

China's Institution Building *Leading the Way to Asian Integration*

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China's rise has been largely an economic phenomenon in the past twenty years. However, in the two years following the new leadership of President Xi Jinping, we have seen a series of major strategy adjustments in China's foreign policy as China takes a more proactive role in international relations. This is particularly clear in the recent major initiatives and institution-building actions that Beijing has undertaken. China's changing global role is no doubt an immense new variable in today's international relations, and therefore it is imperative to understand the consequences of these actions, and what kind of outlook the international community should have in reaction to a greater leadership role from China.

China's New Moves

One of the central criticisms of China in the last twenty years is the nation's lack of global leadership action in respect to its abilities. For a long time, China has mainly focused on its own economic development, and has often been reluctant to take any major international role. During this period, China was never an active regional player, mediator, or facilitator; its foreign policy strictly involved trade and bilateral relations, not regional integration and multilateral diplomacy. This is the reason President Barack Obama once labeled China a "free-rider."¹

However, China is now taking a much greater interest in playing a larger role in regional leadership. In recent years, China has been working on several high-profile initiatives and building new institutions. These initiatives include the so-called "One Belt and One Road" (the Silk Road Economic Belt and the 21st Century Maritime Silk Road) project, which funds infrastructure construction across Asia and seeks to tie Central and Southeast Asia more closely to China. China plans to put forward \$40 billion to

¹ Bree Feng, "Obama's 'Free Rider' Comment Draws Chinese Criticism," *The New York Times*, August 14, 2014, <http://sinosphere.blogs.nytimes.com/2014/08/13/obamas-free-rider-comment-draws-chinese-criticism>.

create a Silk Road Fund to support regional countries in the construction of ports and highways, as well as oil and gas pipelines to connect with China. A series of new organizations is being created, including the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB). Beijing has also made headway in promoting the Free Trade Area of the Asia-Pacific (FTAAP) and has made major breakthroughs in free trade talks with Australia and South Korea. In the realms of security and politics, China is working to invigorate and strengthen the BRICS countries, the Shanghai Cooperation Organization (SCO), and the Conference on Interaction and Confidence-Building Measures in Asia (CICA).

China's new moves are sophisticated and progressive. The Chinese are trying to create platforms through which Beijing can create a new international environment that is more favorable to China. Beijing has taken a two-track approach in this endeavor. On one hand, China is creating new institutions, and on the other hand it is still actively participating in existing institutions such as the World Bank, the World Trade Organization (WTO), and the International Monetary Fund (IMF). Beijing hopes to utilize its new organizations in association with existing institutions rather than directly working against or undermining them. With this alternative diplomatic strategy, Beijing is trying to increase its control in regional operations or otherwise significantly enhance its influence. The FTAAP is a Chinese version of the Trans-Pacific Partnership (TPP), and the AIIB is a Chinese version of the Asian Development Bank (ADB) and the World Bank. Beijing is also trying to use the SCO and CICA to counterbalance U.S. military alliances in Asia. While China's new institutions are open for all nations to participate, Beijing looks to maintain a centralized control over their leadership. As some scholars have noticed, China's foreign policy has shifted from a "US first" policy to a "periphery first" policy. President Xi has also coopted the term of "free rider" to mean that he now encourages regional nations to do just that with China.

Asia's Integration and Leadership Problem

In order to better understand China's changing role and new diplomatic strategy, we should first situate China's actions and policies in the context of Asia. Asia is characterized by a lack of both integration and effective regional institutions. There is no organization in Asia that includes most Asian countries, nor is there an equivalent to the European Union or the North Atlantic Treaty Organization. Due to Asia's high diversity and complicated historical geography, as well as outside influences, Asian countries have suffered from poor connectivity for a long time. China and Japan are the two most influential countries in Asia, but their relations are deeply influenced by history—a history that has had a negative impact on their joint initiatives and actions in the region, so much so that the two states cannot work together to share a leadership role in Asia.

Though not an Asian nation, the United States is an Asia-Pacific country, and maintains a bilateral security arrangement with several Asian states. This arrangement is referred to as the "fan relationship"; each state holds a bilateral relationship with the United States individually, and U.S. security agreements "fan out" over its Asian

allies.² The “fan” system of U.S. bilateral alliances is still a Cold War security arrangement and does not facilitate real integration within Asia. The United States has close bilateral relations with China and Japan, but there is a lack of effective triangular cooperation, as well as trilateral facilitation and integration.

In Central Asia, countries have a deep historical relationship with Russia, but with Russia’s weakening economy, the recent crisis within Ukraine, and other points of tension in the region, Central Asian countries are looking to develop relationships with outside countries. In Southeast Asia, the development of the Association of Southeast Asian Nations (ASEAN) has significantly enhanced regional institution building, and in recent decades ASEAN has developed a major role in corporate expansion. ASEAN Plus Three (APT) and the East Asian Summit (EAS) have created a mechanism for cooperation between Southeast Asian countries and major East Asian countries. However, over the past few years, tensions in the South China Sea between China and several ASEAN nations, as well as territory disputes between China and Japan in the East China Sea, have generated major challenges and hindered further integration in this region. With souring relationships between Beijing and Tokyo, Seoul and Tokyo, and Beijing and Pyongyang, the situation in Northeast Asia has become more uncertain.

With China’s rapid economic development, economic relations and trade with China has become a very important source of growth for many Asian countries. But many countries are also concerned about the increasing Chinese influence and presence in their own countries and in the region. Therefore, many states, especially ASEAN countries, have chosen a special “double-track policy” in which they work with China for economic development, but work with the United States for security purposes. Such a double-track arrangement is not stable, and many countries feel they have to take a side between the two large powers.

With this background, we can better understand the importance of regional integration in Asia, and the importance of effective leadership. China’s recent actions, such as providing funding for infrastructure in neighboring countries, taking the initiative to provide public goods, and creating new platforms for regional cooperation, are much needed in Asia. These are moves that may be sudden and raise suspicions, but overall they must be acknowledged as positive for China as an international leader in Asia. For example, China is offering billions of dollars in regional infrastructure development aid to its neighboring countries, including the building of ports, pipelines, highways and railways, technological advancements, and human labor. Beyond infrastructure, China has been pumping money into these regional economies in order to expand their ability to spend on Chinese manufactured goods. This should also be seen as a positive shift. Since China is the largest economy in Asia, it is China’s unavoidable responsibility to take on a leadership role in the region. This is why some scholars describe China’s new initiatives as “China’s return to Asia.” Given the numerous benefits for Asian nations,

² The “fan relationship” of discrete alliances between the United States and its Asian allies is also referred to as the “hub and spokes system.”

it should be seen as a great improvement that China is reaching out to help its neighbors.

China's Motivation

As China becomes a major global leader, a vital question for the international society is how to understand and respond to China and its new global role. This enormous and rapid change has created difficulties in fully understanding China and its policies. There exists a misunderstanding and misperception towards China. Too often, people view China from the outside looking in and use their own institutional experiences and cultural frameworks to interpret China's actions. For example, a routine question asked about China today is if the country is a status quo nation or a revisionist nation.

From the perspective of the Chinese, however, a more apt question regarding its rise to power is how it should manage its relationships with the current international system and institutions. For example, Japan still dominates the ADB even though China has surpassed Japan as the largest economy in Asia. Japan's voting share in the ADB is more than twice that of China's, and a Japanese citizen has always headed the power structure. IMF reforms to increase Beijing's influence have been proposed, but have remained delayed for years. From China's perspective, the current situation is troublesome and hinders the country's growth. China's institution building strategy was made imperative by the current system, and in trying to establish new institutions and platforms, Beijing is creating a tool that allows it to become a leader with substantial influence, which it cannot do in the ADB or IMF.

In this context, the international community is debating China's real intentions behind its new sweeping initiatives, even though many of China's neighbors can benefit from these initiatives. Any major aid and investment plan from an overseas power will naturally include that power's own political and strategic purposes. The new initiatives and institutions like the "One Belt and One Road" that China has been creating are currently focused on economic cooperation, trade, and infrastructure construction in order to help market products "Made in China" across Asia. Though some analysts believe that China has political, security, or even military motives behind these economic initiatives and organizations, they are as of now being presented by Chinese officials as purely economic development organizations. Beijing has not yet attached any sort of preconditions, special commitments, or requirements from the nations it is working with.

Even within institutions like the SCO, which is a political and security organization, China's leadership provides an alternative for Asian states to work with a country other than Russia. In recent years, China has been taking a bigger role in the SCO and Russia's influence has been waning. Beijing has also made clear that the SCO is not a military alliance and that China does not seek to forge a military coalition. In fact, too much pressure from the United States and the West may actually push the SCO into becoming an even closer partnership.

A Positive Outlook

Institution building is a long, interactive process. Beijing's initiatives are still in the beginning stages, and it is therefore too early to cast judgment on them. They have been labeled everything from "China's Marshall Plan" to Beijing's preparation for a major Asian power struggle with the United States. Making assessments at this early stage may only further strengthen existing misconceptions and stereotypes, which may prove very difficult to change later. As such, it is wise to take a wait-and-see approach for the time being.

International institution building is the key to mitigating the anarchic character of international relations. For Asian countries, institution building is even more important since the lack of integration and connection is the major hindrance for regional development. Good institutions can provide opportunities for joint development, improve relations, reduce tensions, as well as restore confidence in and even increase the legitimacy of national organizations. At the time of this writing, forty nations have already signed up to join the AIIB as founding members, including several allies of the United States. The fact that so many countries have jumped at this chance says quite clearly that they think the AIIB presents a good opportunity.

With these efforts underway, a constructive approach for the United States would be to work with China in shaping this process, and to push regional institution-building and integration in a positive direction. Compared with the hardline realist stance, which assumes China has a master plan in mind, such cooperation reflects a more positive attitude, and is also in the interest of the United States. As the largest and most powerful nation in the region, China should be the major player: a role that it is finally stepping into. The international community should welcome a rising China that willingly takes on more global responsibility and leadership.

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