



China's Visions of Future East Asian Economic Integration

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East Asia has been the fastest growing area in the world in recent decades. Starting with Japan in the 1950s, East Asian countries have consecutively taken part in the global economic system and have become connected with each other through the market economy. East Asia is among the most economically integrated regions along with Europe and North America. The intra-regional trade share of East Asia (ASEAN+3) in 2014 was as high as 45 percent, much greater than 26 percent in North America and 18 percent in Latin America, and only lower than the 65 percent in the European Union.¹

In contrast, the institutional regional architecture of East Asia is much less developed and falling far behind actual integration. While there is NAFTA in North America, MERCOSUR in Latin America, and the EU in Europe, there is no comparable region-wide arrangement in East Asia yet. This does not mean East Asia lacks institutional arrangements, but just the reverse, there are too many institutions covering various issue areas. Since the first sub-regional institution, ASEAN, was established in 1967, a number of regional and pan-regional economic integration initiatives have been launched, such as APEC in 1989, ASEAN+3 in 1997, the East Asia Summit in 2005, Trans-Pacific Partnership in 2009, China-Japan-Korea FTA and Regional Comprehensive Economic Partnership in 2012, along with other sub-, trans-, and pan-regional groupings in the political, financial, and security areas. The fragmentation in the approaches toward East Asian regional integration reflects the region's unique historical, cultural, and political characteristics. In particular, the competition for influence between China, Japan, and the United States results in somewhat overlapping but also conflicting patterns of regional integration.

As the biggest country in the region, China was once the indisputable center of East Asia in cultural, economic, and military terms. As a responsible stakeholder in the area, China has been active in advancing regional integration. However, subjective goodwill is far from enough to produce the desired outcome. China should be more pragmatic about the future of East Asian institutional regional architecture.

EAST ASIA INTEGRATION: IDEALISTIC UNITY VS REALISTIC DIVERGENCE

In geographical terms, East Asia refers to China (including Hong Kong, Taiwan, and Macau), Mongolia, the Korean Peninsula, Japan, and Southeast Asia. This definition also has strong cultural and historical foundations since many societies in the area have been, more or less, part of the Chinese cultural sphere. However, the China-centered system in East Asia has been gone for more than a century and a half since China was occupied by Western powers and subsequently defeated by Japan. Modern East Asia since WWII has experienced both cold and hot wars among its members under the influence of outside powers. Through the 1980s these neighboring countries formed several camps struggling with each other. ASEAN, originally formed by five small countries in 1967, was an alliance intended to survive under the severe circumstances of the Cold War and to counter China's aggressive foreign policy. There was no central power or leading country in East Asia, the very name of which was nothing but a geographical concept.

A region without internal cohesion is always open to external influence. Thus, the first established region-wide East Asian regional organization—APEC—was proposed and chaired by Australia in 1989. It should be noted that APEC is not an East Asia group but an

Asia-Pacific organization. A new regional concept—Asia Pacific—was introduced so that the United States, Canada, Australia, and New Zealand could be included. ASEAN initially disliked this idea, but member states were afraid to oppose it publicly. Instead, Malaysian Prime Minister Mahathir bin Mohamad proposed the East Asian Economic Caucus (EAEC), a regional FTA for Asian economies. However, this competing project was quickly suppressed by the United States along with its Asian ally Japan since the timing was poor, as the United States was about to see its overwhelming triumph in the Cold War. The ASEAN Regional Forum (ARF) launched in 1994 was also opened to these U.S.-led, non-Asian countries. Therefore, the beginning of East Asian integration was not limited to East Asia itself.

Only after the 1997 Asian financial crisis did East Asian economies start to realize that the United States was not so reliable and regional cooperation was needed to protect the collective interests of the region, given that APEC did not work effectively in this sense. As a result, ASEAN+3 (China, Japan and Korea) emerged at the end of 1997 to kick off East Asian economic integration. At the height of the financial crisis, Japan proposed an Asian Monetary Fund, which was killed by the United States for fear of being excluded.² However, the distrust of the United States finally led to the establishment of the Chiang Mai Initiative in order to avoid the recurrence of a regional financial crisis in 2000. Chinese premier Zhu Rongji suggested that China could negotiate an FTA with ASEAN in the same year. Later on, ASEAN signed separate agreements with each of the three Northeast Asian economies. The East Asia Vision Group mandated by ASEAN+3 delivered its report in 2001 and suggested the final goal of an East Asian Community.³ An East Asia Study Group consisting of government officials also echoed this proposal and recommended the evolution of ASEAN+3 into the East Asian Summit (EAS).⁴ Starting from 2004, ASEAN+3 formed an expert group to conduct a feasibility study on establishing an East Asian FTA covering all 13 economies.

While all seemed to be progressing smoothly toward a shared identity of East Asia including ASEAN plus China, Japan and Korea, the situation suddenly changed in 2005. The fundamental reason is that divisions between the two major powers in East Asia—Japan and China—re-emerged over the Diaoyu (Senkaku) Islands and Yasukuni Shrine after a period of tacit understanding. Prime Minister Koizumi Junichiro repeatedly irritated China and Korea with his annual visits to the shrine. Japan was also concerned with the rapid growth of China after its accession into the WTO and its unexpected and significant expanding influence in the region after the Asian financial crisis. The ratio of China's GDP to Japan's rose from one quarter in 2000 to one half in 2005. The United States shared this concern with its ally. Support for or tolerance of China's development by the two turned into worry and wariness. Indeed, the prospect of the East Asian Community had already faded because it had become clear that the power shift ahead would always be in favor of China.

The first conflict between China and Japan happened during preparations for the first EAS over what countries were qualified to attend. China still followed the previous approach of ASEAN+3 while Japan suddenly proposed inviting the United States, Australia, New Zealand, and even India, which is not an APEC member. The intention of counterbalancing China was straightforward, and China's opposition was obvious.⁵ But ASEAN, which was committed to an East Asian Community, changed its mind after Mahathir retired at the end of 2003. China was isolated and afraid to be labeled as excluding U.S. influence. In the end, the original ASEAN+3 expanded to ASEAN+6, which further expanded to include the United

States and Russia in 2011. The EAS almost became another APEC, which does not focus on inward regional integration but on outreach through pan-regional cooperation.

In 2009, there was a brief chance of revival of the East Asian Community when the Democratic Party of Japan won the Japanese election and Hatoyama Yukio became prime minister with the intention of improving the relationship with China and strongly advocating the concept of an East Asian Community. Unfortunately, his policy of moving a U.S. military base in Okinawa infuriated the United States, and he soon lost his job. Of course, his inclination to China and Asia also worried the United States.⁶ Thereafter, no Japanese prime minister would dare to mention the concept of an East Asian Community. In fact, the three leaders of East Asian integration—China, Japan, and ASEAN—from then have had their own approaches which are nonetheless not coinciding with each other.

The decision of Japan to join the TPP in November 2011, to some extent, stimulated progress toward a China-Japan-Korea FTA and investment treaty negotiation. The former was launched in November 2012, and the latter was concluded in May 2012. Moreover, RCEP talks, including all of ASEAN+6, kicked off in November 2012. All of these developments were largely in response to the aggressive expansion of TPP, especially Japan. However, this does not imply that East Asian countries have made a determination to seek further unification, but it reflects the internal competition and differences over the direction of East Asian economic integration. While TPP was concluded in October 2015, RCEP missed the deadline again at the end of 2015. The inclusion of India complicates the negotiations further since the Sino-Japan relationship already complicates the talks enough.

Up to now, there have been dozens of regional initiatives with different coverage within and extending beyond East Asia (Table 1). They are mostly overlapping or even competing with each other. None of them have been recognized as the best platform. The vision of an East Asian Community is even further from realization, indicating that it might have been too visionary at the very beginning when it was brought up in the late 1990s. At that time, the birth of the EU was hailed as an unprecedented experiment of regional integration in human history, setting an example of peacemaking among longtime rivalries and of economic unification in a region. This was envied by many leaders in East Asia as well as all the world. The success of NAFTA was also a strong stimulus. Besides, the Asian financial crisis highlighted the necessity of helping each other among regional neighbors. Nevertheless, the situation in East Asia is quite different, particularly in terms of leadership. While European integration largely depends on the Germany-France axis, which successfully designed the whole architecture at the outset, East Asian integration has been steered by ASEAN, which is itself a loose small-country group. The two major powers in the area, Japan and China, have no clear consensus on their bilateral relationship, let alone regional structuring. As a result, the approaches to regional integration are either bilateral agreements or non-binding, open to everyone. Countries have just been doing what is convenient or easier for them. The sense of crisis after the Asian financial crisis eventually faded in East Asia, unlike Europe, which had been under the imminent threat of the Soviet Union for decades. Finally, although there have been a lot of wars and conflicts in Europe as in East Asia, the cultural and blood connections among European countries have been much closer than those in East Asia, resulting in a stronger identity as a European community.

Table 1. Regional Regimes in East Asia

Pan-regional	the ASEAN Regional Forum (ARF), the Council on Security Cooperation in the Asia-Pacific Region (CSCAP), the Asia Pacific Economic Cooperation (APEC), the Conference on Interaction and Confidence-Building Measures in Asia (CICA), the Northeast Asia Cooperation Dialogue (NEACD), the Shangri-La Dialogue, the Six-Party Talks, Transpacific Partnership (TPP), etc.
Trans-regional	the Asia Europe Meeting (ASEM), the Shanghai Cooperation Organization (SCO), etc.
Sub-regional	the China-Japan-ROK Summit, CJK FTA, etc.
Regional	the ASEAN, the ASEAN Plus Three (APT) ("10+3"), the East Asia Summit (EAS) ("10+6"), Regional Comprehensive Economic Partnership (RCEP, 10+6)

Source: based on Pan Zhongqi (2008), "Dilemmas of Regionalism in East Asia," *Korea Review of International Studies*.

The role of the United States in East Asian integration is also complicated, and mostly interfering. At first, European integration also worried the United States with its fear of exclusion and discrimination. But the existence of a common enemy, the Soviet Union, made the U.S. tolerant of this. At the same time, the trade negotiation rounds and membership expansion of the GATT could help alleviate trade diversion of European integration. Also, in comparison to Japan, the European countries are less dependent on the United States, daring to insist on their own vision of a Europeans' Europe as President de Gaulle stated. Maybe more importantly, a potential leader of the East Asian Community in China is a complicated presence to the United States. The mutual mistrust and interdependence between the two countries result in a volatile relationship. The United States would never accept an East Asian Community led by China and excluding the United States, which is obviously not an East Asian country. It sees the best approach as introducing the concept of Asia-Pacific and inserting itself along with its allies in the Western Hemisphere into it. Japan as a U.S. ally also has been assisting this effort. That is the main reason why so many pan-regional initiatives including non-Asian countries have emerged. The United States could tolerate a non-American EU but not a non-American East Asian Community.

In sum, there is neither necessity nor feasibility to form a unified and institutionalized East Asian Community from both internal and external perspectives. East Asia has no inherent regional identity, no overwhelming regional hegemony, no imminent outside threat, but instead, persistent external penetration and involvement from the single superpower in the world. However, this does not mean that East Asian countries have no interest in further cooperation to reduce trade and investment barriers and other obstacles among them under some workable framework.

WHICH APPROACH TO INTEGRATION? A CHINESE PERSPECTIVE

East Asia in the Eyes of China

As the biggest country in Asia, and even in the world for centuries, China hardly had a sense of region. China considered itself the center of the world. Only after the western powers overwhelmingly defeated the Qing Dynasty and forced the country to open its gates and eyes

did the Chinese people begin to observe the world from the perspective of a country located in East Asia. In the first three decades of the PRC, the relationship between China and its East Asian neighbors had been difficult due to ideological differences. China developed a few alliances for a short period of time, but made more enemies for a longer time in the region. Closeness in distance by no means guaranteed close relations in these years.

However, the rapid development of former ideological opponents became a mirror for China to reflect on its own backwardness and seclusion. Deng Xiaoping's visits to Japan, Singapore, Thailand, and Malaysia a year after his return to the top leadership and a month before the 3rd plenum of the 11th Party Congress were considered a strong stimulus for him to make the decision to reform and open up the Chinese economy. These neighbors set a good example of economic development in front of China, which was eager to learn from and cooperate with them. China's openness was also a great opportunity for these countries, in particular the overseas Chinese community. In the early years of China's opening up, FDI from overseas Chinese in Hong Kong, Taiwan, and Southeast Asia accounted for the majority of inbound investments to China.

The relations between China and East Asian countries have grown closer over time. China joined APEC in 1991. China and South Korea established their diplomatic relationship in 1992. The first summit between China and ASEAN took place in 1997. During the 1997 financial crisis, China's refusal to devalue the RMB created a critical buffer for its neighbors, which, in return, were grateful for China's assistance. China's accession to the WTO once raised concerns in East Asian countries, especially in ASEAN, which were afraid of China's competition for foreign investments as well as exports to developed countries. However, ASEAN states warmly accepted Zhu Rongji's proposal for a China-ASEAN FTA and signed the agreement in 2002 with the aim to establish an FTA in 2010.

From the 1990s China re-emerged as a major power in the region; however, it is not the center of East Asia anymore and faces the incumbent powers of Japan and the United States. Although China is sincerely enthusiastic about the identity of East Asia—Southeast Asia plus Northeast Asia—it is not powerful enough to set up the regional architecture it prefers. More than that, relations with ASEAN and South Korea are complicated due to the South China Sea issue and the North Korean nuclear issue, respectively. All of these differences and issues are causing China to rethink its strategy for East Asian regional integration. With no pressing need to build up an East Asian Community, China has chosen to lower expectations and has turned to a more pragmatic approach.

Moreover, along with the rapid development of its power, China began to look beyond East Asia. China does not see itself as only a regional power, but also as a global actor. Beijing has been trying to establish more frameworks beyond East Asia with an aim to bypass the constraints of Japan and the United States. In 2000, China started the China-Africa Cooperation Forum, which held its 2015 summit in Africa. China took the lead to establish the Shanghai Cooperation Organization (SCO) in 2001 and assumed the 2014-2016 presidency of Conference on Interaction and Confidence-Building Measures in Asia (CICA), which was initiated by Kazakhstan. In 2014, the China-Latin America Forum was launched in Beijing. Most attention has been paid to the One Belt One Road Initiative, which was proposed by President Xi Jinping in 2013. Although the contents and intentions of such a wide-ranging and ambitious initiative have not been fully disclosed, it is obvious that East Asia is just a part of its peripheral diplomacy and global strategy.

Of course, East Asia is still very important for China in terms of trade and investment relations, but the main approach has shifted from regionalism to bilateralism since the latter is more feasible. While the CJK FTA has stalled, China signed its FTA with South Korea in 2015. China also finished an updated FTA with ASEAN and a long-overdue FTA with Australia in the same year, indicating that China is more pragmatic about regional integration in East Asia as well as the Asia Pacific. Since there is limited possibility to develop an institutionalized East Asian Community, the better choice would be to bring down actual trade and investment barriers through bilateral agreements, which are easier to make. However, China still has to face another challenge in dealing with the recently concluded TPP, which would possibly transform the whole picture of East Asian regional integration.

FTAAP, TPP or RCEP: How Should China Choose?

TPP has become the real focus in Chinese trade and diplomacy circles since President Obama announced the framework of a TPP agreement at the Honolulu APEC summit in November 2011. Although the U.S. government repeatedly denies the intention of containing China through TPP, both Chinese and American observers are quite sure that this is the intention. Jagdish Bhagwati, a leading trade economist, claims that “America’s design for Asian trade is inspired by the goal of containing China, and the TPP template effectively excludes it.” Therefore, “it is no surprise that the TPP template includes numerous agendas unrelated to trade, such as labor standards and restraints on the use of capital-account controls, many of which preclude China’s accession.”⁷ Jane Kelsey clearly points to “TPP as a lynchpin of the US anti-China strategy.”⁸ Peter Drysdale sees TPP as economic containment of China.⁹ Bergsten and Schott frankly say, “TPP would accomplish important security objectives,” which are to “ensure continued US economic and military engagement in the region as a balance against Chinese hegemony.”¹⁰ Elms argues, “it is a political statement about binding together different regions of the world. Member countries want to use TPP participation as a means of cementing their relationship to Asia.”¹¹

In short, TPP is partly designed as a U.S. wedge into East Asia, aiming to disintegrate the regional integration promoted by China in the past decade. It is surely a well-conceived and intelligent move of the United States. The Chinese government was unprepared and surprised at first, and they found that there is no way to counteract it since TPP has included Japan and some ASEAN countries which are supposed to be key partners in the East Asian Community. Actually, many Chinese specialists proposed that acceleration of the CJK FTA would be the best countermeasure. Zhao Jinping argued that China should accelerate its strategy of integrating East Asia in the form of “10+3,” “10+6,” and the CJK FTA, rather than struggling to fit into the rigorous, U.S.-style standards of the TPP.¹² Unfortunately, the development of the CJK FTA also depends on Japan, which is clearly on the side of the United States and whose relationship with China sunk to its lowest point due to a series of conflicts concerning the Diaoyu (Senkaku) Islands since 2010.

Another alternative is RCEP, through which ASEAN intends to merge five ASEAN+1 FTAs and maintain its centrality in East Asian regional integration. However, ASEAN is the hub, not the leader. The intra-regional trade share of ASEAN is only 24 percent.¹³ ASEAN itself has not integrated enough yet. The key players in RCEP are China, Japan, and India. RCEP is based on ASEAN+6 and is strongly advocated for by Japan. For China, it is not preferable but acceptable. But the participation of India, with its strong protectionist reputation, complicates the negotiations even further. While Japan has made great concessions in TPP

and wants higher market access commitments from both China and India, India is reluctant to do that partly due to the fear of Chinese competition. China also expects India to lower its trade barriers but is unwilling to meet such high requirements from Japan. Again, there is no way for China to bypass Japan in RCEP as in CJK FTA or ASEAN+3.

At the 2014 APEC summit, China took advantage of its presidency to propose the launch of FTAAP, which had actually originated from the United States in 2006. This is a smart tactical move, making China the promoter of Asia-Pacific economic integration. However, China did not deliver a pathway of FTAAP either through TPP or RCEP. Some specialists have suggested a hybrid approach to merge the two agreements.¹⁴ Even though this is workable, the more possible scenario would be TPP absorbing RCEP since the former has much wider and deeper disciplines on market access and domestic regulations. Of course, RCEP has its own attraction since China and India have large markets and relatively higher trade barriers, meaning that marginal liberalization benefits under RCEP will be greater. But the question is whether TPP members who have not joined RCEP will join it after its conclusion, such as the United States, Canada, Mexico, Peru, and Chile. There is also the case of whether RCEP members who have not joined TPP will join it later. Indonesia, South Korea, the Philippines, and Thailand are already performing due diligence on TPP to assess the potential benefits.¹⁵ In contrast, the North American countries would not apply to join RCEP. Peru and Chile already have FTAs with China without a need to do this. If only China and India are RCEP members who do not join TPP, how could one imagine that the FTAAP would follow the RCEP approach? In addition, India is not an APEC member, which leaves it ineligible for FTAAP membership.

In short, RCEP is worth trying for China simply because it has significant trade benefits. However, it is not a feasible approach for FTAAP. As long as TPP is ratified, no matter what will happen to RCEP, the pathway to FTAAP would be set. China does not have enough power to dominate or lead the regional economic integration in East Asia. Besides, China is not in a position to make new rules of further economic integration and liberalization since there are too many domestic restrictions and deficiencies in China's own economic and political systems.

For China, goodwill is not good enough. It must be pragmatic and realistic. The better way is not to pursue the ideal, institutionalized East Asia Community, but to work together with others to promote actual economic cooperation in various ways.¹⁶ China should invest less in trying to establish an East Asian Community, but allocate more resources to promoting unilateral liberalization under the APEC framework, encouraging more workable bilateral trade and investment arrangements and supporting the multilateral trading system. It is also not necessary for China to compete with TPP since most countries in the region are still more comfortable with U.S. leadership rather than anyone else's. In the end, China's economic development does not depend on its institutional arrangements with its East Asian neighbors but on its own economic and political reforms, which will, in turn, define the nature and future of its relationship with East Asia.

There are two kinds of integration: institutional and actual. The former is a means while the latter is the goal. In this sense, East Asia has been one of the most integrated areas in the world although there has been no region-wide formal institution as in Europe and North America. The effect of the institutional integration on the actual one tends to be overestimated. For

example, Korea and China had become among the most important economic partners for each other long before the China-Korea FTA was signed. For China, it is not necessary to envy U.S. leadership in institutional structuring, which is the result of comprehensive powers. The key target is to expand and increase its own powers, which will, in turn, enhance its leadership in the region as well as in the world.

East Asian Financial Cooperation: A More Pragmatic Process

In comparison to regional integration in the fields of trade and investment, the financial crisis of 1997-1998 provided even stronger impetus for East Asian financial cooperation. The sufferings of East Asian countries during the crisis created a strong will to establish a regional mechanism to help each other, reacting to the volatile exchange rate of the U.S. dollar. Japan proposed establishing the AMF in September 1997 at the meeting of the G7/IMF, which was really an improper time and place. Undoubtedly, this proposal was bitterly opposed by the United States and IMF, which were concerned about their own dominance in the region. Again, the United States would not tolerate East Asian cooperation without its involvement. However, the demand for regional financial cooperation in East Asia still existed and increased over time. In May 2000, the finance ministers of ASEAN+3 agreed to strengthen the existing cooperative framework in the region through the Chiang Mai Initiative (CMI). This time they kept a lower profile with a less headline-grabbing title but focused more on the substantive contents of cooperation. The cooperation program was designed to help solve problems with members rather than to set up an institution to either supplement or replace the incumbent international financial organizations. Significant progress has been made in implementing the CMI. The ASEAN Swap Arrangement (ASA), one of the main components of the CMI, increased to \$1 billion, effective November 17, 2000, and encompasses all ASEAN member countries.¹⁷ The IMF and the United States cautiously welcomed the CMI since it provided that the use of most swap currency is subject to the conditions set by the IMF and the foreign exchange reserve pool is largely denominated in the U.S. dollar. In the end, the CMI does not intend to exclude the influence of the United States and IMF.

However, the swap agreements under the CMI were not used due to a variety of reasons, one of which is no country was in need of financial aid until the global financial crisis. However, during the crisis in 2008 some member countries sought other sources of liquidity rather than activating CMI swaps, which highlighted the necessity of further regional cooperation. At the 12th financial ministerial of ASEAN+3 in May 2009, members agreed to transform the series of bilateral swaps into a centralized swap system, turning the CMI into the Chiang Mai Initiative Multilateralization (CMIM). Through this change, members also expanded the size of the foreign exchange reserve pool and reformed loan conditions. In May 2010, the 13th ministerial conference announced the establishment of the ASEAN +3 Macroeconomic Research Office which is mandated to conduct regional economic research and to provide decision-making support. The entirety of the reserve pool rose to \$240 billion in 2014. The development of the CMIM is reflective of the demand and willingness for regional financial cooperation among East Asian countries. While there is no visionary design of regional financial integration as in Europe, East Asian financial cooperation has been practical and gradually advancing.

The Asian Bond Market Initiative launched in 2002 has been another functional mechanism to reduce financial volatility. In promoting the issuance of local currency bonds, ASEAN+3

has encouraged its members to issue sovereign bonds to meet their financing needs for the restructuring of financial institutions and state-owned enterprises after the crisis and to establish a benchmark yield curve for the pricing of other fixed income instruments. This encouragement has paid off. Government debt markets in the region grew from just about \$710.8 billion in 2002 to nearly \$3.77 trillion by the end of 2011. As a share of GDP, outstanding local currency government bonds have grown significantly across the region, except in the Philippines and Indonesia, where the governments have taken steps to contain fiscal deficits.¹⁸

China's Role in East Asian Financial Cooperation

During the Asian financial crisis, China had no say in the international financial system yet. Japan dominated early East Asian financial cooperation in the aftermath of the crisis. But the rapid growth of China's economy and trade after its accession to the WTO increased its financial status quickly. By the end of February 2006, China's foreign exchange reserve had already exceeded that of Japan, taking first place in the world. As a result, China's role in East Asian financial cooperation has also been elevated. Under the CMIM, China's share (including Hong Kong) is equal to that of Japan at 32 percent.

China's international financial strategy is not limited to the regional sphere. The 2008 global financial crisis greatly debased the United States in the eyes of Chinese policymakers. Zhou Xiaochuan, governor of the PBOC, publicly called for reform of the existing U.S.-led international financial system and proposed strengthening the role of SDR.¹⁹ Since 2009, the internationalization of the RMB became a policy goal of the Chinese government. The use of RMB in cross-border trade has risen from 3.6 billion in 2009 to 7.2 trillion in 2015. China also has signed local currency swap agreements with over 30 economies. More significantly, the IMF included the RMB in the SDR basket in December 2015. For the purpose of the internationalization of the RMB, China has not put disproportionate emphasis on East Asia. Only five of the 33 countries with swap arrangements and only four countries of the biggest 14 economies in RMB cross-border use are from East Asia.²⁰ China is intending to internationalize rather than regionalize its currency.

Another big effort by China to reform the existing international financial system is the establishment of the Asian Infrastructure Investment Bank (AIIB) in 2015. The bank is supposed to focus on helping develop infrastructure development in Asian developing countries, but its membership is open to the whole world. The participation of Western European countries such as Britain, France, and Germany is quite dramatic. China has no intention of exercising its veto power in the bank. In addition, the AIIB has committed to draw on the experience of established banks and set up a three-tier structure including a council, a board of directors, and management, promising a supervising mechanism to ensure sufficient, open, and transparent policy-making. In sum, China is not trying to establish a closed Asian or Chinese organization but an open international organization complementing the current system. Unlike Japan, which once proposed the idea of an Asian Currency Unit, China has never mentioned this kind of proposal.

China is enthusiastic to push forward regional financial cooperation in East Asia, as its contribution to CMIM and AIIB has clearly proven. But in comparison to regional trade and investment liberalization, China has requested less in regional financial cooperation. It has wider global interests in the financial field as well as larger influence thanks to its huge scale and the existing poorer international financial system.

CONCLUSION

East Asia has been the fastest growing region in the world for the last decades thanks to its openness and market economies, which, in turn, makes for natural trading partners with close economic connections. Multi-track regional arrangements have contributed to the development of regional economic interactions. However, East Asia does not have the foundation for a unified and institutionalized community as Europe had, due to a variety of reasons, in particular the trilateral competition among China, the United States, and Japan. As the biggest country in the region, China has yet to be the most powerful and trusted one. TPP is more popular in comparison with RCEP, which in fact was not originally preferred by China. If TPP is successfully ratified, RCEP would be even less attractive given its lower ambition, not to mention the inclusion of India and Japan complicating negotiations. The Belt and Road Initiative strongly promoted by China looks beyond East Asia as well, with the intention being more to link China to individual states than unifying them together.

Therefore, the better and more feasible approach of East Asian integration might be open regionalism without exclusion of outside powers and soft regionalism without institutionalized architecture. In terms of regional financial cooperation, China would be a generous contributor. However, its interests extend well beyond regional borders. There is no desire or need for China to form a closed regional financial system.

ENDNOTES

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