Asian Regionalism as a Product of Power Dynamics

An Interview with Michael Green

In the last several decades, Asia-Pacific nations have turned to multilateralism and the formation of regional organizations to facilitate cooperation and to debate the region’s economic and political future. The Journal sat down with Michael Green of Georgetown University and the Center for Strategic and International Studies to discuss major trends in institution-building in Asia. Dr. Green shared his insights on the underlying power dynamics that motivate nations’ participation in these organizations as well as the ways in which the United States can continue to shape the regional architecture.

Journal: Regional institutions have become an important tool of diplomacy in the twenty-first century. In your opinion, what are some major obstacles to effective institution-building in Asia? Of the institutions that currently exist in Asia, which do you see as having the most potential to overcome these obstacles and why?

Green: The biggest obstacle to institution-building in Asia is the different political systems in the region. Scholars often point to Europe as the model of effective multilateralism. However, Europe is a continent of democracies from Portugal to Poland, whereas Asia has regime types that vary from robust democracies in Japan and Australia to more authoritarian regimes like China and dictatorships like North Korea. That is the biggest obstacle.

The second obstacle is that Asia does not have a clear unifying theme like Europe does. Europe was exhausted after two World Wars. European countries recognized that their national survival depended on a cooperative approach, which started with the European Coal and Steel Community to ensure that there would be economic interdependence. And, of course, Europe has a long history of unity under Roman, Christian,
and other frameworks, whereas Asia has no common identity beyond the Confucian traditions of the Sino-centric era. Today, most of the Asian states do not want to be unified under China. Moreover, the region also has very powerful players like the United States who are residents in Asia. When planning for the East Asia Summit began, the organizers struggled to find some common theme. They chose Buddhism, but even Buddhism was not a perfect fit.

In more concrete terms, while there is a high level of economic interdependence within Asia, financial flows in and out of Asia are far higher than investment flows within Asia. Similarly, Foreign Direct Investment (FDI) in and out of Asia is far higher than FDI within Asia. These statistics demonstrate that, even as an economic entity, Asia is much more complicated and diverse than Europe, and lacks Europe’s single unifying theme. Additionally, even Europe is facing difficulties in maintaining the initially espoused visions for a common European identity and political entity.

Journal: Both the United States and China demonstrated a willingness to use institutions as a platform for cooperation by signing the recent climate deal at the Asia-Pacific Economic Cooperation summit. Yet, the two nations’ visions for regional architecture in Asia often appear divergent. How do the United States and China differ in their assessments of the usefulness of regional institutions in Asia?

Green: When it comes to institution-building, one thing that the United States and China have in common as big powers is that they do not like to tie themselves down to small powers. For example, during the Cold War and the early post–Cold War years, the United States was very hesitant to embrace proposals for multilateralism in Asia that might somehow weaken U.S. bilateral alliances. Eventually, when Clinton embraced the Asia-Pacific Economic Community (APEC) as a summit, the United States began to shift its position. Specifically, the United States began to actively support multilateralism that was transpacific—that bonded East Asia to North America and, eventually, to the global trading and financial system. The United States is still very hesitant about institutions that are exclusively East Asian, for these institutions might water down the norms and the rules that the United States and other leading economies and democracies need in order to make the overall system function.

China was also very hesitant to embrace multilateralism. During the Cold War, China tried to co-opt the Bandung Conference, which was the North-South, third-world alternative to the United States and the Soviets. Since the Chinese were so big, the members of Bandung were hesitant to have China play a leading role. China was very happy to join APEC in the context of its initiation into the World Trade Organization (WTO) and economic reforms. In general, however, it has preferred lip service to multilateralism, especially on the security side. For example, within the ASEAN Regional Forum (ARF) or the East Asia Summit (EAS), which are multilateral forums centered on ASEAN, China has preferred not to give any credence to or even table issues relating to territorial or maritime disputes. Interestingly, the United States, which was somewhat hesitant about ARF at first due to concerns that it might water down bilateral alliances, is now becoming more enthusiastic about tabling security issues.
Discussing these problems with ARF helps to shore up ASEAN solidarity to put more pressure on China to behave.

Thus, the United States and China are both big powers, and thus look at multilateral institutions in ways that will advantage their national interests. Both countries’ views are emerging and evolving, and the subtext, of course, is the power competition and the rules. Who will write the rules? China prefers opportunities that advance an “East Asia only” definition of norms and rules, while the United States prefers opportunities that advance transpacific or global rules and norms. We both tend to position ourselves accordingly. On the whole, in APEC, the Six Party Talks, and other multilateral institutions, the United States and China cooperate reasonably well compared to their overall bilateral relationship, where the two nations have so many tensions. A large part of that is because both the United States and China want to look good in front of the ASEAN states. There is a competition for position and influence in which either China or the United States will pay a cost for engaging in behavior that is unilateralist or difficult. The United States paid that cost in the late 1990s when, after the financial crisis in Asia, we pressed hard for very tough International Monetary Fund (IMF) standards of conditionality in exchange for loans. China is now paying that price because of its aggressive posture on maritime disputes in the South China Sea. When one of the big powers (China or the United States) frightens the smaller powers in ASEAN, the ASEAN nations tend to align somewhat more with the other big power. This dynamic tends to moderate China’s behavior and, to some extent, the United States’s behavior. For that reason, the United States and China tend to work much better in multilateral forums than they do on purely bilateral issues, such cyber or trade.

Journal: The United States’s response to newly emerging alternative institutions in Asia is likely to affect how the United States is perceived in the region. In your assessment, what are the United States’s options at this stage and which options would best serve U.S. interests? For example, what role could the United States play in shaping these institutions?

Green: At the Center for Strategic and International Studies, I ran a series of surveys of elites’ perspectives in Asia, including their views on the future of regional order and institutions in Asia. In general, while there are diverse views, the trajectory of the region is towards accepting an open transpacific order—and not a closed Sino-centric one. In Washington, people sometimes get a little too panicked about new institutions and think that they might threaten the United States. Even the president’s pitch for the Trans-Pacific Partnership (TPP), which I strongly support, has been premised on the idea that in the absence of TPP some kind of Sino-centric institution will emerge. I think that is a bit of an exaggeration. The United States’s preference, as I said, is for institutions that are transpacific, that are not “East Asia only,” and that reinforce the global rules and norms that we are trying to advance through the Bretton Woods system.

Therefore, we tend to be opposed to or hesitant about institutions that threaten to undercut this system. Every new proposal is viewed in that light. APEC obviously moves
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us closer to transpacific and global norms, although it is not a binding institution. APEC is not a free trade agreement, but rather a forum in which views are exchanged. This regular exchange of views is supposed to facilitate trade, but APEC is not a trade liberalizing or rule-making institution per se. The TPP would be a more obviously trade-liberalizing and rule-making effort. The reduced barriers to trade and investment would create hundreds of billions of dollars of wealth. Ultimately, it would—if it is completed and ratified by the Senate—position the United States and Japan as well as other partners to begin negotiations with China and other countries in the region on reforming their economies and improving their transparency and rule of law so that they are eventually able to join this framework. According to the APEC members, the TPP is a building block towards a Free Trade Area of the Asia-Pacific (FTAAP), which could include all of the APEC members and, in time, China as well. In addition to APEC, the TPP is very critical because it binds all the key economies in a transpacific and global order. Eventually, it could be linked to the Transatlantic Trade and Investment Partnership (TTIP) with the Europeans, and it could recharge global trade liberalization in the Doha Round. In effect, the TPP positions us to have the coolest house party in town. The Chinese and others are going to want to be part of that in order to grow and reform their economies. Thus, the TPP also positions us to have a win-win discussion with China that is based on economic interdependence as opposed to the zero-sum competition towards which we currently seem to be heading.

On the security side, the ARF was started after the Cold War as a form that would allow ASEAN to leverage its increasing cooperation to influence bigger powers and reduce tension among all the powers. However, the ARF is based on the so-called “ASEAN Way,” which is to say nobody has to try very hard because the “ASEAN Way” is based on consensus. For this reason, the United States for a long time viewed the ARF as a necessary but pointless exercise. That is changing. With China’s aggressive stance on the South China Sea, the United States now views the ARF as an important forum to deal with norms of non-coercion in Asia and to get some purchase on the China problem. When I was in the White House in 2004 and 2005, China was not acting the way it is acting now in the South China Sea. In that context, the ARF was seen as less important. In fact, Secretaries of State Condoleezza Rice and Madeleine Albright often skipped them. That is not an option anymore. The ARF has become an important arena for debating the rules of the road. It is not clear that anything will be resolved, but it is part of the shaping strategy that the United States must adopt to try and encourage better Chinese behavior.

On the economic side, and despite the general affinity for a transpacific orientation that I mentioned earlier, there are economic institutions that are not transpacific per se. These are not necessarily premised on the Bretton Woods system, and they create a real conundrum for the United States. We have had them throughout our recent history. The Japanese proposed an Asian Monetary Fund after the 1997-1998 financial crisis that the Clinton administration largely stamped own because it was seen as a challenge to the Bretton Woods system. Then-Malaysian Prime Minister Mahathir bin Mohamad proposed the East Asian Economic Caucus in the early 1990s. In general, we have not been kind to these organizations. But we have to think
about the fact that East Asians, like the Europeans and North Americans, are going to keep pushing for economic institutions or groupings that are their own, and that give them the kind of leverage vis-à-vis North America and Europe that we get from the North American Free Trade Agreement (NAFTA) and that the Europeans get from the European Union (EU). In other words, these organizations are not going to go away and the United States has to think about how it is going to position itself.

As one example, some in the United States have viewed the Regional Comprehensive Economic Partnership (RCEP) as threatening. Most economists believe that RCEP alone would be a problem because tariffs will be low and we will not be in it. However, if both the TPP and RCEP go into effect, it could be a real boon for the United States in that it would create even more competition to lower tariffs. The TPP would give leverage to developed countries who are party to RCEP, like Australia or Japan, to push for higher standards. Finally and more broadly, it would create more momentum for liberalization. Since economic models show that the TPP plus RCEP is a big boon, the United States’s ability to coopt and shape these agreements will have big economic advantages for the United States. And it allows the United States to indirectly (through states like Japan and Australia) shape the economic policies of countries that are not in the TPP.

The other major institution that is not transpacific is the Asian Infrastructure Investment Bank (AIIB). The Chinese have a current account surplus. They need to recycle their money from these large trade surpluses. The Chinese are going to spend this money anyway, just as the Japanese spent money on official development assistance (ODA) in the 1980s. Therefore, the question becomes, how can we shape it? Some critics say the administration should have said we were going to join the AIIB, but that is just plain ignorant. There is no way the administration can join the AIIB. In order to be a member you have to contribute money, and the U.S. Congress will not fund it. Given this, how can the United States shape the AIIB without actually being one of the founding contributors?

Here I think the administration did make a tactical mistake. The Department of the Treasury became adamantly opposed to the AIIB and tried to press other countries not to join. They should have recognized several problems with that approach: first, that the developing countries, even nations like Vietnam who do not trust China, are going to join because they want the money; and second, that countries like Korea or Australia were going to be under huge pressure from their companies to join. Many of our partners joined, and the World Bank and the Asian Development Bank both endorsed it. Since the administration took this approach, the United States got out of step with some of its closest friends. What the United States should have done is raised a very high bar—and a very skeptical bar. Coordinating with countries like Australia, Korea, and Japan, we should have said that while we do not oppose anyone joining the AIIB, there are standards that we expect for anybody who gives money.

In this way, we could have tried to align the advanced Organization for Economic Cooperation and Development (OECD) countries and the donor countries to the AIIB
around a set of common standards. This approach would have sent a very clear message that numerous countries were in solidarity on what the rules should be. We kind of lost control of that because we opposed countries signing on in the first place. We made a tactical mistake, and it has been embarrassing—especially when Britain joined. That was really bad because the United States was caught completely off guard by the British joining. Although it made us look weak and the Chinese are now feeling triumphant, it is not a real strategic setback. I think the Chinese are going to find that this bank is a really hard thing to run. And countries that do join, like Korea, Australia, and Britain, are going to be appalled at how poor the transparency and governance is.

Journal: As you mentioned, several U.S. allies, including the United Kingdom, South Korea, Germany, and Australia, have all joined the AIIB. Japan, however, has opted to stand with the United States in opposition of this China-led institution. In your assessment, why has Japan refrained from joining the AIIB? Is Japan likely to reverse its position?

Green: Japan views a lot of these issues through the competitive lens of Japan-China relations. Japan saw the AIIB proposal as an attempt to stake out a Chinese bank that could undercut the Asian Development Bank, and they are right. The Japanese have more experience with development assistance in China than anyone else. They know full well the level of corruption within the Chinese system, and the high likelihood of non-transparency. Furthermore, they have predicted—and are probably right—that the first few big deals in the AIIB will go to Chinese state-owned enterprises (SOEs) in a non-transparent way. Japan was also particularly hesitant because it is the co-partner with the United States in leading the Asian Development Bank.

That said, there is currently a debate in Japan, like there is everywhere, and I think their position is shifting. When Great Britain, Australia, and Korea all started to join, Japan’s position became somewhat untenable. They are now reconsidering, and the Liberal Democratic Party (LDP) has set up a committee to look at the issue again. I think it would be fine for the United States if Japan joined. In my view, the United States does not have to be in every institution. We can shape these institutions if our likeminded allies and partners join them and we coordinate with them as well as continue to push the more important institutions like the TPP. In fact, I think Japan may well join the AIIB. That is probably good for the United States because Japan’s accession would mean another big financial player would join the organization, and that big player will be harder for the Chinese to ignore.

Journal: Discussions of alternative institutions in Asia have generally focused on China. Yet, India has also been playing a major role in alternative institution-building, such as in the BRICS. Where does India fit into all of this, and how can Washington further engage with New Delhi?

Green: India is going to be increasingly important for the balance of power and influence in Asia. Prime Minister Shinzo Abe of Japan is wise to develop such close ties with Prime Minister Narendra Modi of India, and this development will help us to
establish a more favorable strategic equilibrium in the region. However, when it comes to multilateralism or institution-building, India is often on the side opposite from countries like the United States and Japan. India is a very large developing country with residual nonalignment sentiments. Moreover, it has a very limited capacity to shape institutions because its foreign ministry is so small and its domestic politics so contentious. India being in the East Asia Summit is a welcome step. India developing closer ties with Japan and Australia, and promising (as Prime Minister Modi did to President Barack Obama) to cooperate on security in the South China Sea—these are all positive developments. Even so, we should be a little more cautious in thinking that India is going to step into APEC and begin acting like Japan, or join the TPP and somehow start acting like Korea. India has been one of the biggest obstacles in the Doha Round regarding both trade liberalization and on climate change. I am very pro-India. When I was in the Bush administration, I was in charge of South Asia at the National Security Council, including India, and I worked very hard for the transformation of our relationship. But when it comes to multilateral institutions, I think we will find India is not quite where we would want the nation to be, and that it will take some time.

When it comes to the BRICS, India did help set up the proposal for the BRICS bank. I am doubtful that the Indians, Chinese, Russians, Brazilians, and South Africans are actually going to cooperate as advertised. For one thing, under the surface there is some severe strategic rivalry between India and China. For another thing, these countries are all competing against each other for foreign direct investment and as natural resource exporters or importers. They are not naturally aligned. In addition, although they are bonded by a kind of historical resentment of the West, their political systems are pretty different. I think we will find that the BRICS bank has more bark than bite.

Journal: Looking towards the future, how should we expect to see institutions in Asia evolve, and what factors do you think will shape these institutions' development?

Green: All of these multilateral institution-building efforts reflect underlying power realities. As long as rivalry, hedging, and uncertainty characterizes Asia, then a diverse and fluid institution-building process will persist. In an uncertain environment, countries are going to position themselves to have as much influence as possible. In some cases, a country like India may emphasize its democracy and its concern over China, which will lead the nation to cooperate with the United States and Japan. In other cases, India will emphasize its perspective as a part of the developing world. Australia at times will emphasize democratic values and its alliance with the United States, but at other times Australia will try to distinguish itself as an Asian country. Thus, because of the rivalry and the uncertainty regarding the region's future, all of these countries are going to position themselves to develop new forums, to compete with each other, and to try to gain a strong position through multilateralism. However, none of them—not even China—is going to try to undercut the United States as the ultimate security guarantor. Not yet. China is challenging the United States to some extent, but not like the Soviet Union did during the Cold War or Japan did in the 1930s. Too many countries have too much of a stake in economic growth. They do not want to slip into
a dangerous competition that will sap that economic advancement, but they are still hedging and positioning.

Liberal institutionalists keep calling for a rational organization of institutions in Asia that looks more like the EU. It is not going to happen. There is too much uncertainty. Asia’s institutions are as much about power, rivalry, influence and hedging, as they are about finding some common vision of the future of Asia. That said, the United States should be playing a very active role in this game. We have to position ourselves like the others, of course. But we may also be able to leverage this competition into a system of rules, norms, and institutions that align the region with the transpacific and global architecture for which we have advocated.

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Michael Green was interviewed by Lara Crouch and Alex Rued on April 13, 2015.