

THE ECONOMIC-SECURITY NEXUS IN EAST ASIA

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ECONOMICS-SECURITY NEXUS

- ▶ GENERAL—long historical debate over alleged links
- ▶ **Neo-liberals** and institutionalists—economic ties and institutional cooperation are keys to reducing wars-- ++++sum games
- ▶ **Realists** focus on hard security--see conflict as restrained only by force—either hegemony or balance of military forces
- ▶ Security focus—war and conflict always on the horizon, especially in periods of ‘rising power’ and challenge to the dominant hegemon or dominant system –relative power of states plus global anarchy means zero sum games
- ▶ Real problem:
 - ▶ both theories make sense only re. wars
 - ▶ they are ‘correct’ or ‘incorrect’ only in hindsight
- ▶ Current problems are really **coercive diplomacy** and use of military force at the margins & **managing events to avoid problems**



FOUR FACTORS

- 1. East Asia increasingly interdependent economically & also institutionally
- 2. East Asia, esp. NEA, still rife with tensions
- 3. No wars in NEA since Korean armistice and SEA since '79 (Cambodia, China, VN) **but** lots of military frictions
- 4. Rise of China: Region (Globe) now in Power Transition?



ONE STORY—GREATER ECONOMIC & INSTITUTIONAL FOCUS ACROSS THE REGION

- ▶ **EAST ASIA—primary focus across East Asia since at least the '80s has been on economic development and regional economic interdependence**
- ▶ **Improved security situation post-Vietnam allowed this enhanced economic focus**
- ▶ **Little by little most gov'ts in the region began to find their legitimacy through economic growth and tangible benefits to citizens**
- ▶ **Since 2000 bevy of new regional institutions**



ECONOMIC MIRACLE SWEEP ASIA

- ▶ Japan led, followed by Korea and Taiwan
- ▶ MIT economies
- ▶ China and Vietnam reject rigid communism and embrace versions of capitalism
- ▶ All of these moved from reliance on military to reliance on economic development as legitimation of the ruling regime
- ▶ **Big exceptions—North Korea & Burma** with military regimes and closed economies

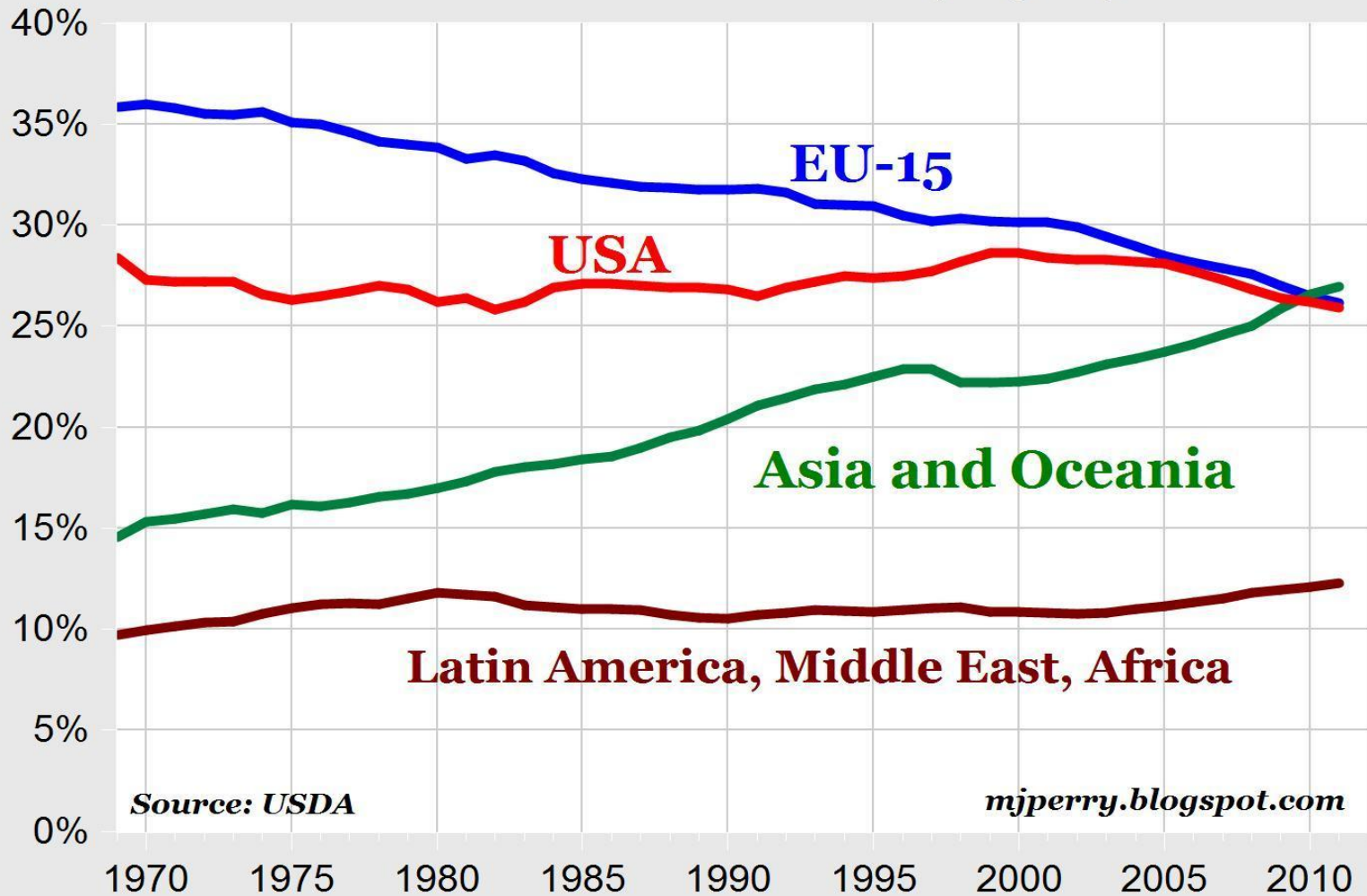


RISE IN ASIAN SHARE OF WORLD MARKET

- **1960 Asia equaled 4% of world's GNP**
- **Today up to nearly 30%**
- Rising shares of world exports
- GNP growth rates of 8-10% across most of Asia; projections for continued rapid growth even after AFC ('97-'98)
- Lots of claims that 21 st Century would be the Asian century



Shares of World GDP, 1969-2011



Source: USDA

mjperry.blogspot.com



VALUE CHAINS

- Different activities adding value to a product
- Firms fragment their value chains to take advantage of local strengths (cheap labor, great design capabilities, information, etc.)
- ‘move the product, not the factory’

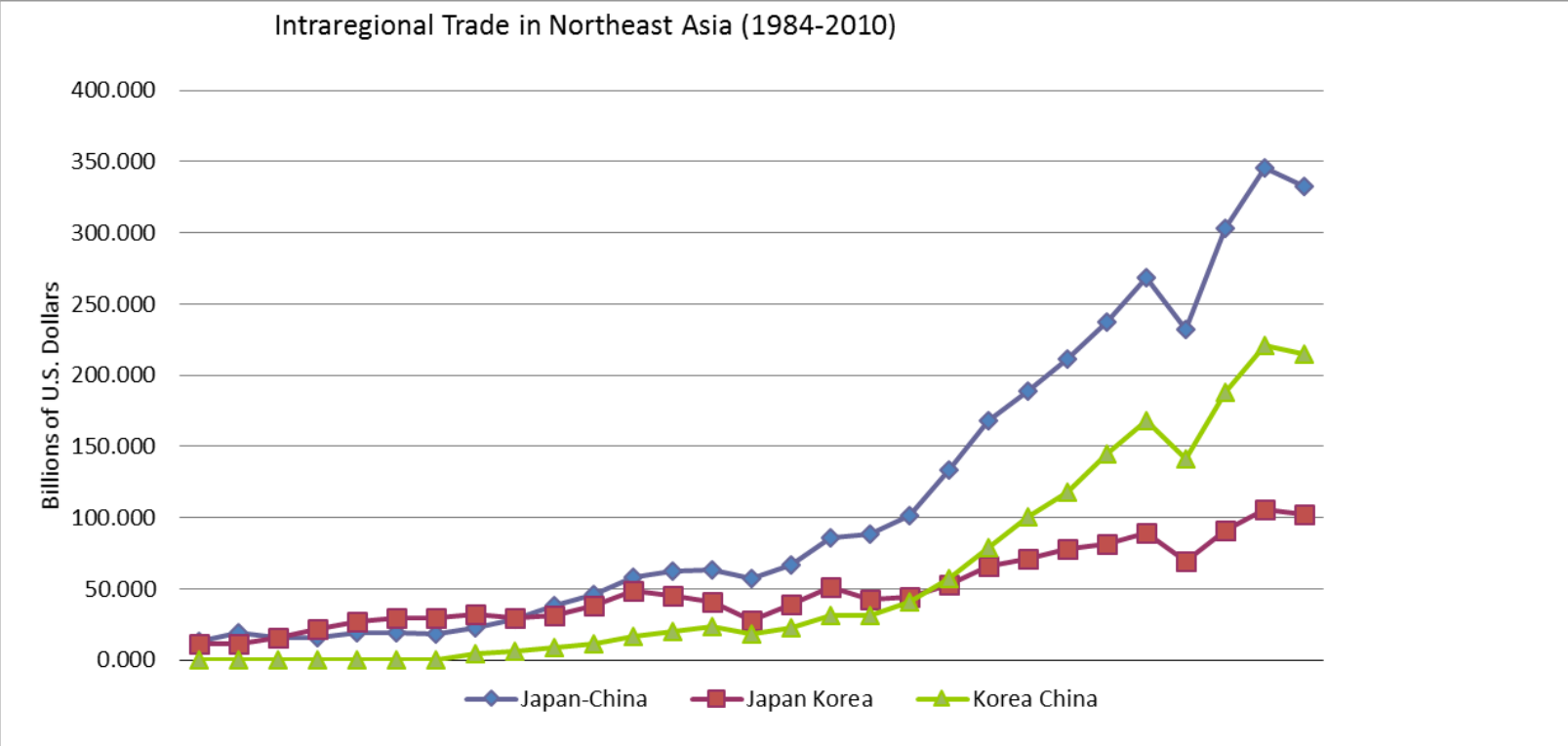


REGIONAL PRODUCTION NETWORKS

- ▶ FDI from Japan, later Korea and Taiwan moved into other areas of SEA and firms were linked thru FDI and rising trade
- ▶ many of East Asia's key industries (e.g. electronics, computers, automobiles, industrial machines) are organised along RPN lines
- ▶ Development asymmetry, and heterogeneity of country competitive advantages broadens the scope for region wide divisions of labor

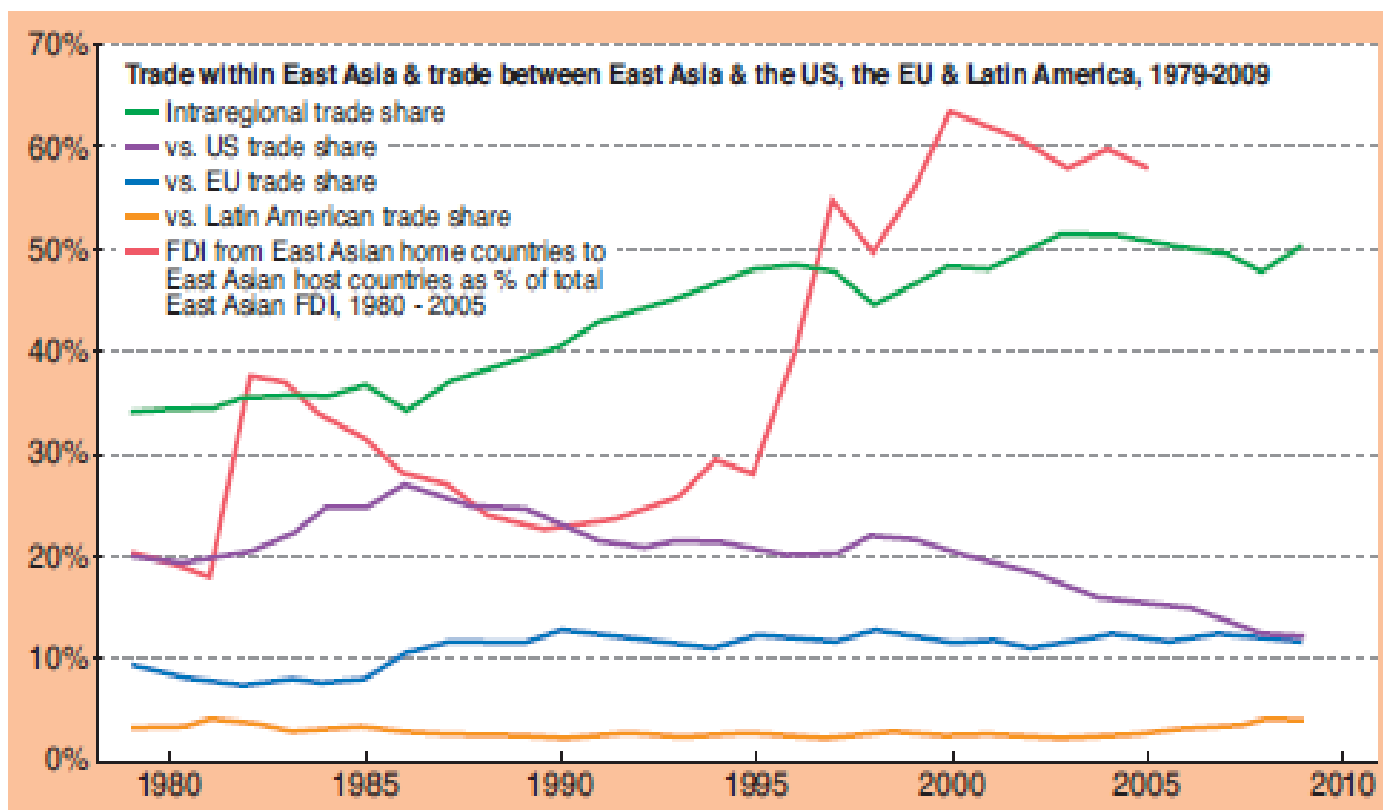


INTRAREGIONAL TRADE IN NORTHEAST ASIA



ECONOMIC INTERDEPENDENCE IN NEA

East Asia's rising star: trade & investment over three decades



Source: IMF, Direction of Trade Statistics; UN Conference on Trade & Development; OECD (compiled by Witold Henry at the Wharton School of the University of Pennsylvania)

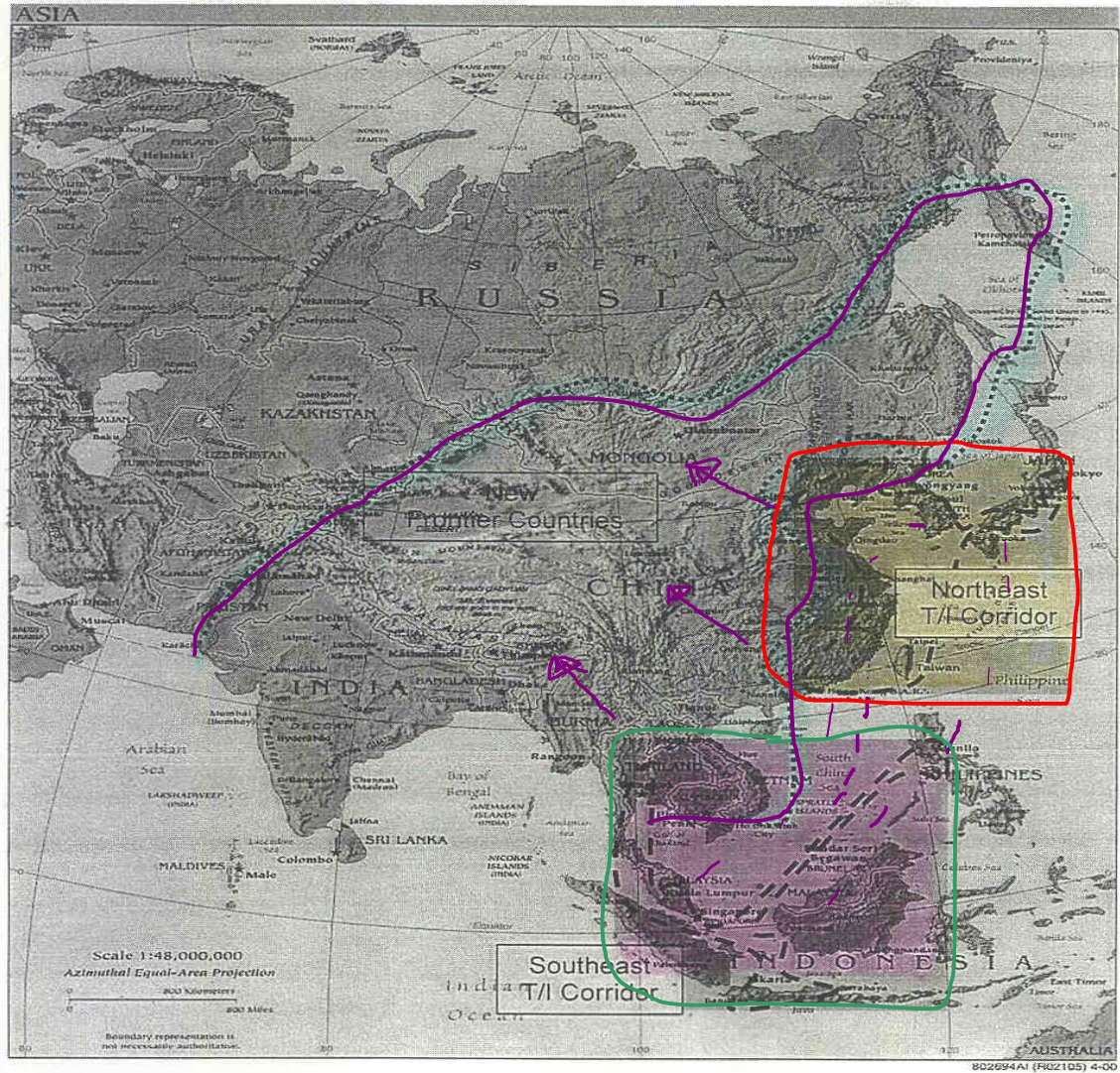


INTRA-ASIAN TRADE

- intra-East-Asia exports of all commodities
- 1990--38.5%
- 2012 57%.
- FDI aided by expanding network of FTAs across the region as well as some financial integration



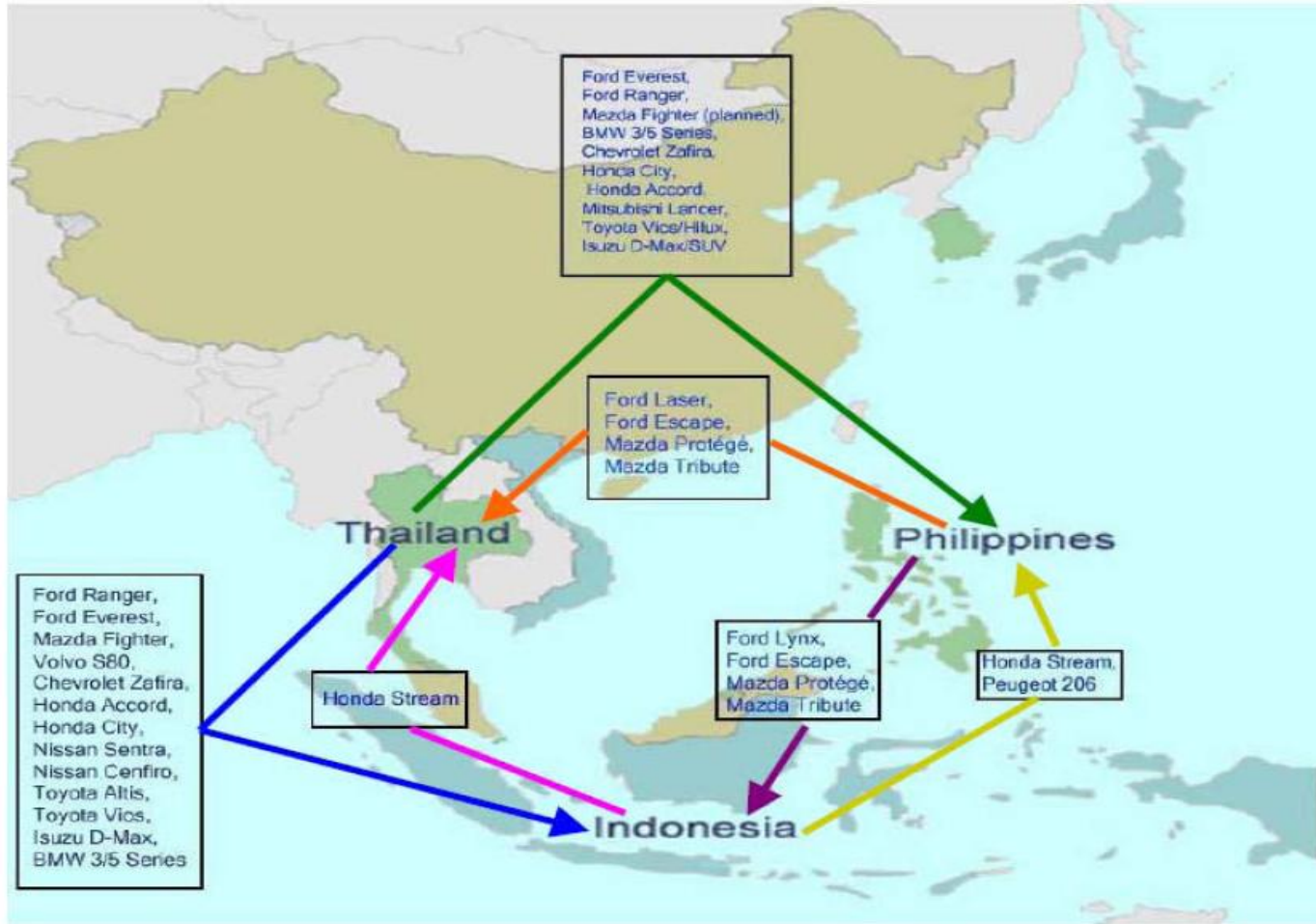
FIGURE 6.1: Trade and Investment Corridors



SOURCE: Compiled using a map from the University of Texas Library



Figure 3 Production and International Trade Network in Southeast Asia



Source: Kohpaiboon (2006), Figure 6,

RISE OF CHINA

- ▶ Nixon and Tanaka's openings to China
 - ▶ Chinese decision to embrace more open markets
 - ▶ Woven into regional economy
- ▶ Mammoth Economic Growth—China share of Global GDP up from 5% in 1980 to 16% today
- ▶ Exports up from \$150 Bil ('96) to \$ 2.2 Tril ('13)
15 fold increase
- ▶ Huge trade with neighbors
 - ▶ 2007 China replaced US as Japan's #1 partner
 - ▶ 2004 China replace US as ROK's #1 trade partner



CHINA-FACTORY TO THE WORLD



IMPROVED TAIWAN-PRC TIES

- ▶ shift from "mutual non-recognition" to "mutual non-denial"
- ▶ Reduced threat of independence by Taiwan
- ▶ Enhanced travel and air facilities
- ▶ Tourism and cross Straits investment up including right of PRC shareholders to buy Taiwanese stocks (up to 10% of value of company)
- ▶ ECFA—free trade agreement
- ▶ Taiwan allowed in WHO



CHINA'S REGIONAL ECONOMIC TIES

- ▶ Free trade pact with ASEAN—'early harvest'
- ▶ Normalization of ties with ROK (1992)
- ▶ China surpassed US as ROK's #1 export market & also #1 destination for ROK fdi
- ▶ #1 trade partner for Japan
- ▶ Extensive integration with Taiwan
- ▶ Commercialization of ties to DPRK



ASIAN REGIONAL INSTITUTIONS

- ▶ ASEAN since '67
- ▶ Increase in formal bodies esp. since Asian Financial Crisis
- ▶ Chiang Mai Initiative Multilateralization
- ▶ APT and EAS
- ▶ Shangri-la Dialogue, ARF
- ▶ Rise in FTAs
- ▶ These are still thin institutions but indicative of more formalized cooperation
- ▶ Overall regional security tensions fell



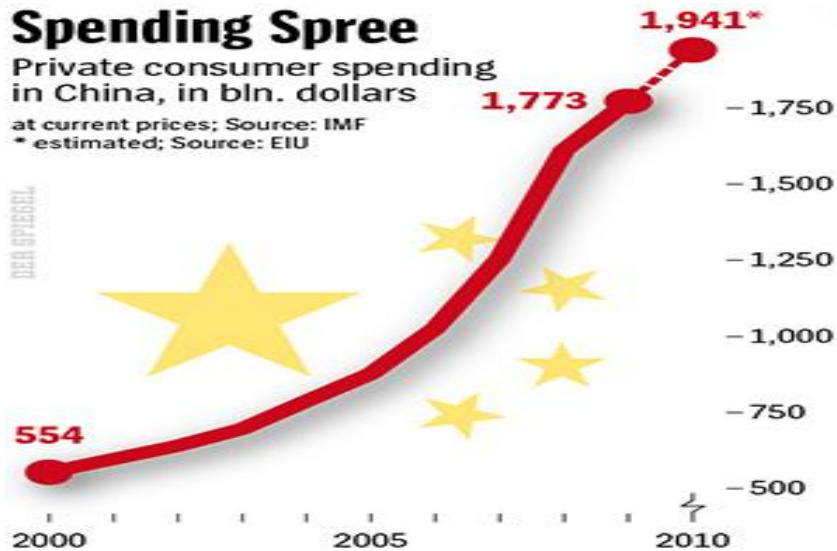
2000S--CHINA'S CHARM OFFENSIVE



Spending Spree

Private consumer spending in China, in bln. dollars

at current prices; Source: IMF
* estimated; Source: EIU







HELLO KITTY



YONG-SAMA FAN CLUBS IN JAPAN—KOREAN WAVE



ASEAN YOUTH CULTURAL FORUM



**WAR IS “ECONOMICALLY IRRATIONAL”
BUT... STILL LOTS OF SECURITY TENSIONS**

- ▶ Korean Peninsula and DPRK nukes
- ▶ Taiwan-PRC sovereignty
- ▶ Contested territorial issues—SCS, ECS
- ▶ Legacy of history; nationalism; xenophobia
- ▶ No Kumbaya; these guys don't like each other
- ▶ Classical zero sum competitions still real for many gov'ts in NEA
- ▶ If 'peace' it is the **peace of the prudent** (Kahler)



STILL COCKPIT OF GREAT POWER RIVALRY

- ENDOGENOUS THREATS
- Threats felt by most Asian gov'ts are from within the region—not from outside
- Russia, China, US, and now DPRK all nuclear powers
- Japan a major (middle) security power
- Korea and Taiwan
- SE ASIA—domestic and cross-border terror, piracy, drugs, NTS issues



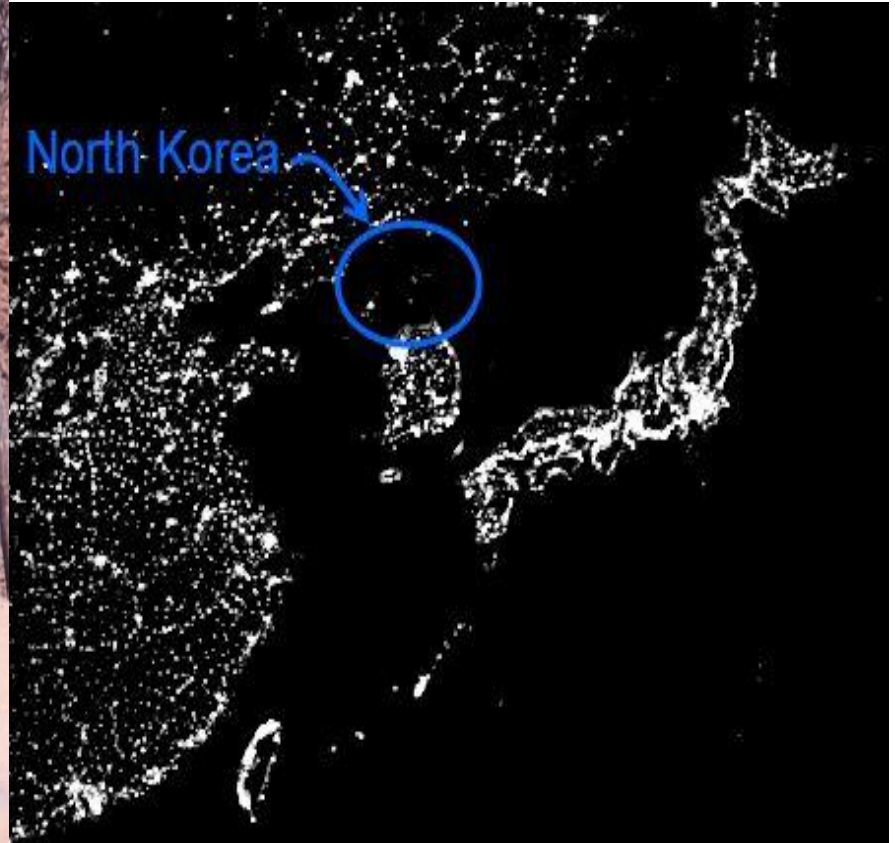
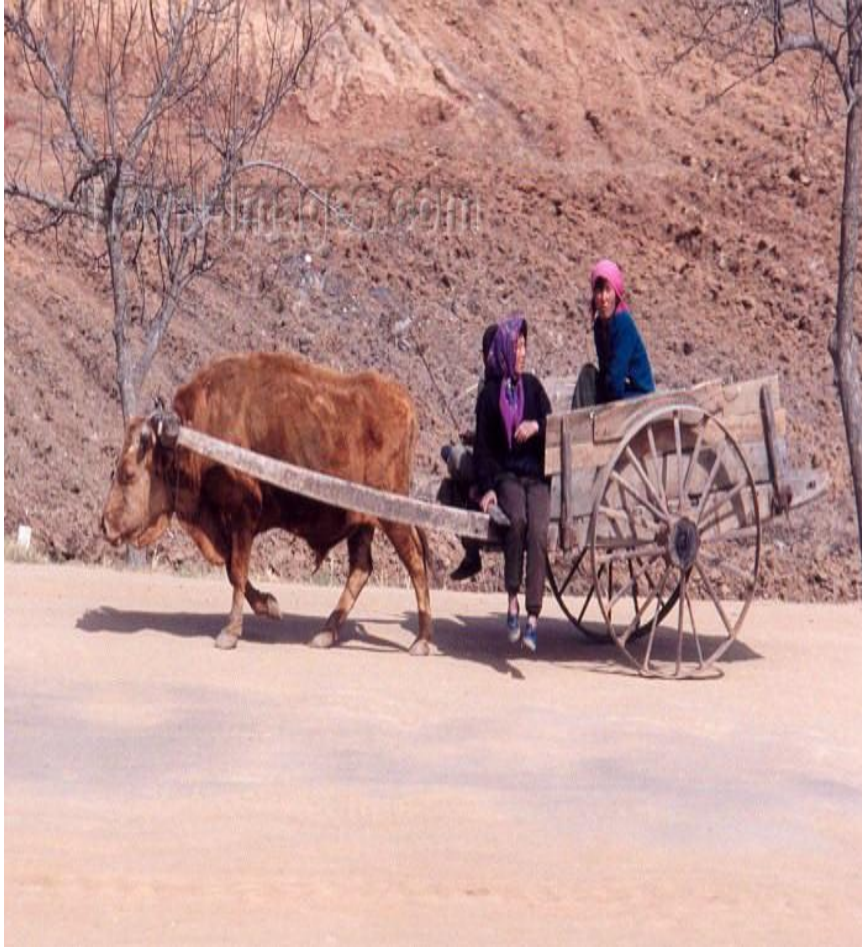
DPRK--MILITARY GLORIFICATION



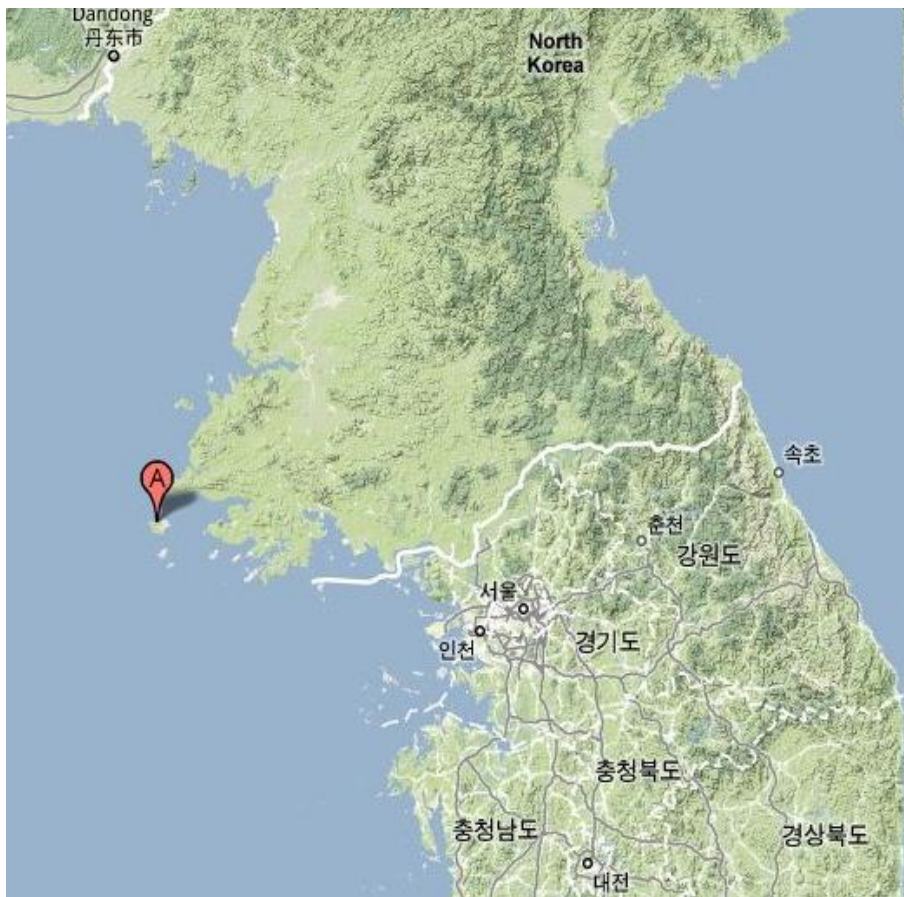
JCG SUNK DPRK SPY SHIP NOW IN MUSEUM—WARNING TO CITIZENS



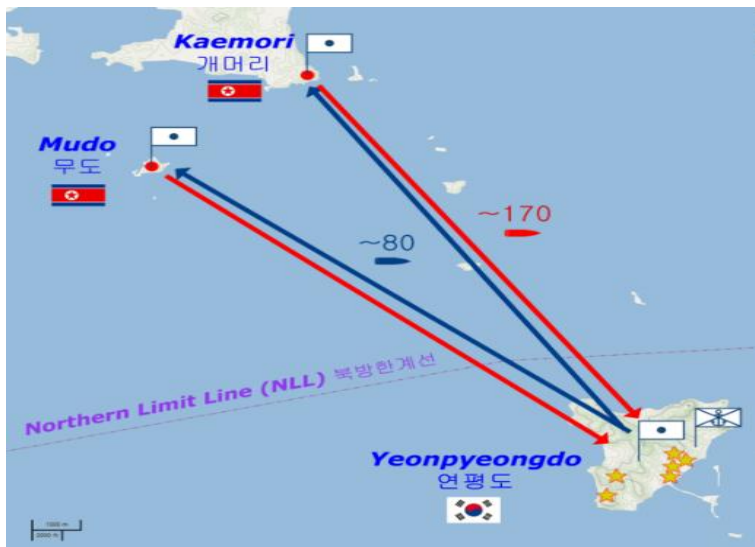
BACKWARD ECONOMY



SINKING OF ROK'S CHEONAN



YEONPYEONG SHELLING



DPRK—ASYMMETRIC BARGAINING AND BRINKSMANSHIP



NEW HARD LINE FROM DPRK?

- Third Nuclear Test—
bigger and better
- Succession--the
unspoken driver of
the current hard line?
- Jong-un needs
military support to
consolidate his rule
- Execution of Chang
Song-taek



THE RODMAN INITIATIVE?



CHINA'S RISE

- China's emergence as an industrial and export powerhouse is clearly one of the most important forces reshaping the contemporary world economy.
- The increase in employment in China's modern sector by some 25 million workers a year is same as adding another middle-sized industrial country to the world economy annually.



PRC MILITARY BUILDUP

- ▶ Steady increases in military spending
- ▶ “Modernization” but also big missile buildup across from Taiwan
- ▶ China does not fear invasion from Taiwan, but rather fears that Taiwan will ‘gain Chinese territory by fiat rather than force’
- ▶ Missile tests 1996; Law requiring military intervention if Taiwan moves too far
- ▶ Bigger goal is enhancing China’s regional influence



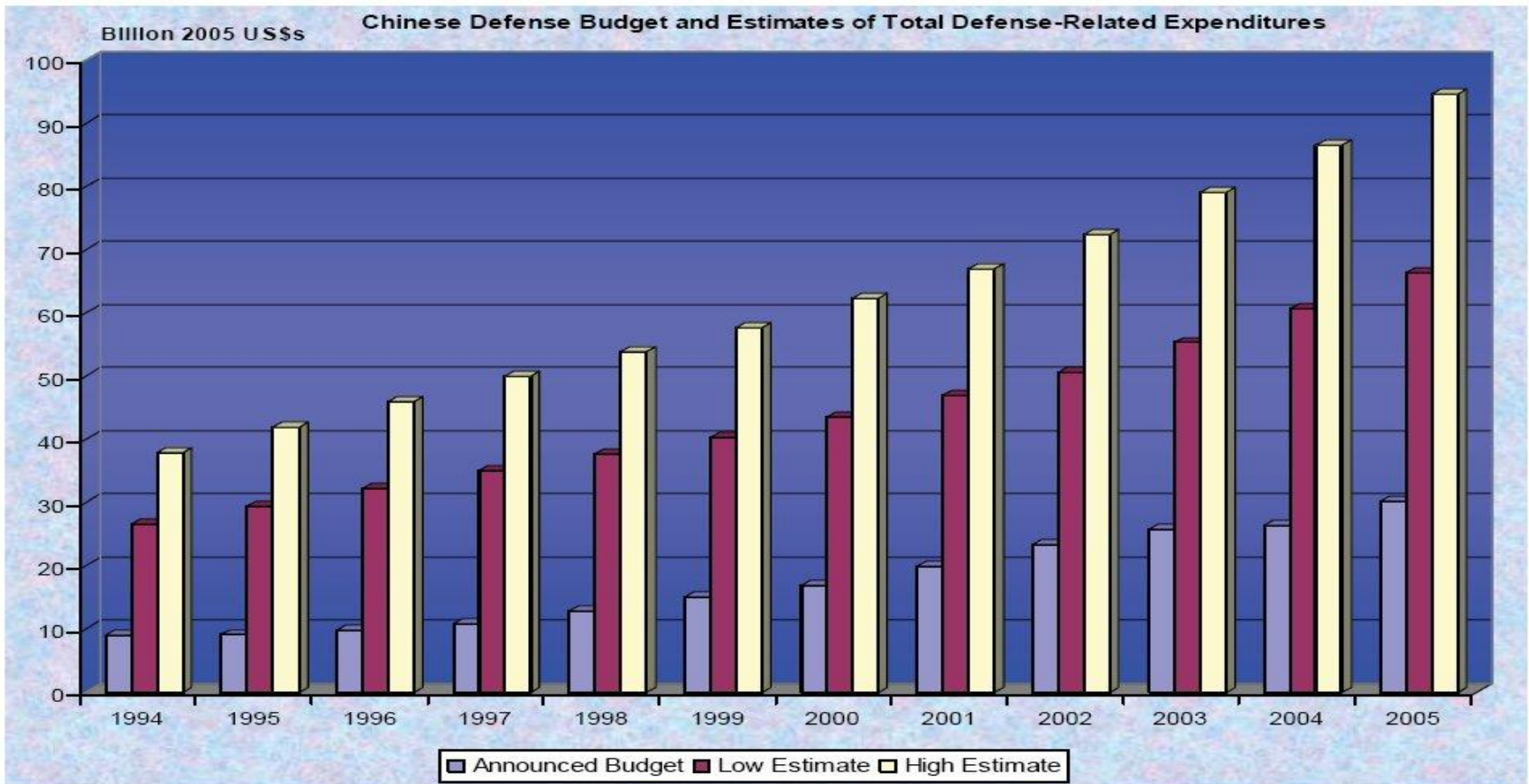
CHINESE MILITARY

- Approx. 2,180,000 military personnel—largest in the world



CHINESE MILITARY BUDGET

Figure 3. Chinese Defense Budgets and Estimates of Total Related Expenditures



CHINA'S RECENT ASSERTIVENESS

- ▶ FOLLOWING EFFORTS AT 'PEACEFUL RISE' moved toward tougher positions—Cheonan, Senkaku, S China seas
- ▶ Squandered a decade of soft power gains
- ▶ “Kidnapped by DPRK”—agreed to support DPRK against ROK after Cheonan...wants DPRK economic changes and lack of provocation but also wants regime stability
- ▶ China's new toughness triggered re-embrace of US by ROK, Japan, Singapore, Vietnam et al.



CHINA'S STRATEGY

- Steady expansion of maritime claims and de facto control
- Senkaku/Daioyu
- Nine dash line
- ADIZ Dec. 2013
- Scarborough Shoal in the South China Sea in 2012
- Push steadily outward without causing a conflict
- A2AD asymmetrical warfare



SENKAKU CONFRONTATION



JCG SHIP TURNING BACK TAIWANESE ACTIVISTS AT SENKAKU



JCG SHIPS TURNING BACK TAIWANESE ACTIVISTS AT SENKAKU



"UNCHARMING" CHINA



CHINESE OIL RIG IN VIETNAMESE?? WATERS



- Sudden action by China
- One more indication of unilateral action in contested maritime areas



POWER TRANSITION?

- ▶ China's economic growth reduces 'century of humiliation'
 - ▶ 'time is ripe' to be more assertive?
 - ▶ Asymmetric war capabilities (**A2AD**?)
- ▶ US
 - ▶ depleted militarily and 'out of Asia' due to Iraq & Afghanistan?
 - ▶ By rising budget deficits due to off-the-books wars and Bush tax cuts?
 - ▶ By the Global Financial (Lehman) Shock?



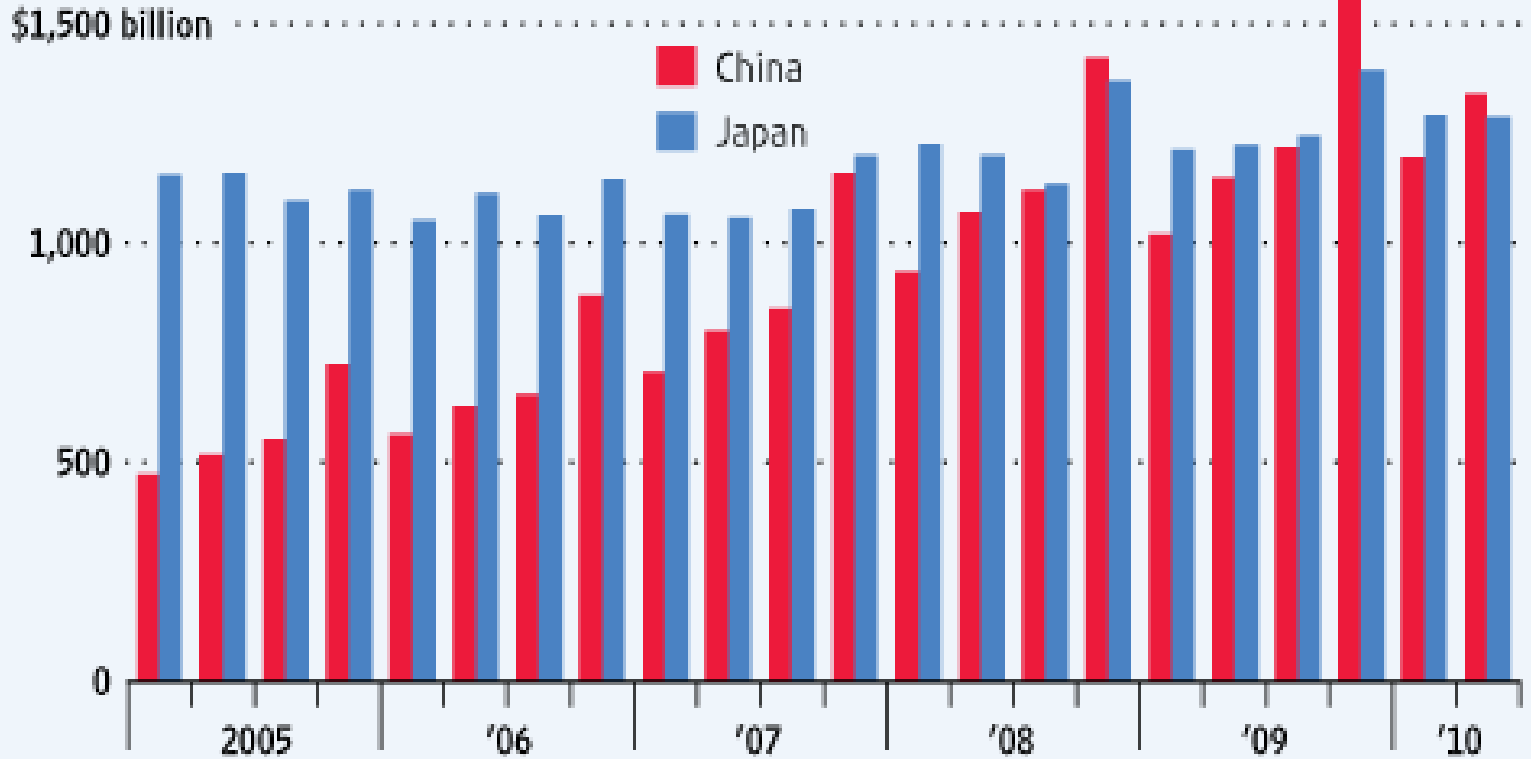
JAPAN'S RELATIVE SHARE OF WORLD GDP SHRANK

- ▶ Japan grew from 7 percent of global GDP in 1970 to 10 percent in 1980, and then surged to nearly 18 percent at its peak in the early 1990s. **In about twenty years, Japan's share of global GDP rose to two-and-a-half times its initial share.**
- ▶ Less than 20 years later, Japan has only 8 percent of global GDP. Japan, in other words, has given back in less than **two decades almost the entire share of global GDP it had taken in the two astonishing decades that preceded it**



Marching on

China has surpassed Japan in quarterly GDP before but the latest figure has put China on track to top Japan in full-year GDP



Sources: China's National Bureau of Statistics; WSJ reporting (China); Japan's Cabinet Office



YASUKUNI SHRINE



OLD VETERANS AT YASUKUNI



YUSHUKAN MUSEUM



Japan's Quest for Avoiding a War

The United States helps the Chiang Kai-shek government to continue the war with massive assistance, which has adverse effects on U.S.-Japan relations. To strengthen Japan's negotiating position vis-à-vis the United States for the purpose of avoiding a war, the Kono Cabinet decides to sign the Tripartite Pact which Foreign Minister Matsuoka Yosuke strongly promoted.

YASUKUNI VISITS



ANTI-JAPANESE DEMONSTRATIONS IN CHINA



SOUTH PARK ON CHINA-JAPAN RIVALRY



ASIA CUP PROTEST

“THERE IS NO FUTURE FOR COUNTRIES THAT FORGET THE PAST”



JAPAN-KOREA-CHINA

- Close economic ties but rising importance of competing territorial claims
- Xenophobic nationalism in all 3
- Yet continued meetings of Trilateral Leaders & generally trade and investment concerns carry on despite territorial disputes (investment treaty in place; trade treaty being negotiated)



PLUS THREE—FUKUOKA 2008

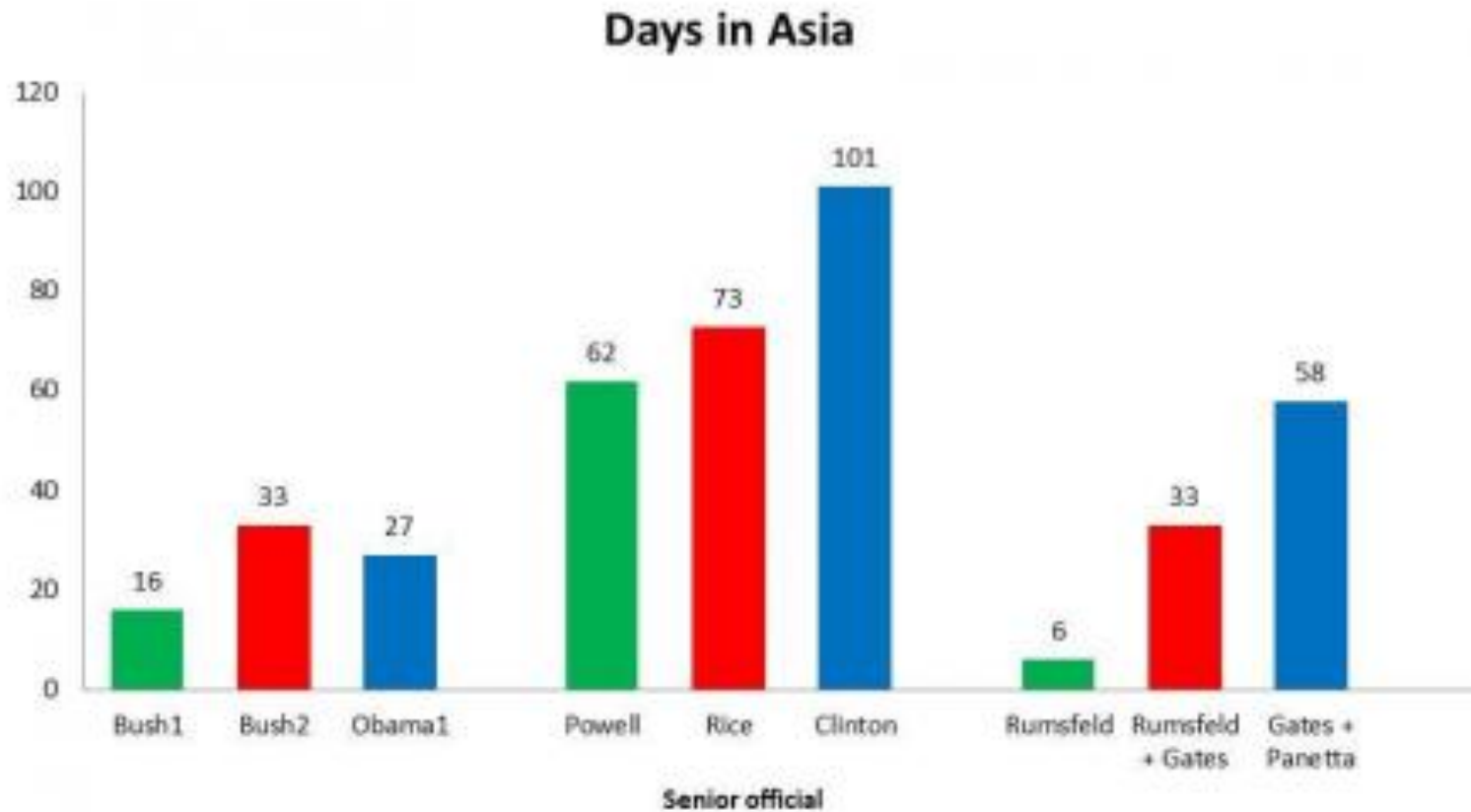


OBAMA'S ASIAN PIVOT

- ▶ Asia seems 'relieved' that Obama won
- ▶ Rebalancing—out of Middle East & Central Asia
- ▶ Pentagon, esp. Navy, likely to expand in Asia
- ▶ so far media emphasis has been military—little stress on economic or diplomatic rebalancing as add'l key components
- ▶ Mutually assured prosperity (MAP) for 'all' Asia-Pacific
- ▶ Multiple top level visits to ASEAN, TAC, EAS
- ▶ Reengage Burma
- ▶ Seeking "Right" balance with China



“PIVOT” IS REAL: TASSELED LOAFERS ON THE GROUND



BIGGEST US CHALLENGE IS CHINA

- ▶ Close economic ties are clear
- ▶ US—tough getting the balance right between engagement & hedging
- ▶ China **was** focused on:
 - ▶ Collective leadership—avoid big Maoist swings
 - ▶ Domestic economic development
 - ▶ Need for ‘friendly environment’ for growth; no tension
 - ▶ but recent worries about slowing
 - ▶ 1st transition not engineered by Deng
- ▶ Deterioration of regional relations since 2010



US CHALLENGES RE. ASIA

- ▶ Congagement—containment + engagement
- ▶ Can US & China cooperate on North Korea?
- ▶ Can US engage region economically?
 - ▶ **Mutually assured prosperity** (MAP)
 - ▶ Avoid TPP as ‘economic containment’ but tough to do
 - ▶ But biggest threat to US security today is its domestic economy
 - ▶ US Politics no longer stops at ‘water’s edge’
- ▶ Japan—can it recover economically and play a positive role, independently and/or with US?
 - ▶ E.g. trilateral FTA with China/ROK
 - ▶ TPP—will Japan make the tough choices domestically????



DEALING WITH A RISING CHINA

- ▶ Need to get beyond thinking of any challenge to the status quo as a 'threat'
- ▶ Accept that China will rise; it will enhance its military; it will have legitimate demands and interests that it will push; and often these will clash with interests of status quo powers (esp. US and Japan)
- ▶ But retain sufficient military prowess to hedge against change via force
- ▶ But efforts to revise IMF weighting are being resisted by US Congress—easy for China to dismiss US 'willingness' to adjust to meet rise in China's economic weight



BUT ALSO AREAS FOR COOPERATION

- ▶ **Strategic & Economic Dialogue**
- ▶ **G-20 and economics**
- ▶ **Reducing nuclear risk—beyond just DPRK**
- ▶ **Regional NTS (disease, immigration, etc.)**
- ▶ **Somalia piracy; Muslim fundamentalism**
- ▶ **Potentially global climate change & energy**
- ▶ **Xi-Obama personal relations?**



KEEP ASIAN SECURITY TENSIONS IN PERSPECTIVE

- Tensions, yes, but reduced in number
- No major wars since Vietnamese invasion of Cambodia in 1978 and Chinese retaliation in 1979
- Ties normalized (esp. ROK-China, Russia)
- Borders being settled esp. China, Russia
- Military expenditures/GNP down from 2.6% (1985) to 1.8% (2001), lower than world averages (5.4% and 2.5%)
- Decline as % of central gov't expenses
- Areas of cooperation
- Are the last 2-3 years a sign of major shift or an aberration from longer trends?



DANGER OF THEORETICAL TELEOLOGY

- ▶ Limits to “power transition”—Britain/US, J & G
 - ▶ New levels of warfare (e.g. nukes)
 - ▶ Don’t overestimate China’s global power even though regional influence clearly rising fast
- ▶ “Structure” vs. “agency”
- ▶ Politics is about satisfying multiple goals/constituencies
- ▶ Domestic nationalism remains high across region
- ▶ Coercive diplomacy & Escalatory ladder—but short of war
- ▶ **Importance of political management –smart politics can shape the future, not be dominated by theoretically ‘inevitable’ predictions**



CONCLUSION

- ▶ Positive moves in economics & institutions should trigger more cooperation
- ▶ All powers must learn to 'deal with' a rising China
- ▶ Expect its rise to challenge aspects of the status quo
- ▶ Be prepared to see the status quo change
- ▶ Work to accommodate China's rise by shaping its choices to favor regional and global cooperation
- ▶ 'responsible stakeholder' but realize ALL stakeholders get to shape the rules of the game
- ▶ **Ultimately the future will be shaped less by the absolutes of theory and more by the practical actions of political leaders**

