

# CHINA'S RISE AND THE BALANCE OF INFLUENCE IN ASIA

## Asia's Shifting Strategic and Economic Landscape

*William W. Keller and Thomas G. Rawski*

Asia's balance of influence is shifting on all fronts—economically, militarily, technologically, diplomatically, politically. The pace of change is accelerating. From the financial disruptions of the late 1990s to the ensuing nuclear crises, first in South Asia and then on the Korean Peninsula, Asia is a land transformed and transforming. It is also a region casting off Cold War Western influence and control, ready to exert economic, political, and potentially military muscle in response to expressions of American hegemony.

China's economic ascendance and political transition stands out as both a major episode in the history of global political economy and as the primary driver of wide-ranging changes in Asia's economic, technological, diplomatic and security alignments. Beginning in the late 1970s, China experienced two decades of extraordinary growth that raised every indicator of material welfare, lifted hundreds of millions from poverty and propelled China from near autarchy into regional and global prominence. These unprecedented developments have transformed China into a substantial U.S. trade and investment partner, a regional military power and a major influence on national economies and cross-national interchange throughout the Pacific region.

China has surpassed Japan as Asia's leader in military spending and in many dimensions of international trade. China is, moreover, emerging as a voice for East Asian economic, political and security interests.<sup>1</sup> Beijing's contribution to stabilizing regional markets during the Asian financial crisis beginning in 1997, and its central role in the 'six-power' North Korea

nuclear talks, underscore China's growing prominence in regional and global efforts to manage contentious economic, social and security issues. China's accession to the World Trade Organization (WTO) has accentuated these trends, and may alter the balance of economic power in Asia as dynamically and dramatically as internal reform has restructured China's domestic balance between state-owned and private sector business.

We need not assume that China's high-speed growth will endure—although this is certainly possible. The dramatic multilateral impact of Japan's earlier growth spurt on trade, diplomacy, investment, technology, management, business structures, government regulation and even national psychology demonstrates the profound consequences of economic change, even when military development remains muted. Given its far greater population, land mass, and economic potential, China's international impact during the next several decades seems likely to overshadow the global consequences of Japan's protracted growth spurt during the concluding decades of the 20<sup>th</sup> century.

But there is a difference in kind as well. If the nations of Asia are arrayed on a techno-national versus techno-global scale, Japan and Korea seem worlds apart from China, which resembles the United States in many respects. In particular, China is more open to reciprocal trade, to foreign investment, and to trade in technology. Like the United States, China appears receptive to worldwide diffusion of technology under principles of free and open trade. These characteristics stand in stark contrast to the long-standing protectionist tendencies of official policy in both Japan and South Korea.<sup>2</sup>

China's great boom already affects the regional and global alignment of power through Beijing's far-flung projection of economic, technological and diplomatic influence. Comprehending this process, anticipating its implications and formulating constructive responses

will require new approaches that effectively integrate the often disparate worlds of economics, technology, politics, diplomacy and strategy. Our investigation is structured to inform a U.S. policy on Asia capable of responding to dynamic change.

The central theme of this book is to examine the hypothesis that Beijing's vision of China's 'peaceful rise' represents a practical and realistic path for the protracted and intricate global ballet to which China's vast and prolonged economic boom provides a remarkable overture.

This book analyzes the Asia-wide implications of China's rapid and largely unanticipated emergence as an economic, political and military power, and as a significant presence in both regional and global affairs. It employs a comprehensive, multidisciplinary analysis of the changing balance of influence in Asia. In this framework, the traditional notion of a 'balance of power' is supplanted by the metaphor of a magnet, capable of causing political and economic realignment throughout Asia. One can easily envisage a world in which the rise of a single state can decisively alter long-standing patterns of military and economic relations.

An animating concern of this book is apparent U.S. disengagement from Asia at a time when China is recapturing its historical role as a 'great power', and positioning itself as a leading state in global affairs. This aspect of China's rise involves careful and energetic Chinese commercial diplomacy which contrasts sharply with the tendency of recent U.S. administrations to concentrate diplomatic and military initiatives in other regions. Whether due to increased Chinese economic clout or U.S. neglect, the balance of influence is shifting in China's favor. It is past time for the United States to refocus attention on its economic and political interests in the region.

Asia's primacy for American interests is beyond doubt. Asia has become the United States' largest economic partner: U.S. trade with Asia, for example, amounted to \$1022.3 billion in 2005 compared to \$847.6 billion with Europe during the same year.<sup>3</sup> In the security field, Europe responded to the end of the Cold War by reducing military expenditures from \$257 billion in 1985 to \$189 billion in 2001. At the same time, Asia pursued a military buildup (both conventional and nuclear) with overall defense spending rising from \$128 billion in 1985 to \$154 billion in 2001.<sup>4</sup> Perhaps more telling, in 1999 and in all subsequent years, China's military budgets exceeded those of the major European powers. And in 2003, the last year for which statistics are available, China's and Japan's defense budgets reached \$56 and \$43 billion respectively, compared to \$35, \$46, and \$43 billion for Germany, France, and the United Kingdom. The Chinese and Japanese figures are notable because Chinese military expenditures have consistently exceeded those of Japan since 2001.<sup>5</sup>

Although divided by historical enmities, Asian nations are paradoxically rushing toward integration of trade, manufacturing and investment, both regionally and globally. Trade optimists foresee a golden age of inter- and intra-Asian trade and investment that can raise living standards, education levels, and life prospects for Asia's billions.<sup>6</sup> They welcome China's new penchant for making deals rather than fomenting revolution, and applaud the recent flurry of regional and bilateral free trade agreements. They argue that, with the exception of the Taiwan issue, China is more open to existing international institutions and norms, and even to "U.S. dominance of the international and regional power structure than at any time since 1949."<sup>7</sup>

Security pessimists are less sanguine. They point to China's growing military budget and extensive plans for force modernization, concomitant with the long cycle of economic expansion.<sup>8</sup> Some forecast the coming of a "second nuclear age" with many potential nuclear

weapons states outside the West and outside the Nuclear Nonproliferation Treaty (NPT). They cite the nuclear aspirations of North Korea and Iran, the nuclear standoff between India and Pakistan and the inability of the 2005 NPT Conference to make meaningful progress. They fear that failure to stem North Korea's nuclear ambition could stimulate other countries to follow Pyongyang's lead in withdrawing from the NPT—perhaps South Korea, Taiwan or possibly even Japan. Several studies warn that Asian military affairs and economic relations may be far from harmonious in the future. One analyst observes that the absence of efforts to “reduce the risks of a maritime conflict in the west Pacific. . . . injects major uncertainties into regional defense planning, very possibly compounding the risks in a major crisis.”<sup>9</sup> Some raise the specter of an Asian bloodbath comparable to Europe's catastrophic 20<sup>th</sup> century wars.<sup>10</sup> Finally the U.S.-China Economic and Security Review Commission announced in its 2005 Annual Report to Congress that “on balance, the trends in the U.S.-China relationship have negative implications for the long-term economic and security interests of the United States.”<sup>11</sup>

We start from the supposition that the United States, short of a declaration of war, simply does not have the ability to halt or even substantially mitigate the expansion of Chinese influence in Asia. Indeed, the movement toward intra-Asian economic integration confers few advantages on the United States compared to global integration, but as Ellen Frost has observed, “it offers Asian leaders political and security advantages, such as engaging China peacefully in the region, [and] acquiring a stronger collective voice.”<sup>12</sup>

Some may suggest that China's policy of economic engagement and commercial diplomacy in Asia is merely tactical, a ‘charm offensive’ designed to buy time until China is economically and militarily powerful enough to exert regional hegemony. While this possibility cannot be dismissed, it is also not a cause for action. China still faces enormous challenges and

internal hurdles as it struggles to accomplish its industrial revolution and urbanization in a telescoped timeframe. While these are all too obvious, it would be unwise to underestimate China's political acumen or its ability to overcome adversity. The scenarios are abundant: economic setbacks could trigger political unrest; rising inequality between coastal provinces and a vast rural heartland could stimulate class rivalry. The migration of many millions from farms to cities could exacerbate a housing crisis. Unemployment, environmental degradation, unfunded health and pension systems and an aging population all may impose limitations on the Chinese growth trajectory.

Regardless of the exact outcome, the continued expansion of China's role as a regional military power and global economic player seems inevitable. As a consequence, the United States needs to rethink its approach to China and Asia in light of new realities. Unfortunately, neither the Clinton nor the George W. Bush administrations have achieved significant progress in this direction. Instead, policy toward China displays a shifting sequence of compromises between cooperation and containment.

Washington's reliance on a tired mix of recycled policies in the face of rapidly shifting Asian circumstances contrasts starkly with the China's patient, apparently long-term strategy of Asian engagement centered on a variety of economic and trade initiatives and backed by an expanding array of diplomatic, educational, technological and security links. Indeed, China's policy toward its Asian neighbors is reminiscent of United States foreign relations following World War II. In both instances, a major power deployed a combination of bilateral and multilateral agreements with policy and intellectual networks involving its allies, including former enemies, in a dense web of mutually beneficial relations. From this perspective, China's

current use of trade agreements as political instruments parallels earlier U.S. reliance on security arrangements as the centerpiece of efforts to build durable and responsive alliances.

This unfortunate coincidence of U.S. neglect with concerted Chinese efforts to consolidate a new generation of economic infrastructure agreements fuels speculation that the United States is losing significant influence over the evolving balance of Asian economic and political alignments. More specifically, the balance of influence between China and the United States in Asia is shifting decidedly in China's favor. Against this background, our project seeks to provide the context for a comprehensive and integrated American policy toward Asia in light of Asia's response to a rising and vastly more powerful China.

#### New Approaches to Asia Needed

The new dynamics of Asia's political economy reflects the legacy of a remarkable interlude in which Western nuclear superiority, technological ascendancy and overwhelming conventional forces allowed leading powers, especially the United States, to ignore or intervene in potentially destabilizing regional conflicts without endangering their own domestic economic affairs. With rich nations enjoying a simultaneous regimen of guns and butter, strategic studies diverged from political economy, the former tending to focus on power relations stripped of economic constraint, the latter concentrating on development prospects absent debilitating military disruption.<sup>13</sup>

Recent events have demolished the underpinnings of this disconnect between economic and strategic thinking. The debut of North Korea, an international pariah and economic weakling, as a nuclear weapons power confirms that determination alone can propel ambitious nations into the nuclear club. The spread of advanced technological capabilities beyond the

OECD states,<sup>14</sup> coupled with large-scale application of dual use technology to military systems, will allow many countries to enhance both conventional military capabilities and their potential to acquire nuclear and other unconventional weapons.<sup>15</sup>

United States military supremacy is unlikely to be challenged for many years. Even so, the inability of U.S. forces to quickly suppress the insurgency in Iraq, coupled with mounting public criticism of the occupation's human and financial toll, demonstrates the rising costs and dangers associated with efforts by leading nations to use military means to influence events in distant lands.<sup>16</sup> Widespread recognition that military power alone cannot resolve the imbroglios with North Korea and Iran, for example, along with General Eric Shinseki's warning to "beware the 12-division strategy for a 10-division army,"<sup>17</sup> and suggestions that the U.S. military may be tied down in Iraq for several years, presage the resumption of a long-dormant national dialogue over the appropriate scale of America's military establishment.

In this geopolitical environment, isolated perspectives built on individual disciplines become increasingly unreliable. Yet disciplinary insularity remains commonplace. Highly regarded and widely cited studies of China's economy by Chinese and international scholars as well as multilateral agencies rarely mention such terms as 'armaments', 'defense', 'military', 'People's Liberation Army', 'security' and 'weapons', nor do they explore possible interactions among economic development, military preparedness and regional or global security.<sup>18</sup> In addition, many researchers are reluctant to cross regional or national boundaries: generalists hesitate to engage with the daunting complexities of evaluating Chinese data and penetrating enigmatic Chinese institutions, while China specialists often remain cocooned within the intricacies of Chinese language materials, society and politics.



Coming to terms with a rising yet fragmented Asia will require a sustained multidisciplinary effort involving the perspectives of economics, trade and investment, politics and diplomacy, technology and security. No single project can hope to encompass the entire range of Asian issues and nations. In this book, we have approached the task of building an integrated analysis of Asia's shifting balance of influence by assembling an interdisciplinary group to focus on the impact of one major development: China's massive and unexpected growth spurt of the past twenty-five years.

The challenge is to distill, from a wide variety of perspectives, a comprehensive and interdisciplinary analysis of the changing configurations of Chinese power and influence in Asia, with the hope that this research will contribute to devising flexible policies that respond to Asia's rapidly evolving economic, political, technological and military landscape. This involves evaluating the feasibility of a cooperative and mutually beneficial expansion of Chinese economic and political power. In the best-case scenario, China would attain the wealth and influence appropriate to its size and achievements without inflicting unacceptable damage to the vital interests of its Asian neighbors or to those of the United States.

While such an outcome is possible and highly desirable, however, the 'realist' in us suggests that it is far from assured. A cooperative response to the rise of China must build on specific attitudes and policies in China, in neighboring states and also in the United States. Such responses may clash with the perceptions and interests of influential groups on both sides of the Pacific. Thus the global adjustment to China's rise involves not just the foreign policies of many states, but their internal politics as well.

Why Study China and the Shifting Balance of Influence in Asia?

In nearly every area of international relations and political economy, China's coming of age is stimulating dynamic change throughout Asia and beyond. This study posits prominent and continuing consequences of Chinese development in the areas of trade, investment, technology, defense and diplomacy. In trade, for example, Chinese exports to the United States rose from six percent of comparable Japanese totals in 1985 to thirty-six percent in 1995, and surpassed Japan's U.S.-bound exports in 2002; in 2005, China's exports to the U.S. exceeded Japan's by 54 percent.<sup>19</sup> The pattern of export-led growth widely associated with Japan, Taiwan, South Korea and other Asian economies adds significance to this reversal. Massive upgrading of Chinese export infrastructure will continue, bolstered both by expanding internal markets and technology-laden investment by foreign-based multinational corporations. Escalating Chinese trade and economic power exert growing influence in many Asian nations, which confront a combination of opportunity (large and growing Chinese markets) and dislocation (Chinese products supplanting local suppliers).<sup>20</sup>

To this must be added increasing flows of foreign direct investment, both to and from China. China's share of investment flows into eight Asian nations, for example, soared from twenty-one to sixty-six percent during the 1990s.<sup>21</sup> The contrast between China's unabashed promotion of investment inflows and the ambivalence of government and labor toward foreign investment in Japan, India, and especially in Korea is striking.<sup>22</sup> With global automakers and a broad array of Asian, European and North American manufacturers rushing to establish and expand manufacturing facilities, China became the world's largest recipient of foreign direct investment (FDI) in 2003, surpassing even the United States. We also observe the apparent beginning of a steep upward trend in outward investment from China, propelled by vigorous official support and directed toward acquisition of energy, raw materials and manufacturing

expertise. The result is an uncomfortable but potentially dynamic combination of opportunity and global economic adjustment.<sup>23</sup>

Foreign direct investment in China, which now extends far beyond garments, toys and other labor-intensive sectors, surely represents the largest technology transfer in global history, eclipsing the scope and impact of Soviet technology transfers to China during the 1950s.<sup>24</sup> Recent investment includes massive arrivals of cutting-edge and dual-use technologies in such sectors as semiconductors, electronics and aerospace. International efforts to limit Chinese acquisition of such technologies have faded. In semiconductors, for example, interagency conflict and industry opposition have eroded U.S. export controls.<sup>25</sup> Independent advances in specific fields: biotechnology, pharmacology and aerospace, among others, enrich China's technological opportunities.

In the military sphere, as in commerce and investment, China and Japan appear to be trading places, with Chinese defense spending exceeding Japan's, at least temporarily. Chinese strategists' increasingly expansive conception of their nation's defense interests extends from Beijing's growing program of manned and unmanned space exploration, and the acquisition of mid-air refueling capability, to aspirations to develop a blue-water navy, and the growth of military assets and capability in and around the South China Sea, the Straits of Malacca and the Indian Ocean. The consequences of China's defense modernization ripple across Asia—from a reexamination of Japanese military posture to development of nuclear forces by India, Pakistan and North Korea. All of China's neighbors, from Taiwan and Vietnam to more distant states like Japan and Indonesia, follow Chinese military developments with the closest attention.

But it would be a mistake to place excessive emphasis on Chinese military modernization. Strong economic ties beget diplomatic influence. This can benefit the United States—as when

both America and China, sensing danger to economic links, muted confrontation over the April 2001 spy plane incident. Conversely, China's expanding trade and investment links may undercut U.S. influence, as Asian nations consider China's mounting capacity (and obvious willingness) to apply economic leverage in support of its diplomatic objectives. Australia's decision to limit official discussion of human rights issues to closed-door diplomatic sessions illustrates this outcome.<sup>26</sup> Economic strength reinforces Chinese diplomatic entrepreneurship, for example, in the evidently serious and well-received proposal to establish a China-ASEAN free trade zone by 2010.

Beijing is becoming increasingly seasoned and confident in its relations with the ASEAN nations. In this context, Chinese behavior toward Taiwan may be seen as anomalous. China's strong 'hard line' on Taiwan appears to have successfully engineered the political and diplomatic isolation of Taiwan from most of its Asian neighbors. For this reason, and because of booming economic ties between China and Taiwan, the Taiwan secession issue appears to be receding, despite the efforts of Taiwan's term-limited president, Chen Shui-bian.

Against this background of Chinese dynamism, the chapters in this book directly address issues surrounding China's large and growing influence throughout the Asia-Pacific region in the spheres of trade, technology, investment, commercial diplomacy and military affairs. Crosscutting themes focus on China's changing relations with regional (and increasingly, with global) systems of manufacturing, research, trade, finance, military preparedness and security alliances. The key issues can readily be expressed as questions: To what extent does China's rising economic power translate into political influence in the Asia Pacific region? Has China's capacity to generate innovation and to sustain technological development risen in tandem with its economy, or will Beijing continue to depend on technology imports from its trading partners and

from Japanese, Korean, Taiwanese, European and North American multinational corporations?  
How does China's growing wealth and technological acumen affect its military capabilities?  
And how do these changes alter the way in which its neighbors and far-flung trading partners view Beijing's military and great power ambitions?

Should we expect China to replace Japan as the hub of Asia's political economy, and by extension, the chief source of Asia's influence on economic globalization? During the past three decades, Japan—as Asia's techno-economic powerhouse and the world's second largest economy—has clearly dominated regional economic and political interaction. But if we confine our attention to the past decade, the picture looks decidedly different. The rise of South Korea, Taiwan and China, together with Japan's debilitating combination of economic malaise and political paralysis, makes Asia's economic and political scene appear less hierarchical and more decentralized. If we project ten years into the future, should we anticipate that China's growing global prominence will shift Asia's political and economic fulcrum from Japan and the Korean Peninsula toward Beijing and China's high-growth coastal provinces?

If the answer is yes, then we can perhaps project a more provocative scenario, one that goes beyond the economic dynamism of China. Since the end of Second World War, the United States has been the leader and primary proponent of economic liberalism, but this may be because interdependence was always construed to be in U.S. interests. The United States could always close its borders (super 301, auto quotas, etc.). Now that China has become a formidable economic power, will the United States continue to champion free and open trade, unfettered capital markets and economic interdependence? Will it do so even in the face of further expansion of Chinese manufacturing prowess, extensive outsourcing of production and services and the rise of a massive, technically literate Chinese workforce?

There is, then, the possibility that the global economic architecture established after the Second World War, commencing with the General Agreement on Tariffs and Trade (GATT) and culminating in China's accession to the World Trade Organization (WTO) may be weakening, or at least may have to confront the stress of a rival consumer-oriented, technically astute, economic superpower coming on line. In that case, the rise of China may presage a new systems architecture for global trade and investment, one that must somehow accommodate multiple entities with insatiable appetites for energy, vast internal markets and apparently unlimited productive capacity. If this is even suggestive of the nature of things to come, then the solution will require real and substantial interdependence, perhaps modeled on the relationship that the United States has with the European Union, involving massive two-way trade, extensive and roughly balanced penetration of foreign direct investment, intricate commercial diplomacy and complementary if somewhat dissimilar systems of corporate governance, technology acquisition and finance.

In such a future, the United States would not be the only economy that affects the entire world. ("When the United States sneezes, the rest of the world gets a cold...") China's economy already exerts strong influence over many international markets; it may soon acquire the critical mass to cause economic dislocation on a global scale. In such a future, lesser states would have to coexist with two huge economic systems. This may represent a fundamental challenge to the existing order.<sup>27</sup> The question arises: Are we willing to contemplate the major shifts in global systems that might be required to maintain stability as China (and India) continue their breakneck development?

The Organization of this Book

In response to these questions, the chapters which follow explore the channels of growing Chinese influence and map the exploding consequences for Asia's dynamic political economy, military affairs and interaction with global markets and politics. These essays serve as a vantage point from which to gauge China's new role in Asia and its reemergence as a great power in the 21<sup>st</sup> century. The book is divided into two parts, with the first addressing the rise of China, and the second, the emerging balance of influence in Asia.

In the chapter immediately following, Loren Brandt, Thomas G. Rawski and Xiadong Zhu analyze the extent and consequences of China's growing involvement with international markets. They see deep and extensive links with global markets and with supply chains for components, technology and research as significant aspects of China's past development that appear poised to assume even greater importance in the future. Growing dependence on access to far-flung networks that provide resources, markets, semi-fabricates, capital, technology, management expertise and many other crucial ingredients in China's dynamic economy creates powerful incentives for Beijing to craft policies oriented toward cooperation rather than conflict. Although tension and strife may overcome the forces pushing for cooperation, the authors argue that the growing dependence of China's prosperity on massive engagement with global markets elicits a positive Chinese response to cooperative approaches to difficult regional and global problems.

In Chapter 3, William W. Keller and Louis Pauly analyze the establishment and expansion of the Chinese semiconductor sector, the industry that makes the microchips at the core of computers, electronics, telecommunications, weapons systems and much more. The authors focus on the base for applied research in this sector, which provides a crucial link in the value-added innovation-production chain. In its absence, only lower-level assembly operations

are possible; in its presence, Keller and Pauly suggest, we might catch an early glimpse of an emerging high-level innovation system capable of shifting future global power structures.

The development of China's applied research base builds on the expansion of a vast pool of engineering and scientific talent, which is fed by China's growing system of higher education as well as in-migration of highly educated engineers, many with industry experience and many of Chinese origin, especially from the United States, Taiwan, and Japan. The authors argue that China will soon become an internationally competitive manufacturer of semiconductors. In the medium term, despite many impediments, they expect China to achieve a globally competitive applied research base, the heart of any national system of innovation.

In the next chapter, Joseph Fewsmith argues that high-level political decisions promoting decentralization and the dismantling of planning structures were important factors in initiating and extending China's long boom. This invites the question of whether political changes could undercut the consensus favoring continuation of market-oriented reform. Fewsmith cites work by Lu Xueyi and others that identifies self-perpetuating elite groups as the chief proponents and also the main beneficiaries of reform. The concentration of benefits in the hands of this favored few has sparked public resentment. The emergence of a politically powerful coalition of 'reform losers' could threaten the high-level consensus that has supported the growing influence of domestic and international market forces in China's economy over the past several decades. The author cites academic criticism of neoliberal policies such as "the evil wave of privatizing" state enterprises, but notes that such critics' preference for arcane academic jargon limits their political influence.

In the last chapter on China's rise, Ellen Frost focuses on actions surrounding the negotiation and implementation of regional trade agreements, which she sees as assuming "a role



akin to that of security alliances.” While the magnetic attraction of China’s economic growth has ignited an upsurge of Asian trade diplomacy, Beijing’s rapid conversion “from suspicious and reactive outsider to active commercial diplomat” is a key driver underpinning the tendency toward regional integration. Although thickening intra-Asian economic ties threaten to undercut U.S. influence, Frost argues that a systematic and energetic American response can reinforce the U.S. role as “a balancing and stabilizing presence that expands” opportunities for China and for its Asian neighbors.

Part II of the book—The Balance of Influence in Asia—begins with Robert Ross’ examination of how East and Southeast Asian states have responded to China’s new strength. The analysis addresses what he sees as a gap in realist thinking, which typically attributes secondary state alignment policies exclusively to military capabilities or to economic dependence, without considering more complex alternatives. The behavior of China’s neighbors reveals a more complex pattern. South Korea and Taiwan, which face a combination of overwhelming Chinese military strength and deep dependence on economic ties with their giant neighbor, find themselves drawn into a pattern of accommodation with Beijing. For Japan and the ASEAN nations, he argues, growing economic dependence on China has led to a pattern of balancing rather than accommodation, as these nations move to strengthen security ties with the United States. Ross concludes that economic influence alone does not necessitate policies of accommodation on the part of secondary states, that predictions of region-wide Chinese dominance are unfounded, and that continued U.S. maritime superiority can support new security arrangements that protect the fundamental interests of all major powers and enable a stable balance in East Asia.

In Chapter 7, Adam Segal focuses on the interplay between security concerns and economic relations among China and its neighbors. He argues that China's economic and security interests largely coincide, so that, "Beijing at present does not have to choose between strategic and economic objectives, and so can pursue both power and plenty." This dual strategy raises the economic cost of possible military conflict.

Segal also outlines circumstances under which China might adopt a more aggressive military stance despite high economic costs. He concludes, however, that the outcome of China's dual expansion of economic and military power "may be less disruptive and adversarial than predicted." In his view, the behavior of neighboring states creates a counterweight to China's rising influence and, in addition, China's economic statecraft often promotes outcomes that are congenial to U.S. interests.

In the next chapter, John Ravenhill examines the consequences of China's explosive growth for the ASEAN economies. His conclusion, although less pessimistic than other evaluations, remains decidedly mixed. Analysis of regional performance in attracting foreign direct investment is complicated. Looking at several indicators, Ravenhill attributes ASEAN's recent weak record primarily to domestic shortcomings rather than competition from China. On the trade side, he finds evidence that direct competition with Chinese exporters has cut ASEAN's share of American and Japanese imports in several important product areas. Big increases in ASEAN sales to China, including a marked shift toward export of manufactures, have partially offset these losses.

In the final chapter, the editors summarize the book's major conclusions. China's rise, like the historical emergence of other great powers, represents a tectonic shift in the global architecture of diplomacy, security, and commerce that has the potential to unleash instability,

even war. Despite such dangers, our contributors agree that existing systems are sufficiently flexible and adaptive to support peaceful accommodation to China's growing wealth and power. Although the actions of many countries will influence the outcome, America's choices are likely to be decisive. Accordingly we place great emphasis on the need for Washington to implement a consistent and forward looking policy that recognizes China's emergence as a regional power and global economic partner.

---

<sup>1</sup> For example, Beijing not only rejects U.S. criticism of its human rights record, but joins Singapore and other Asian nations in challenging American conceptions of “human rights”: see “Unprecedented Progress Made in 13 Years,” *China Daily* 3 April 2003, p. 4; and “Guardian of ‘Human Rights’ shows its true colour,” *ibid.*, 10 March 2006, pp. 5-6.

<sup>2</sup> William W. Keller and Richard J. Samuels, “Innovation and the Asian Economies.” In Keller and Samuels, eds., *Continuity and Change in Asian Innovation* (Cambridge University Press: New York, 2003), p. 230.

<sup>3</sup> Data for United States trade with “Asia & Pacific” and “Europe” from International Accounts on display at [ww.nea.gov](http://ww.nea.gov), accessed 5 September 2006..

<sup>4</sup> Figures are in constant 2000 U.S. dollars and are taken from The International Institute for Strategic Studies, *The Military Balance 2002-2003* (Oxford, England: Oxford University Press, 2002), Table 26 International comparisons of defense expenditure and military manpower, 1985, 2000, and 2001, pp. 332-334.

<sup>5</sup> All 2003 figures are in current U.S. dollars and are taken from The International Institute for Strategic Studies, *The Military Balance 2004-2005* (Oxford, England: Oxford University Press, October 2004), Table 38: International comparisons of defense expenditure and military manpower, 2001-03, pp. 353-355.

<sup>6</sup> Jim Rohwer, *Asia Rising: Why America Will Prosper as Asia’s Economies Boom* (New York, NY: Simon & Schuster, 1995).

<sup>7</sup> Alastair Iain Johnston, “Beijing’s Security Behavior in the Asia-Pacific: Is China Dissatisfied Power?” In J.J. Suh, Peter J. Katzenstein, and Allen Carlson (eds.), *Rethinking Security in East Asia: Identity, Power, and Efficiency* (Stanford CA: Stanford University Press, 2004), p. 77.

---

<sup>8</sup> See for example, Evan S. Medeiros et al, *A New Direction for China's Defense Industry*." Prepared for the U.S. Air Force. (Santa Monica, CA: RAND, 2005), pp. xv-xvi; Neil King, Jr., "Secret Weapon, Inside Pentagon, A Scholar Shapes View of China," *The Wall Street Journal*, September 8, 2005, p. A1; and Office of the Secretary of Defense, "Annual Report to Congress: The Military Power of the People's Republic of China," 2005, pp. 25-35.

<sup>9</sup> Jonathan Pollack, "The Transformation of the Asian Security Order: Assessing China's Impact," in David Shambaugh ed., *Power Shift: China and Asia's New Dynamics*. Berkeley: University of California Press, 2005), p. 335.

<sup>10</sup> See, for example, Paul Bracken, *Fire in the East: The Rise of Asian Military Power and the Second Nuclear Age* (New York, NY: Harper Collins, 1999) and Kent E. Calder, *Asia's Deadly Triangle: How Arms, Energy and Growth Threaten to Destabilize Asia-Pacific* (London, England: Nicholas Brealey Publishing, 1997).

<sup>11</sup> *2005 Report to Congress of the US-China Economic and Security Review Commission*, p. 1.

<sup>12</sup> Ellen L. Frost, "Implications of Regional Economic Integration," in *Strategic Asia 2004-2005: Fragility and Crisis* (Seattle: National Bureau of Asian Research, 2003).

<sup>13</sup> For an overview of this debate, see Michael Mastanduno, "Economics and Security in Statecraft and Scholarship," *International Organization* vol. 52, no. 4 (Autumn 1998), pp. 825-854; David Baldwin, "Security Studies And The End Of The Cold War," *World Politics* vol. 48, no. 1 (October 1995); Jonathan Kirshner, "Political Economy Of Security Studies After The Cold War" *Review of International Political Economy* vol. 5, no. 1 (1998); Jean-Marc F. Blanchard, Edward D. Mansfield and Norrin M. Ripsman, eds., *Power and the Purse: Economic Statecraft, Interdependence, and National Security* (London: Frank Cass, 2000); and Barry Buzan, "Rethinking Security after the Cold War", *Cooperation and Conflict*, 32(1), 1997, pp. 5-28.

---

<sup>14</sup> In the first half of 2000, for example, Chinese patent applications in advanced biology ranked second behind the United States, exceeding the combined total for Europe and Japan. See “Japan to Play Catch-up in Biotech Field,” *Nikkei Weekly* 22 July 2002, p. 2.

<sup>15</sup> William W. Keller and Janne E. Nolan, “Proliferation of Advanced Weaponry: Threat to Stability,” *The Global Century*, Richard L. Kugler and Ellen L. Frost, eds. (Washington, DC: National Defense University Press, 2001).

<sup>16</sup> When President Clinton ordered U.S. carrier battle groups into the Taiwan Strait in 1996 to calm tensions between China and Taiwan, a serving officer commented that a potential Chinese attack had “zero” probability of inflicting major damage on a U.S. carrier. Would a future U.S. president repeat such action if the probable success of a hypothetical attack increased to 5%? 15%? 25%?

<sup>17</sup> Robert Novak, “Hard Times Ahead for U.S. Army,” *Chicago Sun-Times*, June 23, 2003; see <http://www.suntimes.com/output/novak/cst-edt-novak23.html>, consulted 6 July 2003.

<sup>18</sup> For example, *China 2020: Development Challenges in the New Century* (7 vols. Washington DC: World Bank, 1997); Nicholas R. Lardy, *China’s Unfinished Economic Revolution* (Washington DC: Brookings, 1998); *China in the World Economy: Synthesis Report* (Paris: OECD, 2002); *OECD Economic Surveys: China 2005* (Paris: OECD, 2005); Justin Yifu Lin, Fang Cai, and Zhou Li, *The China Miracle: Development Strategy and Economic Reform* (revised ed. Hong Kong: Chinese University Press, 2003).

<sup>19</sup> <http://www.census.gov/foreign-trade/balance/c5880.html>; also .../c5700.html, consulted 3 July 2003; also International Economic Accounts at [www.bea.gov](http://www.bea.gov), accessed 5 September 2006.

<sup>20</sup> Thus “Indian manufacturers scratch their heads in bafflement at China’s ability to undercut them.” See “Two Systems, One Grand Rivalry,” *Economist* 21 June 2003, p. 23.

---

<sup>21</sup> Figures provided by Loren Brandt based on FDI inflows to eight Asian countries: China, Indonesia, Japan, Malaysia, the Philippines, Singapore, Thailand, and South Korea.

<sup>22</sup> China's National Bureau of Statistics, for example is proud to report that "over 400 of the world's 500 largest firms have made investments in China." See "Opportunities for China's Manufacturing Industry After Joining WTO and Relevant Suggestions," *Guoyou zichan guanli* [Management of State Assets], no. 4 (2003), p. 4.

<sup>23</sup> Thus Chinese premier Zhu Rongji, "addressing Indian IT leaders in the southern city of Bangalore [in January 2002], said that if Indian software was combined with Chinese hardware, it would lead the world." See [http://news.bbc.co.uk/1/hi/world/south\\_asia/1765525.stm](http://news.bbc.co.uk/1/hi/world/south_asia/1765525.stm)

<sup>24</sup> Soviet aid focused on 156 large-scale projects concentrated in steel, machine-building, and related manufacturing sectors. In 1954, China reported 31,187 "large industrial establishments"; in 1957, total industrial employment amounted to 7.9 million (N.R. Chen, *Chinese Economic Statistics* (Chicago: Aldine, 1967), pp. 182, 475). In 2004, industrial firms with partial or full offshore investment and with sales over RMB5 million numbered 42,753 and employed 14.4 million workers (*Zhongguo tongji nianjian 2005* [China Statistics Yearbook 2005; Beijing: China Statistics Press, 2005], pp. 502-503).

<sup>25</sup> "Export Controls: Rapid Advances in China's Semiconductor Industry Underscore Need for Fundamental U.S. Policy Review," United States General Accounting Office, GAO-02-620, April 2002, pp. 2-3.

<sup>26</sup> See "Human Rights: Australia-China Human Rights Dialogue" at [http://www.dfat.gov.au/hr/achrd/aus\\_proc\\_dialogue.html](http://www.dfat.gov.au/hr/achrd/aus_proc_dialogue.html) , accessed 5 September 2006.

<sup>27</sup> While India may exhibit patterns of economic development similar to China's, we focus on the latter because the Chinese economy to date is far larger, more open and competitive in a wider

---

range of sectors, posing greater and more immediate challenges to the established global economic order.