The future of the East Asian political economy: China, Japan and regional integration

As international newspaper headlines increasingly focus on energy and security issues, one could almost forget that the main ties that bind states and regions of the world together are trade and economic relations.

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From the 1970s onward, international economic relations have been broadened to include the political sphere – marking the start of much discussion on 'the political economy of...'. Politics in this respect encompasses not only international political relations but especially domestic politics, cumulating in the so-called 'two-level game'[1]. This dual approach is particularly useful in a region where economic means have been used, arguably more than anywhere else, for international as well as domestic political purposes: the East Asian region.

The current status of East Asia, (i.e Northeast and Southeast Asia), should be attributed first and foremost to the economic success and attractiveness of the region. Notwithstanding the much debated loose political integration, economic connections in the region are profound, although for a long time at the inter-firm and inter-regional rather than the inter-state level. Causes, explanations and possible solutions for issues in international relations of the region in the broadest sense of the word – the political economic, but also energy and security issues – should be sought therefore first and foremost in the field of political economy. The three developments in the field of political economy that I believe will shape the future of international relations of East Asia are addressed here. These are the development of China, the relationship between China and Japan, and the economic integration between countries in the region. The changing role of the United States in the region is of great importance with regard to the second and, to a lesser extent, the third development. In conclusion, the importance of these developments in general and for the EU in particular are sketched briefly.

Development of China

Whether spoken of in terms of the ill-phrased 'peaceful rise' or the more recent 'peaceful development' slogan[2], the development of China is a crucial factor in the shaping of East Asia's international relations. Not only does China's growth depend on domestic policies, reform and stability – China's success or failure affects the region as a whole. China has become economically interconnected with the region to the extent that real and even perceived (in)stability will significantly affect other East Asian countries, as did the aftermath of the collapse of the Japanese 'bubble' in the early 1990s.

China is revitalising its relations with countries in the region, particularly the countries grouped in the Association of Southeast Asian Nations (ASEAN). The ASEAN countries are engaged in a balancing act of taking the opportunities their large neighbour has to offer while not being overshadowed by it. China is conscious not to be seen as an economic threat, as its proposal for a free trade area with ASEAN back in November 2000 illustrates. This move by China was largely geopolitically motivated. It should be seen as an attempt to engage neighbouring states and shed the threat perception stirred by China's success in attracting industrial jobs and foreign investment. The success of China's policy of engagement, as well as the positive but wary attitude of ASEAN-countries, was apparent when another step toward the creation of the full completion of the free trade agreement was taken last January. Following the signing of the trade-in-services agreement, Philippines President Arroyo said: 'We are very happy to have China as our big brother in this region'[3].

The domestic challenges faced by China (analysed in detail in the latest of a series of World Bank regional studies in East Asia[4]) are diverse and profound. Cities and liveability, cohesion and inequality, and corruption are of crucial importance in managing the domestic distribution of economic rents. The Chinese government itself also recognised these challenges and placed internal challenges high up the agenda. Indeed, President Hu's recent proposal for a 'harmonious socialist society' has been interpreted as one of the most profound shifts since Deng geared the country towards high growth rates by opening the country to foreign investment[5]. The success or failure in making China's development sustainable will for these reasons – and as suggested by the two-level game – have a profound influence on the region.

The relationship between Japan and China

Notwithstanding signs of improvement since the inauguration of Japanese Prime Minister Abe last September, relations between Japan and China are extremely fragile. Bilateral relations fell to an historical low in recent years, and while this deterioration long resulted in 'cold politics, hot economics', they came to a point where even economic relations were increasingly politicised. The Japanese business lobby, grouped in *Nippon Keidanren*, openly expressed concern to its government and urged it to repair relations with China – and, for that matter, South Korea[6]. The sudden decision in 2005 of the Japanese government to end ODA loan aid to China should also be seen in this (political economic) perspective, while taking into account the legacy of war and colonial past in bilateral relations. The sudden shift in ODA policy can be attributed to certain Chinese policies, the deterioration of relations, the fast economic development of China and its implications for Japan, and a general aid fatigue of public opinion[7]. Opinion polls found that public perceptions of the other country in Japan as well as China have deteriorated. The percentage of Japanese who indicate they 'like' China had been decreasing already from the mid-1990s, and fell below five percent in recent years[8]. One only has to remember the Chinese booing of the Japanese team during the final of the Asian Cup in 2004 and the fierce anti-Japanese demonstrations in 2005 to understand why. The Chinese on their side, have been much antagonised by the continuing visits of former Prime Minister Koizumi to the infamous Yasukuni Shrine. The government has taken the change in Japanese leadership as an opportunity to mend ties, however. The Chinese government was remarkably quiet following Abe's comments on so-called 'comfort women' in March - a clear indication of the strong desire to improve relations and avoid dismay prior to Premier Wen's visit to Japan. The unprecedented shift in media coverage from a focus on historical issues to coverage of contemporary Japan in connection with Wen's trip is confirms this[9]. The Chinese government is obviously raising pressure and playing for high stakes, at the risk of extensive domestic criticism should Abe betray Wen's faith. The new engagement between China and Japan is a positive sign, but tensions remain despite the warm rhetoric on both sides. Important questions are yet to be answered. notably whether or not Abe will visit the Yasukuni Shrine and whether he will gain support for his policy in the Upper House elections in July. Abe's position was weakened by the quick fall in his popularity domestically soon after his inauguration, but more recently the Prime Minister regained credit for engaging China while not seeming soft, and for his long overdue visit to the United States in April. A complex

mix of international and regional status, bilateral rivalry and domestic politics defines the bilateral relationship.

Rivalry between the Japanese and the Chinese cannot be understood apart from both countries' aspiration for leadership in the region – or, better, wariness of the other country taking a leadership position. While the United States remains a great power in the region, its supremacy is waning as China's influence grows. Preoccupied with the Middle East and Central Asia, the Americans furthermore give leeway for and even encourage Japan to take a more pro-active role in the region. Neither Japan nor China however, seems in a position to claim a leadership role now or in the near future.Through an active policy of economic diplomacy, Japan has throughout the past decades led the region in economic terms. It did not however, actively seek to translate this position into leadership in a more general sense. This changed as China started gaining prominence on the world stage and is increasingly spoken of as a future leader of the region. The speech by Foreign Minister Taro Aso in December 2005, in which he presented Japan's objective to be a regional thought leader, a stabiliser and a country that wants to build mutual relationships of trust, showed Japan's new ambitions. Japan's proposal for an East Asian community and East Asian Economic Partnership Agreement should be seen as further proof of its renewed interest in and engagement with the region. Undeniably however, Japan is losing leverage over countries of the region. While ASEAN countries are, for economic reasons, inclined to lean increasingly towards China, for political reasons they welcome a more active Japan. The China-Japan relationship thereby will shape East Asia's political economy.

Economic integration in East Asia

A third factor that is to profoundly influence the future of the political economy is the region's path of economic integration. Integration was throughout the 1970s and 80s based on expansion of (private) Japanese production networks, spurred by the Plaza Accord of 1985. The 1990s saw attempts to state-led intra-regional integration, mainly through APEC. While monetary co-operation took off successfully in the aftermath of the financial crisis of 1997-98, inter-regional economic integration largely failed due to lack of political will on the side of numerous East Asian countries. Since the beginning of the new century however, economic integration has taken a more regional (Asians-only) turn and advanced through government level talks and negotiation[10]. China's entry in the WTO in 2001 provided an essential stimulus to this effect and the United States' more permissive stance – as opposed to its earlier strong disapproval of Japan's proposal for an Asian Monetary Fund – increased possibilities. Here also, domestic as well as international developments merit attention.

As traditional regionalisation is increasingly complemented by efforts toward regionalism, an increasingly complex 'noodle bowl' is connecting countries and sectors of economies[11]. Although the term is not usually used in this sense, a second 'noodle bowl' of institutionalised relations through inter- and intra-regional institutions is forming. Throughout the past decade East Asia has seen a surge in government-led initiatives for regional co-operation, such as ASEAN+3, ASEAN+1[12] and the East Asia Summit. Generally these gatherings have been talking shops more than they have been able to produce real results, however. What East Asia needs now, is management, not vision[13].

Much is still uncertain about where East Asian integration is heading. While some suggest that bilateral and regional agreements are undertaken with the final goal of integrating the whole region, others foresee that increased fragmentation will come to a point of no return. The question is whether countries are in for short-term gain or for real economic integration in the long term. It is high time to create oversight at the government level and to manage the two noodle bowls before they become too knotted to unravel. The ASEAN+3 grouping encompasses the major production networks spanning East and Southeast Asia and is experienced in political engagement with other regions, notably through the Asia-Europe Meeting. A more institutionalised process spurred by these countries therefore provides the most likely route to success. Consciously structured or not, the regional framework for political economic relations of the future will be outlined throughout the next decade.

The future of East Asia's political economy is important for observers in and outside the region. Increasing regional trade integration notwithstanding, East Asia is still one of – if not the – most open regions of the world. It is of major importance for its largest trade partners – the European Union (EU) and the United States – to ensure that East Asia remains open and transparent. For this purpose, increased understanding and co-operation between the regions is required. With regard to the EU-China strategic partnership however, one analyst remarks that three years after its announcement, 'it has become clear that political rhetoric on the scope and nature of EU-China relations has yet to catch up with political reality.'[14] Regrettably, critique of inter-regional co-operation resembles that of East Asian intra-regional cooperation. The EU as well as a stronger ASEAN+3 should make an effort to turn the tide.

In his presentation of the Communication that is part of the renewed China strategy of the EU, Trade Commissioner Peter Mandelson commented that 'trade policy stands at the crossroads of the EU's internal and external policies'[14]. For the EU, just as for the East Asian region, the political economy remains a two-level game involving domestic as well as international interests. But EU policy of putting tariffs on textiles from China as recent as late 2006, is not setting the right example. <

Notes

1 Putnam, Robert D. 1988. 'Diplomacy and domestic politics: the logic of two-level games', in: *International Organization*, Vol. 42, 3: 427-460.

2 For a valuable analysis of the debate on and impact of these concepts, see: Joshua Cooper Ramo 2006. *Brand China*, London: The Foreign Policy Centre.

3 'China and Asean sign broad trade accord', in: *International Herald Tribune*, 15 January 2007.

4 Remarkably, this report, titled *'An East Asian Renaissance: Ideas for Economic Growth'* is the fourth in a four-yearly series and the first to stress economic linkages in the region. The World Bank: 2006, conference edition (draft).

5 'Beijing counts cost of growth', in: *International Herald Tribune*, 12 October 2006.

6 Nippon Keidanren, *Shinnaikaku e no kibou* [Wishes addressed to the new Cabinet] 26 September 2006, available at: http://www.keidanren.or.jp/japanese/policy/2006/068.html.

7 Drifte, Reinhard 2006. 'The Ending of Japan's ODA Loan Programme to China All's Well that Ends Well', in: *Asia-Pacific Review*, Volume 13 (1): 94-117.

8 Muroya Katsumi 2006. 'Nihonjin no 'suki-na kuni / kirai-na kuni' no kenkyuu' [Research on 'liked and disliked countries' of Japanese], in: *Gaikou [Diplomatic Relations]*, Volume 21 (2): 6-9 (Winter).

9 Kato, Takanori 2007. 'China walking media tightrope', in: Yomiuri Shimbun, May 1.

10 While regionalization refers to the expansion of informal, bottom-up linkages, regionalism entails formal, state-led integration in the form of free trade and economic partnership agreements and inter-governmental institutional linkages. The 'noodle bowl'-metaphor to describe trade arrangements in the East Asian region was first used by Baldwin (2004). It should be seen as the East Asian version of the spaghetti bowl phenomenon of FTAs, introduced by Bhagwati albeit referring to the crisscrossing of FTA linkages and their varying rules, not the rules of origin. This difference is rightfully pointed out by Kotera, column 23 May 2006, Research Institute of Economy, Trade and Industry, Tokyo.

11 While ASEAN+3 (ASEAN Plus Three or APT) is the grouping of ASEAN and China, Japan and Korea, ASEAN+1 refers to the meetings of ASEAN with these countries individually.

12 Baldwin, Richard E. 2006. *Managing the Noodle Bowl: the Fragility of East Asian Regionalism*, Social Science Research Network: CEPR Discussion Paper No. 55661.

13 Axel Berkofsky 2006. The EU-China Strategic partnership: rhetoric versus reality, in: *Facing China's rise: Guidelines for an EU strategy* (Chaillot Paper no. 94), Paris: Institute for Security Studies (p. 104).

14 Speaking points by Commissioner Mandelson, Press Room, European Commission, 4 October 2006. Available at: http://ec.europa.eu/commission_barroso/mandelson/speeches_articles/sppm117_en.htm

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Rituals, pantheons, and techniques: a history of Chinese religion before the Tang

The study of Chinese religion over the last 30 years has led to fundamental changes in the way we see Chinese history and civilisation. The traditional paradigm – that saw China as an empire governed by an agnostic, philosophically sophisticated elite and populated by superstitious masses – has been overturned, but nothing coherent has replaced it.

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A recent conference in Paris aimed to do precisely that: create a new paradigm for the understanding of Chinese religion from the ancient period to the end of the 6th century, by which time the basic contours of Chinese religion had stabilised into the familiar configuration of the Three Teachings and what most students now call shamanism.

If this had not hitherto been attempted, it is at least in part because of the explosion of knowledge and the increasing specialisation that accompanies it. But it is also because of the lack of a unifying theory or, at the very least, methodology. The answer to the first difficulty is to invite leading specialists to work together and, to the second, to propose a common approach. It is this common approach which will be the key to success or failure and which, therefore, requires explanation.

This approach is, in the first place, multi-disciplinary, relying on philology, archaeology, and epigraphy as the foundations of any well-rounded account of an ancient society in which texts remain a primary source. In a certain sense, the key role is played here by archaeology, in part because of the vast range of new textual and iconographic materials it has provided, but also and perhaps above all because material remains, deposited in tombs whose shape and contents vary over time and space, offer hitherto unimagined, nearly direct access to daily life, actual practice (as opposed to ideological prescription), and regional cultural variety.

The second critical feature of the approach is that it is at once sociological and anthropological. The determined focus of the work on rituals, pantheons, and techniques reflects the weaning away of religious studies from philosophy, thanks in large part to the impact of the anthropological study of societies without written texts. Religion is now seen to consist in techniques of communication with the invisible; it is about what people do, whom they address, and how. Mythology and other modes of discourse are implicit in ritual gestures, spatial dispositions, and iconographic traditions.

The search for meaning in Chinese religion must give pride of place to this implicit as opposed to the explicit discourse because it is through rituals and around specific gods that social groups are constituted and the empire defines itself. The discovery of the centrality of ritual in Chinese social and political life and elite discourse concerning them is relatively recent, but it has come increasingly to dominate the Sinological agenda. In organising the chapters of each successive volume around the two basic issues of religion and society and religion and the state, the project aims at keeping the focus on the sociological dimensions of religion. Inclusion of chapters on hagiography, sacred geography, and festival calendars confirms the overriding emphasis on religion as practiced.

But perhaps the most important innovation of all is the inclusion of shamanism, because if the emergence of Confucianism, Buddhism, and Taoism as China's three major religious traditions is the central subject of Chinese religious history from the founding of the empire in 221 BCE down to the end of the sixth century, this emergence goes together with a joint attack on traditional, shamanistic modes of interaction with the invisible world. But shamanism does not just go softly into the deep, dark night. It remains central to popular forms of religion to this day, and its Buddhist and Taoist rivals for ritual monopoly also integrated important aspects of shamanism into their own practices. Any history of Chinese religion which considers Chinese society to be its real subject ignores this dynamic interaction at its peril. <

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