively little input into global governance (including the absence of East Asian unity arising, in part, from the heavy hand of Japan’s history). Section III analyses the extent of integration within East Asia today, and Section IV considers the advantages of a unified regional voice in global governance. Section V considers the recent change in China’s foreign policy and the massive price China is paying for it, including lost opportunities for regional leadership and regional cohesion. Section VI concludes.

I. History and Background

Historically, East Asia enjoyed only a very minor role in global economic and financial governance. Sixty years ago, in terms of its

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32 See *About the G20*, supra note 14; *The World Factbook Field Listing: GDP (Official Exchange Rate)*, supra note 20; Dobson, supra note 31; Cooper, supra note 31.

33 See Bradlow, supra note 13, at 975.

34 See id. at 977–78.

economic significance and influence, this made some sense.\textsuperscript{36} Today, however, it does not. For decades, East Asian nations have charted their own economic course and enjoyed extraordinary growth that has underpinned global growth.\textsuperscript{37} For over twenty years China has grown at an average rate above 9 percent\textsuperscript{38} that has recently decreased to about 7.6 percent;\textsuperscript{39} Malaysia has grown at an average rate of above six percent; Singapore at above 7 percent; and South Korea, Taiwan, and Thailand at well over 5 percent.\textsuperscript{40} When Japan was outperforming the world, from 1950 to 1965, its economy expanded on average at over 10 percent per annum.\textsuperscript{41} China is the second largest economy in the world in purchasing power parity terms—the terms that economists generally accept as best for comparative purposes.\textsuperscript{42} Even more impressively, China is the second largest economy in unadjusted U.S. dollar terms.\textsuperscript{43} China holds about 30 percent, Japan about 15 percent, and South Korea about 3 percent of worldwide official foreign currency reserves.\textsuperscript{44} China and Japan have long been the principal buyers of United States Treasury

\begin{thebibliography}{9}
\bibitem{Id} Id.
\bibitem{infra} \textit{See infra} notes 38–41 and accompanying text.
\bibitem{Morrison} Wayne M. Morrison, Cong. Researc Serv., RL33534, China’s Economic Conditions 4–5 (2012).
\bibitem{Bieda} See Ken Bieda, \textit{The Structure and Operation of the Japanese Economy} 12 (1970).
\bibitem{World} \textit{See World Economic Outlook Database, supra} note 40 (follow “By Countries (country-level data)” hyperlink; then follow “All countries” hyperlink; then follow “Continue” hyperlink; then select “Gross domestic product based on purchasing-power-parity (PPP) share of world total: Percent” and follow “Continue” hyperlink; the follow “Prepare Report” hyperlink).
\bibitem{World} \textit{See World Economic Outlook Database, supra} note 40 (follow “By Countries (country-level data)” hyperlink; then follow “All countries” hyperlink; then follow “Continue” hyperlink; then select “Gross Domestic Product, Current Prices: U.S. Dollars” and follow “Continue” hyperlink; the follow “Prepare Report” hyperlink).
\bibitem{Buckley} Buckley, \textit{supra} note 35, at 52.
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bonds.45 The Chinese and Japanese have saved and lent, so Americans can borrow and spend.46 China has been assisted in amassing these reserves, in my view, by keeping its currency,47 until recently, significantly undervalued.48 Although China may well have been manipulating the value of its currency, it nevertheless did so without breaching its obligations under the Articles of Agreement of the IMF or the various WTO treaties.49

The path to development promoted by the International Monetary Fund, World Bank and United States Treasury is a bundle of policies generally known as the Washington Consensus.50 The focus of these policies has been to grow the debtor’s economy, to alleviate poverty within the country, and thus, to generate sufficient foreign exchange resources to stay current on its debts.51 It has been taken as axiomatic that higher growth rates lead to less poverty, and that the road to higher growth involves devaluing exchange rates, reducing

45 Id.
46 Id.
47 See Roya Wolverson & Christopher Alessi, Confronting US-China Economic Imbalances, COUNCIL ON FOREIGN REL. (Nov. 2, 2011), http://www.cfr.org/china/confronting-us-china-economic-imbalances/p20758#p3. There is a vigorous debate on whether China has manipulated the value of the yuan (which it steadfastly denies) and on whether the yuan has long been undervalued. See id.
budget deficits, charging more for state-produced goods and services, such as electricity and water, privatizing state-owned companies, and deregulating the labour market. In summary, the Washington Consensus calls for a much-reduced role for government and a much-increased role for markets.

Diverse policies have been pursued by different East Asian nations, so the region’s economic success doesn’t present a simple story. This is especially so because China is keenly developing a very distinctive economic model that contrasts starkly from the Washington Consensus. Whereas Japan and Korea like to believe that they follow a Western economic model, in actuality they both favour far larger roles for government than the Washington Consensus would permit. Thus, the policies that have served the region so well often contradict those of the Washington Consensus. This is self-evidently true in China, but even Japan has consistently preferred regulatory approaches “that [rein] in rather than [let] loose market forces.” Indeed, the only East Asian economy to consistently follow Washington Consensus policies has been Hong Kong (treated as a separate economy for these purposes).

Other nations should be grateful that China and the other East Asian nations have consistently ignored IMF advice and Washington Consensus policies, and taken their own paths, because for decades the stellar economic growth of East Asia has lifted that of the world. In contrast, Washington Consensus policies have never worked this well in the countries in which they have been applied. China’s capacity to produce manufactured goods, clothing, and other items ever more efficiently and cheaply has kept a lid on inflationary pressures in virtually

52 Buckley, supra note 35, at 50; see Saad-Filho, supra note 51, at 521–24.
54 See Buckley, supra note 35, at 54.
55 See id. at 51.
57 Phillip Lipsy, Japan’s Asian Monetary Fund Proposal, 3 STAN. J. E. ASIAN AFF. 93, 100 (2003).
58 Buckley, supra note 35, at 51.
59 See infra notes 61–63 and accompanying text.
all developed economies.\textsuperscript{61} For Australia, Brazil, and other commodities exporters China’s growth has provided a massive market for minerals and other commodities.\textsuperscript{62} Indeed, the rise of East Asia generally has underpinned global prosperity for the past twenty-five years.\textsuperscript{63}

In finance, China has marched to the beat of its own drummer, choosing the cadence to suit itself.\textsuperscript{64} For the past twenty years, the European Union and the United States have been pushing for China to open up more to their banking institutions, to allow in foreign capital, and to allow the renminbi to float on international markets.\textsuperscript{65} China, however, has resisted most of these demands.\textsuperscript{66} Foreign banks have been allowed in when, and on the terms, that best suited China, and only in limited ways.\textsuperscript{67} Foreign capital has been allowed in only in limited and tightly controlled ways so that longer-term investments in businesses are welcomed but short-term hot money flows are denied access.\textsuperscript{68}

In the Holy Trinity of international finance one doesn’t get all three. In Christianity the Father, Son, and the Holy Spirit are three aspects in effect of a singular Godhead. International finance, in more ways than just this, is more like Meatloaf—the singer, not the meal. One of his more popular songs is entitled, “Two out of Three Ain’t Bad.”\textsuperscript{69} In international finance, a country can have two out of three of: (i) access to international capital markets, (ii) control of interest rates, or (iii) control of exchange rate.\textsuperscript{70} But it cannot have all three.\textsuperscript{71} In other words, if you need foreign capital, then you can set your interest rates but the market will set your exchange rates (as Australia and the United States do).\textsuperscript{72} Or you can set your exchange rates, but the market will set your interest rates. But you cannot set both interest and exchange rates

\textsuperscript{61} Buckley, supra note 53, at 724.
\textsuperscript{62} Id.
\textsuperscript{63} Buckley, supra note 35, at 51.
\textsuperscript{64} Id.
\textsuperscript{65} Id.
\textsuperscript{66} Id.
\textsuperscript{67} Id.
\textsuperscript{68} See id.
\textsuperscript{69} MEATLOAF, Two Out of Three Ain’t Bad, on BAT OUT OF HELL, (Epic Records 1977).
\textsuperscript{71} See Maurice Obstfeld et al., The Trilemma in History: Tradeoffs Among Exchange Rates, Monetary Policies, and Capital Mobility, 87 Rev. Econ. Stat. 423, 423 (2005); see also Maurice Obstfeld & Kenneth Rogoff, Exchange Rate Dynamics Redux, 103 J. Pol. Econ. 624, 626–60 (1995).
\textsuperscript{72} See Bluedorn & Bowdler, supra note 70, at 679–80.
if you need foreign capital because then you typically won’t get the capital in the amounts you need.\textsuperscript{73}

This is one of the reasons China has so tightly controlled the entry of foreign capital.\textsuperscript{74} By preventing itself from becoming dependent upon foreign capital, China has managed to stay in charge of both its interest and exchange rates, and thus retain control of two very powerful policy levers over its economy.\textsuperscript{75} Keeping interest rates artificially low for decades has preferred Chinese manufacturers and other industries that benefit from access to cheap capital, at the expense of Chinese citizens, who receive very low returns on their savings.\textsuperscript{76} And by keeping its currency artificially undervalued it prefers Chinese export industries again over Chinese consumers, who have to pay higher prices for imported goods than would be the case were the exchange rates at an appropriate value.\textsuperscript{77}

So in the financial sphere China has consistently called the shots in terms of its interaction with the global financial system.\textsuperscript{78} Yet, to date, China, and East Asia more broadly, have punched well below their weight in shaping international financial governance. China has been happy to interact on its terms with global capital without taking the next step of becoming heavily engaged in how the global financial system is structured and regulated.

II. Why East Asia Has Had Little Input into Global Governance

Four principal reasons explain why East Asia’s input into global governance has not matched its economic performance:

1. The economic rise of East Asia is a relatively recent phenomenon, which is yet to move the massive inertia in international governance arrangements.
2. Regional discord prevents East Asia from speaking with a unified voice at G20, BIS, FSB, and other governance body meetings.

3. The United States has actively worked to discourage regional co-operation.
4. The region has not really trusted international institutions and their policies.

A. Inertia in Global Governance Arrangements

The first reason needs little explanation—the present leaders in economic governance do not want to cede their power to emerging East Asian powerhouses. Power in international affairs is attractive; nations do not like ceding it once they have it, and power sharing is a zero sum game—more influence and power for East Asian nations means less for other nations. Across the board, Europe is the region that is over-represented in membership entitlements at the IMF, the G20, and the various international financial regulatory bodies. Thus, any push for greater representation for East Asia (and developing nations more generally) almost inevitably requires Europe to give up some of its power. For instance, European nations hold eighteen seats on the FSB, whereas East Asia has only eleven seats. Furthermore, the European Central Bank and European Commission each hold an organisational seat on the FSB, while no distinctively Asian organisation sits on the Board. So Europe enjoys almost double the representation of East Asia on the FSB while producing roughly the same proportion of global GDP.

80 See id.
81 See About the G20, Global Partnership for Fin. Inclusion, supra note 14.
82 See id.; Rana, supra note 30.
84 Id.
B. The Absence of Unity Among East Asian Nations

East Asia is not a cohesive region. Its nations are divided by religions, political systems, degrees of development, and historical distrust. Some of the region’s nations reject religion while others embrace Buddhism, Christianity, and Islam. Some nations embrace communism while promoting free markets; some are democracies with heightened government influence over industry, such as Japan, Korea and Singapore; and others are laissez faire free market democracies, such as Hong Kong. Some nations are highly developed, such as Japan and

86 Richard Weixing Hu, China, the US and Regional Institution Building in East Asia, in EAST ASIAN ECONOMIC INTEGRATION 7, 10 (Ross P. Buckley et al. eds., 2011); Simon C.T. Tay, Attempts at a Regional Architecture, in PACIFIC ASIA 2022: SKETCHING FUTURES OF A REGION 200 (Simon C. T. Tay ed. 2005); Rosemary Foot, Asia’s Cooperation and Governance: The Role of East Asian Regional Organizations in Regional Governance: Constraints and Contributions 13 JAPANESE J. POL. SCI. 133, 134, 139 (2012).

87 Tay, supra note 86, at 200; Foot, supra note 86, at 133, 134, 139.


Singapore; some are desperately underdeveloped, such as Myanmar and Laos; and others, such as China, have pockets of both stages of development.90

The road to the degree of unity seen today in Europe has been long and tortuous, yet Europe shares a common religion, political system, and degree of development.91 The principal divisive factor in Europe has been historical distrust.92 East Asia has a much steeper road to climb on the path to unity with deep divisions in religion, political systems, and levels of development, and with at least as much historical distrust due to past wars and conflicts as Europe had.93

Allied to this is the fact that the idea of Asia or East Asia is yet to gain as much traction as the idea of Europe had acquired even by the late 1960s.94 Asia is not a term one hears used regularly to identify the region.95 Actors within the region are far more likely to speak of other nations specifically, rather than of the region as a grouping. Asia and East Asia are terms used more often by outsiders to define and limit the region than by those living within it to engender feelings of camaraderie and a shared future.96

Regional unity is frustrated because the hand of history impairs the trust necessary to form regional relations.97 The general perception in the region is that Japan has never properly apologised nor taken responsibility for the atrocities it committed during its imperial period,

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92 See id.

93 See id. at 426; Hu, supra note 86, at 10.

94 See Capannelli, supra note 29 (comparing the development of the idea of European regionalism with Asian regionalism).

95 Id.

96 See Narine, supra note 91, at 444.

97 See id. at 426; Foot, supra note 86, at 139.
spanning 1895 to 1945.98 This view is most strongly held by China, whose people suffered grievous atrocities by the Japanese, such as the Rape of Nanking.99 Reconciliation between China and Japan is essential for the development of a regional architecture, as Simon Tay has pointed out, yet China and Japan are in no sense natural allies.100 Nonetheless, reconciliation is needed, and for it to occur, “Japan must come to terms with its history”.101 This is a difficult challenge for Japan given its domestic politics.102 Extreme right wing elements within its body politic who wish to argue that the rape of Nanking never happened will always receive disproportionate media coverage in places like China; as will Japanese school texts that choose to portray Japan as a victim in World War II rather than an aggressor.103 Recognizing past wrongdoing is a difficult challenge for Japan, but it is one to which it simply must rise—for its own sake, most of all, and for the region’s.

Korea has its own similar sources of historical distrust with Japan, most prominently Japan’s enslavement of Korean women to serve as prostitutes (the euphemistically termed “comfort women”) for Japanese soldiers in World War II and Japan’s continuing refusal to compensate the women.104 These painful wounds were recently reopened when the Mayor of Osaka said, “For soldiers who risked their lives in circumstances where bullets are flying around like rain and wind, if you want them to get some rest a comfort women system was necessary. That’s clear to anyone.”105 Although the mayor of a major city has of course no foreign policy role or official voice on these matters, and doubtless this man was playing to some misguided domestic audience, his ridiculous utterances nonetheless reverberated throughout the region in ways severely damaging to Japan’s soft power and to prospects

99 Narine, supra note 98, at 84–85.
100 Tay, supra note 86, at 200.
101 Id.
102 See John H. Miller, The Outlier: Japan Between Asia and the West, ASIA-PACIFIC CENTRE FOR SECURITY STUDIES, 10 (Mar. 2004).
103 Id.
for regional unity. Somehow, Japan, in so many ways such a deeply civilized nation, needs to engineer a national dialogue that will produce an enlightened, accurate consensus upon its history.

The cause of East Asian unity is further held back by the absence of a clear regional leader. Until a decade ago, the obvious economic leader of the region was Japan, but the aforementioned distrust limited its capacity to play this role. Moreover, Japan tended to keep its distance in regional councils, playing the role of a somewhat aloof developed nation in a developing region. Today the economic leader of the region is China, but Japan remains unwilling to concede this role, and instead, the two nations continue to jostle each other for regional leadership.

In this regard it is time for Japan to face reality and accept that China’s economic growth has placed it into an unassailable position of regional leadership. Japan needs to conceive of a regional future in which it can exercise leadership in coalition with other regional nations, or in coalition with China, and accept that the days when it was reasonable for Japan to expect to act as the region’s sole leader are long behind it.

C. The U.S. Works Actively to Discourage Regional Co-operation

The United States has not historically seen a unified East Asia as being in its national interest. It has therefore worked in more and

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106 See Joseph S. Nye, Jr., Bound to Lead: The Changing Nature of American Power, ch. 6 (1990) (coining the term “Soft power”). Nye frames power as an ability to do things, and to get others to do what they otherwise would not. See id. He contends that the changing nature of world politics means that traditional and more coercive power resources are less effective in achieving various state actors’ goals. See id. Instead, a state may achieve the outcomes it prefers because other states want to follow it. See id. This contrasts with hard or command power. See id. Nye argues that if a state can make its power legitimate in the eyes of others, it will encounter less resistance to its wishes and may avoid costly exercises of coercive or hard power in bargaining situations. See id.

107 See Narine, supra note 91, at 444.

108 See Björn Hettne, Globalization, the New Regionalism and East Asia, paper selected by Global Seminar Shonan Session, Japan (1996). In 1996 Björn Hettne wrote, “Asia-Pacific is becoming the new centre of global capitalism. It can also be seen as an emerging trade bloc under the leadership of Japan” and later describe Japan as “a hegemonic contender.” Id.

109 Miller, supra note 102, at 11.

110 Zhongqi Pan, Dilemmas of Regionalism in East Asia, in East Asia at a Crossroads, 10(2) Korea Review of International Studies 17, 24 (2007).

111 See Hu, supra note 86, at 7 (“China’s ascent and its growing influence in East Asia have important bearings on regional order and regional institutional building.”).

112 Id. at 15.
less subtle ways against regional unity and co-operation.\textsuperscript{113} For instance, when Japan proposed, and was willing to fund, an Asian Monetary Fund in the aftermath of the 1997 crisis, the United States strongly opposed the idea, principally because this fund could have led to far greater regional co-operation.\textsuperscript{114}

In the words of Frank Jannuzi, “In the 1990s, the United States thwarted early steps toward building an East Asia economic community, fearing a diminution in U.S. influence.”\textsuperscript{115} More recently, however, as the region has progressed along a road towards regional community building, the United States has come to realise that it best get on the bus and encourage regional unity, or risk being left behind.\textsuperscript{116} As a result, America’s attitude towards East Asian regionalism is becoming far less antagonistic than it was one or two decades ago, but it still doesn’t actively support the process.\textsuperscript{117}

D. East Asia’s Historical Distrust of International Institutions

Perhaps the principal contemporary reason for East Asia’s general skepticism about global economic governance is the region’s deep disillusionment with the intervention of the IMF in the Asian crisis in 1997 and 1998.\textsuperscript{118} The IMF’s high-handedness in imposing stringent conditions on Indonesia, Korea, and Thailand was perceived as a humiliating affront to sovereignty, and it still looms large in the region’s collective memory.\textsuperscript{119} This is particularly so because the IMF’s initial diagnosis of Asia’s troubles in 1997 was quite wrong, as even the IMF itself was forced to admit in under two years.\textsuperscript{120} The strongly interventionist and directive style of the IMF in that crisis was in direct contrast to the re-

\textsuperscript{113} Frank Jannuzi, \textit{US Perspectives on East Asia Community Building, in East Asia at A Crossroads} 121, 122 (Jusuf Wanadi & Tadashi Yamamoto eds, 2008).
\textsuperscript{114} See Pan, \textit{supra} note 110, at 23.
\textsuperscript{115} Jannuzi, \textit{supra} note 113, at 122; see also Pan, \textit{supra} note 110, at 23.
\textsuperscript{116} Jannuzi, \textit{supra} note 113, at 129 (“The United States seems to have settled on a blended approach to advancing its core security interest in East Asia, not only relying on traditional bilateral alliances (adapted to the post-Cold War world) but also working to develop effective ad hoc regional structures.”); Ito Go, \textit{Regionalism in the Asia-Pacific and U.S. Interests, 30 Nanzan Rev. of Am. Stud.} 167, 173–74 (2008).
\textsuperscript{119} Henning & Khan, \textit{supra} note 118, at 2–3.
\textsuperscript{120} Ross Buckley & Sarala Fitzgerald, \textit{An Assessment of Malaysia’s Response to the IMF During the Asian Economic Crisis, 2004 Singapore J. Legal Stud.} 96, 111–12.
region’s strong preference for consensus-led cooperation, and so the region remains deeply distrustful of global economic institutions.\footnote{121} Be that as it may, this historical distrust impairs the region’s opportunity to shape the global debate and the resulting regulatory measures. The time has come for the region to rise above its history and to start to play the role which its economic success has earned it and which will serve it best. After all, it is not as if China is content with the international financial system as it is.\footnote{122} The Governor of China’s central bank has been calling since 2009 for a new reserve currency regime, and China is hard at work bringing this to pass.\footnote{123} China has entered into currency swap agreements with Australia, Hong Kong, Indonesia, Malaysia, New Zealand, Singapore, and South Korea to facilitate trade with those countries being denominated in their local currencies or renminbi, rather than U.S. dollars.\footnote{124} As a result of these agreements and their projected expansion in the future, the Hong Kong and Shanghai Banking Corporation predicts that by 2015 some $2 trillion of Chinese trade could be settled in renminbi, which would make it one of the three leading currencies for the conduct of international trade.\footnote{125} China remains of the view that there are better alternatives for a global reserve currency than the U.S. dollar, with which I agree,\footnote{126} and if it could bring all of East Asia with it in that view, it would have a far better prospect of one day seeing it realised.\footnote{127}


\footnote{125} Id.; see also J. Wheatley, *Brazil and China Eye Plan to Axe Dollar*, Fin. Times (May 18, 2011), http://www.ft.com/cms/s/0/996b1af8–43ce-11de-a9be-00144feabcd0.html#axzz1aWgJGjgs.


\footnote{127} See Nhu Vu, *The Evolving Role of the Asian Development Bank in the Creation of an Asian Currency Unit*, in *East Asian Economic Integration* 294, 310 (Ross P. Buckley et al. eds., 2011).
III. Regional Integration

Integration within East Asia is an odd phenomenon. The region’s production is highly integrated—China acts primarily as the manufacturing hub, receiving inputs from other nations’ niche industries of comparative advantage.\(^{128}\) East Asia’s formal trade is also well integrated with a veritable noodle bowl of bilateral and regional free trade agreements in place or under negotiation.\(^{129}\) Yet the region is poorly integrated in financial and political terms.\(^{130}\) The financial systems of most East Asian nations are far more closely integrated with financial systems in North America or Europe than with those of other East Asian nations.\(^{131}\) This is perplexing given the high savings rates and foreign exchange reserves that characterize regional nations.\(^{132}\) East Asia’s massive savings as a region give it more enviable options in dealing with global capital and provide the opportunity to interact with global capital more on its own terms.\(^{133}\)

Immediately after the East Asian crisis in 1997, Japan offered to fund the establishment of an Asian Monetary Fund, with a view to enhancing regional financial integration.\(^{134}\) Unfortunately, the United States and the IMF sternly opposed the idea, China failed to support the idea, and thus, it was dropped.\(^{135}\) In its place, the much less ambitious Chiang Mai Initiative (CMI)—a series of bilateral commitments by which regional nations committed to make bilateral swap arrangements

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\(^{131}\) *Id.*

\(^{132}\) *See id.*

\(^{133}\) *See id.*; Injoo Sohn, *Legitimacy and Power: The Political Dynamics of East Asian Financial Regionalism, in East Asian Economic Integration* 233, 233 (Ross P. Buckley et al. eds., 2011).

\(^{134}\) Miller, *supra* note 102, at 11; Lipscy, *supra* note 57, at 93.

\(^{135}\) Lipscy, *supra* note 57, at 93.
and security repurchase agreements available to each other in times of need—was pursued.136

The CMI was not called upon during the 2008 global crisis, with regional nations preferring to arrange extended credit lines from the United States Federal Reserve.137 In the face of this economic failure, the swap agreements were multilateralised in early 2009 and increased by $40 billion to $120 billion in an agreement known as the Chiang Mai Initiative Multilateralised (CMIM).138 And in May 2012, the swap lines were doubled to $240 billion.139 China, Japan, and Korea provided 80 percent of these commitments, with the balance contributed by ASEAN nations.140

Originally, nations without IMF programs only had access to 20 percent of the amounts available under the CMIM.141 As IMF negotiations are typically slow, 80 percent of the funds would not be available promptly—a problem when they are needed during a crisis.142 Nevertheless, the CMIM credit was conditioned upon an IMF program because the CMI lacked a surveillance capacity.143 This has now been remedied with a surveillance authority established, in Singapore, in 2012.144 The immediately available amount, however, was only increased to 30 percent of available funds, with a view to further increase the funds to 40 percent in 2014.145

Jayant Menon has noted that,

137 Menon, supra note 136.
140 See id.
141 Sohn, supra note 133, at 243.
142 See id. at 242.
143 Id.
145 Press Release, S. Korea Ministry of Strategy and Finance, supra note 139.
Asia’s recent doubling of its financial safety net looks impressive. But it’s more icing than cake. It is, in fact, unusable. During 1997/98, some $40–60 billion in emergency liquidity was needed by each crisis-hit country. Yet, the original ASEAN members can access about $23 billion each, and only thirty percent of this without an IMF programme.\textsuperscript{146}

Menon is right. The amount of funds available under the CMIM need at least to be doubled and preferably tripled, and the limits on the availability of the funds radically altered before the CMIM will be a real substitute for credit lines from the United States Federal Reserve or the IMF in any future crisis.\textsuperscript{147} Although ASEAN and the region moves slowly, they nonetheless remain persistent, so achieving a CMIM of this size and ability to react swiftly is by no means unforeseeable.\textsuperscript{148}

Achieving a series of substantial credit lines coupled with a legitimate surveillance (and thus advice-giving) capacity creates a close equivalent to a monetary fund—in this case, an Asian Monetary Fund.\textsuperscript{149} If the CMIM’s credit lines were to be tripled, and the conditions upon which they were to be made available determined entirely by the CMIM’s surveillance authority in Singapore, not the IMF, then the CMIM could begin to function like an Asian Monetary Fund.\textsuperscript{150} This, in turn, would greatly enhance the region’s control of its economy and allow the region to insulate itself, to some extent, from the vagaries and volatility of global capital.\textsuperscript{151}

**IV. THE NEED FOR A UNIFIED REGIONAL VOICE IN GLOBAL GOVERNANCE**

If East Asia is to exercise the influence commensurate with its foreign exchange reserves and contribution to global GDP, then China, Japan, and Korea need to cooperate.\textsuperscript{152} Yet, rather than cooperating,

\textsuperscript{146} See Menon, supra note 136.

\textsuperscript{147} And then of course regularly increased to keep pace with inflation.

\textsuperscript{148} See Menon, supra note 136.

\textsuperscript{149} See Ross P. Buckley, Beyond the Multilateralized Chiang Mai Initiative: An Asian Monetary Fund, in EAST ASIAN ECONOMIC INTEGRATION, supra note 133, at 280, 284.

\textsuperscript{150} See id.


\textsuperscript{152} See Andrew Yeo, China, Japan, South Korea Trilateral Cooperation: Implications for Northeast Asian Politics and Order, INT’L. RELATIONS AND SECURITY NETWORK (Jun. 18, 2013), http://www.isn.ethz.ch/Digital-Library/Articles/Detail/?id=165008.
the three countries repeatedly clash at G20 summits.\textsuperscript{153} For instance, at the G20 Finance Ministers meeting in Paris in February 2011, Korea and China argued over the internationalization of the renminbi.\textsuperscript{154} And at the G20 seminar in Nanjing in late March 2011, Japan advocated the U.S. dollar’s continuance as the global reserve currency in direct opposition to China’s wishes.\textsuperscript{155}

The three countries’ economies, however, have much in common.\textsuperscript{156} Their public finances are healthy, their banking systems and corporate balance sheets are less stressed than most Western countries, and their huge foreign exchange reserves serve as potent insurance against external shocks.\textsuperscript{157} They also share a common perspective on the appropriate role of governments in directing economic activities.\textsuperscript{158} Their domestic economic policy settings are strongly pro-business with relatively meager social welfare safety nets and their policies generally prefer domestic businesses over consumers through a mix of low interest rates on savings and high tariffs on imports.\textsuperscript{159} Further, all three nations rely upon export-led models of growth.\textsuperscript{160} Regional trade has been growing rapidly and is at an all-time high.\textsuperscript{161} 40 percent of China’s exports are to Asia, as are 68 percent of Indonesia’s exports, 66 percent of Malaysia’s, and 55 percent of Korea’s.\textsuperscript{162}

This relative economic strength and stability should give rise to considerable economic clout for the region in G20 deliberations, but


\textsuperscript{155} Tiberghien, supra note 153, at 6.

\textsuperscript{156} See generally Ishrat Husain, \textit{Asia and Global Governance}, INT’L POLICY DIGEST, Oct. 15, 2011 (comparing the similarities between the countries economies).

\textsuperscript{157} See id.


\textsuperscript{159} See Baizhu Chen, \textit{Tear Down This Wall—the Chinese Tariff Wall}, FORBES (July 12, 2012 4:27 PM), http://www.forbes.com/sites/baizhuchen/2012/07/12/tear-down-this-wall-the-chinese-tariff-wall/.


for this to happen, the region needs to speak with one voice.\textsuperscript{163} The two principal reasons it has yet to do so are: (1) the lingering, potent historical animosities between China and Japan, and Korea and Japan, respectively, and (2) Japan and Korea’s concern about China’s military rise and increasing bellicosity.

Thus, the onus is on Japan and China to act. As Japan was previously mentioned, the focus now turns to China.

V. China’s Change of Course

For twenty years China’s foreign relations policies were primarily a model of the subtle but effective pursuit of national self-interest.\textsuperscript{164} In the past few years, all this has changed.

For years, in classes about the region, I would contrast the use by Japan and China of aid funds to secure influence. Every year Japan would heavily outspend China on regional aid, and yet achieve far less bang for their yen.\textsuperscript{165} Japan funded worthy projects that gave its neighbours what Japan believed they needed, and what they often did need.\textsuperscript{166} China, on the other hand, gave what recipient governments wanted.\textsuperscript{167} It was as if Japan was the parent who knew best and China the grandparent who bought soft toys and ice cream.

As the developed nation in East Asia, Japan acted as if it had earned the right to solve other nations’ problems. China behaved like a good friend who listened first and then helped. In the words of Diane Mauzy and Brian Job, “China’s attempts to woo Southeast Asia consist of a package of well crafted policies featuring economic incentives and goodwill measures along with a strong diplomatic effort.”\textsuperscript{168} Unsurpris-


\textsuperscript{165} See Dennis D. Trinidad, China and Japan’s Economic Cooperation with the Southeast Asian Region: The Foreign Aid of a Rising and Mature Asian Power (unpublished manuscript) available at http://www2.jiia.or.jp/pdf/fellow/Trinidad_Revised_Draft_JIIA_Study0326.pdf (discussing the evolution of foreign aid policies for Japan and China over the last two decades).


ingly, China won friends and influenced nations; whereas Japan spent a lot of money and did a lot of good, but not much for itself.\textsuperscript{169}

There were tensions in these years, which diminished other nations’ trust in China.\textsuperscript{170} These include: China’s “integration” of Tibet, China’s desire to reunify Taiwan with China, and China’s unsettled boundary dispute with India.\textsuperscript{171} However, it is fair to say that China’s star was on the ascent as a potential regional leader. All this started to change in the past few years with the rise of Chinese bellicosity.\textsuperscript{172}

China is pushing its claims to islands in the South China and East China Seas, and few in the West draw distinctions between these claims.\textsuperscript{173} They tend to be seen as undifferentiated acts of Chinese aggression. China’s perspective is utterly different.

China is pushing its claim to the Spratly Islands in the South China Sea vigorously against the Philippines, Vietnam, Malaysia, Taiwan, and Brunei—all of whom maintain claims to at least some of the islands.\textsuperscript{174} A quick look at a map shows the validity of the Philippines’, and perhaps Vietnam’s, claims to the Spratlys and the vast oil and gas reserves beneath them.\textsuperscript{175} A map also shows how slender China’s claims are—the Spratlys are a long way from China.\textsuperscript{176} China, however, bases its claims on history, not geography. China reinforced its claims in July 2012, by resolving to garrison troops on one of the islands and appointing forty-five legislators to govern them.\textsuperscript{177} Likewise, in mid-2012, China established a military garrison on the Paracel Islands in the South

\textsuperscript{169} See id. at 631–33.
\textsuperscript{173} See id.
\textsuperscript{175} See id.
China Sea, which are claimed by Vietnam. This was described by one of Australia’s most perspicacious commentators as “an extraordinary act of provocation”,

Formerly, China would have sought oil and gas exploration rights over the Spratlys and the Paracels by offering the Philippines and Vietnam production-sharing agreements plus large amounts of aid and hefty, cheap loans. Today China bases its claims not on persuasion and largesse, but on military might. China will prevail by relying on its military strength, but at what cost to its longer-term ambitions to be a genuine regional and global leader, and to start to shape the global system so that it serves China’s, and East Asia’s, ends?

In the East China Sea there is an even more potent territorial dispute over the Diaoyu Islands (which are known as the Senkakus in Japan) and fishing rights in nearby waters. In the words of an article on Xinhuanet,

There is ample historical evidence to show that the Diaoyu Islands have been Chinese territory since the Ming Dynasty (1368–1644). The fact is recorded in many historical documents. Even a map published by Japan between 1783 and 1785 . . . labelled the Diaoyu Islands as Chinese territory.

The islands were unfortunately seized by Japan during the 1894–1895 Sino-Japanese war and had since been under its occupation until its defeat at the end of World War II.

However, they were not returned to China, its rightful owner, and were wrongly assigned to the then U.S.-controlled [Japan] under an illegal treaty signed between Tokyo and Washington in 1951.

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178 See id.
180 Lee Lai To & Chen Shaofeng, China and Joint Development in the South China Sea, in SECURITY AND INTERNATIONAL POLITICS IN THE SOUTH CHINA SEA: TOWARDS A COOPERATIVE MANAGEMENT REGIME 155, 165–66 (Sam Bateman & Ralf Emmers eds., 2008).
181 See Perlez, supra note 177.
In contrast, Japan argues that the islands have been under Japanese control since 1895, dismissing all of China’s grounds as baseless. The dispute over five uninhabited islands, which comprise a total area of about seven square kilometers and three barren rocks, in reality concerns the nearby important shipping routes and the likelihood of substantial underground oil reserves. This conflict generated considerable heat in late 2012 and was beginning to pose a genuine threat to regional stability.

There have been extensive protests within China about Japan’s occupation of these islands. Most Chinese scholars to whom I have spoken are of the view that the government could do much to lower these tensions and diffuse the situation. Yet, as the words of Xinhuanet quoted above suggest, the Chinese government, for its own reasons, is not seeking to do so. One of these reasons may be the strategic significance of the location of these islands as sea lanes that link China to the world. Yet China is well able to secure its sea lanes with its burgeoning navy.

Throughout the George W. Bush administration, the United States largely ignored East Asia and fixated on the Middle East. Upon coming to power in 2009, the Obama administration sought to rectify this

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186 See id.
189 See Hanlu, supra note 183.
Conventional wisdom posited, however, that the region’s resentment of America would make it near impossible for it to reclaim its former influence. Yet, of late, China’s aggressive postures have so scared regional nations that they have been lining up to ask America to re-engage. So we see the Philippines asking America to re-open Clark Air Base and Subic Bay—military bases the Filipinos ordered closed over twenty years ago. We see the United States announcing its intention to move the bulk of its navy to the Pacific, so that 60 percent of its fleet, including six aircraft carrier groups, will be based in the Pacific by 2020. And we see Indonesia taking the unprecedented step of sending its newest Sukhoi fighter aircraft offshore, for the first time ever, to Australia for joint training exercises in July 2012. Thus, of late, China has gifted to the United States the opportunity to re-establish its regional credibility and influence. But why would China do such a thing?

The answer to this question may lie not in what China expects the results of its actions to be, but in what is motivating its actions. In the decades when China’s foreign relations policies were a model of the subtle but effective pursuit of national self-interest, China sought regional influence and supporters in global fora. It was not, however, dealing with issues of territoriality. When China’s foreign relations policies have tended to be self-defeating, they have dealt with claims to

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193 See id.
194 See id.
195 See Buckley, supra note 172.
199 See Jane Perlez, China Claims Sovereignty over 80 per cent of Disputed Sea, SYDNEY MORNING HERALD, Aug. 13, 2012, at 6. One view is that all this bellicosity is for domestic consumption. In a time of transition in the leadership in Beijing, it may be, in the words of Kishore Mahbubani, the Dean of the Lee Kuan Yew School of Public Policy at National University of Singapore, that the leadership in Beijing, “have to be seen domestically as strong and tough in the next few months.” The problem with this view is that the bellicosity predated the leadership transition in Beijing and has continued since the transition. Id.
200 See Buckley, supra note 172.
territory seen by China as traditionally belonging to China.\textsuperscript{202} And here the idea, or self-concept, of China becomes very important. Just as I wrote earlier, while the idea of Asia is not particularly strong, the idea of China is both powerful and resonant for Chinese people.\textsuperscript{203}

Consequently, when nations contest China’s ownership of territory that it perceives as a traditional part of its identity, China reacts aggressively, and at times in ways that may be quite averse to its interests.\textsuperscript{204} These seemingly aggressive actions are nevertheless viewed within China as inadequate or even weak.\textsuperscript{205} For what appears to be at stake is not just a small collection of islands, even with potential oil and gas reserves—what is at stake is China’s historical identity.\textsuperscript{206} It is the idea of China as the central kingdom, China as mother of the world’s most populous people, China as the “moral guardian” of her people in Confucian terms.\textsuperscript{207} This is partially why China treats people as nationals who, although born in China, later renounced their Chinese citizenship in favor of another.\textsuperscript{208} It also explains why the Chinese national and provincial governments first embraced foreign investments from

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\textsuperscript{206} See id.

\textsuperscript{207} See Roberta Martin, Central Themes for a Unit on China, Asia for Educators (2009), http://afe.easia.columbia.edu/main_pop/kpct/ct_china.htm (last visited Nov. 19, 2013). In Confucianism the state is the “moral guardian” of the people, the relationship between the individual and the state is understood in consensual rather than adversarial terms, and neo-Confucian ideals held it was the responsibility of the educated individual to serve the State. See id. Confucianism prescribes a lofty ideal to the State with the governor as “father” to his people who should look after their basic needs. See Jia Wang et al., Confucian Values and the Implications for International HRD 311, 8 Human Resource Dev. Int’l 311, 315 (2005).

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the overseas Chinese under the Deng Xiaoping opening-up, but were far less welcoming of investments from non-Chinese.\textsuperscript{209}

Important insights into this idea can be gleaned from a speech delivered by Professor Wei-Wei Zhang in the Netherlands in 2011. He writes:

China is a civilisational state and the world’s only civilisational state. China is the only country in the world with a history of unified state for over 2000 years. It is the only country with a continuous civilisation lasting over 5000 years. The Chinese are the indigenous people to their own land. An example of this is the Chinese language: a well-educated higher school student . . . can read Confucius’ texts written 2500 years ago, a sign of the continuity of Chinese cultural lineage. China is the only country which is . . . an amalgamation of an ancient civilisation and a huge model state.\textsuperscript{210}

Professor Zhang sees China as similar to what the Roman Empire might have been had it endured to the present day as a massive unified state in which all inhabitants spoke Latin.\textsuperscript{211} He sees China as an amalgamation of four factors: a super large population, a super-sized territory, a super long history, and a super-rich culture.

As Nobel laureate, Amartya Sen, has identified:

[H]igh technology in the world of 1000 AD included paper and printing, the crossbow and gunpowder, the clock, the iron chain suspension bridge, the kite, the magnetic compass, the wheelbarrow and the rotary fan. Each one of these examples of high technology . . . a millennium ago was well-established and extensively used in China and . . . practically unknown elsewhere.\textsuperscript{212}


\textsuperscript{211} See id.

Most people in the West are unaware that China gave these inventions to the world 1,000 years ago and subsequently led the world in technology, but this is common knowledge in China. Indeed, many educated Chinese people are aware that as recently as 1820, China produced 33 percent of global GDP. In 1820, China’s GDP was 42 percent higher than Western Europe’s and over eighteen times that of the United States; further, East and South Asia’s GDP combined was 2.5 times that of Western Europe. China was a superpower before, a fact about which the Chinese people are highly aware. They believe “the rise of China is granted by nature,” and China’s decline “is a historical mistake which they should correct.” Indeed, these perspectives are equally applicable to India because from the year 1000 to 1820 China and India together accounted for one-half of global output, and even more than this in the first millennium.

For most Chinese people, the period from 1820 to 1950 was an historical anomaly—a period in which Asia was not the most productive part of the planet. For these people, the economic rise of China is merely the world returning to its natural state.

In short, China is an idea that is at once larger, more influential, and more powerful than the ideas that underpin almost any other nation. Ironically, probably the only other nation in the world that is defined and influenced by its own idea of itself is the other member of the G2—the United States.

213 See id.
218 See Maddison, supra note 215. Certainly for China this period was utterly anomalous as its GDP measured in constant dollars increased only 5 percent in total over the 130 years. See id.
The power and resonance of this idea of China is why the nation is behaving so counter-productively over the territorial disputes in the South China and East China seas.219 Thus, any resolution of these conflicts must accommodate the present-day reality and influence of this idea. China needs to view its interests through a larger lens than sovereignty alone. China’s best interests may well be served by recognizing and prioritizing its pivotal role as a world super-power above its historical ideas of its geographical ambit.220

A clear pattern has emerged—when China seeks to gain access to resources or influence with other nations, it behaves adroitly and subtly.221 Yet when the issue at stake concerns China’s territorial sovereignty, the subtlety gives way entirely to bellicosity.222 This regional aggression would seem to work against China’s national interests.223 China’s former course of building its soft power and trustworthiness was far better calculated to advance its own interests.224 In contrast, China’s recent actions have unintentionally increased America’s influence in the region far more than anyone believed possible three or four years ago.225

China’s new aggressive posture on security issues also effectively derails any possibility of a unified voice on economic governance issues.226 By driving Japan and Korea ever more strongly under the American military umbrella, China inevitably gives the United States the power to shape Japanese and Korean positions on economic issues to an extent otherwise not possible.

This outcome is to everybody’s detriment. The G20 would be a more effective institution of global economic governance if it had a strong and unified policy input from East Asia.227 The region with the

220 See id.
222 See Chang, supra note 202.
223 See id.
226 See Shalal-Esa, supra note 204.
highest growth rates in the world must have useful insights on global economic issues and needs to be heard. The capacity to bring this to fruition lies in China’s hands. This is going to require many years of careful, considerate regional behavior, however, as China convinces the region it has the region’s best interests at heart and can be trusted to deliver to it prosperity and security.

Conclusion

East Asia’s economic strength and stability should give rise to considerable economic clout in G20 deliberations, but for this to happen the region must speak with one voice. The two principal reasons it doesn’t are: (1) the lingering, potent historical animosities between China and Japan and Korea and Japan, respectively, and (2) the region’s concerns about China’s military rise and its increasing bellicosity. So the way forward is going to require action from Japan and China.

As previously considered, the only answer to the potent historical distrust is for Japan to take responsibility for its history, give unconditional apologies for past abuses, and ensure its school texts and other histories don’t whitewash Japan’s role as the aggressor, and the abuses committed by its troops, during World War II.

To address the rising concerns about China’s current aggression, China similarly must stop resorting to threats and military intimidation; otherwise, security tensions will continue to irreparably undermine any convergence of the region’s economic voice. China is paying a huge price in lost international influence for taking its utterly uncompromising stance on territorial issues. This is a real loss for the region, which is destabilized and spends much more than it would otherwise need to on military expenditures. It is a tragedy for China, Japan, and Korea who spend their energy squabbling amongst themselves rather than shaping the international regulatory, economic, and other agendas in ways that would serve them and the region.

Since welcoming foreign investment under the leadership of Deng Xiaoping, China’s strategies have been characterized by subtle, astute, long-term thinking—three elements missing from its current approach on territorial issues. A return by China to its former policies of seeking regional leadership and influence through soft power and the strategic use of aid funds and largesse may require China to share the oil and gas resources in the South China Sea. This cost, however, is minimal compared to the cost of the lost opportunity to shape the global economic and regulatory agenda.
China is now a major global player. It is playing for stakes far higher than access to some oil and gas, especially when, with some adroit diplomacy, access to most of this oil and gas can be achieved at simply a higher monetary cost. China’s rise has come about breathtakingly quickly, and there is no reason to assume that it is any easier for the Chinese leadership to adjust to these seismic changes in global power relations than it is for the American or other national leaderships to do so. In many ways, this must be more difficult for the Chinese leadership because their major challenges (inequality and corruption) are essentially domestic, massive, and pressing. Nonetheless, China and East Asia would be far better off if each could realize that the bigger game they are playing in is the opportunity to shape the global economic and financial architecture. It is as if China and East Asia are suddenly competing at the Olympics, yet still strategizing as if competing in the local athletics competition.