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State, Society and International Relations in Asia

Reality and Challenges

Edited by M. Parvizi Amineh

Amsterdam University Press
To Irène Celia Azita
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M. Parvizi Amineh
Amsterdam, August 2009
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ABIM Angkatan Belia Islam Malaysia (Islamic Youth Movement Malaysia)
AFTA ASEAN Free Trade Area
AGE Applied General Equilibrium
APEC Asia-Pacific Economic Cooperation
ASDT Associação Social Democrata Timorense
ASEAN Association of Southeast Asian Nations
ASEAN+3 ASEAN members, China, Japan and South Korea
CBM Confidence Building Measure
CER Closer Economic Relations (agreement between Australia and New Zealand)
CIS Commonwealth of Independent States
CLMV Cambodia, Laos, Myanmar and Vietnam (joined ASEAN in 1990s)
CNC Council of National Coordinators
CNE Comissão Nacional de Eleições (Timor)
CNRT Congresso Nacional de Reconstrução de Timor Leste
CP China Post (zhongguo shibao)
CTSO Collective Security Organisation
DPP Democratic Progressive Party
ECT Electoral Certification Team (UN)
EFTA European Free Trade Association
EMEAP Executives’ Meeting of East Asia and Pacific central banks
EPC European Policy Centre
EU European Union
EV Equivalent variation
EVSL Early Voluntary Sectoral Liberalisation Initiative (of APEC)
FDI Foreign Direct Investment
FREITILIN Frente Revolucionária do Timor Leste Independente
FTA Free Trade Agreement
GDP Gross Domestic Product
GMD Guomindang
GNR Portuguese National Republican Guard
GTAP Global Trade Analysis Project
<table>
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<th>Full Form</th>
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<tr>
<td>GWTO</td>
<td>Global War on Terror</td>
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<tr>
<td>HGC</td>
<td>Heads of Government Council</td>
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<tr>
<td>HSC</td>
<td>Heads of State Council</td>
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<tr>
<td>IDPs</td>
<td>Internally Displaced Persons</td>
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<tr>
<td>IKIM</td>
<td>Institut Kefahaman Islam Malaysia (Institute of Islamic Understanding Malaysia)</td>
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<td>JAKIM</td>
<td>Jabatan Kemajuan Islam Malaysia (Department of Islamic Development Malaysia)</td>
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<td>JIM</td>
<td>Jamaah Islah Malaysia (Malaysian Islamic Reform Society)</td>
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<td>KOTA</td>
<td>Klibur Oan Timor Assuwan</td>
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<td>Latinam</td>
<td>Latin America</td>
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<td>Lusa</td>
<td>Portuguese News Agency</td>
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<td>MFN</td>
<td>Most Favoured Nation</td>
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<td>MP</td>
<td>Member of Parliament</td>
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<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<td>Nam</td>
<td>North America</td>
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<td>NIES</td>
<td>Newly Industrializing Economies</td>
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<td>ODA</td>
<td>Other Developing Countries of Asia</td>
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<td>ODA</td>
<td>Official Development Aid</td>
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<td>PAS</td>
<td>Parti Islam SeMalaysia (The Islamic Party of Malaysia)</td>
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<tr>
<td>PD</td>
<td>Partido Democrático</td>
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<td>PDC</td>
<td>Partido Democrista Cristão</td>
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<td>PDRT</td>
<td>Partido Demokrática Republika de Timor</td>
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<tr>
<td>PECC</td>
<td>Pacific Economic Cooperation Council</td>
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<td>PKMM</td>
<td>Partai Kebangsaan Melayu Se-Malaya (Pan-Malaya Malay National Party)</td>
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<td>PMD</td>
<td>Partido Milenium Demokratiku</td>
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<td>PMIP</td>
<td>Pan Malay Islamic Party</td>
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<td>PNT</td>
<td>Partido Nacionalista Timorense</td>
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<td>PPT</td>
<td>Partido do Povo de Timor</td>
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<td>PR</td>
<td>Partido Republicano</td>
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<td>PSD</td>
<td>Partido Social Democrata</td>
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<td>PST</td>
<td>Partido Socialista de Timor</td>
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<td>PUM</td>
<td>Persatuan Ulama Malaysia (Ulama Association Malaysia)</td>
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<td>PUN</td>
<td>Partido de Unidade Nacional</td>
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<tr>
<td>RATS</td>
<td>Regional Anti-Terrorism Structure</td>
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<tr>
<td>ROW</td>
<td>Rest of the World</td>
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<tr>
<td>RTA</td>
<td>Regional Trading Arrangement</td>
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<td>RTP</td>
<td>Portuguese Broadcasting Corporation</td>
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<tr>
<td>SAFTA</td>
<td>South Asian Free Trade Area</td>
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<td>SCO</td>
<td>Shanghai Cooperation Organisation</td>
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<td>SSR</td>
<td>Self-Sufficiency Ratio</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>STAE</td>
<td>Secretariado Técnico para os Assuntos Eleitorais (Timor Leste)</td>
</tr>
<tr>
<td>STAPE</td>
<td>Secretariado Técnico para os Assuntos do Processo Eleitoral (Portugal)</td>
</tr>
<tr>
<td>Tot</td>
<td>Terms of Trade</td>
</tr>
<tr>
<td>UDN</td>
<td>United Daily News (lianhebao)</td>
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<td>UDT</td>
<td>União Democrática Timorense</td>
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<tr>
<td>UMNO</td>
<td>United Malays National Organisation</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNDERTIM</td>
<td>Unidade Nacional Democrática da Resistência Timorense</td>
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<tr>
<td>UNMIT</td>
<td>United Nations Integrated Mission in Timor Leste</td>
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<td>UNPOL</td>
<td>United Nations Police Force</td>
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<tr>
<td>WMD</td>
<td>Weapons of Mass Destruction</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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<td>YADIM</td>
<td>Yayasan Dakwah Islamiah Malaysia (Islamic Da’wah Foundation Malaysia)</td>
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<td>YZZK</td>
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Introduction

M. Parvizi Amineh

This anthology brings together a series of research papers on how state and societal actors in selected Asian countries cope with external and domestic pressures to close the productivity – wealth – power gap with the high-income countries. The global context for these efforts is created by the waning of American power, and the rise of China, worldwide and even more so in Asia. The general objective of the work is to contribute to a better understanding of how local forces respond to the challenges of catch-up development, both on the domestic and global levels. The time period covered spans the colonial and post-colonial eras. The general objective has been pursued in a series of case studies of Asian countries with different historical legacies, domestic institutions and foreign policy orientations. All these countries share the objective of catch-up development, but differ in state and societal responses to the challenge of how to join the industrial division of labour from a lagging position. The contributions to this volume show how these differences affect the degree to which societies and their leaders have successfully achieved the objective of closing the power-wealth gap with countries which industrialised in the course of the nineteenth century.

The book consists of 12 chapters. Following this introduction, in Chapter 1 Xiaoming Huang compares nation-state building in Japan, China and Korea and its impact on religion, family and the organisation of military power. He argues that in these countries, modernizing elites, responding to external pressure, removed intermediary power holders between state organisations and society from their position, putting state-agents in their place. The objective is to get direct access to individual households, to mobilise their labour power and religious convictions and ally these with the state as an industrial and military workforce. State creates new intermediaries between state organisation and local society. In this transition phase, these people straddle two worlds at the same time, acting under cross pressures of being a member of a local community, and at the same time operating in the capacity of civil servant.

In Chapter 2, Kurt W. Radtke explores the rise of modern nationalism in China and Japan. Chinese nationalism emerged at the time of the so-called Boxer Rebellion. It was a country’s response to the humi-
liation of being overrun and being looted. Japanese nationalism is a state-driven reaction to industrial success and mobilised for external aggression. Radtke finds that China’s and Japan’s nationalisms differ from Western nationalism in their distinctive causes, dynamics, and outcomes.

Like China, Vietnam has suffered from aggression by industrialised powers. The catch-up mission is, as in China, to regain national independence and dignity by making state and society strong. The means to achieve that end took a new tack beginning in 1986. In that year, Đổi mới (renovation) became the catchword for reform. In Chapter 3 Thomas Jandl examines the effects of international trade expansion in Vietnam, and what he calls ‘economic federalism’. While it is generally believed that to attract foreign investment, a state has to radically reduce social welfare provisions, in Vietnam this does not seem to be the case.

Yuki Shiozaki in Chapter 4 explores the relations between the state and the Islamic religious authority (ulama) in twentieth-century Malaysia. The ulama used to have a decisive influence on the Islamic discourse in parliament. Islamic activities have now been placed under the control of the modern government. As a largely Muslim society, Malaysia should be noted as a success story in state-building and industrial development. In this middle-income country, religious institutions seem to have returned to society as a political cultural force in a state whose calling is catch-up development.

Chapter 5, written by Rui Graça Feijó, studies the first nationwide elections in 2007 in the newly created state of East Timor in 2002. Feijó sees the results of these elections as the new framework for settling electoral disputes. He presents the elections tracing their historical emergence and assesses their conformity with the constitutional provisions.

In Chapter 6, Moisés Silva Fernandes argues that the ongoing crisis in East Timor is the result of both domestic and international factors. On the domestic level, the struggle for power among the main political decisionmakers has not [yet] resulted in the creation of a coalition capable of ruling on behalf of society. Socio-economic factors, such as poverty and the state-church relations, are the flip side of the inability of political actors to find a broad basis of support in society. At the international level, the roles of Australia, Portugal, and the United Nations are considered.

Christian Schafferer in chapter 7 analyses the discourse among intellectuals on the development of populism in post-Cold War Taiwan. Populist politics have until now not been observed and studied in East Asia as much as in Europe. Taiwan has been very successful in developing and applying advanced technology. This political community, without legally recognised statehood, experienced a severe bout of populist
politics after the (Nationalist Party) KMT lost the election in 2000 to its rival, the Democratic Progressive Party. In Europe, populist politicians turned against the European integration project, while societies became ever more dependent on its success. In Taiwan, President Chen Shui-bian mobilised the force of populism for his project of gaining independent statehood, while his country’s economic development became ever more dependent on mainland China.

In Chapter 8, Bahadir Pehlivan Türk examines from a structural perspective business networks of overseas Chinese. The success of small businesses among overseas Chinese is largely the result of their closed networks, which benefit them in social and economic environments.

Thomas Wilkins gives an analysis of the rise and activities of the Shanghai Cooperation Organisation (SCO) in Chapter 9. According to the author, the SCO, founded in 1996/2001, has the potential to have a significant impact on re-shaping the security order of the Asia-Pacific region. It was established as an extension of the Sino-Russian Strategic Partnership, but with multilateral characteristics. This is what distinguishes it from other forms of inter-state cooperation. The SCO is not a military or regional security alliance but rather a ‘strategic partnership network’. The chapter develops a new conceptual framework based on theories of organisation to explain the emergence, implementation and development of the SCO. It is concluded that so far both Western academics and policymakers have misunderstood the nature of the SCO as an effective and relatively cohesive security organisation.

In Chapter 10, Richard Pomfret analyses regionalisms in Asia. In contrast to other regions in the world, where regional trade arrangements started in the 1960s, in East Asia they only proliferated from 2000 on. There seems to be a competition in Asian regionalism between the two main powers: China and Japan.

Chapter 11, by Sadequl Islam, looks at the effects of the China-ASEAN free trade agreement on textiles and clothing sectors in China and the ASEAN countries. Singapore, China, Malaysia, Vietnam and Thailand will be the main beneficiaries of the agreement, while China’s textile sector will also improve, at the expense of the Newly Industrializing Economies, Japan, the Philippines and Vietnam. Still, the agreement will also have a negative impact on China’s clothing sector.

Amineh and Houweling in Chapter 12 discuss both the national and global impacts of Chinese industrialisation. Using the conceptual apparatus of critical geopolitics, the chapter studies the succession of geopolitical orders in the era of sequential industrialisation, more particularly the impact of a rising China on the post-Cold War global system. The People’s Republic of China constituted itself as a contender state, external to the Pax Americana. Contender states bring to the global level an alternative domestic social order. Along the catching-up trajectory, the
Chinese foreign policy role-concept evolved from being a contender state, external to the Pax America, to an engine of its transformation by forces from within the world economy. Indebted America became beholden to the Chinese moneybag, just as China’s exporters got hooked on the debt-ridden American shoppers. We have argued that the current US-produced global recession is unlikely to end the complementarity between the US and China.
Modern state-building has been a difficult problem for many East Asian countries, presumably because the institutional and cultural settings are different from the West, where the problem of modern state-building first emerged. But to understand the precise nature of the problem, a mere recognition of the differences is clearly insufficient. We are well-informed about the traditional institutions and culture in East Asia, but often end up puzzled by the unique characteristics of state institutions there; the particular ways they operate; and the unique patterns of their relations with other significant social and political forces. What is missing, perhaps, is an understanding of the dynamic process by which the modern state has tried to establish itself and, in the process, redefine the role of those other forces which might have been forms of public authority in the past, and have the interests, as well as the capacity, to compete with the state as a form of public authority in the formation of the new modern state.

This chapter looks at the problem of religion, family and military in modern state building in the ‘East Asian Three’: Japan, Korea and China. More specifically, it will seek to understand how these traditional forms of public authority have been transformed in these countries, and the institutional consequences of this transformation. The general expectations of modernisation theory from Max Weber onwards suggest that, with the monopolisation of public authority by the state in modern state-building, these traditional forces transform themselves or are shaped into a type of intermediary institution. These forces lose their capacity as a form of public authority, and become secondary to the state. The state then becomes the sole legitimate form of public authority. The power these forces hold over the individual is thus to be exerted through the state.

However, the path to this theoretically ideal scenario has been complicated in East Asia by several factors. In Western Europe, the modern state emerged as a supreme political structure over the church, feudal
fiefdoms and city-states, which had exercised public authority in one form or another. In East Asia, however, a well-established state with monopoly of public authority has long existed. Moreover, religion was not a form of public authority and the problem of secularisation was largely irrelevant. Third, while competing for public authority in pre-modern society, these social and political forces had also formed different relationships with the state. Some were marginalised and had already become intermediate institutions; others were incorporated into the state institutions and shared public authority with the state; and still others often challenged the authority of the state and at times exercised the power of public authority without regard for the state. Modern state-building in East Asia therefore dealt with a very different set of challenges than has Western Europe. The real problem has been the existence of a different set of competing forms of public authority in the early stage of modern state-building, and how these were reshaped in the transformation of the state itself to meet the challenge of modernisation.

To explain this problem, I will examine three cases in the redefinition of these relationships: how the state has ‘crafted’ its relations with, respectively, religious organisations, armed forces, and the family system, arguably the key forms of public authority in pre-modern society in these countries. These three cases were chosen because they highlight important differences between Western Europe and East Asia in terms of the historical pattern and dynamism of institutional development, and they are the primary components of the institutional setting in traditional East Asian societies.

To provide an analytical framework for this study that might otherwise become an exercise of comparing apples with oranges, I propose that political modernisation, in an institutionalist sense, involves the intensification of human efforts for greater efficiency, effectiveness, fairness and humanity in the organisation of large-scale activity in mass society. Critical to modern state-building, therefore, is the shaping of public authority operating on these values and the consequent relations of the state with those other significant forces. It is this key problem that has featured ‘abnormally’ in the East Asian countries from a Western perspective and requires a careful investigation.

The problem of the modern state

Let me start with the notion of the modern state. Often the word ‘state’ is used to mean either, narrowly, the public authority within a given territory, or, broadly, a politically organised body of people under such a public authority, i.e. the polity. Such a distinction is important for our
understanding of the problem of the modern state. A *modern polity* is a body of people under a single public authority organised upon the principle of equal membership. This principle of equality, arguably a key modern value, involves, according to Lucian W. Pye (1966: 47), mass participation, legal universalism and merit-based access to public office.

On the other hand, a *modern state*, in its narrow sense is, again from Pye (1966: 45-47), about the capacity and functionality of public authority in providing order in mass society. ‘The capacity of a political system’ is measured by its outputs and how much it can affect society and the economy; effectiveness and efficiency in the execution of public policy; and rationality in administration. Functionality concerns the structures and institutions of government offices and agencies, and ultimately their functions.

To manage mass society along the lines of these values, a neutral public authority would rise above other competing forms of authority; claim a direct and effective relationship with members of the polity; and exclude other competing forms of authority from its direct interaction with the citizens and transform them into intermediate supporting institutions.

This two-tiered definition of the modern state – a public authority with necessary capacity and functionality for mass society, and a polity driven by the principle of equal membership – provides a more useful and informative conceptual framework for understanding the problem of the modern state than what is taken for granted in existing theories. Take Max Weber, for example; one for whom the notion of reason and bureaucratic rationality gives modern institutions a distinct essence. As part of the institutional rationalisation for conditions and values different from earlier times, centralised bureaucracy is a response to the conditions of the mass society. Recognizing the importance of bureaucracy, Weber clearly sees the modern state as an ideal candidate for the role of public authority in providing effective and efficient governance for mass society.

Yet Weber does not stop here. With an almost exclusive emphasis on the role of religion in the organisation of society, he sees the change in the basis of legitimacy for the *modern polity* primarily as faith-driven. According to Weber, in a mass society in which human interaction intensifies under a religious polity, the problem of political order and its justification emerges. Secularism and scientific rationalism rise to replace religions as an essential justification for modern political order. In search of such a political order, the ‘worldly’ interests of the people involved must dominate. As Donald E. Smith (1974: 4) explains, polity secularisation is ‘the process by which a traditional system undergoes radical differentiation, resulting in separation of the polity from religious
structures, substitution of secular modes of legitimisation and extension of the polity’s jurisdiction into areas formerly regulated by religion.’

The issue of secularisation and scientific rationalism is acute in the rise of the modern state in Western Europe. It becomes problematic, however, when one tries to look for the same concerns in East Asia. Scientific rationalism can rise in response to a wide range of human interests and developments, and is not a phenomenon exclusively tied to ‘modern’ society. The development of science and technology over several centuries in China is a case in point. Secularism naturally challenged the worldview of Christendom; however, no religion has ever significantly influenced or affected governance in China, much less has China as a polity been ruled by anything like the Church, as occurred in Europe. In addition, the moral support the state often expected from a religion has been provided exclusively by Confucianism for much of China’s long history. On the spiritual side, the problem of greater reason and purpose for humankind has been approached religiously in various ways, such as through Taoism and Buddhism. However, these religious forces have never been able to extend their influence to public affairs in China, much less the state itself. To a large extent this is also true of Korea and Japan, where religion has never been an independent political institution and, indeed, the state would not allow religion to become one. In both countries, Buddhism was at various times promoted as a form of state religion. But it was the state that promoted, incorporated and, when necessary, marginalised or even suppressed Buddhism. In Korea, for example, while Buddhism developed something of a force of its own in Koryo-period Korea, Buddhism has never been a form of public authority in its own right. The later Choson dynasty sought explicitly to squelch this force. There is no evidence, therefore, to see secularism via scientific rationalism as the defining moment for modern political development.

There seems to be a problem, therefore, in Weber’s theory of the modern state. Weber recognises the unique importance of mass society and, thus, the need for public authority to provide a justifiable order and effective management. But his narrow view of the cause of the transition to a modern polity fails to spell out the full range of institutional scenarios in the formation of the modern state and its relationship with other significant social and political forces. In modern state-building, public authority needs to develop a direct, and perhaps exclusive, relationship with the individual for effective and efficient execution of its functions – preferably without the interference of other significant social and political forces. Therefore, marginalisation of these forces from a public authority is imperative. However, modern state-building is not merely replacing God’s direct relationship with the individual with that of the state. In a historical setting where the state already has the mono-
poly on public authority, with the collaboration of other significant social and political forces, some of these forces can well be instrumental in this modern transformation, because they have a historically rooted institutional capacity the new state has to rely on. Therefore, instead of becoming a marginalised intermediate institution, these forces may find themselves continuing to share public authority with the state, or even exercising the power of public authority in the name of the state. Let us now take a closer look at how these issues have played out in East Asia.

Modern state-building in Japan, China and Korea

Unlike in Western Europe, the state long existed in the East Asian Three, even well before their more recent modernisation efforts. In China, centralised public authority has been a fixture since the Qin dynasty (248-207 BC) established itself, and went through fundamental institutional reforms and changes aimed at a unified political, economic, social and cultural system. Along with the state, the family was promoted as a principal agent of public authority, and its justification was embedded in state ideology, i.e. Confucianism. The military, particularly when given the power of local jurisdiction sanctioned by the central state, was a major concern for the security of the state. Importantly, there were no autonomous feudal authorities as in pre-modern Europe. Regional lords were primarily the beneficiaries of the state, acting as agents of state authority. The state’s power penetrated down to the individual through the centrally appointed local agents of the household, taxation, family, examination, and conscription systems, etc.

Influenced by the Chinese model of centralised state, reforms of the same magnitude took place in Japan as early as the 7th century, and resulted in the Yamato state, ‘the earliest central polity’ (McClain 2002: 12). The Seventeen-Article Constitution in 604 laid down the constitutional foundation for a sovereign state headed by the emperor. More importantly, the Taika Reform of 645 established the centralised state with a bureaucracy of functional ministries and local agents, extending state power to every level of the ‘new administrative hierarchy’ (McClain 2002: 13). The reform also abolished private ownership and established a centralised system of land tenure and taxation.

A similar model of a centralised state was adopted in Korea around the same time. According to Carter J. Eckert and his colleagues (1990: 28, 35), ‘An administrative structure fully characteristic of a centralised aristocratic state was created in Silla in the reign of King Pophung (514-540).’ They further observe that ‘with the emergence of centralised aristocratic states centred on monarchical power, the new concepts evolved
that all of the nation’s land belonged to the king and that all of the people were his subjects.’ One can argue that a centralised state appeared even earlier in the other two early Korean kingdoms, Baekje and Goguryeo, long before Silla itself coalesced into a unified state.

While a centralised state system had long existed in Japan, China and Korea, state power became increasingly problematic prior to their modernisation attempts in the late nineteenth century and early twentieth century. Significantly, the early Chinese model of a central state gave way to a feudal state in Japan in the 13th century. The Tokugawa era saw competition among regional warlords, with the winning faction taking over ‘central’ government. Prior to the Meiji Restoration in the late nineteenth century, the state, in its traditional form, had lost most of its capacity and functionality, and public authority was exercised by the winning faction of the competing warlords and contested by the rest. Several hundred years of the feudal system required the Meiji Restoration to re-establish not simply the power of the emperor, but also that of the centralised state system. This same scenario occurred in China in the early twentieth century. For Korea, external threats to state power were greater than domestic ones and led to colonial rule by the Japanese in the first half of the twentieth century.

Given the historical circumstances, the pressure for ‘better’ institutions and state-society relations operating from different rationalizing values came mainly from what I call ‘institutional envy’ among social, political and intellectual elites, informed by their intensifying interaction with Western countries in the late nineteenth and early twentieth century, and growing fascination with Western institutions of government and economy, which these elites assumed made possible the ‘rich country and strong army’ in the West.

The initial problem in early modernisation attempts was over the legitimate holder of public authority. In Japan, the Meiji Restoration ‘restored’ the emperor to that position in 1868. In China, after the overthrow of the Qing dynasty in 1911, a constitutional republic was set up. Colonial rule by Japan had made the issue ambiguous in Korea. After the collapse of royal authority and Japan’s victory over other foreign powers with competing claims on Korea, the Japanese colonial authorities did manage to establish an effective and exclusive public authority in Korea.

The establishment of the Republic in China in 1911 can be seen as a first major concrete step towards building a ‘modern’ state, driven by a combined force of genuine new political and economic interests within China, and influences and pressures from the outside. The new republic was a modernist move, as it resulted in the impersonalisation of the state and provided an institutional framework for the newly re-established public authority to implement modern values. State power was
‘restored’ to Chinese rule. Unlike the Japanese case, however, there was no clear successor to the emperor as the effective holder of the public authority until Chiang Kai-shek’s Northern Expedition in 1927, which ended the conflicts among regional warlords and restored the central government. Because of the prolonged civil war between the Nationalists and the Communists, and the war with Japan, the extent to which the central government exercised public authority was limited. In fact, the legitimacy of the Nationalist government to rule on behalf of the state was constantly challenged, not just by the Communists. The notion of a Chinese polity with a fixed territory under an effective central government did not seem to reflect much of reality until Mao finally established the People’s Republic in 1949.

Modern state building in Japan presents a slightly different picture, one that is widely seen as closely mirroring the European experience, in which there was a clear rise of the modern state. However, the building of the modern state in Japan did not start from scratch. In fact, the intention of the framers of the Meiji Restoration was to ‘restore’ and ‘revitalise’ the centralised state model symbolised by the emperor. As part of the restoration, for example, land titles and administration of regional domains were ‘returned’ to the national government, and the emperor and government acquired new powers. This revitalised state became the soul behind the ‘rich country, strong army’ campaign that shaped the institutional design of the Meiji system and its subsequent developments.

While the recentralisation of public authority was relatively smooth, the state’s relations with other competitors, such as the military and religious forces, were troubling. Collaboration and bargaining among these forces led, in the 1930s and 1940s, to an imperial state with the combined force of the royal household, the military, and Shinto – the state religion. The emperor was not only a symbol of imperial power as in the past, but also now a symbol of Shinto as well. The revitalisation of the emperor-centred state, in combination with the power of the military and religion, has made modern state-building in Japan unique.

The building of the modern state in Korea, again, took a different path. The annexation of Korea by Japan in 1910 seemed to be a turning point. Before that time, Korea’s state institutions had been modelled after the Chinese system for centuries and bore many characteristics of the Chinese model of a centralised state. Under Japanese colonial rule from 1910 to 1945, ‘modern’ economic and social activities took place, from mining and manufacturing, to railway and land surveying, and banking and taxation, including a centralised government that integrated Korea into the greater Japanese empire. To place Korea under Japan’s effective control and management, Tokyo took all possible steps to eliminate institutionalised interference between the state and Koreans. They
dismantled the Korean standing army, banned political parties and the free press, and promoted the Japanese language, social customs, religious faith, and political allegiance in line with Tokyo. In a sense, modern state building during the colonial period was very much an imposition of an absolutist state from above and from outside, which attempted to exclude challenges to the power of the new public authority.

The colonial legacies have been both discredited and carried on after independence. Clear Japanese symbols were removed, destroyed, and dismantled. Some important institutions and practices have survived, though, such as the education system, economic institutions, corporate organisation, and social practices. More importantly, the framework of the modern state – a centralised government, a strong army, and a direct, effective, and sometimes brutal relationship between the state and its citizens – was retained in the South, after only a very brief period of competitive politics in the late 1940s. As a result of experiences under Japanese colonial rule, a strong sense of national identity was forged. A powerful and penetrating state with a military-style polity was wanted not only for protection from possible threats from North Korea, but, more crucially, for the rapid economic catch-up and modernisation that the state took as its primary mission later on.

The overall experiences of modern state-building in the three countries under discussion show that there are some profoundly unique conditions in these countries as a whole that have affected the shaping of the modern state there. An institutional framework for public authority had long existed, even though its legitimate holder had been contested in different ways prior to the perceived start of modernisation. Rather than a rise of the modern state, there has been a process of transformation of the state itself, or re-imposition of the centralised state, to meet the challenge of modern conditions. Moreover, for many in these East Asian countries in the late nineteenth century and much of the twentieth century, to modernise was to develop a strong and powerful polity, and a strong state was necessary and important for such a modernisation process. For them, modernisation was more about material achievement and the state’s ability to deliver that. Much of the state’s efforts to redefine its relationship with other significant forces and build direct relationships with the individual went to serve the overall campaign for a powerful and competitive polity and an effective and efficient state. This quest has significantly shaped the patterns of modern state-building there.
The military and the modern state

The military has a long history as a candidate for a key form of public authority, and may be regarded as the most serious challenger to the modern state. While some might expect that professionalism of the military is essential to the modern state, the East Asian experience demonstrates that state-military collaboration or even symbiosis, where the military becomes a politically active part of public authority, can comprise an important part of modern state-building. Professionalisation of the military in East Asia came only at a later stage. In the East Asian Three, early modern state-building was dominated by the military; either as an important force in the government, as in the early Meiji and Taisho eras; as a single, unified force taking direct control of government and exercising power in the name of the state as in Showa-era Japan and the Third, Fourth and Fifth Republics in Korea; as armed factions exercising power in a given region despite the state, as in early Republican China; or as an integral but submissive part of the party-military-state apparatus in Leninist China under Mao.

In the Japanese case, the anti-Tokugawa shogunate movement leading to the Meiji Restoration was made possible by the successful rebellion of regional warlords, particularly those from Choshu and Satsuma domains. In 1869, daimyos (regional lords) of four key domains which helped restore the power of the emperor returned the registry of land and people to the emperor. Indeed, as D. Eleanor Westney (1986: 168) has commented, ‘Military institutions were the leaders in the organisational transitional from Tokugawa to Meiji,’ and in the building of the new Meiji state. The military’s demand for resources acted ‘as a major stimulus in the development of other systems, from the centralised tax system to universal primary education, but they also served as powerful models for those systems.’

After the establishment of the new national armed forces following the restoration, the rebellious forces from Choshu and Satsuma took control of the army and navy respectively, and formed the military factions, or the gunbatsu, which meddled in state affairs until the end of World War II. The notion of ‘political soldier’ (Matsushita 2001: 2) had always been a glorious concept for members of the young national army since the Meiji Restoration. The ‘Imperial Prescript to Soldiers’ in 1882 gave the military ‘special status’ in society (Westney 1986: 186). This concept became deeply embedded in military officers’ thinking. In the early post-Meiji Restoration period, little difference existed between military officers and civilian officials working in government. Military officers were expected to advise and participate in running state affairs. The armed forces were often used for domestic police functions (Mat-
sushita 1960; Westney 1986: 187) and acted as an organised interest group in the new political process. Westney (1986: 188) reports that the 1890s witnessed the movement of top-ranking military officers into the ministerial portfolios concerned with... all critical areas in terms of required resources and task structures of the military. In fact, civilians did not form a majority of the cabinet until 1898; and during the Meiji period as a whole, military officers held 45 percent of the civilian cabinet posts.

At the same time, with the establishment of modern party and electoral systems, political parties became an increasingly effective platform for national policy debate and formulation. This situation led to a growing tension between the military and other political forces in their efforts to influence the direction of the state’s domestic and international policy. As international problems and military actions overseas became urgent and the gunbatsu became increasingly active and aggressive in domestic politics, the militarisation of the government and state affairs accelerated.

The political power of the gunbatsu greatly expanded in the first half of the twentieth century. Restrictions on active duty military officers becoming Minister of War were lifted, and, in fact, this post was held by an active military general from that point on. In the military itself, a state affairs officer was established, and in 1937, young cadets, with the support of right-wing revolutionary forces outside the military, launched a failed military coup. In 1941, General Hideki Tojo was appointed prime minister and formed the military cabinet.

The expansion of the military’s political power and influence, however, was only one part of the total picture. Immediately after the Meiji Restoration, the new state sought to reorganise the military and transform the fragmented feudal armed forces into a modern professional army. The first challenge was to remove the institutional basis for feudal armed forces and build a national army. In 1872, therefore, the emperor issued instructions abolishing the domains and replaced them with a prefecture system. In 1873, the government issued the Conscription Edict abolishing the armed force for regional daimyos and established the national army.¹⁹ Military service became a citizen’s obligation to the state, rather than to a domain’s daimyo. In 1883, the emperor issued the ‘Imperial Prescriptions to Soldiers’, which demanded the ‘absolute loyalty of the soldiers to the emperor’ (Umetani 1978: 166; also Hane 1992: 96).

A second challenge was to clarify the relationship between the military and the government, or rather, the separation of the military from the state. The centralisation of the armed forces away from the domain...
daimyos was not intended to give control of the military to politicians, but to promote a unified national armed force. During the first 10 years of the Meiji, the Dajokan, the Grand Councillor of State, controlled both civilian and military powers. In 1878, the Chief of Staff was established within the cabinet, which was independent of the Ministry of the Army, while the emperor was commander-in-chief of the armed forces. These new arrangements greatly reduced the power base of the feudal warlords, centralised the organisation of the armed forces, tied the new national army to the state, and provided the institutional basis for the formation of such an army.

The history of building a modern national army and state-military relations in Japan reveals clear efforts since the Meiji Restoration to depoliticise the military, turn the feudal forces and factions into a national army, and place the army firmly under state control. The setup of the Meiji government also reflected a much more complicated reality, in which those in possession of coercive power continued to consider themselves an indispensable form of public authority. The new state institutions and arrangements in the polity largely accommodated this political reality. Only the total demolition of the military structure and the command power of the emperor after the defeat of Japan in World War II removed the military from the political scene.

As in the Japanese case, the new republic was established in China via successful military campaigns by regional warlords against the emperor, the holder of public authority. While Chiang and Mao differed on ideology, they agreed upon seeing the military as an integral part of their party and government apparatus. Under Mao’s idea that the Party should ‘direct’ the military, the Party then set up branches at all levels of the military. There remains a substantial overlap in personnel between the government and the Party in corresponding departments. At the same time, the military has been promoted as the legitimate tool of the Party, and soldiers as model citizens.  

The role of the military in society and its relations with the state, as established under Mao, matches what Amos Perlmutter (Perlmutter 1977) calls the ‘professional revolutionary soldiers’ model, in which the military sees itself as the primary defender of a revolutionary cause. In China, the military is by definition political, as an instrument of the party-state. In terms of modern state building, therefore, there have never been efforts to marginalise the military from state affairs. Rather, the party-state has incorporated the military, and formed a ‘symbiosis’ (Bickford 2001: 31; also Shambaugh 1991) with it. While this critical aspect of the Chinese state has changed somewhat over the past 20 years or so, the People’s Liberation Army remains closely tied to the Party-State-Military symbiosis.
The contemporary evolution of the military’s relationship with the state in South Korea mirrors much of what we have seen in the case of Japan at the time of the Meiji Restoration. The 1950s saw the South Korean economy on the brink of collapse. The government was utterly corrupt and unable to manage or perform. Civil unrest was believed to be the work of the Communist North. The country was hungering for a strong and effective public authority to provide order and security, and to make the economy work. The military took on the challenge in 1961 under the banner of ‘anti-communism’ and ‘economic nationalism’ (Han 1993: 47).

Nonetheless, what led General Park Chung Hee and his group to take control of state power and rule the country for almost 20 years also had to do with the institutional setting inside and outside of the military. Inside the military, there were again significant similarities between Korea and Japan. A key aspect of the military’s internal structure was active factionalism among high-ranking officers. Korea did not have the tradition of gunbatsu before its rule by the Japanese. However, after the restoration of Korean sovereignty after World War II, significant institutional changes contributed to growing factionalism in the military. Members of the new national army of post-war Korea, the National Defence Security Garrisons, came from different backgrounds: the Recovery Army, the Independence Army, the Chinese Army, the Japanese Army Cadets, the Special Korean Volunteers Army, and others. The varied backgrounds of its members became part of the historical roots of military factionalism. The military’s personnel system also contributed to the rapid expansion of factionalism, and thus made the military more inclined to take political action (Lee 1982: 284). For example, there was no term limit for the Chief of Staff or other high-ranking positions in the military, which caused long lags in the promotion of superior officers and subsequent tensions among them.

Outside the military, new circumstances also helped the rapid growth of the military’s influence and capacity, and cultivated the notion of the political soldier. Because of insurgents mobilised in the South by North Korea, for example, the new national army was given one key political mission from the very beginning – to prevent ‘domestic insurgencies,’ a mission the army faithfully carried out. Also, from early on, the Military English Academy trained elite officers for the new army. With the help of US army personnel and financial assistance, the Korea League of Military Elites was set up in 1946 to institutionalise the vision and values of the new national army. One need only look at the operation of this league to understand the sense of national and social responsibility these military elites cultivated among themselves. Park Chung Hee, and his collaborators and successors, Chun Doo Hwan and Roh Tae Woo, were all graduates of the military academy.
Once it seized power, the military ran the country more or less like an army. Parliament and elections still existed, at least nominally, and the generals managed to transform themselves into elected civilian presidents (Park, 1963-1979; Chun, 1980-1987; and Roh, 1987-1992). The real power existed in ad-hoc, military command-post arrangements such as The Supreme Council of National Reconstruction under Park, and The Special Policy Committee on National Defence under Chun. As in the early Meiji period, the military dominated the state.

Again, as in Japan, there is another side to the institutional dynamics. Since independence, the military itself has undergone a comprehensive ‘modern’ transformation. The centralisation of the armed forces and military affairs started with the issuance of the National Army Organisation Law (1948), which legitimised the military as a principal part of the modern state, placed the armed forces under the direct command of the President, and set up separate jurisdictions for the Defence Department and Chief of Staff. The education and training of the military were institutionalised and used to foster loyalty among soldiers to the state. Efforts were made from the late 1950s, particularly after Park established himself as the president, to curb the spread of factionalism. The Military Personnel Law in 1962 placed limits on service terms in high-level positions, and introduced a professional career system for mid-level officers, with standardised criteria for career promotion and personnel management. With the institutional foundation for a modern professional army gradually taking root, the military was able to very quickly transform itself into a non-political professional army, once the larger environment for the military’s involvement in state matters had gone. The election of Roh Tae Woo as president in 1987 through an open competitive constitutional process symbolised the point when the military returned to the barricades.

The above discussion shows that building a strong and effective army capable of supporting the state has been seen as a critical part of modern state-building in the East Asian Three. Unlike in Western countries, the military was a defining force for the new state as it embarked upon a path of modernisation. The modernisation process has been pursued with the principal support and close engagement of the military. On the other hand, the state sought to streamline its relationship with the military and prevent it from becoming a legitimate form of public authority and a political challenge. The balance between these two contradictory dynamics did not work out well in the cases of Japan and Korea in their early modern state building, but in China, it has been effectively achieved.
Religion and the modern state

The same ambiguity in the state’s attitude toward the military can be found in its relations with religion. Historically in East Asia, the state has tried to eradicate the military, economic and potentially political power of religious groups and reduce them to a mere social and communal existence with no significant influence on state affairs. In the East Asian Three’s early modern reforms, this tradition has largely continued. In terms of the separation of state and religion, ‘modernisation’ in these countries was complete and thorough. However, religions can also offer an important supporting basis for the new state. This interaction between the two has been more thoroughgoing in Japan than China or Korea, presumably because of the greater complicating role of Confucianism in the latter two. As Charles F. Keyes and his colleagues (Keyes, Kendall & Hardacre 1994: 5) argue,

state policies toward religion in Asia have been shaped not only by modernisation goals but also by the needs of states to legitimate their rule and unify their populace. (…) While commitment to modernisation entails rejection of those aspects of a society’s past deemed impediments to a rationalised bureaucratic order, nation-building depends on the very opposite move (…) The process of creating modern nation states has thus entailed two rather contradictory stances toward religion.

The ambiguity is reflected in the rise and fall of two major religions in Japan, Buddhism and Shinto, before and after the Meiji Restoration. Buddhism was officially established as a state-sponsored religion in the Seventeen-Article Constitution in 604. From then on until the 16th century, the state promoted and gave ‘institutional support’ to Buddhism, providing land and finance for Buddhist temples, incorporating them into the state structure, and forging a relationship of mutual support and dependence with Buddhism. During the Nara (710-794) and Heian (794-1185) periods, Buddhist temples and priests reached such a level of status and influence that Japan was called a ‘Buddhist state’ or ‘Buddhocracy’ (McMullin 1983: 18), in which Buddhism became the undeclared state religion, and state authority was described in Buddhist terms.

However, with power and influence, Buddhist temples and priests increasingly became independent of state authority, and turned themselves into a ‘state’ within the state, playing actively between the emperor and the bakufu. The temples and priests started to confront the challenge of the bakufu, but not until the 16th century, when the bakufu firmly controlled the state and implemented a series of religious re-
forms, did the power of the Buddhist temples and priests begin to be confined.

Under the rule of Nobunaga Oda and Hideyoshi Toyotomi in the late Muromachi (1392-1573), reform policies were put in place to reduce the military, economic and social powers of the temples. The bakufu took over the power to appoint temple administrators, forbade Buddhist priests to bear arms, abolished guilds for the organised interests of Buddhist priests in trade, confiscated all land holdings of the temples, abolished court ranks and titles for priests and temples, discontinued the custom of celebrating Buddhist ceremonies at the court, replaced the practice of hereditary access to high priestly offices by a government nomination system (McMullin 1983: 248).

As a result, the temples no longer commanded armies; their members were disarmed and lost much of their land holdings and control over commercial mercantile enterprises. Buddhist temples were no longer an independent military, economic and political force positing a challenge to the state. As McMullin (1983: 255) points out, ‘The state-religion mutual dependence thesis... was rejected.’ Buddhism has been largely reduced to a moral force under the control of state authority ever since.

The state’s efforts to define its relations with religion did not stop there. After the Meiji Restoration, the state sought to frame the newly restored power of the emperor in religious terms, under the two simple slogans ‘separation of Shinto and Buddhism’ and ‘eradication of Buddhism’ (Collcutt 1986: 143). In order to achieve its goals, the Meiji government started to treat Shinto and Buddhism differently through the Separation Edict of 1868, and elevated Shinto to the state religion (Hane 1992: 108). The state practiced Shinto as official state ritual; took over the administration of Shinto shrines, most notably the Grand Shrine at Ise, incorporating them into the state apparatus; and promoted Shinto in schools, the military and society at large. In 1872, the Meiji government proclaimed the three principles of state Shinto (Yamaguchi 1999: 40) that unified Shinto, the state and the emperor.

At the same time, the Meiji government required all religions to be depoliticised, and that Shinto be non-religious. A law was passed in 1899 prohibiting religious priests from political assembly and running for public office, and required the Grand Shrine at Ise to give up its status as a secular legal entity. Moreover, religious freedom was declared in the Meiji Constitution. Depoliticisation of religion and religious freedom were designed to prevent religions from being used as a platform for political advocacy (Ueno 2000: 125; also Masafumi 1992; Ohara 1992).

The complete separation of state and religion was implemented only after Japan’s defeat in World War II. In 1945, the Occupation authorities
issued ‘Shinto Instructions’, stipulating the principle of the separation of state and religion: prohibition of support for shrines with public funds; prohibition of Shinto education at school; removal of related content from school textbooks; and prohibition of visits by civil servants to shrines. The 1947 Constitution recognised the principles of religious freedom and separation of state and religion. While the spirit of early post-war idealism has been more or less preserved, the relationship between the emperor and Shinto is far from settled. Debate within academic circles and among politicians goes on.

The Japanese experience demonstrates that religions have been an integral part of state efforts in social and political management. Even when Buddhism was popular and widely accepted by society and supported by the state, it never managed to obtain an independent basis for its influence. The state or regional daimyos always considered themselves as agents and regulators for religious interests and behaviour. Unlike in Europe, where the modern state rose over a Church-dominated empire, the new Meiji state made great efforts to promote Shinto as a form of spiritual support.

As in Japan, the state’s relationship with religion in Korea was largely settled long before the modern age. The resultant state-religion relation involves three critical aspects: the moralisation of state religion, depoliticisation of all religions, and severe suppression of politically motivated religious forces and activities. Buddhism as a systemic religious presence in Korea was introduced from China in the 4th century. After Silla (57 B.C.-A.D. 935) unified the three kingdoms on the peninsula in the mid-7th century, Buddhism became the state religion and, with state support, temples rapidly spread. However, the role of Buddhism in providing ideological and moral support for the state was gradually taken over by Confucianism, which increasingly influenced the organisation and management of government from the 10th century onwards. In the late Koryo (918-1392), anti-Buddhist sentiments started to gain currency among elites. In 1392, the new Choson dynasty officially accepted Confucianism as the state ideology and wanted to remove all Buddhist influences from the state. It replaced Buddhist with Confucian ceremony; confiscated all the landholdings of Buddhist temples and greatly reduced their number; merged eleven Buddhist sects into seven; eliminated retainers of temples; and abolished the monk recruitment system. Given the usual view that Confucianism is not a religion in a strict sense, the Choson dynasty in fact ‘separated’ the religion from the state.

The policy of suppression also extended to Catholicism and Protestantism, which started to spread in Korea in the 18th century and were feared and attacked as ‘evil religions.’ Particularly during the reign of King Sunjo (1801-1834) and King Heonjong (1834-1849), priests were
persecuted under the prevailing law. A wave of ‘religious perils’ in the first half of the nineteenth century led the government to arrest and persecute thousands of Christian priests in order to wipe out these ‘evil religions.’ Religious execution became systematic under the first ten years of King Kojong’s reign (1863-1907).

Religious suppression lessened somewhat during Japanese colonial rule (Shin 1995). The Annexation Treaty of 1910 included religious freedom as in the Meiji Constitution. A law enacted in 1922 gave religious organisations the status of legal entities denied even to Shinto shrines in Japan. A key aspect of the balancing act was to rectify the Choson dynasty’s harsh religious policy toward Buddhism. The colonial authorities took steps to protect and revitalise Buddhism; temples were repaired and Buddhist districts reorganised. In 1911, the colonial authorities passed a law to put temples under the government’s direct administration, protection and financial support. The colonial authorities remained suspicious of Christian churches, but managed to keep them at arms’ length, trying to stay on positive terms while watching them carefully (Kang 1976: 32; Shin 1995). A second aspect of the balancing act was the introduction of Shinto and its imposition upon Korea. Students were required to pay allegiance to the Japanese emperor. Shinto shrines were built and practice of Shinto ceremony was required, along with the use of Japanese language and names.

However, while the colonial authorities promoted and encouraged religious diversity, religious institutions themselves were very much kept away from becoming a platform for political advocacy. Buddhist organisations and properties were placed under the government’s strict control, and their activities were ‘limited to matters of pure religious nature’ (Kang 1976: 87). Political and social forces mixed with religious inspirations, and other religious sects, such as Tonghak, a religion-fuelled farmers’ rebellion movement in the late nineteenth century, were treated as political parties. Their activities were monitored, fundraising efforts limited, facilities closed, and schools shut down.

One may note that the basic pattern of the state-religion relationship in Korea became established in the early nineteenth century, several decades before Korea embarked on modernisation. A clear line was drawn to confine religious institutions to non-political activities. With Confucianism as state ideology, there was no need for religion to provide moral support or spiritual justification for state authority. Buddhism and Christianity were suppressed, marginalised, or discredited, and turned into a social presence irrelevant to state affairs. Since the Korean War, Christianity has rapidly spread in Korea, and Christian converts command a significant presence in society. Catholic organisations, Catholic ones in particular, were notably active in the democratization movement in the 1980s. Their challenge, however, was toward
the type of regime, rather than the overall institutional model with the state as the primary form of public authority. Religious forces in this sense have been operating as an intermediate institution within the overall political system dominated by the state.

The state-religion relationship in China mirrors many aspects of those in Japan and Korea. Religions – Buddhism, Islam and Christianity – in the sense of a supernatural power in control of human destiny, came mainly from outside China. As in Korea, this external origin is perhaps an important reason for a troubled relationship between state and religion in China. With the emperor considering himself as the representative of the supernatural power, or ‘heaven,’ room for another supernatural power did not exist. Moreover, Confucianism and the Chinese bureaucratic institutions of central management had existed long before ‘alien’ religions made their way into China. They provided social, moral and administrative functions that would have been performed by the church in pre-modern Western Europe.

Consequently, the state’s efforts to define its relationship with religion have concentrated mainly on preventing religions from becoming a form of public authority. For much of the history of their existence and expansion in China, Christianity as well as Buddhism appealed, or were allowed to appeal, mainly as a source of humanitarian or psychotherapeutic care. Beyond that, their attempts to become a form of public authority in defining the values and behaviour of the individual often met with state suspicion and led to their harsh suppression, or even elimination. Religions under Mao were banned altogether. While the three major imported religions survived centuries of suppression and marginalisation, many indigenous religious movements did not.

State-religion relations in East Asian countries, particularly in the early modern era, reconfirmed the European experiences of settlement through violence. In Europe, people of different religious faiths confronted and fought wars. This resulted in the establishment of different political jurisdictions which in turn paved the way for the rise of modern states. In East Asia, it was the religions that rebelled against the authority of the well-established state.

The East Asian experiences also raise important questions about the grounds underlying state-religion relations during the modernisation process. Can institutions other than the state lay claim to public authority? Can religious interests be a basis for state legitimacy? What is the justification for the separation of state and religion? What is the role of religion in modern society where equal membership and the capacity and functionality of the state are its ultimate values, and where the state seems to have established itself as the primary advocate and enforcer of these values? These are issues not only for East Asia, but modern state-building in general.
Family and the modern state

If the military and religion might seem somewhat remote for many citizens in their relationship with the state, the family is a primary institution that bears heavily on the state’s efforts to develop a direct relationship with the individual. On the one hand, regulations on family matters, marriage included, are an important form of ‘the expression of state power’ (Glosser 2003, xiii). On the other hand, the state’s vision and capacity often depends as much upon family behaviour as on public law. This is especially the case for the East Asian countries for two main reasons. First, the family has been promoted in state ideology, namely Confucianism, as a cornerstone of social order and an integral part of the centralised state system. Second, the family has evolved to become a primary unit of human association and activity. In both the public and private spheres, the family is seen as a primary value, a preferred form of human relations and association, and a legitimate platform for social interaction and representation.

Like the military and religion, the family was an important form of public authority in pre-modern society, and modernisation in a sense means to remove the function of the family as such; and, in the case of the East Asian countries, to deny patriarchal authority (Wu 1998-1999). The tension between the existing family system and modern values created a profound dilemma for the state in promoting such values. To understand this problem, let us first take a look at traditional family values and their institutional manifestations. In Japan, the traditional family before the Meiji Restoration was seen as part of the state apparatus, and thus there is the concept of the ‘family state’ (Sasaki 2002: 181). In this family state, the family was incorporated into the state system as the primary unit, and managed family affairs on behalf of the state. Moreover, the state as a whole, with the emperor as the head, was seen as an extension of the family. State authority and the authority of the family head are simply forms of the same public authority at different levels. Here, there was a unity between the loyalty of the citizens to the state and the filial duty of family members to the family head. In reality, as Robert Wu (1998[4]: 122) notes, the authority of the male household head dominated the individual’s relations with others, inside and outside the family environment.

The Meiji reforms established a system of compromise between those who wanted to preserve the traditional family system and those who wanted the state to have direct and centralised authority over the individual (Sasaki 2002: 182). In 1872, the first Household Registration Act established a unified national system of household registration. This new system, however, preserved many of the key aspects of the traditional family state: the power of the household head to permit or con-
sent and to administer the official registration of the family members; the family as the primary unit of the state; and the emperor as the head of the extended family.

In 1898, the Meiji Civil Code set up a new household registration system under which the old system, centred on the family head, and the new system, centred on individual identity, coexisted. The administration of household registration became the business of the government, and individuals obtained some freedom from the family in their new direct relations with the state. The ‘primogeniture system’ of the samurai class was reformed to extend the rights to all ‘commoners.’ This aspect of the modern reform was reversed later in the Taicho Household Registration Act, which abolished the national system of individual identity registration, and returned to the household-centred registration tradition. As Nobutaka Ike (1969: 160) notes, instead of trying to restructure the family system in line with modern values, ‘The Meiji government took steps to impose the samurai type of family structure on the entire population.’

Significant progress in modern reform of the family system in Japan, therefore, was not achieved until the end of World War II, when the Meiji Civil Code was formally abolished. The Constitution of 1947, in particular Article 24, and the Family Law of 1947, completely abolished the household-centred registration system, and confirmed the principles of individual freedom and gender equality – eliminating restrictions on the wife. Marriage became contractual and the sole basis for family. Parents are now equal in forming the centre of the family; and only one pair of parents is permitted for each household – ending the administration of generations of the family under one household. Siblings are entitled to an equal share of family properties. On the basis of these post-war reforms, Japan completed the transformation from the traditional family system to the modern ‘institutional family’ (Sano 1973: 71; also Wu 1998-1999).

The Japanese case demonstrates the importance of the family as one of the intervening layers between state and individual. Modernisation involved the state assuming many of the responsibilities formerly held by the traditional family household, and forming a direct relationship with the individual. In Japan, this was achieved not through a violent, or even competitive process between state and family, but rather through subtle modifications of the traditional family system. The efforts in the early Meiji era to create the modern family – equal membership within a family with direct state regulation – quickly lost their momentum. The Confucian family model prevailed and was promoted by the state as ideal. Instead of removing the family from the state’s direct relations with the individual, the state succeeded in expanding family
relations and incorporating them into the new state system. Again, only after World War II did fundamental reforms take place.

The male household-centred system is also found in traditional Korea, though the authority of the household head came largely from social custom rather than from the state’s institutional delegation. In fact, its first civil code in 1912, the Korean Civil Ordinance, issued under the Japanese colonial rule, stipulated that ‘kinship and inheritance among the Korean people shall be determined by custom but not in accordance with the law (Japan’s civil code)...’ (Bae 1978: 119; also, Han 1992).

Under this patriarchal system, according to Byongkyu Kim (1971: 48),

the male household head has the powers to lead, integrate, and protect the family members; give permission to family members to separate from the family; to intervene in all matrimonial affairs of his family; marriage was considered the union of one family with another: a means for lasting lineage and observance of rites for the ancestor.

Patriarchal authority was supported further by control over family property which belonged not to any individual member, but rather to the family as a whole, represented by the household head.

Particularly important in the case of Korea is the issue of gender equality among family members. For the purpose of this study, the problem is whether a woman, particularly a wife, is a full legal entity under public authority. Under the traditional system, women were considered ‘incompetent’ and their identity and relations were defined and controlled entirely by the male household head. With the rise of ‘colonial modernity,’ revisions to the original 1912 law were made in 1925 to allow women to file for divorce and make polygamy illegal (Bae 1978). The Civil Code of 1958 abolished the system of treating the wife as incompetent, recognizing her as a fully competent being. A clear attempt was made here to establish a direct relationship between the state and ‘women,’ even without a fundamental change in the male-dominated family system. The principle of equality between men and women was not recognised until the Civil Code of 1968. The dependence of women’s status upon the male household head, that is, the family interference in women’s direct relationship with the state, was not completely eliminated until 1989, when a new set of amendments were made to the Code against the backdrop of the historic political transition in 1987.

The Chinese case is complicated by two unique aspects of the overall institutional setting: the long history of public authority regulating family matters and the programs of significant reforms in the twentieth century, first as part of the New Culture Movement in the 1920s and
1930s (Glosser 2003); then, in the 1950s, as part of Mao’s radical social programs (Diamant 2004); and finally, as part of the reformation in the post-Mao era from the 1980s (Davis and Harrell 1993). In China, the direct regulation of family matters by the public authority has long existed (Zhu 1999). In the early Qin dynasty (BC 248-BC 207), a marriage was legitimised if it met the requirements of the Rites, in which parental consent was paramount. Under the Qin legal code, acknowledgment by the state became necessary for a marriage to be recognised. In the Wei (534-556), Sui (581-618) and Tang (618-907) periods, the Household Law by the government and the Household Decree by the emperor regulated the establishment and dissolution of a marriage and the rights and obligations of the husband and wife. In the Song (960-1279) period, one needed a marriage licence in order to marry. Many of the legal regulations on marriage and family were concerned with preparing the family as a basic unit for social order. Thus these regulations were more about the relations a marriage would activate, and the rights and responsibilities associated with them, than about the rights and privileges of the individuals involved.

The 1911 revolution led to the establishment of the national legislatorial house in 1928 and the first civil code in China’s history, the Republic of China Civil Code. Driven by the same strong statist tradition, the new civil code carried on many of the elements of the traditional family system: the rights of the husband to manage household properties; the privilege of the husband in the parents’ relationships with their children; and the denial of an inheritance right to the wife. At the same time, regulations informed by the new modern principles of social life were also included. The new family code in 1931 ‘equalise[d] the grounds’ of marriage for men and women and ‘called for women’s equality, easier access to divorce, more equitable property rights for women, and the abolishment of concubinage and bigamy’ (Glosser 2003: 110; Diamant 2000: 3).

What is interesting here is not so much how revolutionary the state-led family reforms were, but how strongly it was believed that the state is justified in exercising such power and influence directly over the individual. As Susan L. Glosser (Glosser 2003: 83, 98) observes, ‘The Nationalist vision of the family and its place in state-society relations required an intervention in family affairs far greater than China’s imperial governments had ever attempted or wanted. The Nationalists justified their intrusion into the family with the language of family reform and state-strengthening.’ Like the builders of the Meiji system in Japan, the Nationalists did not dissolve the family system entirely; they ‘preserved it, albeit in somewhat streamlined form, as the essential building block of a new China.’
As observed in Glosser’s (2003: 86) careful documentation of the change in the state’s general approach to family matters, the Nationalist state ‘took a much more directive stance than the flexible Qing bureaucracy in mediating tensions and conflicts between state statutes and local custom’ and saw

the family as a link between state and individual and of the state as the ultimate source of authority and object of loyalty. By placing the state at the head of the family structure – making it, in essence, the individual’s parents and ancestors – the government tried to reinforce individual rights vis-à-vis the joint family while simultaneously maintaining social stability.

This change is reflected in the state’s pro-active efforts to regulate matters such as family rituals, wedding protocols, the purpose of marriage, procedures for divorce, etc.

Nationalist efforts to build up the state’s direct management of family matters were perpetuated and further advanced by the new Communist state after 1949. The Nationalists presented family reform as a necessary step in transforming China into a strong, modern nation. The Communists harboured the same intention’ (Glosser 2003: 170), further subordinating the individual to the state. Like the Nationalists, the Communists in their major campaign of family reform in the 1950s ‘used freedom of marriage choice as a tool to reduce familial control of junior members and exert greater state influence over the individual’ (Glosser 2003: 200; also Diamant 2000: 4; Davis & Harrell 1993: 10). The Marriage Law of 1950 was in fact a family law. This law and its enforcement were significant in two aspects. First, the state established itself as the primary and direct controller of marriage and family matters. Second, it aimed to eliminate senior male dominance and authority in marriage and family affairs in traditional Chinese society and, along with it, forced marriage, gender inequality, matrimony and child marriage, or other forms of what the Chinese called ‘feudalistic’ practices, and to promote freedom in marriage choice, monogamy, gender equality, and state protection of the legal rights and obligations of the parties to marriage and family relations.

The new marriage law in 1980 and its amendments in 2001 further confirmed the principle of freedom not only in marriage choice, but also in divorce, as well as the principle of family planning, and responsibility of children for their elderly parents and that of parents for their children. While there is much debate over the nature and impact of the family reforms in the post-Mao era – whether they resulted in fundamental change in people’s attitude toward the family and traditional family values and practices – scholars agree that ‘the state continued to
play a highly intrusive and coercive role over family matters (Davis & Harrell 1993: 3; also Diamant 2000: 329).

It is perhaps indisputable that the actual practice of marriage and family matters in China is far more complicated than what might be expected of these new institutions. Yet the message in the building of these new institutions is largely compatible with modern values; the state wants to form a direct relationship with members of the society, and eliminate the privilege of males in defining the rights and obligations of other family members in marriage and family matters, and to redefine these rights and obligations on a completely new basis.

The problem of the family in modern state-building epitomises a similar dilemma for the state in its ambivalent approach towards traditional institutions. The family has been the basic unit of society, and even of state management and social mobilisation; the state still views the family as an important social and cultural foundation of society. However, movements for equality and citizenship forced the state to challenge the traditional authority of the family and build direct and exclusive relations with the individual. Consequently, the modern transformation of the family in these countries led to a dual value structure. In the public sphere, state-sanctioned institutions have firmly established their authority, increasingly encroaching upon the private sphere. In the private sphere, traditional norms and practices still very much define familial relations, and the family remains an active and effective regulator of the claims and expectations of its own members.

Conclusion

This study was designed to look into the problem of religion, military and family in modern state-building in Japan, China and Korea. The initial theoretical critique and general review of pre-modern institutional settings allowed us to hypothesise that the state, in its modern transformation, would endeavour to build a direct and exclusive relationship with the individual. In doing so, it would try to remove or at least reduce the institutional capacity of other significant social and political forces such as the military, religions and the family, to have an impact upon the individual as a form of public authority, thus turning these forces into institutions submissive to the state. Because of the unique pre-modern institutional settings in these countries, I also hypothesised that these other significant forces might end up sharing public authority with the state in facilitating capacity-focused modern state-building.

The study has confirmed that the state has indeed tried to extend its power directly to the individual through establishing and consolidating state institutions, forging national identity and allegiance to the state,
and imposing direct taxation, universal conscription and state regulation of family, religious and military affairs. These efforts led to the breakdown of the traditional institutional structure and the rise of a sense of citizenship. They further strengthened the power of the state where there had been a tradition of strong and centralised public authority.

However, the institutional consequences of the efforts at modern state-building are complicated. Those significant social and political forces continued to see themselves as a form of public authority, particularly in the early phase of modern political transformation. The military operated in the name of the state in Japan in the years leading up to World War II, and in Korea after the Korean War, and in Mao’s China, acted in symbiosis with the state. Moreover, efforts in modern state-building in these countries allowed for a continual heavy presence of the family in the state’s relationship with the individual, and created a dual structure of authority whereby the state and family shared public authority. In these emergent polities, religion has been generally confined by the state to being a mere moral and communal presence, with the exception of Japan, where Shinto was early on elevated to state religion status.

This study has also shown that modern state-building is a dynamic process, in which the qualities of the emergent polity evolve over time. In all three cases, the early phase of modern state-building saw the vulnerability of the state to competing forms of public authority and its willingness to incorporate those significant social and political forces, and share public authority with them in pursuing its modernizing agenda. In Japan after World War II, and in Korea from the 1980s onward, the intervening capacity of family and military has been significantly weakened; the state’s extension of its direct power to the individual has made notable progress; and religions have settled for being intermediate institutions. In the Chinese case, the pattern of the early stage seems to be still unfolding.

One can argue that this dynamic process is nothing unusual; modern state-building takes time and happens in stages. The early stage is inevitably compromised by the legacies of the pre-modern institutional setting. But, as shown in this study, the interplay of the state’s interests and those of the competing forms of public authority will not necessarily lead to the establishment of a state operating on modern values and to the modern transformation of those significant social and political forces. More research is needed on the dynamics of this ‘breakthrough’ from the early phase of modern state-building to a more mature modern state. This study, however, is sufficient to allow the following suggestions, perhaps as possible directions for further research. First, we need to consider changing economic and social conditions. If the mod-
ern state is a response to modern conditions of mass society, as we have established earlier in this chapter, the necessity, viability and effectiveness of the modern state will be greatly enhanced by the intensification of these conditions. This intensification has been driven primarily by changing economic and technological conditions, conditions that will further erode the enduring power of the traditional forms of public authority and their capacity to compete and intervene. The different qualities of the prevailing institutions in relation to modern values before and after the critical breakthrough reflect such different conditions. This is particularly true in societies whose modern institutions originated elsewhere.

This leads to my second suggestion. We also need to consider the impact of international ideas, movements and events on modern political development in individual countries. We will not be able to understand fully the different patterns of modern state-building before and after World War II in Japan unless we understand the ideas and impact of the MacArthur revolution. Likewise, we could not understand the dramatic political changes in the 1980s in Korea unless we understand the contemporary global movement of political and economic liberalisation. It is evident also that both changing economic and technological conditions, and international developments and movements, are facilitating such a breakthrough in China.

Modern state-building, at least as seen in Japan, Korea and China, is a dynamic and historical process. The real breakthrough, i.e. the firm establishment of modern institutions, appears not to occur at the beginning of this process, but rather somewhere down the road. In the early phase, we see bargaining between the consolidating state and competing forces of public authority and, consequently, an ambiguous relationship between the state and those forces. Whether the society moves further, breaks through critical institutional barriers, transforms other competing forces, and emerges in a successful modern transformation is heavily contingent upon the institutional capacities of these significant social and political forces, changing economic and technological conditions, and the greater international environment. The transformation of competing forces can be seen as a principal indicator of the breakthrough. The essence of modern state-building, therefore, is how the necessary transformation of public authority in response to modern conditions interacts with the prevailing and often institutionalised social and political interests, and whether the latter will eventually accept the state as the only legitimate form of public authority, and operate as intermediate institutions between the state and the citizens within the emergent polity.

The findings in this study have important implications for modern political development elsewhere. This can be observed on two levels.
First, efforts at modern state-building have led to various types of poli-
ties in recent human history. The concept of intermediate institutions
can be useful as it traces a unique pattern of institutional evolution to
its historical roots and sees modern state-building as a process in which
significant social and political forces give up their claims on public
authority and settle their relationships with the consolidating state as
the sole legitimate form of public authority. An intermediate institution,
as discussed in this chapter, is an organised social and political force
operating between the state and the individual on a single basis, such
as that of religion, ethnicity, coercive force or kinship. These forces tend
to be a form of public authority in pre-modern societies, in setting va-
lues and behavioural boundaries for the individuals, and therefore
maintaining public order. In the process of becoming an intermediate
institution, these forces give up their claim to public authority and sub-
ject themselves to the state. Clearly, the transformation of these forces
into intermediate institutions is an important threshold in modern
state-building.

Secondly, much of the debate on modern political development has
focused on ‘developing,’ or non-Western countries. Having ‘failed’ in
their modern state-building, many of them are considered to have got
their ‘institutions’ wrong, or their culture is said to have difficulty
adapting to modern institutions. The notion of intermediate institution
goes beyond this dichotomous thinking. Religion, family and military
can be ‘cultural’ forces complicating modern state-building in a society
outside the original Western European model. On the other hand, seen
from within the country itself, these forces have been very much ‘insti-
tutionalised’ over a substantial period of political and social develop-
ment. It is therefore not especially useful to see religion, family and
military as either culture or institutions, and treat them as such in ex-
plaining modern state-building. The notion of intermediate institutions
treats these significant social and political forces as dynamic phenom-
ena. Their relationship to modern values and institutions can change
over time. Indeed, it is their transformation that has been at the core of
modern state-building in East Asia.

Notes

1 In this paper, Korea refers to the entire Korean peninsula prior to the end of World
War II, and South Korea after Liberation. Likewise, after 1949, China means specifi-
cally the People’s Republic of China.
2 For more on Weber and the modern state, see Held 1989;1992; Pierson 2004.
3 For more on the emergence of the modern state in Europe as a process of interna-
tional selection over its competitors, see Spruyt 1994.
The notion of mass society used here is different from that often associated with Daniel Bell (1962). The concept I use here is more about ‘modern conditions,’ in which there are intensifying interactions on a large scale among individuals of higher mobility and fewer ‘primordial group ties.’ These conditions lead to individual behaviour, communal norms, social relations, and national dynamics that are significantly different from those in the earlier times. From there, there is the problem of how such a society can be managed effectively, efficiently, fairly and humanely, given the declining effectiveness of the traditional family system, community, parochial faiths, values, norms and standards, and status-centred social structure. These conditions and the reformation of society they demand become the principal rationale for the whole ‘project’ of modern state-building.


See Needham 1954 for a comprehensive treatment of this subject.

Confucianism is not a religion in the sense often used. It is not spiritual or metaphysical, but rather a very worldly system of moral standards and behavioural codes.

A study by Zhang Hoan and Bai Yihua (1992), for example, details the development of local government structure at the village level from the Shang dynasty (about 1200 BC) to the reconstruction of village governance in the 1980s after the collapse of Mao’s commune system, and how it has operated as ‘the primary government unit’ of the national political system. See also Lu 2003 for the household registration system, and Zhu 1999 for the family system. For a general treatment of the omnipresent state structure in Chinese history, see Spence 1999, and Fairbank & Goldman 1998.

For details of the reforms, see McClain 2002: 12-14 and Sansom 1958: 47-66.

While there are competing views on when and how the modern Chinese state took shape, Julia C. Strauss (1998) has a good discussion on major efforts in modernizing the state institutions after the 1911 Revolution. See also Kuhn 2002.

Even under these circumstances, there were efforts by the Nationalist government to build modern institutions in many key areas during the early Republican period. See Strauss 1998.

For the shaping of the modern state in Japan, particularly in the early Meiji, see Hane 1992, Chapter 5, ‘The Meiji Restoration: The New Order’; and Jansen and Rozman 1986.

See, for example, Hall & Jansen 1968; Nakane & Oishi 1990; Hall, Keiji & Yamamura 1977.

Even though many see Japan’s colonial rule as a brutal interruption to the natural evolution of a modern Korea, studies have begun to examine the emergence of modernity in Korea during Japan’s colonial rule. See Shin & Robinson 1999. For the debate in particular, see Shin & Robinson 1999: 1-20; and Schmid 2002: 1-22.

James B. Palais’ (1966, 1975) work on the late Choson dynasty provides a good examination of the Chinese influence on the Korean system.

Professionalism is the principle that the military keeps itself politically neutral and operates under civilian command, rather than seeing itself as a form of public authority. The problem occupied the heart of the debate in the 1960s and 1970s, led by Huntington’s earlier work on military professionalism (1957). Those who challenged his thesis (for example, Janowitz 1964, Abrahamsson 1972) generally question ‘Huntington’s linkage between professionalism and political neutrality’ (Godwin 1978: 220), particularly in ‘new’ or ‘developing’ countries. As we will see in the current study, military involvement in politics reflects the legacy of the pre-modern institutional setting in the early phase of modern state-building, and its professionalisation (as defined here) is a key element of modern state-building.
The gunbatsu refers to ‘a clique of political solders within the military that take advantage of customary privileges in the military system and exert influence on state affairs’ (Matsushita 2001: 15). It has two types: hanbatsu, or regional cliques, those from a regional domain and dominant during Meiji; and gakbatsu, or school cliques, those from the military academy and dominant in Taisho (1912-1926) and the first half of Showa (1926-1989).

For a more detailed account, see Hane 1992: 96.

For more discussion on the pattern of civil-military relations under Mao, see Jencks 1978; Godwin 1978. For the Chinese military system before the PRC, particularly its relationship with the state, see Wang and Liu 1986; Zhao 1986; Liu 1997. Shambaugh’s work (2004) on ‘modernizing the Chinese military’ is the latest to document the changes.

A case can be made that the model of state-military relations that has developed in North Korea matches China’s very well, while the one found in Taiwan under the rule of Chiang Kai Shek and Chiang Ching-Kuo is also comparable.


Even before Japanese colonial rule, there had been efforts from the 1870s by the government to restructure army organisation and central military management. The military reforms were intended to introduce modern weaponry, modern training and management. As Lee Donghee (1982: 214) recognises, these reforms focused more on the problem of command chain and reporting lines, however, and the military’s relations with the state were not an issue.

For a broad view on the history of religion in Japan, see Toyota 1982 ‘Part I: The study of the history of religious institutions in Japan,’ 1-271.

For a more detailed account of the religious reforms and their consequences on the state-religion relations in pre-Meiji times, see McMullin 1983.

Given the fact that Confucianism and Buddhism, as part of the Three Treasures [Shinto, Buddhism and Confucianism] had dominated Japan, the new state campaign was clearly aimed at the demotion of Buddhism and marginalisation of Confucianism. See also Kitagawa 1966: 254.

The government initially established the Jingikan (Department of Shinto) and then in 1872, the Board of Religious Instruction, to manage the religious matters. With these bodies in place, ‘the government insisted on functioning as a religious and moral agent’ (Hane 1992: 108).

See, for example, O’Brien 1996.

For a history of religions in Korea, see Grayson 1989.

It is estimated (Kim 1997) that the number of Christians had grown from about one million in the early 1960s to about 14 million, or one third of the population by the late 1990s. James Grayson (1989: 2) claims, ‘Korea is the only nation in Asia where Christianity has established itself during the past 200 years as a significant component of the national culture.’

‘State’ in this context refers clearly to the polity as discussed earlier. For more on the roots of the Japanese family system, see Henry 1981 and Sano 1973.

For example, it was the power of the household head, namely the father, to approve the marriage of the children.


For background on the issue, see Wells 1999: 191-220.

‘Colonial modernity’ refers to the modernisation believed to be achieved in Korea under Japanese colonial rule in the 1920s and 1930s. The problem of the traditional family system during the period has been a key and widely debated issue. See Shin and Robinson 1999 for further discussion.
For a more detailed introduction to the roots of the Chinese family system, see Tao & Ming 1994; Zhu 1999.

In addition to Glosser’s study, Neil J. Diamant (2000) also looks at China during the early Communist period as a case of the pattern of active state intervention in family matters.
Preface

The rise of ‘nationalism’ as a phenomenon and a concept is mostly discussed within the context of European and American history, in particular in connection with the building of nation-states. In most European languages, the equivalent to ‘nationalism’ is used, but the concept is known under a variety of names in Chinese, Japanese, and Korean. In this essay ‘nationalism’ is treated as a particular form of ‘identity’ that may combine elements from group sociology, political mobilisation, as well as religion and ideologies. As the content of the term differs with time and place, it should not be considered the creation of any particular scholar. East Asia imported European and American discourse as part of its modernisation process. Differences in the economic, social and political structures of East Asian societies meant that attempts at the mere copying of the (im)material institutions of any particular Western country were unlikely to succeed. ‘Nationalism’ is a general term for expressing affinity and loyalty in word and/or deed, among a large group of people spread over a considerable territory, all sharing a similar identity and aspiration towards a significant degree of autonomy, if not sovereignty. It is closely linked to discourse and identity politics (see below), and the kind of mass mobilisation characteristic for the modern age and the building of nation-states. The character of nationalism is deeply influenced by the material and immaterial context of a given age. ‘Globalisation’ bears all the hallmarks of a new historical age – and the accompanying birth pangs as well. The chasm between economic internationalisation and political institutions anchored in nation-states has not yet been bridged by the networks of political cooperation needed to stabilise the global economy. Circumstances in different parts of the world display huge differences, and contribute to the strengthening of new variants of nationalism. Political globalism (‘Washington Consensus’) had assumed the gradual weakening of nationalism, aided by the growth of an international civil society based on a strong middle class, imbued with ‘market democracy’ values. ‘Privatisation’ has become more than an economic tool, considered to be a value akin to (individual) freedom, a pillar of stable democracies. One of the paradoxes
of globalisation is the erosion of the middle class in the US and other advanced economies, generally thought to be essential for the proper functioning of (market) democracies. The fervour of some proponents of privatisation is far from being a shining example of pragmatism. The tragic costs of life resulting from forced privatisation in Russia and the Baltic States has been estimated to reach one million lives, according to the results of a recent British research group published in the leading British medical journal *The Lancet*.3

The rise of Germany, Russia (Soviet Union) and Japan roughly a century ago was accompanied by explosions of nationalism, and demands for a new ‘just’ international order. The current rise of China and its nationalism is occurring at the same time as Russia, India and Brazil wish to (re)enter as major players at the centre of global order. Historical precedents are rather imperfect guides for anticipating the consequences of the broadening of the number of major powers. The voices calling for an adjustment of the present international order in the name of justice will want to be heard, but the kind of nationalism developing in China, post-war Japan, and present-day India will differ. One reason lies in the vastly different genesis of those three states. The pre-modern Chinese empire and pre-modern Japan differed in many aspects, with consequences for the structure and identity after their rebirth as modern nation-states. These differences go far beyond the Cold War paradigm that divided the world into (Western) democracies and socialist states. The geopolitical circumstances of China and Japan differ vastly. Pre-war Japan wanted to become a continental power; China now wants to become a maritime power with a significant role in the Western Pacific. It goes without saying that Japan’s emperor system produced a kind of nationalism quite different from nationalism in China under the dictatorship of the Chinese Communist Party. Nationalism is never the simple result of political propaganda, but is also shaped by the structures of the domestic environment and a country’s international and global ambitions. Size is also a factor. Nationalism in the relatively small states of nineteenth-century Europe must be distinguished from that of Eurasia’s giant states – China, India, Russia – and their global ambitions. Nationalism in Japan and Korea (South Korea, the RoK) is tempered by the need to maintain close defence relations with the United States while avoiding provocative behaviour towards the Eurasian mainland.

**Nationalism and attitudes towards reform: The identity factor**

In the nineteenth-century Japan, China and Korea used the models provided by the nation-states of Europe and North America to support their
own reform efforts in search of a restoration of power. No particular country became the exclusive model for emulation. The building of institutions to deal with specific tasks, such as the building of communications on land and at sea (railways, post) and the armed forces, required new forms of government institutions. Developments in the economy and the armed forces also brought about change in the composition of power elites. These endeavoured to restructure government institutions to their advantage, accepting often far-reaching changes to the structure of their identities in the process. Modern nationalism creates a composite identity that facilitates social and political unity, seeking to mobilise all sections of society for the strengthening of ‘national’ power. Throughout East Asia, calls for effective resistance against encroachment or aggression by Western powers appealed to ‘defensive’ nationalism. Defensive nationalism also functioned to unite the nation, as in the case of the modern Japanese state founded in 1868. Japan soon embarked on its own imperialist expansion, swallowing Taiwan, the Korean peninsula and huge chunks of China long before full-scale war broke out in 1937. Japan’s imperialist successes made it relatively easy to keep the nation united even in the face of economic crises and political turmoil. Ruling elites in East Asia understood well that the introduction of the required wide-ranging changes would lead to thoroughgoing reform of the political, economic, social and power structures, but this was deemed preferable to running the risk of wholesale revolution. Delaying change risked survival as an independent country, but also the continued hold on power of domestic elites. Japanese newspapers of the 1930s and Chinese ones from the 1980s share one buzzword: ‘reform’. The continuous struggle for reform is intended to remind the nation that change is the only alternative to defeat in the race to survive in international competition.5 Not surprisingly, the content of reforms keeps changing as new challenges appear. Individuals are not always happy about uninterrupted reforms which may have negative consequences as well. Acceptance of change is also culturally conditioned. At the danger of oversimplifying, Japanese society tends to conceptualise individual and group ‘identity’ as a flexible, fluid phenomenon. It was probably the enormous diversity within Chinese society and culture, aided by the presence of numerous, mutually unintelligible spoken languages within this huge subcontinent, that strengthened local group identities and individuality, aptly expressed in Sun Yat-sen’s famous comparison of the Chinese population to ‘loose sand’, needing strong guidance and leadership in order to coalesce into a single nation. After decades of class struggle, the Chinese Communist Party now emphasises the need to build a harmonious society – exactly because society is far from harmonious. Resistance to change imposed from above is not conducive to positive acceptance of continuous reform. The stub-
bornness of the Chinese peasant is legendary. It seems futile to construct static models of Chinese and Japanese identity. Attitudes towards survival of the individual and the group (or nation) are contingent on the willingness to accept change, which in turn is closely linked to the structure of individual and national identity. We therefore need to suggest a definition of identity that helps us to explore the linkages between individual, groups and group ideologies, such as nationalism.

‘Identity’ answers to the spiritual and social need to see a certain degree of consistency in one’s actions and thinking. Decision-making involves the expression of preferences among a number of alternatives. Once actions are taken individuals strive to construct some level of consistency with past actions, even if the original rationale underlying past decisionmaking is self-contradictory. The manner in which consistency is constructed is the core of individual and/or group identity. Discourse is therefore an important tool, but it does not shape identity by itself. ‘Nationalism’ as a particular form of group identity can therefore only be understood as a complex process, rather than an interaction among static identities.5

The intervention and aggression by European powers and the US in East Asian affairs from the nineteenth century on strengthened not only opposition against foreign powers, but also domestic opposition against the Chinese, Japanese and Korean ruling elites unwilling or incapable of organizing effective resistance. In nineteenth- and early twentieth-century imperial China, this was exacerbated by the fact that the ruling political elites were still dominated by Manchus. The cooptation of large numbers of ethnic Chinese into the administration of the empire did not change this basic fact.

The Manchu government in China accepted defeat in the Opium War against England rather than taking the risk of mass mobilisation which might turn against itself. A decade later, in the 1850s, the Japanese government elites did not dare to mobilise the general populace against the US Commodore Perry, who used the threat of his ships’ cannons to open up the Japanese market. There is little doubt that active resistance would have stood a good chance of preventing, or at least delaying, foreign intervention and aggression for years, if not decades.

The beginnings of modern Chinese and Japanese nationalism

The defeat of China in the Opium War (1839-1842) was only the first signal that China, Japan and Korea required urgent reforms to maintain
their independence against Western powers. China’s history abounds with frequent and large-scale peasant wars linked to activities of secret societies and popular religion. Religious factors played a large role in the Taiping Revolution (1850-1864) and the Boxer Rebellion (1899-1901). They created temporary identities in large parts of society exhibiting a characteristic fusion of religious, social and political identities. Interestingly, the Taiping Revolution contained religious elements adapted from Christian beliefs, including equal rights for women.

The extremely bloody suppression of the Taiping Revolution was supported by Western imperialism, and contributed to the growth of anti-foreign nationalism at the grass-roots level. It is not surprising that this included opposition to the Manchu government, its Chinese collaborators and Western powers. It was also directed against the kind of Confucianism that had been widely used to legitimise and justify the ancien régime. This demonstrates that Chinese – and not only Chinese – nationalism needs to be understood in a wider context than the divide between ‘us’ versus ‘them’ (foreigners). Times of deep and rapid change also challenge both group and individual identity. Images of identity are social constructs, and in that sense must be considered to be ‘social truths’. It makes little sense to deal with them in terms of ‘imagined communities’, as if we could prove distinctions between ‘real’ and ‘imagined’ communities. ‘Nationalism’ is also subject to an identity politics that seeks to change identities with political aims in mind. Governments generally have only limited capacity to influence identities.

In nineteenth-century China, nationwide protests against the misuse of investments in companies entrusted with constructing railways triggered wider unrest. Eventually this became fused with anti-Manchu nationalism, resulting in the overthrow of the Chinese empire, and the establishment of the Chinese Republic in 1912. None of the forces existing in China at the time had sufficient power and appeal to reunite the Chinese subcontinent. Fifteen years of outright warlordism was followed in the late 1920s by a civil war, in which the anti-communist Kuomintang (‘Nationalist’ Party; KMT?) and the Communists sought to solidify their power base. Internal political and economic chaos facilitated Japanese aggression. By the early 1930s, Northeast China and a huge area just to the north of Beijing were already controlled by the Japanese military. Full-scale war followed from 1937 until Japan’s defeat in 1945. Most Chinese actors appealed for resistance against Japan, but repeated attempts to build a ‘united front’ against Japan remained fragile. As in other occupied countries such as France and Korea some local forces persisted in resistance, while others adopted a ‘neutral’ stance to keep their own region out of the war. It was not always easy to draw a line between protective cooperation, collaboration and outright treason.
The Chinese civil war involved much more than a struggle between the anti-communists and communists. Both parties also endeavoured to gain the support of traditional secret societies, religious groups, ordinary armed gangs and even bandits. Attempts to ‘reform’ these groups according to modern Party principles were not always successful. Detailed research into anti-Japanese resistance movements demonstrates that mobilizing the population to participate in armed struggle against Japan was not as easy as often claimed (Radtke 1995). By the time Japan surrendered in August 1945, China was a deeply divided society. Party ideologies clearly did not suffice to unite the Nation. Anti-Japanese nationalism was a powerful means to reunite Chinese society, and was also an important factor in stimulating post-war anti-Japanese nationalism in Korea.

Japan’s early successful nation building and imperialist successes between 1875 (intervention in Taiwan and Korea) and 1905 (victory over Russia) facilitated the use of religious elements by ruling elites, culminating in the growth of a mystical ‘emperor system’, and the creation of nationalist myths that revelled in the ‘uniqueness’ of the Japanese nation. Like China, pre-modern Japanese history also has its (smaller) share of peasant uprisings and expressions of ‘civil disobedience’ (fufuku). Elites had better success than in China in curbing the extent of such disturbances; the relatively small size of the Japanese islands likely aided in asserting control. Beginning in the 1920s, Japan’s Meiji emperor became the focus of religious veneration, particularly pronounced in Japan’s armed forces, and prominently so in the navy. The fusion of religious zeal with nationalism was not limited to Japan. Most ironically, the vehemence of religious veneration of Mao Zedong during the Cultural Revolution was most likely also a reaction against atheist policies, a phenomenon repeated by the Kim dynasty in North Korea. The persistence of numerous religious groups, especially at the grassroots level, is another factor contradicting simplistic descriptions of East Asian civilisation as ‘Confucian’.

To summarise, ‘nationalism’ is only one element among others comprising and shaping identities. The structure of identities also depends on society’s power structure, institutions, traditions, and culture in general, and prevailing ideologies and religions at a given time. In short, nationalism should be treated as the result of a complex process, rather than an autonomous ‘ideology’ rivalling existing religions and ideologies.
The historical background: The Chinese and Japanese empires in pre-modern times

Huge differences in the history of China, Japan (and Korea) make it essential to understand nationalism as a dynamic phenomenon changing with time and place, a particular expression of identity (politics) which must be seen against the background of discourse (politics). The written political discourse in all East Asian states is rooted in the discourse and vocabulary created by Chinese Confucian officials and scholars over many centuries, before spreading to Korea and Japan, where these became adapted to fit quite different social and political environments. Confucianism as a discourse links debates on issues in the political economy with issues of social morality, structurally similar to Adam Smith, who emphasised the link between economic and moral issues. Confucian discourse started to exert a major influence on Japan (and Korea) from around 500 AD onward. The adoption of Chinese terminology did not result in the imposition of a common value system in East Asia. The structure of government and the economy continued to change throughout Chinese and Japanese history, and so did the pattern of identities that informed individuals about their station in life.

Linguistic and ethnic identities in the Chinese and Japanese empires

The ethnic and linguistic composition of the Chinese and Japanese empires was much more complex than most contemporary Chinese and Japanese citizens appear to realise. China was a multi-ethnic and multi-linguistic empire, but even among those speaking ‘Chinese’ there were numerous mutually unintelligible dialects, akin to the independent languages belonging to the family of Germanic languages in Europe. Although Tibetan belongs to the Sinitic group of languages, and Korean and Vietnamese have a high proportion of words loaned from Chinese, there seems little doubt that native speakers regarded themselves as possessing an identity basically different from that of the elites of the Chinese empire.

The Japanese language as such belongs to another different language family, the Altai-Turkic languages, and there were also significant differences among Japanese dialects. The Ainu formed a significant ethnic minority in Japanese history, with an independent language unrelated to Japanese. Written communication among political elites in China and Japan was distinct from the varieties of spoken language, using forms of ‘classical’ Chinese heavily influenced by the canon of Confucian texts, whose contents include a wide range of ideas. Future mem-
bers of the bureaucracy were given long years of training in political discourse, leading to the creation of an exclusive elite consciousness, somewhat analogous to the function of Latin in Europe’s past. The Confucian canon includes texts susceptible to widely different interpretations. Different periods and governments displayed preferences for different texts.

In the pre-modern age, ordinary people seldom came in direct contact with officials of the central government, rather with local officials and elites. In such an environment, it remained difficult for grassroots activities to directly challenge central government officialdom. China, Japan and Korea emphasised the exclusive function of the official realm, beyond formal or legal challenge by ‘ordinary’ people. Confucian or religious values could be used in pointing out misuse of power by the ruling elites, but any such challenge did not enjoy protection against revenge by government officials. The distinction between an exclusive ‘official’ sphere, and ordinary people who did not enjoy access to this official (= ‘public’) sphere, inhibited the growth of an autonomous civil society in all of East Asia. We find social space relatively free from direct interference by government (officials) mainly at the level of micro-society, and it was here that social values were transmitted most effectively. The study of dogma, whether Confucian or Christian, is inadequate to understand European and East Asian value systems. There is no simple catalogue of static values that would allow us to interpret or predict behaviour, and that includes nationalism. There is no alternative to time-consuming and painstaking field research if we want to predict the future of ‘nationalism’ in any particular society.

The symbiosis between governmental officials and (local) economic elites was a major factor preventing the formation of the idea of a ‘public’ realm accessible to all citizens. Distinctions between ‘society’ and the ‘state’, between ‘private’ and ‘public’ are a necessary condition for the development of ideal notions of democracy and capitalism, but not sufficient by themselves to explain differences in the development of political systems in East Asia and Europe. Western societies continue to exhibit informal patterns of cooperation between (local) economic elites, political and government organs, even if theory and the law seek to maintain clear distinctions between public and private. The ensuing mingling of public and private interests is frequently hidden behind sophisticated ruses that I should like to term high-tech corruption. Western government and private institutions were able to establish networks to successfully permeate all corners of the globe. The success of early trading companies, latter-day transnational corporations and financial institutions is in stark contrast to the inability of non-Western empires to make inroads in the West. It is suggested that one of the rea-
sons for this Western success is rooted in the ability to fuse public and private forces if not in a rational, then in a relatively efficient, way.

**Religion and the private realm**

Pre-modern Chinese and Japanese elites were able to control the political impact of all forms of religious beliefs that might erode control by (local) government, and more successfully than in the West. This was aided by the absence of strong nationwide religious institutions able to challenge political organs. There has never been one common religion or ideology uniting East Asia, and including Confucianism, Buddhism, and Shamanism in all their forms. The use of the Chinese classic Yijing as a basis for soothsaying is widespread throughout East Asia, even though such practices have not been acknowledged as religion as such. Related forms of soothsaying are widespread among believers of Buddhist and Shinto sects, as well as in religions on the East Asian mainland. Such commonalities did not lead to feelings of a common identity, which might have engendered a cross-border Asian nationalism.

When Christianity attracted a mass following in Japan at the turn of the sixteenth century, the ruling elites were quick to subject Christianity to the same kind of controls and prohibitions suffered by followers of native religions. All kinds of beliefs and religious practices tended to be tolerated as long as they did not interfere with elite rule and institutions. Quasi-religious and ideological indoctrination remained limited to the numerically small elites, while beliefs at the level of micro-society were often ignored, as long as they did not present challenges to the government. Acceptance of this status quo obviated strong calls for the secularisation of the state, which were an important factor in European history, especially from the seventeenth century on. This fact also shaped the modern nation-state and its nationalisms in Asia. One effect of the forced Christianisation of Europe was the active use of religion to support government, eventually resulting in the struggle for the separation of religious and state institutions so important in the development of the modern state. Even if the French Revolution failed to build a truly secularised France, the experience strengthened calls for ‘secularisation’ in the West. This also contributed to supporting demands for a ‘private’ sphere free from religious or ideological interference by the authorities. It is rather ironic that appeals to the state to guarantee the private sphere of individuals was one reason for increased state authority and its use of nationalism in educating individuals as ‘citizens of the state’. Leaving the state such a large margin in shaping citizens’ identity acted as a major impetus to the growth of twentieth-century totalitarian-
ism. The promotion of nationalism by totalitarian systems was also used to legitimise the totalitarian state.

The state and nationalism in East Asia

Loyalty to the 'state' rather than the emperor appeared in China about a thousand years ago during the Sung dynasty (960-1279). The broadening of the character of the 'state' led to the concept of loyalty to the state itself, rather than allegiance to a particular ruler. This was a step towards state (and nation) building in the modern sense, and was accompanied by increasing importance of individual, transferable property rights (Shibata 1990). The subsequent conquest of China by first the Mongols, and then the non-Chinese Manchus (the Qing dynasty 1644-1911), led to the reintroduction of feudal-type loyalty to the foreign rulers of the Mongol and Qing dynasties, though this was also the case during the Ming dynasty ruled by ethnic Chinese (1368-1644). It inherited some authoritarian elements introduced by the Mongol rulers of China. Despite the development of urbanism and commerce, the Ming political system did not continue some more modern trends observed in the Sung state. The Mongol and Qing dynasties witnessed the growth of early forms of Chinese resistance to foreign ruling elites, which some scholars have dubbed 'proto-nationalism' (Chan 1999). The twentieth century saw a sweeping revisionist approach to Chinese history under the impact of nationalism, looking to reinterpret any kind of Chinese resistance as an expression of 'nationalism'. The official sources published by the foreign Mongol and Manchu dynasties claimed that they had in fact become 'Chinese' due to the strength of Chinese culture. True or not, this was meant to facilitate the acceptance of foreign rulers. A better understanding of these processes, the collapse of pre-modern empires, the rise of modern Western imperialism, and the period of decolonialisation and nation-building in countries as different as Turkey, Russia and Malaysia (to mention only a few) would greatly aid our understanding of nationalism in the age of globalisation. Research on Chinese 'proto-nationalism' would gain from a comparative perspective that would include the significance of 'nationalist' resistance against foreign aristocratic elites in other empires, such as the Ottoman Austro-Hungarian and British empires.

The seventeenth century

The seventeenth-century Manchu conquest of China and the unification of Japan under the Tokugawa ushered in new developments in all
spheres of everyday life. Society in the Manchu Qing Dynasty was highly dynamic, and further developed a system of government administration adequate to deal with a multi-ethnic, multilingual Chinese empire that included regions with different economic and political structures. Increasing control over contemporary Northwest and Southwest China (Xinjiang and Tibet) vastly expanded the territorial size of the Empire. Unrest and rebellions, as well as the strengthening presence of European empires in Asia from the early nineteenth century, undermined the foundations of the traditional Chinese empires in ways reminiscent of the decay of the Ottoman Empire. None of this was reflected in official Chinese sources that sought to maintain the fiction of a traditional world order, stressing the ritual acknowledgement of the superiority of the Chinese ‘tribute system’. This has often been misinterpreted as a kind of Chinese-centred international order in East Asia.

Japan was unified under the rule of the Tokugawa in 1600, but small ‘states’ (han, usually translated as domains) retained a large measure of autonomy.\(^{10}\) Japan’s rulers never agreed to any type of arrangement that would have limited the country’s sovereignty. The central government sought to extend its authority over the mini-states (han), but central authority started to wither in the nineteenth century, even prior to the onslaught of Western imperialism. The inability of the central government to protect Japan led to its overthrow during a relatively brief civil war, followed by the creation of an independent and sovereign modern nation-state. In the nineteenth century, China endured several rebellions before the republican revolution put an end to the tottering Chinese Empire. The huge losses of human life and material destruction were exacerbated by foreign aggression that continued unabated. Chinese resistance to Japanese aggression and occupation of large swathes of Chinese territory, and Japan’s defeat in 1945, were the major factors in shaping China’s nationalism. Its character was obviously quite different from that of modern Japan’s nationalism. The Japanese variant was fuelled by Japan’s success in building a huge, but short-lived, empire in East Asia and the western Pacific.

Japanese discourse from the seventeenth century displayed lively discussions about ‘Japanese’ identity in an age when Japan made rapid advances in urbanisation, technology, the economy and culture in general. For the study of nationalism, it is important to remember that this strengthened Japan’s self-confidence as having a civilisation which had borrowed much from China, but was definitely independent. Political discourse within local states, at the centre, by philosophers and exponents of a growing urban culture, made for increasing cultural self-confidence, and contributed to the growth of a Japanese mass culture with a significant role in laying the basis for nineteenth-century modern nationalism.
Imperialism in East Asia

The threat posed by the Mongolian empire had caused the rise of Chinese proto-nationalism, and unsuccessful Mongol attempts to conquer Japan in the thirteenth century also led to a sharp rise of Japanese fears of threats from the Asian continent. The end of the sixteenth century saw an unsuccessful Japanese attempt to gain a permanent foothold on the Korean peninsula. Shortly afterwards, the Manchus began a struggle lasting several decades and resulting in the establishment of the Manchu-Qing Dynasty. Fears of Manchu attacks on Hokkaido in the Northeast and Kyushu made Japanese elites recall the threat of the Mongol invasion three and a half centuries earlier. Such fears were kept secret from ordinary Japanese citizens. From the late eighteenth century on, the Japanese increased their exploration first of Hokkaido, then of islands further north. This alerted them to Russians moving into the undefined borderlands. Japanese fishermen objected to Korean moves which prevented them from contact with Korean coastal areas; mini-states on the Japanese south-western island of Kyushu had their own (trading) links with the Ryukyus (later Okinawa). The Japanese rebel leaders who overthrew the Tokugawa administration and founded the modern Japanese state hailed from the south-western island Kyushu, close to the Korean peninsula, and it is not surprising that their attention was much more focused on developments across the sea.

Japan moved from a defensive reaction towards the forced ‘opening’ of the Japanese market by the cannons of the US Commodore Perry (1854) towards a new strategy, one that placed emphasis on expanding Japanese influence first over Taiwan, then Korea. One of the aims was reducing Russia’s influence in Korea, China and the offshore islands to the north of Japan.

It was Japan’s successful imperialism that united the nation more than ideals of democracy imported from abroad. Japan’s gradual acceptance of the outward paraphernalia of an institutional monarchy and the beginnings of a parliamentary system laid the foundation for the subsequent strengthening of democratic ideas, even if the introduction of full-fledged party democracy had to wait until after Japan’s defeat in 1945.

Pre-modern Japan had already witnessed the beginnings of a ‘mass’ society. Around the turn from the eighteenth century, scholars like Hirata Atsutane had visions of a Japan with a moral responsibility to unite the world. Sato Shin’en preached Japan’s global civilizing mission around 1800. At the time their ideas could not develop into a practical ideology of imperial(ist) expansionism, partly due to the fact that the pre-modern government saw no need, and was even apprehensive of threats to stability caused by the growth of ‘mass society’ lending a
voice to ordinary citizens. Hirata Atsutane’s writings were very close to the sentiments of ‘common man’, and received widespread attention. He emphasised ethical behaviour of ordinary people in everyday life, and stressed an innate sense of justice (sententeki dootokukan). He was perhaps more influential than elite scholars like Motoori Norinaga, whose theories about Japanese uniqueness and independence from Chinese civilisation appealed primarily to the traditional elites. In the newly created modern state, Hirata’s thinking became one source for the ‘Emperor System’, a quasi-religious ideology used to legitimise modern Japanese imperialism. The sense of a Japanese cultural and/or religious mission, coupled with a nascent mass society, was a potent factor in shaping nationalism in the young nation-state.

**Nationalism in East Asia: The role of religious traditions in Japan. Modernisation in a divided Asia**

‘Nationalism’ is a particular form of ‘group identity’. A narrow definition would limit it to nation (states), but it is also widely applied in the absence of formal nation-states, in the modern (Western) sense of the term. The composition of identity elements such as attachment to ethnic, territorial, political, religious or civilisational features may vary greatly. As a consequence, the nature and structure of nationalism differ by region and shift over time. The reality of nation-states created first by Japan in 1868, and many decades later in China, differed greatly from notions of nation-states erected in the West. From the start, these states were no mere imitation of the West, even if they relied heavily on the terms of Western political discourse translated into Japanese and Chinese. Interestingly, the building of the modern Japanese nation also included an institutional reorganisation of its originally highly pluralistic religious life, which forcefully amalgamated various native beliefs into an all-encompassing, state-sponsored ‘Shinto’ organisation. It should not have been a surprise that ‘nationalism’ and ‘Shinto’ entered a close relationship, facilitated by the absence of an elaborate ethical system propagated through (nationwide) church institutions.

Preachers like Tanaka Chigaku who advocated Japanese global leadership were very popular during the 1920s and 1930s. Tanaka became a taboo figure immediately after the end of World War II, and was hardly ever discussed in post-1945 Japanese scholarship. This coincides with a general post-war downplaying of the role of religion(s) in the history of Japanese politics.

Japanese nationalist concepts developed around two poles. One was the ambition to defend Japan by strengthening the country to rival Western imperialist powers, the other Japan’s own imperialist expansion to-
wards its Asian neighbours. Nativist sources emphasised nationalist feelings of superiority versus Japan’s Asian neighbours. Japan’s weakness in the face of Western imperialism caused feelings of inferiority, but also stimulated great efforts to quicken the pace of Japanese development. These were used to justify the priority of the state over individual interests and political freedom. Solidarity with Asia as a victim of Western imperialism, feelings of superiority towards Asia, and inferiority towards the West all coalesced into a very complex array of nationalist sentiments. It is not difficult to draw parallels with the structure of fascist movements which arose in those European latecomers to modernisation during the first half of the twentieth century, and the mingling of state and religion observable in Spain and Portugal.

China’s nationalism developed in an age of unprecedented civil wars, foreign aggression, economic instability and general social turmoil. It remains elusive as to what extent Communist ideology informed the conceptualisation of ordinary Chinese citizens concerning their micro-society, and the place of China in the world. The Communist leadership emphasised the internationalist aspect of communism as an ideology uniting the world. Its universalism echoed pre-modern beliefs in the superiority of Chinese civilisation. This was also used to overcome narrow-minded nationalism (chauvinism) at the grass-roots level that had been fuelled by the devastation wrought on China by decades of Japanese aggression, war and occupation. When China joined the war on the Korean Peninsula (1950-53), the enemy was not any particular nation, but imperialism.

Common to most forms of nationalism is the perception of the international system as ‘unjust’, a blame usually apportioned to the main leaders of the international order. Like other modernizing latecomers, Japan’s mainstream politicians and the media conceptualised the inter-war international order as dividing nations into ‘haves’ and ‘have-nots’, seeking to redress the injustices maintained by the Western-dominated international order. The age of globalisation has added another dimension to this dynamic. In reaction to the spread of globalism, symbolised by the push for market democracies embodied in the ‘Washington consensus’, some blame the ‘anonymous’ forces operating in the global marketplace as the main cause for the unjust international order. In this sense, ‘anti-globalism’ shares important characteristics with nationalism. In the area of trans-border globalisation, it is no longer one particular nation, but ‘the system’ that is held responsible for enduring injustices. It is interesting to note that none of the governments of the rising countries – Brazil, Russia, India and China (BRIC) – has supported anti-globalist movements. Criticism is raised against the spread of Western-propagated ‘market economy’ whenever this is seen as a threat to the existing domestic order, and criticised as ‘interference in internal af-
fairs’. The rise of BRIC poses challenges to a Western-dominated international order, and might rekindle the fires of nationalism. It is still too early to predict what impact the current deep worldwide economic crisis will have.

The major powers on the Eurasian continent – Russia, India, China, and Brazil as the major power in Latin America, differ vastly in terms of history, politics, economic structure, culture and ethnic composition. Their economies, as well as the structure of their exports, are far from balanced. Russia’s reliance on the export of energy recalls the monoculture characteristic of colonial economies. The current crisis has once more exposed the fragility of Russia’s economy. Huge currency reserves held by China and Russia contribute little to enable them to compete with the West in the production and innovation of intellectual property. Taken together with the ability – and the necessity! – of the West to keep attracting huge funds for investment, the interdependence and asymmetrical structure of the global economy make it impossible to chart the structure of the relative economic power of states in simple terms. The governments of China, Russia, India and Brazil share a kind of moderate nationalism that basically accepts a common global economic order.

Clash of two nationalisms?

‘Nationalism’ can only be understood in the context of rapid domestic changes in international settings that each country perceives differently. Japan’s leaders and elites had consciously constructed the foundations for a modern-style Japanese nationalism to unite and mobilise the nation. Japanese analysts instinctively assumed that Chinese nationalism had been similarly constructed and manipulated by China’s leaders, and that Japanese pressure on Chinese leaders would make it possible to have them suppress, preferably eradicate, anti-Japanese nationalism in Japan. Ishibashi Tanzan, a well-known Japanese liberal, conceptualised the clashes between China and Japan in the 1920s and 1930s as the ‘clash of two nationalisms’, but few in Japan wished to acknowledge that the strength of spontaneous anti-Japanese feelings in China was caused by Japan’s aggression. No Chinese government would have been in a position to manipulate anti-Japanese nationalism at will. Tada Hayao, a leading military officer, created a sensation in September 1935 when he issued a statement that clearly blamed Japanese behaviour in China as an important factor in anti-Japanese nationalism, including Japan’s expressions of its superiority and the contempt displayed by Japanese towards Chinese (Bisson 1938; Radtke 1997).
The Post-war world

In the early days of the People’s Republic of China, established in 1949, the world was still conceptualised in terms of ‘two camps’, a socialist one led by the Soviet Union, and an imperialist one headed by the US. It did not take long before the Soviet Union itself was accused of ‘social imperialist’ ambitions throughout the 1960s. This heralded a gradual weakening of the internationalist aspects of China’s communist ideology. Grass-roots nationalism prospered in times of radical political movements, such as the Great Leap Forward (1958-1960) and the Great Proletarian Cultural Revolution (1966-1971). It was often indistinguishable from the kind of xenophobia found elsewhere. For a long time China identified with countries in the ‘Third World’, originally due to China’s opposition to global imperialism, and propagated with a missionary zeal that included spreading the socialist message. One may very well conceptualise this as a kind of ideological expansionism fused with nationalist sentiments. The demise of ‘class struggle’ and the acceptance of one global economic order in the 1980s changed the nature of China’s conceptualisation of global order. In recent years, the Chinese Communist Party adopted a ‘reverse course’, profiling the Chinese nation-state as heir to a five-thousand year-old civilisation. Such claims are also thought to increase China’s ‘soft power’ abroad, heighten domestic self-esteem and strengthen the legitimacy of the PRC. Similar to what happens in other large countries, this also has the potential to develop into full-fledged cultural nationalism. This has been strengthened by China’s rise to economic power, but may also be weakened again by the current economic crisis. The discourse published under Party control treads a careful line in order not to provoke foreign countries, and seeks to curb excessive nationalism at the grass-roots level (Hughes 2006). Such rapid changes in national(ist) identity are not unique to China. With China’s defeat in the Opium War, Japan increasingly distanced itself from the world of Chinese civilisation. Subsequently, Japan abrogated the leadership role of free Asia from the Western imperialists. After Japan’s defeat in World War II, the country reinvented itself as the leader of the ‘Free World’ in Asia. Such claims spark opposition among China’s Communist leaders – there is little grass-roots support in China and the Koreas for any kind of Japanese regional leadership role.

Rapid changes in concepts of ‘identity’ and ‘nationalism’ are not uncommon in the Western world, either. For many decades, the United States stressed its distance from ‘old Europe’, but in the twentieth century built up its role of leader and representative of the West. Little is needed to cause sudden eruptions of anti-French or anti-German na-
nationalism. There is nothing surprising about this. Concepts of nationalism and identity are easily subject to unpredictable change.

**China’s changing view of the world also causes changes in its nationalism**

Throughout the 1970s, China pursued strategic cooperation with the United States, directed against the Soviet Union as China’s most dangerous enemy, true to traditional United Front strategy. The implementation of the reform course in the 1980s also led to a revision of China’s conceptualisation of the international order, and most importantly included the recognition of the existence of one global economy. This made it possible for China to express its willingness towards cooperation in establishing one global order, actively supported by China. China, it was argued, would strive for a just international order and encourage a multipolar system to put constraints on US hegemonic aspirations. One may view this as a modification of China’s traditional United Front strategy. Expectations of a multipolar global order were combined with hopes for a relative reduction in the global leadership role of the US, thus reducing possible antagonisms between the US and a rising China. Towards the end of the 1990s, China realised that such expectations had been premature. At the same time, this period marked the beginning of the meteoric rise of China’s economic development. Pride in this sudden growth of China’s global impact also strengthened nationalist feelings. It is not difficult to predict that unexpected economic downturn may be blamed on foreign conspiracy. The period between the end of the Cold War in 1991 and deep changes in the international system between 1993 and 1997 also weakened traditional ‘socialist internationalism’, but reappeared in guiding principles that China succeeded in inserting in the Shanghai Cooperation Organisation (SCO). Instead of preaching international class solidarity, China’s new internationalism advocates a spirit of international cooperation among non-aligned countries on the Eurasian continent. Wars in West Asia, and tensions surrounding Iran’s role in the region, deeply affect the other members of the SCO. It remains to be seen whether the organisation is able to abide by its principles for a new kind of international order.

**Japan’s defeat in 1945: The end of Japan’s nationalism?**

Japan’s expansionist, aggressive nationalism ended with Japan’s defeat in 1945. The post-war administration established by the US occupation
first weakened the role of Shinto institutions while guaranteeing freedom of religion, and for a time attempted to destroy the ideological basis of Japanese nationalism. Japan’s occupation was mainly executed by the United States. China – formally still represented by the KMT government - was elevated to occupying a permanent seat on the newly established United Nations Security Council. The US prevented China from participating in the occupation of Japan, and was unwilling to have Korea and Southeast Asian countries invaded by Japan take part in the occupation. This was one of the factors preventing the socialisation of Japan by its Asian neighbours, a process that would have facilitated the acceptance of Japan in the community of Asian nations, similar to Germany’s reintegration into the European community. Needless to say, the outbreak of the Cold War in 1947 served to widen the gap between governments and peoples in Asia.

It is remarkable that Japan’s record of militarism, the emperor system, state-sponsored Shinto and right-wing nationalism did not bring about violent outbreaks of nationalism against the US-led occupation. On the contrary, Japan’s conservative elites very soon succeeded in constructing a cooperative relationship with the occupation administration. The victims of Japan’s aggression, now turned communist, were themselves cast in the role of aggressive/aggressor nations. The Korean War played a key role in this process.

The post-war Japanese government adopted the stance that Japanese security should centre on the United Nations. It was argued that the US would implement measures to assure Japan’s security for as long as the UN was unable to shoulder this responsibility. In the years after the end of the war, the US, Great Britain and others continued to be apprehensive of Japanese nationalism. To many Japanese, the adoption of pacifism as the guiding principle of the Japanese polity symbolised the break between pre-war and post-war Japan, proving that Japan was now in the ranks of supporters of internationalism. This was also the background to Japan’s pacifism, as laid out in Article Nine of its constitution. During the 1970s, Japan’s internationalist discourse gradually moved to identify with the West, a deliberate strategy that also contributed, albeit very slowly, to an erosion of the internationalist Article Nine. The gradual weakening of leftist anti-Americanism coincided with a growing emphasis on ‘international standards’, in Japan a synonym for ‘American standards’. The meteoric rise of Japanese economic power from the 1970s through the 1980s led to the rise of Japan’s ‘economic nationalism’, reaching its zenith shortly before the burst of the Japanese ‘bubble’ by 1991. Japan’s support in the Global War on Terror has allowed a greater participation of Japanese political and military power in international affairs, but has not led to a significant growth of traditional right-wing nationalism. There is some Japanese concern not only
about terrorist threats from North Korea, but also about the growing role of China as a potential military rival and a naval power in the Western Pacific. As long as the strategy of alliance with the United States is a viable alternative to developing an independent deterrent, Japanese governments have an active interest in limiting the rise of anti-foreign nationalism. Long before the PRC emphasised the glory of its five-thousand year-old civilisation, Japan used cultural diplomacy to increase its soft power, also emphasizing its ‘uniqueness’. Any serious outbreak of international tensions in East Asia is likely to produce new nationalist fervour that will drown out cultural nationalism.

Nationalism and the nation-state in the age of globalisation

It is surprisingly difficult to define the twentieth century as a distinct historical period. It will be remembered as the age of life-and-death struggle between communism and capitalism, hot and Cold Wars fought in the name of ideologies, and the age of fascist, Stalinist and other forms of totalitarian dictatorships. The enduring appeal of democracy has not yet led to the demise of tyrannical rule for a large part of the global population. The twentieth century also saw the apogee of imperialist rule and colonialism, as well as the wave of decolonialisation that reached its height during the 1960s. This was soon followed by the end of the welfare state, which was linked to changes in the global financial system occurring between the late 1960s and early 1970s. This heralded the rise of globalisation, reaching far beyond ‘internationalisation’ through trade and new forms of communication. ‘Globalisation’ as a historical concept must be distinguished from ‘globalism’, a program that embraced changes in economics and politics, succinctly summarised as the ‘Washington Consensus’. It has been called a political revolution brought about by business (Lester Thurow), and its early beginnings are closely linked to the names of two Anglo-Saxon politicians, Thatcher and Reagan. Much more than a political ruse, globalism’s call for ‘privatisation’ sought to restrict the legitimacy of politics and parliaments to interfere in a wide range of economic matters. Apologists for privatisation argued for much wider leeway for the main actors in (global) markets, basing their claims on arguments of efficiency and ‘rational’ markets. Over the past few decades, this has led to a greatly increased ability among companies worldwide to mobilise and discipline the work force. This was further aided by the collapse of the Soviet Union, which in turn contributed to the erosion of power of trade unions on a global scale. The renewed emphasis on ‘private’ initiatives highlights the importance of a particular characteristic in the history of Western imperialism, whose dynamism was partly due to the synergies of
(trading) companies and the military power of their respective nation-states. Globalism considered ‘market democracy’ as the most desirable, if not inevitable, identity of successful nation-states, and attributes the collapse of the Soviet Union to its failure to transform itself accordingly. The ‘West’ claimed victory in the Cold War, and at first took it for granted that the ‘rest’ of the global community would join in its celebration of ‘globalism’ as the epitome of global Westernisation, relegating other cultures and civilisations to a mere ornament in a political-economic order defined by the West’s preferences. For a time it had seemed that ‘economic’ power had also reduced the importance of military power. The weakening of the power of the state was interpreted in terms of a general ‘erosion of the state’. The new age of ‘weak states’ also dawned in the European Union, as nation-states willingly transferred a significant part of their sovereign rights to a supranational institution. As a consequence, nationalism seemed to lose the importance it had acquired with the origin of the nation-state.

This brief summary suggests that globalism and globalisation present the kind of confluence of changes and new developments in many different areas that bear hallmarks of a new age. This comprises politics, economics and social organisation, but also deep changes in communications and the content of civilisation. Despite early predictions of the demise of the state and reduced significance of military power, it did not take long after the collapse of the Soviet Union before the US decided to embark on a major program to strengthen its military power, and to retool the West’s alliance systems. The wars in Iraq and later in Afghanistan became increasingly associated with the Global War on Terror (GWOT), mainly directed against Al Qaida and its supporters, as well as some ‘rogue states’, a loose term covering supporters of international terrorism and nuclear proliferation. They are accused of addiction to violence without having a genuine, legitimate political program.

In this new era, the number of wars fought in the name of one nation against another has decreased. Hidden terrorists are to be removed in surgical operations, like germs that cause infectious disease. Wars are insufficient to create a firm basis for the global spread of peaceful market democracies. Alliances and ‘coalitions of the willing’ are presented as legitimate representatives of the international community. The professional conduct of war, the end of the conscription system and large-scale employment of ‘contractors’ (i.e. modern mercenaries) have all removed war from the lives of ordinary citizens. Support for such wars does not require appeals to nationalist sentiments, and strengthens the internationalist character of the GWOT. This has also significantly reduced domestic opposition to such warfare. The professional community entertains few doubts about the importance of strategic motifs underlying wars in resource-rich parts of the world, and the
geopolitical significance of operations in Central Asia and the Western Pacific.

**Globalisation: The demise of nationalism?**

The growing facelessness of war and military force has its counterpart in what I call the ‘progressive anonymisation’ occurring at all levels of society and the economy. It is also reflected in the fading of distinct political programmes offered by political parties.

The strategies of institutional investors in international capital markets affect the lives of billions of people, but few are aware of the names of the managers and owners of global capital. In the age of imperialism and totalitarianism, nation-states pursued economic and military interests and sought to defend themselves. So far the age of globalisation has seen an apparent decoupling of global economic interests from military operations. Paradoxically, the ‘victory’ of Western market democracy has led to a lack of transparency in the financial economy and the field of military competition. In another unexpected development, traditional images of Western identity have started to erode.

Globalisation is transforming the realities of the West far beyond its traditional self-image. The unpredictability of such change makes it highly unlikely that globalisation will usher in a period of easy global convergence. Western civilisation underwent dramatic transformations during the past two centuries, dominated by the building of the modern nation-state. The transformation of the US, partly due to important changes in its demography, has received much attention. Similar deep changes may occur in the member countries of the EU, the BRIC, and Japan as well. It becomes increasingly clear that the future of the globe will not be determined by projections of currently popular images of ‘Western’ values.

Present-day ‘Western’ identity assumes that multiple ancestors, among which the ancient civilisations of the Eastern Mediterranean and Rome, made a major contribution to thinking about politics and the state. An important concept was the distinction between ‘state’ and ‘society’. Nearly five hundred years passed before the focus of power in Europe shifted to Central/Western Europe, where cultural and religious traditions of local tribes mingled with Christianity. Originally a West Asian religion, Christianity entered Central and Western Europe by way of ‘Rome’, but was only one of the many ingredients shaping the identity of a continent divided by linguistic, cultural, and ethnic distinctions vastly different from those of modern European ethnic nation-states. Since the Napoleonic Wars, the idea of nation-states has emphasised a clear distinction between ‘state’ and ‘society’, between ‘public’ and ‘pri-
vate’, even if such concepts had been in existence for two thousand years. The rise of the modern state in Europe and the US is inextricably linked to the attempt to govern highly diverse populations divided and fragmented by schisms in Christianity, the rivalry of power elites with institutionalised religions, and also by ethnic and linguistic divisions. Secularism attempted to conceptualise the ‘state’ as a social realm not partial to any particular creed, including atheism, or totalitarian ideologies. Rather than being positively defined by any particular catalogue of norms and values, the modern ‘West’ is better understood as a continuing dialectical process of disparate elements. Arguably the most important transformation in recent times took place when mathematical thinking was able to conquer an autonomous position in the discovery of the laws of nature, often in contradiction and confrontation with norms and authority offered by Western religions and (moral) philosophers. The demand for ‘efficiency’ and ‘rationality’ in the age of globalisation has added a new dimension in this dialectical process, unceasingly challenging received notions of Western identity and moral standards. The uninterrupted transformations in the West alone make it unlikely that the globe will converge along the lines of a fixed model presented by Western governments. Westernisation is no longer a foregone conclusion for the most populous countries of the globe; China, India, Russia, Indonesia, and Pakistan, or for countries with a large Muslim population.

Conclusion

For seventy years, it seemed that the fate of the globe was to be decided in a titanic struggle between democracy and totalitarianism, paradigms that had arisen in the wake of the European and American nation-state. The growing facelessness of globalisation has not led to the end of nationalism. Far from being dead, nationalism is on the rise in a host of countries, fed by a fusion of religious, nationalist and ethnic sentiments that can be observed in countries as different as Saudi Arabia, the United States, China, Turkey and Bolivia, to mention only a few. There has been little progress towards the development of a common ‘Asian’ identity. The rise of new independent nations in Central Asia has also brought uncertainties about their ethnic, religious, and political identity, issues that also maintain their centrifugal power in the Himalayan area stretching from Pakistan to Northeast India. ‘Tibet’ is only one example how apparently internal issues can suddenly take on importance in international politics. ASEAN members continue to grapple with issues of nation-building in the face of ethnic and religious divisions. China, the Koreas and Japan are less likely to be afflicted by religious fervour. Huge differences in the past and recent history of these countries have led to
the formation of vast differences in the structure of national identities. Just as identities are subject to (sometimes sudden) change, so is the nature of nationalism(s). If nothing else, the lack of global convergence will ensure the survival of nationalism in the age of globalisation as well.

Notes

1 The author expresses his gratitude for the support received by the International Institute for Asian Studies (IIAS, Leiden, The Netherlands) during his stay as an Affiliated Fellow in 2007/8.
2 The most common Chinese equivalents in transcription are as follows (the respective terms in Japanese and Korean are put within brackets): aiguozhuyi (aikokushugi, aeguk chui) refers to nationalism and patriotism; minzuzhuyi (minzokushugi, minjok chui) places emphasis on the ethnicity of the people; guojiazhuyi (kokkashugi, kukka chui) ‘statism’ is mainly used with explicit reference to the concept in political science, while guocuizhuyi (kokusuishugi, kuksu chui) implies the superiority of one’s ethnos.
4 Ishibashi Tanzan, editor of Japan’s best known pre-war business journal, pursued the double aims of economic internationalization and a just global order (Radtke 2003b).
5 Gaige in Chinese, kaikaku in Japanese. In pre-war Japan the term commonly used was kakushin, nowadays only used when referring to pre-war right-wing reformists.
6 Lack of space prevents me from discussing differences of this definition with other concepts such as those offered by Foucault.
7 ‘Statist’ may still be a better translation. Literally Kuomintang refers to the party of state and people, or people of the State.
8 This was not simply a xenophobic reaction to the West, or an expression of a specific anti-Christian attitude.
9 One of the best-known advocates of forceful Christianization was Charlemagne, also known for his polygamist inclinations.
10 Inhabitants of these mini-states called the ‘kuni’, the Japanese pronunciation of the Chinese character meaning ‘state’.
11 Southwest Japan also had to face repeated threats of invasion from Korea during the first millennium.
12 This paragraph is mainly based on Radtke (2007d).
13 When relations between China and Japan deteriorated during the nineties, the Japanese government once more blamed the Chinese government for stimulating and sponsoring outbursts of anti-Japanese attitudes – a knee-jerk reaction informed by memories of pre-war Sino-Japanese relations.
14 Official calculation extends the period to the death of Mao Zedong in 1976.
15 Communist United Front strategy seeks to create cooperation against a common (most dangerous) enemy. Communist leadership of a united front is often kept opaque through the use of front organizations.
16 Following the collapse of the Soviet Union and the first Iraq war, the major powers developed new overall frameworks for their global security strategy; this period was basically concluded before the outbreak of the Asian economic crisis.
17 Originating from the ‘Shanghai Five’ founded by China in 1996, the aims of this organization have been shifting. On its place in Chinese strategy, see Radtke 2007e.
3 Domestic Mobility and Elite Rent-Seeking: The Right to Migrate among Provinces and Vietnam’s Economic Success Story

Thomas Jandl

Introduction

All modern, stratified societies are (by definition) dominated by elites. Since these elites prosper under the status quo, they have a vested interest in maintaining it, or making sure they reap the benefits of any change. In the process, they engage in rent-seeking, defined as ‘resource-wasting activities of individuals in seeking transfers of wealth through the aegis of the state’ (Buchanan, Tollison & Tullock 1980: ix), or more broadly, as using political power to obtain economic gains. This regularly leads to institutional settings where individual efforts obtain individual benefits while creating social waste (Xia 2000: 94). Social waste translates into overall welfare losses, thus keeping the non-elites (and society overall) poorer than they could be under conditions of reduced rent-seeking. Power holders acting in the interest of individual groups within society create incentives for redistribution rather than growth, whereas growth could benefit society overall. Growth is slower and distribution more skewed in societies where rentiers have more ability to go about redistribution rather than focusing on growth (Easterly 2002).

This paper examines how an authoritarian, strong state having an entrenched power elite has managed to limit rent-seeking to a level low enough to attract foreign investment, while at the same time reducing poverty in all strata of society. It hypothesises that the ability for capital and labour to move rather freely between provinces has changed the terms of engagement among interest groups in society. Initially, Vietnam was forced to reform by a collapsing economy and the credible threat of mass starvation and social unrest. The 1986 reforms of doi moi created competition among provinces. Success by early reformers could not be monopolised, because investment and people alike are free to move to where they feel that the mix of obligations owed the elite on one hand, the protection and social wages afforded on the other, suits individuals’ preferences best. Although a uniform system had offered little difference from one region to the next, now Vietnam has 63 pro-
vinces' competing for investment, labourers, ideas and any other form of competitive advantage.

Vietnam is today one of the world’s most impressive economic success stories. Depending on Soviet food aid for mere survival until the 1986 reforms, Vietnam has become food self-sufficient, and since the mid-1990s, one of the world’s top agricultural exporters. Vietnam is now the world’s number one exporter of pepper (Vietnam News Briefs 2007a), number two in rice (International Herald Tribune 2006) and coffee (International Coffee Organisation 2007), number six in tea (Vietnam News Briefs 2005), and a major player in rubber, seafood and light manufactured goods export. Even more impressive than the rapidly increasing efficiency in the exploitation of the country’s natural resource wealth and abundant labour is its success in attracting enormous amounts of foreign direct investment (FDI). Vietnam’s 85 million inhabitants attract more FDI than do 1.1 billion Indians, and trail China only in absolute numbers, while outdoing the mighty neighbour to the north in FDI in relation to the size of the economy.

Vietnam’s impressive turn-around from a policy of autarky and central planning to one of private enterprise and energetic participation in the global economy is unparalleled in the political realm. The country continues to be dominated by the Communist Party, which exercises control over all aspects of society, and cadres, central or provincial, hold sway over most decisions affecting business as well. Vietnam thus presents an interesting case for the old debate over political preconditions for economic development. Under Vietnam’s single-party authoritarian rule, one would expect excessive rent-seeking to occur, with Party officials using their political power to enrich themselves at the expense of ordinary people and economic actors. It has been pointed out that the key to investing significant amounts of capital in an economy is the credible self-limitation on the side of government against excessive predation (Weingast 1993, 1995; Elster 2000). While undoubtedly the political elites are doing well economically, rent-seeking has not reached levels that would drive business elsewhere. Moreover, while income inequality has increased since Vietnam joined the global economy, the poverty rate has fallen from around 58.1 per cent to 19.5 per cent between 1993 and 2004 (Vietnam News Agency 2007). Some may gain more than others, but all strata of Vietnamese society are improving. Vietnam thus confirms that an authoritarian regime can create conditions for equitable development perfectly well.

Since we know that authoritarian regimes elsewhere have failed to do exactly that, and instead engaged in rapacious rent-seeking, what factors have persuaded the Vietnamese elites to reduce predation to levels acceptable to business? A significant part of the answer, as argued here, can be found in the ability of ordinary Vietnamese, and by extension
businesses as well, to choose rather freely where they want to live and invest. Freedom of movement, the ability of capital and people to migrate to a place where elites impose fewer restrictions, provide better social wages or where the economy offers higher return on investment, is critical in increasing the bargaining power of ordinary citizens in their interactions with the power holders. Not all citizens want the same level of protection; not all are equally risk-averse or entrepreneurial; not all favour the same tax levels and social services. Thus, no one mix of public goods, taxes, rents and protections is universally optimal. However, the ability to seek out one’s optimum represents an incentive for elites to provide a mix of goods and services in return for a given level of predation that is socially acceptable, rather than merely representing the maximum benefit the elite can extract through the use of its power.

Not all of Vietnam’s provinces have created a positive business climate. Because people are able to vote with their feet, though, the provinces that have not reformed aggressively and have fallen behind those that got on the international trade and investment train early on, saw their people and businesses move away. Elites in many of these unreformed provinces are holding on only thanks to transfer payments from the central government. A mere eight of the 64 provinces regularly paid into the central government’s coffers throughout the 1990s, and sixteen accumulated surpluses in the 1997-2000 period (Malesky 2007). Critical voices in Hanoi’s central government are beginning to ask for more provincial responsibility. Those that have natural endowments should pull more of their own weight, rather than depending on the centre for help. It is to be expected, therefore, that transfer payments will be reduced for provinces that do not reform enough to make best use of their endowments. Migration could well be seen as an indicator of success or failure. When people leave in large numbers, provincial governments will have to justify why they could not provide better conditions. If they cannot, their days in power may be numbered.

This paper will begin by discussing from two theoretical angles the importance of mobility for the relationship between elites and ordinary people. It first discusses the proposition that proximity of competing elites has given ordinary people in Europe the bargaining power vis-à-vis their elites, and thus led to the spread of political liberalism – democracy. It then shifts to a development application, through a federalist analysis of the importance of mobility in limiting the use of political power in the economic realm, in a sense politico-economic liberalism. Third, it examines how both political contestation and federalist thought apply to a de jure central state like Vietnam. It concludes with reflections on the broader applicability of federalist thought in a globalizing world.
Mobility breeds contestation

The ability to migrate has long been seen as a means of reducing the power of elites and increasing the bargaining power of regular people in their relations with their rulers. In fact, the ability to play nearby competing elites against each other may be what turned subjects into citizens. It was the existence of a credible exit option that allowed subjects of European states to bargain for rights and protections, claiming certain rights and assurances as their due (Tilly 1990: 99). “The core of what we now call “citizenship”, indeed, consists of multiple bargains hammered out by rulers and ruled in the course of their struggles over the means of state action, especially the making of war.’ (Tilly 1990: 102) It is important to this history of bargaining that neither party actively envisions a transformation of the political system. Struggles between elites are struggles for power. The increased strength for non-elites is an unintended, yet unavoidable by-product caused by the structure of political contestation within a certain historical context (Tilly 2004: 9). In the Middle Ages, where Tilly’s examination has its origin, that context was state creation, enlargement and consolidation, all by means of war.

Today, state competition is played out routinely on a different level, such as in competition for economic advantages. Legitimacy in states where rulers are not in place by the consent of the ruled is often based on a common interest claim. In Vietnam, the Communist Party claims the right to continuing rule based on the stability and guidance the Party has brought, and on its ability to provide continued economic growth and improved living standards. Success in war has been increasingly replaced by success in the global economy.

The idea of bargaining between rulers and subjects finds its way into early political economy. Even the founder of the field, Adam Smith, recognises in his Wealth of Nations that the possibility of removing oneself from the realm of a ruler represents the most effective restraint on excessive taxation (Jones 1987: 118). Jones thus finds that the major developmental advantage of Europe over its competitors was its decentralised nature. Somewhere, someone would support a new idea or technology. If one’s own prince did not, a European could pack up and walk across a nearby border to seek support from another ruler. Christopher Columbus had to shop around to find a sponsor for his voyages. Eventually he did – with smashing results.3 Contrast that to the centralised system in China, where one emperor could declare on a whim that the ocean-going fleet be destroyed and no ships able to leave coastal waters be built (Parente & Prescott 2000: 137). Similarly, the Ottoman Empire acquired but then banned the printing press, creating a knowledge gap holding the Ottomans back for centuries, until their demise (Jones
1987: 67). Europeans, Jones argues, owe their economic advances to a fortuitous constellation of geographical and historical forces.

But how did Europeans escape crippling exploitation by their own rulers? How was risk reduced and the depressants on investment lifted? The answer is a compound of processes, but what stands out is that the rulers of the relatively small European states learned that by supplying the services of order and adjudication they could attract and retain the most and best-paying constituents – for their subjects must be thought of as constituents in some degree. Within each state there was a clash between kingly interest in taxes and noble preoccupation with rents, an unsettled competition in which the royal concern offered the peasantry some faint protection and some provision of justice. Competition among states led later to programs of services. Once more there was an environmental component, since, had the core areas of their states been larger and richer, kings might have felt less inspired to offer as much as they did in return for taxes (it was little, but in the very long term it was enough to make European history special). (Jones 1987: 233)

Vietnam’s successful development policies are remarkably similar to this description of European history. The entrenched elite has no interest in giving up power. Extreme poverty forced the elite to experiment with change. Some provinces found successful policies and thrived, especially by putting in place a business climate that attracts foreign direct investment. With foreign investors not subject to the political power of the Vietnamese elites, provinces either provide what business wants, or fail to attract or retain these investors. Moreover, since investors demand qualified labourers, successful provinces must learn that they have to afford their residents a level of protection that prevents them from looking for a better deal across a provincial border.

As nearby provinces see the success of early reformers, they begin to vie for the same investors and workers, thus affording both the business community and their citizens a significant increase in bargaining power. This is where the anti-globalisation movement goes awry. Free trade and investment do not in themselves lead to a race to the bottom, as is often argued. In situations where all factors of production are free to migrate, all parties, including workers, gain bargaining power and elite predation is reduced in the process. Just like in Tilly’s description of Europe’s march toward democracy, neither provincial elites nor foreign investors look to elevate the position of ordinary citizens in relation to the elites. The political-economic structure imposes an outcome that none of the main actors has sought.
This section has shown how the story of political contestation and liberalism can be applied to Vietnam’s economic reforms. The next section delves deeper into economic contestation, by looking at the mechanisms by which inter-jurisdictional competition impacts bargaining among elites and between elites and ordinary people.

**Economic performance under economic federalism**

Competition among provinces spreads the successful policies of early reformers. Malesky details the spill-over effects of successful reform from one province to the next. Successful reform implies that provinces push the envelope of what is considered possible under central rules, a process known as fence-breaking. Success brings with it higher bargaining power for the provincial elites in relationships with the centre. Success chips away at the centre’s power to restrain reformers, even as they go beyond the boundaries of the allowable (Malesky 2004: 481). While the central government tried to rule in Ho Chi Minh City (HCMC, the former Saigon) in the early stages of reform, the rapid success gave the province the power to move ahead. The higher tax revenues from the high-performing provinces gave the central government the resources to make substantial transfer payments to provinces where social conditions were less positive, thus giving the centre an incentive not to take strong action against the main contributors to the central coffers (Malesky 2004: 157).

Malesky’s argument is that FDI represented a form of power in Vietnam in the reform years. Similar to Tilly’s argument, that the various elites in the state needed to make accommodations in order to raise money and bodies for warfare, the Vietnamese state – central as well as provincial – needed to make accommodations to placate a population that had for years been adding sawdust to the rice to make a meal go a little farther. Economic success was just as essential to the survival of the regime, hence the provinces that had early success were able to engage in significant fence-breaking without negative repercussions. While Tilly saw the bargaining power of the rulers’ subjects increase, Malesky sees the fortunes of provincial elites rise in relation to the central government.

Thus, FDI is not only attracted by successful reformers, as is often assumed, but is an active pusher for reform. It can provide a shock to the status quo (Malesky 2004: 487). The ‘one door – one stop’ policy for investment licensing began as an experiment in Binh Duong province and in HCMC. It was first criticised in the official newspapers, but due to its success, it received Hanoi’s permission in HCMC in 1994. Binh Duong, for fear of falling behind, continued without official permission.
When other provinces copied the successful policy in order to compete with HCMC and Binh Duong, the central government introduced the policy nationwide, fully legalizing it in 2000 (Malesky 2004: 178-179).

It has been made clear that these reforms enhanced the bargaining power of one elite group (the provincial Party) vis-à-vis another (the central Party). Reforms travelled because their success was obvious and neighbours did not want to fall behind their fence-breaking role models. Nonetheless, one cannot automatically exclude the often argued ‘race to the bottom’, in which local elites reduce social wages to the lowest acceptable minimum, from this account. Central and provincial elites have an interest in providing positive business conditions for investors. Nothing stops them from doing so by cutting social wages and public goods provision to a minimum, thus reducing the cost of doing business in their jurisdiction, while colluding with the investors for their individual benefit. To avoid that race to the bottom, the ability of individuals to migrate is crucial. Where workers can vote with their feet, under conditions of scarce qualified labour, the bargaining power of workers vis-à-vis the elites increases.

This crucial importance of migration was recognised by the federalist approach. Charles Tiebout provided a basic explanation of why decentralised economies perform better than centralised ones. Decentralisation, he asserts, increases efficiency because population mobility among jurisdictions (generally provinces) within the economy (generally a state) will lead to citizens’ sorting themselves out among jurisdictions according to their preferences. If a jurisdiction provides too few public goods, or provides too many at too high a cost, citizens and economic actors will vote with their feet. Hence, where subunits of the state are free to compete with each other, they will provide a package of public goods and economic incentives at a cost that suits local conditions, or else they will fall behind other subunits that do a better job in providing that optimal basket (Tiebout 1956: 418-419). Federalists thus argue that local power holders who are close to their citizens will rapidly learn what the optimum mix of public goods is. If power holders were to pursue policies for short-term personal goals, citizens would relocate to a jurisdiction that provides better services at lower cost. This would leave the sub-optimally governed units with fewer citizens, fewer workers and consumers, less investment, a lower tax base and subsequently fewer revenues and less power for the political official. Political officials have a vested interest in avoiding such a situation. Competition for investment capital and for citizens willing to live, work and pay taxes in the jurisdiction creates incentives for good governance.

Parente and Prescott (2000), while not stated federalists, are merging the ideas of contestation and federalism into an explication of economic development and social progress in Barriers to Riches. Knowledge –
methods of production, education, techniques and technologies – are widely available in today’s interconnected world. If they are not applied, they argue, it is because powerful elites with an interest in the status quo use their political power to forestall change. In the concluding chapter, *Barriers to Riches* explains how excessive government power in reducing mobility of people, capital and ideas impacts long-term economic development. Switzerland and the United States did well because their federal systems did not allow the raising of barriers to proceed, even if doing so would have provided rents to the elites. What is relevant and unique about the United States and Switzerland is that both countries have states or canton governments with considerable sovereign power, but not so great as to be able to prohibit movement of goods and people between them’ (Parente & Prescott 2000: 139). England’s political competition between crown, landed gentry and parliament provided the necessary societal contestation to prevent innovation sclerosis (Parente & Prescott 2000: 134-135). In China, however, the early period, with its legendary scientific progress and military and societal organisation, ended when a system of competing sources for power (emperor, civil administration, military administration and policy critics) gave way to the emperor’s concentrating all power onto himself. Add to this the vast size of the empire, and no outlet for dissent. Elites engaged in unabated rent-seeking and China’s initial scientific and organisational advances were reversed (Parente & Prescott 2000: 135-138). From a regional suzerain, China turned into a hollow state, which eventually was divided up for exploitation by foreign powers.

Vietnam, the main focus of this argument, is not a federal state. It lacks credible and enforceable legal prohibitions on the elites. As already implied, the historical circumstances around the time of *doi moi* created incentive structures that mirror those in a *de jure* federal system. Weingast (1993: 289) called such a system ‘market-preserving federalism’ (MPF). In market-preserving federalism, an essential component is that a state in theory strong enough to confiscate the wealth of its citizens (that is, strong enough to engage in arbitrary and sudden rent-seeking), *de facto* imposes credible limitations on itself against doing so. These limits are based in the incentive structure benefiting everybody with limited predation than with excessive levels thereof. For the elite to observe self-imposed limits, it must be in their interest to do so (Weingast 1995: 2). Accordingly, MPF works even in states where the elites hold unlimited political power vis-à-vis their subjects. As Malesky has pointed out (see above), foreign investors cannot be held accountable by this political power. No Vietnamese laws can bring Intel to HCMC; no decree can force billions of foreign money to build factories in Vietnam’s abundant export processing zones (EPZs). As elites recognise their interest in receiving these investments, they are forced to pro-
vide acceptable conditions for investors, and limit themselves to tolerable levels of predation. At the same time, as long as workers, consumers and taxpayers are able to migrate from one province to another, the elites have to extend the protections against arbitrary and excessive predation not only to foreign investors, but also to their subjects. As in Tilly's Europe, commitment to elite restraint emerges from the competition among elites to secure mobile factors of production.

**Mobility and development in Vietnam: Some empirics**

Looking at Vietnam’s legal system, one finds a household registration system that would appear to tie individuals to their district. The law recognises four categories of household registration (General Statistics Office 2005):

1. KT1 households are those registered in the district in which they reside.
2. KT2 households are registered in a different district from the place of residence, but in the same province.
3. KT3 registration is temporary, but for an extended period.
4. KT4 registration is temporary for a period not exceeding six months.

During the era of central planning and autarky, the life-saving government subsidies provided to families prevented people from leaving their province of registration. Today, without food subsidies linked to district of registration, Vietnamese are free to migrate, with the caveat that only KT1 registration holders are eligible for a number of state benefits, such as many schooling or housing benefits. Migrants often pay significantly higher prices for services like electricity or water (Deshingkar 2006: 10). The household registration system thus represents less of a legal impediment to migration than an additional transaction cost. The large numbers of Vietnamese moving in spite of these costs are testament to the economic benefits of migration.

Many migrants are not represented by statistics at all, if they do not register in their district of residence. Micro-studies are needed to document this phenomenon. Temporary migration is most prevalent in areas of high demand for labour, and particularly around the EPZs, where foreign-invested companies pay significantly higher wages than the domestic economy (Deshingkar 2006: 6). Foreign companies tend to pay higher wages voluntarily, but even labour laws stipulate higher minimum wages in foreign than in domestic firms (China Post 2007). It is therefore no surprise that remittances from temporary migrants to their families back home make up a large percentage of the family income, and significantly reduce the incidence of poverty in the remit-
tance-receiving provinces. Over two-thirds of migrant workers sent home more than VND1 million (approximately $62 million) in 2004 (Deshingkar 2004: 8). At a national annual per capita income rate of around $500, this is a significant amount of money, which actually may sustain traditional rural life rather than destroy it through industrialisation.

It is generally well-established in economics that remittances from migrating family members can reduce the income gap between wealthier and less wealthy areas.\(^5\) The goal of this paper was to investigate patterns suggesting a relationship between interjurisdictional mobility and development. To do this, we can formulate assumptions and see whether they hold up against the data. First, we can expect that early reformers – fence-breakers – did better in attracting FDI, and as a consequence increasing their GDP per capita compared to non-reforming provinces. The first reformers were HCMC and neighbouring Binh Duong and Dong Nai provinces, but other successful followers in more recent years include Hanoi and Danang (VNCI 2006). Second, if federalist assumptions are correct, provinces that fall behind would try to catch up, and do so faster and more vigorously the physically closer they are to successful reformers, due to their proximity to a success story and thus easy, low cost migration. One would expect clusters of success stories to emerge. Obviously, some provinces lacking some of the essential characteristics required to attract investment capital, such as access to ports, markets or urban centres where human capital is formed, will not be able to emulate the success stories. These provinces – and those that simply lack good leadership – are then assumed to show high levels of out-migration.\(^6\)

Table 3.1 shows investment capital by region between the first quarter of 2004 and second quarter of 2005. Some of these numbers are somewhat out of proportion. The Northeast, for example, got a boost from one province, Thai Nguyen, which received $148 million in investments in the single year of 2004. Another example is Hanoi, which received a total of $995 million in the period covered by Table 3.1. It has been argued, though, that Customs credits some of the neighbouring provinces’ handicraft exports to Hanoi. Similarly, a massive steel plant under negotiation in Thanh Hoa could bring in $8 billion in the first phase alone (Vietnam News Brief 2007b). If this project comes to fruition, it would push the North-Central Coast region to the top of the charts through one mega-investment alone. In general terms, the numbers in Table 3.1 would appear to reflect the economic strength of the regions fairly.

The top four recipients of FDI are found in the Red River Delta and the Southeast (around Hanoi and HCMC, respectively). The highest-ranked recipient of FDI in the Mekong River Delta is ranked sixteenth,
in the Northwest twenty-first, in the North-Central Coast twenty-third and in the Central Highlands twenty-fifth. Income per capita (measured in expenditure to account for intra-family transfers, barter and subsistence consumption) closely follows FDI ranking.

On poverty reduction, the situation is somewhat, but not dramatically different. The Southeast started from a significantly higher level of household consumption. Not surprisingly, poverty reduction levels are lower than in provinces with a significantly lower starting level. The Red River Delta and the Northeast, starting off at a consumption level much closer to the national average than the Southeast, succeed in reducing poverty significantly, occupying the top ranks in poverty reduction. The third-ranked North-Central Coast benefits from easy access to the Hanoi area in the north and Danang in the South, two major FDI recipients (and thus sources of remittances). The Central Highlands and the Northwest, the two lowest FDI recipients and the two provinces with significant ethnic minorities (which makes migrating harder, due to social exclusion and levels of indigence potentially rendering the initial cost of migration unaffordable) are last in poverty reduction.

On the other hand, looking at per capital expenditure increases, the two laggards in poverty reduction and FDI did extremely well in increasing their populations’ per capita expenditure in the 1998-2002 period (after holding the bottom ranks in that category as well in the 1993-1998 time frame). It is unclear how much the introduction of coffee production and government-sponsored migration schemes into the highlands for agricultural intensification are at the root of this spectacular change which, after all, has not translated into broader economic progress.

### Table 3.1 FDI by Region, January 2004-June 2005

<table>
<thead>
<tr>
<th>Rank</th>
<th>Region</th>
<th>Invested Capital</th>
<th>Top provinces/rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Southeast</td>
<td>1,789,000,000 Dong Nai (2), Binh Duong (3), HCMC (4), Binh Tuan (11), Ba Ria-Vung Tau (BRVT; 13)</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Red River Delta</td>
<td>1,372,000,000 Hanoi (1), Vinh Phuc (6), Hai Phong (7), Tay Ninh (12)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Northeast</td>
<td>380,000,000 Thai Nguyen (5), Quang Ninh (8), Phu Tho (14), Lang Son (15)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>South-Central Coast</td>
<td>226,000,000 Danang (9), Phu Yen (10)</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Mekong River Delta</td>
<td>66,000,000 Long An (16)</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>North-Central Coast</td>
<td>39,000,000 Quang Tri (23)</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Northwest</td>
<td>27,000,000 Hoa Binh (21)</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Central Highlands</td>
<td>24,000,000 Kon Tum (25)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Calculation by author based on raw data from Vietpartners
Note: Data were not available for all quarters for all provinces; low-investment provinces were sometimes lacking.
The most spectacular risers in the 1993-1998 timeframe are not able to maintain their top ranks. The Southeast falls from first to fifth place, but rebounds to second in 2004. The Red River Delta goes from second to sixth, then ties with the Southeast for second in 2004. The reason for the slump may be found in the slowdown in FDI after the 1997 Asian financial crisis. Much of Vietnam’s FDI at that time was regional, and the slowdown in implementation of approved investment was significant. The most FDI-dependent regions are likely to have been impacted more. More recently, investment has diversified and SE Asia has recovered, which is duly reflected in the regional data.

The South-eastern region around HCMC remains by far the highest-spending region, followed – at a distance – by the Red River Delta, anchored by Hanoi. The South-Central Coast, with FDI success story Da-nang (a geographically small, almost urban province, which helps with infrastructure, market access and human capacity building, not to speak of the large deep-water port), has done consistently average-to-well, putting it in a solid third place in average spending.

<table>
<thead>
<tr>
<th>Table 3.2</th>
<th>Social Indicators by Province – Poverty Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nation</td>
<td>58.1</td>
</tr>
<tr>
<td></td>
<td>(-20.7%)</td>
</tr>
<tr>
<td>By urban/rural</td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>25.1</td>
</tr>
<tr>
<td>Rural</td>
<td>66.4</td>
</tr>
<tr>
<td></td>
<td>(-20.9%)</td>
</tr>
<tr>
<td>By region</td>
<td></td>
</tr>
<tr>
<td>Red River Delta</td>
<td>62.7</td>
</tr>
<tr>
<td></td>
<td>(-33.4%)</td>
</tr>
<tr>
<td>Northeast</td>
<td>86.1</td>
</tr>
<tr>
<td></td>
<td>(-24.1%)</td>
</tr>
<tr>
<td>Northwest</td>
<td>81.0</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>North Central Coast</td>
<td>74.5</td>
</tr>
<tr>
<td></td>
<td>(-26.4%)</td>
</tr>
<tr>
<td>South Central Coast</td>
<td>47.2</td>
</tr>
<tr>
<td></td>
<td>(-12.7%)</td>
</tr>
<tr>
<td>Central Highlands</td>
<td>70.0</td>
</tr>
<tr>
<td></td>
<td>(-17.6%)</td>
</tr>
<tr>
<td>Southeast</td>
<td>37.0</td>
</tr>
<tr>
<td></td>
<td>(-24.8%)</td>
</tr>
<tr>
<td>Mekong River Delta</td>
<td>47.1</td>
</tr>
<tr>
<td></td>
<td>(-10.2%)</td>
</tr>
</tbody>
</table>

While the available data do not break down migration into Danang, they indicate that significant in-migration took place into urban areas. All regions except Southeast, Central Highlands, HCMC, Hanoi and the category Other Urban lose. Two caveats are in order. First, the gains in the Central Highlands must be seen in light of government-sponsored migration in the early period covered by Table 3.4. The population loss of the successful Red River Delta is mitigated by the fact that Hanoi was extrapolated. Since the numbers show inter-provincial flows (including from one province to another within the same region), some emigrants from Red River Delta provinces are likely to have moved into Hanoi. Since Hanoi gains a net 141,297, while the Red River Delta overall loses 303,981, there is a net out-migration from the region. Net in-migration into HCMC is 336,263 and into the Southeast 115,976. Again, there is an overlap of people migrating from the Southeast region into HCMC. But even if every single emigrant from the Southeast had moved to HCMC, that would only account for just half of HCMC’s net gain. Moreover, if estimates about temporary migration not captured in the census statistics are correct, then it is likely that the numbers of migrants into the HCMC area are significantly higher. Lastly, since the census does not cover the very recent time period of high FDI and new employment opportunities in the EPZs which have sprung up, especially in the HCMC/Binh Duong/Dong Nai/BRVT area in the south, in Danang in the centre and in the Hanoi/Hai Phong corridor, even official census numbers today are likely to have surpassed the data in Table 3.4.

Table 3.3  Social Indicators by Province – Annual Expenditure

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>By urban/rural</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>3,241</td>
<td>4,829</td>
<td>6,227</td>
<td>7,072</td>
</tr>
<tr>
<td>Rural</td>
<td>1,743</td>
<td>2,166</td>
<td>2,643</td>
<td>3,152</td>
</tr>
<tr>
<td>By region</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Red River Delta</td>
<td>1,994</td>
<td>2,938</td>
<td>3,681</td>
<td>4,372</td>
</tr>
<tr>
<td>Northeast</td>
<td>1,511</td>
<td>1,986</td>
<td>2,809</td>
<td>3,316</td>
</tr>
<tr>
<td>Northwest</td>
<td>1,524</td>
<td>1,567</td>
<td>1,990</td>
<td>2,312</td>
</tr>
<tr>
<td>North-Central Coast</td>
<td>1,545</td>
<td>2,196</td>
<td>2,531</td>
<td>2,953</td>
</tr>
<tr>
<td>South-Central Coast</td>
<td>2,196</td>
<td>2,648</td>
<td>3,269</td>
<td>3,852</td>
</tr>
<tr>
<td>Central Highlands</td>
<td>1,774</td>
<td>1,849</td>
<td>2,439</td>
<td>3,164</td>
</tr>
<tr>
<td>Southeast</td>
<td>2,769</td>
<td>4,533</td>
<td>5,699</td>
<td>6,771</td>
</tr>
<tr>
<td>Mekong River Delta</td>
<td>2,311</td>
<td>2,535</td>
<td>3,260</td>
<td>3,827</td>
</tr>
</tbody>
</table>

Table 3.4  Gross Inter-Provincial Migration Flows – 1994-1999

<table>
<thead>
<tr>
<th>Region of residence, 1994</th>
<th>Red River Delta</th>
<th>North East</th>
<th>North West</th>
<th>North Central Coast</th>
<th>South Central Coast</th>
<th>Central Highlands</th>
<th>South East</th>
<th>Mekong River Delta</th>
<th>Hanoi</th>
<th>HCMC</th>
<th>Other Urban</th>
<th>Total out-migration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Red River</td>
<td>47,553</td>
<td>59,284</td>
<td>16,305</td>
<td>8,051</td>
<td>9,261</td>
<td>76,398</td>
<td>53,543</td>
<td>11,191</td>
<td>108,717</td>
<td>47,605</td>
<td>23,209</td>
<td>461,117</td>
</tr>
<tr>
<td>NE</td>
<td>39,536</td>
<td>51,261</td>
<td>6,507</td>
<td>6,191</td>
<td>2,524</td>
<td>52,494</td>
<td>18,832</td>
<td>1,005</td>
<td>35,631</td>
<td>7,631</td>
<td>6,852</td>
<td>228,469</td>
</tr>
<tr>
<td>NW</td>
<td>10,691</td>
<td>4,093</td>
<td>2,043</td>
<td>1,782</td>
<td>407</td>
<td>4,772</td>
<td>888</td>
<td>287</td>
<td>6,359</td>
<td>685</td>
<td>310</td>
<td>32,317</td>
</tr>
<tr>
<td>NC Coast</td>
<td>12,521</td>
<td>6,466</td>
<td>25,147</td>
<td>30,301</td>
<td>14,109</td>
<td>88,410</td>
<td>61,520</td>
<td>7,756</td>
<td>26,995</td>
<td>48,199</td>
<td>21,621</td>
<td>343,045</td>
</tr>
<tr>
<td>SC Coast</td>
<td>1,836</td>
<td>745</td>
<td>123</td>
<td>5,191</td>
<td>15,308</td>
<td>50,431</td>
<td>15,409</td>
<td>2,347</td>
<td>1,478</td>
<td>50,615</td>
<td>24,591</td>
<td>168,074</td>
</tr>
<tr>
<td>Central Hi</td>
<td>6,458</td>
<td>1,903</td>
<td>375</td>
<td>8,457</td>
<td>10,150</td>
<td>17,016</td>
<td>9,552</td>
<td>1,283</td>
<td>1,453</td>
<td>16,247</td>
<td>4,250</td>
<td>77,144</td>
</tr>
<tr>
<td>SE</td>
<td>4,246</td>
<td>1,300</td>
<td>178</td>
<td>5,679</td>
<td>5,023</td>
<td>26,832</td>
<td>45,792</td>
<td>10,178</td>
<td>73,972</td>
<td>10,721</td>
<td>184,770</td>
<td></td>
</tr>
<tr>
<td>Mekong</td>
<td>2,440</td>
<td>920</td>
<td>78</td>
<td>2,266</td>
<td>2,036</td>
<td>9,370</td>
<td>49,466</td>
<td>167,417</td>
<td>965</td>
<td>153,292</td>
<td>8,334</td>
<td>396,584</td>
</tr>
<tr>
<td>Hanoi</td>
<td>20,277</td>
<td>8,548</td>
<td>1,423</td>
<td>6,977</td>
<td>1,267</td>
<td>1,661</td>
<td>2,184</td>
<td>1,241</td>
<td>8,709</td>
<td>3,039</td>
<td>55,326</td>
<td></td>
</tr>
<tr>
<td>HCMC</td>
<td>4,820</td>
<td>1,119</td>
<td>103</td>
<td>5,480</td>
<td>6,990</td>
<td>6,535</td>
<td>30,930</td>
<td>30,588</td>
<td>3,393</td>
<td>7,441</td>
<td>97,399</td>
<td></td>
</tr>
<tr>
<td>O. Urban</td>
<td>6,758</td>
<td>6,166</td>
<td>282</td>
<td>5,420</td>
<td>7,451</td>
<td>8,988</td>
<td>12,633</td>
<td>3,516</td>
<td>10,793</td>
<td>26,707</td>
<td>2,015</td>
<td>90,729</td>
</tr>
<tr>
<td>Total in-migration</td>
<td>157,136</td>
<td>141,085</td>
<td>52,564</td>
<td>85,800</td>
<td>74,526</td>
<td>342,907</td>
<td>300,749</td>
<td>236,809</td>
<td>196,633</td>
<td>433,662</td>
<td>112,383</td>
<td></td>
</tr>
</tbody>
</table>

Source: Population and Housing Census
Actual migration patterns in Vietnam support the theory; migrants systematically move from low-income provinces to wealthier centres of manufacturing and the emerging service sector. While migration patterns have not led to a convergence of GDP per capita, there are indicators that income inequality-reducing effects of migration have taken place. With 50 per cent of Vietnam’s industrial output concentrated in the three adjacent provinces of HCMC, Bing Duong and Dong Nai, and significant immigration into the HCMC/Southeast region, remittances are helping to spread the wealth around (Phan & Coxhead 2007: 21). While there are no hard data to support the claim, it is likely that the same effect is occurring in the Red River Delta and the provinces surrounding Danang. Distance and extreme poverty reduce mobility. Thus residents of the poorest and remotest areas are less likely to have family members in the high-growth regions, who could send remittances home. Ethnic minority status and the associated social exclusion prevent people from migrating as well, keeping provinces where ethnic minorities dominate relatively insulated from the positive effects of migration.

The main assertion of this paper has been that mobility of capital and people will increase the bargaining power of local elites over central ones and of non-elites over elites. The income-equalizing effects of migration are evidence of this happening. If workers earn significantly more in provinces of high FDI inflows than at home, then increased economic activity and wealth are not simply skimmed off by the elites, but at least part of it trickles down to ordinary workers. If the Leviathan argument is true, and leaders will always skim off the economic pie (Rodden & Rose-Ackerman 1997: 1532), and the many migrants who do not hold KT1 status pay significantly more for district services (school, health care, electricity, water, housing), it would follow that migrants would do significantly worse than non-migrants. In reality, people stream into economic growth areas and send remittances home, providing clear evidence that the benefits must more than outweigh the added costs.

The Provincial Competitiveness Index (PCI) also shows us that provinces improve their governance structure in clusters, indicating the competition effect (VNCI 2006). Wherever elites deem it in their best interest to compete with nearby neighbours, they are forced to emulate successful strategies. The PCI scores provinces on a number of characteristics, taking into account initial conditions. The goal is to show how well provinces do with their endowments. The clustering of well-governed provinces indicates the effects of competition for capital and workers on provincial governments, although some of the well-governed provinces are neither nearby an economic pole, nor are they successful in attracting investment or migrants themselves. This would indicate another level of competition. As the PCI points out (VNCI 2005:
80-87), its periodical publication has become a well-noted event. Political elites feel obligated to improve their score, and being on the bottom of the list is a significant event.

As argued above, transfer payments from the central government make up a significant portion of the less successful provinces’ budgets. With only a handful of provinces consistently paying the bulk of the centre’s revenue, Hanoi is beginning to scrutinise the reasons for provincial financial dependence more carefully. If a province like Lao Cai shows itself to be low in income and investment but very well-governed, it can argue its case for the need for transfer payments (geographical isolation, low population density, high rate of minority population). By contrast, a badly governed province that could benefit from the geographic proximity of ports, markets, urban centres and high population density, like Tien Giang province just south of HCMC (thirty-third on the PCI; VNCI 2006: 9), will have a harder time pleading for continued central fiscal largesse.

**Vietnam and globalisation: What can we learn**

The case of Vietnam is particularly appropriate for drawing comparisons with the globalizing world at large. First, Vietnam’s modern economic development is relatively recent and thus less impacted by exogenous forces. Since *doi moi*, Vietnam has had neither war nor revolution, and the global economic conditions in which Vietnam is embedded have been comparatively stable. No paradigm shifts have taken place since Vietnam joined the rest of the world in trade and investment. Second, the provinces began from very similar institutional starting points when reforms were introduced in 1986. Third, Vietnam’s large number of economically largely independent provinces represents a truly globalised economy better than the global economy itself. While globalisation theory speaks about economic integration and the free flow of all factors of production, reality is different. Even the most liberal international agreements exempt large portions of global trade (agriculture as the most obvious example), and the free flow of workers across national borders is an illusion in almost all cases (the EU being a rare exception).

Vietnam, by contrast, closely represents the ideal-type integrated economy globalisation theory addresses. Sixty-four provinces are united by common rules of the (economic) game, as the global economy would under a strong WTO. Labor, capital and goods flow freely across borders, and elites in the jurisdictions are not able to stop these flows, even if doing so is in their interest. They have to optimise their utility within the constraints of a free-factor market, and thus must, as Parente and
Prescott discussed, make most of their endowments rather than using political power to maximise their individual utility. Such a system is federal in Tiebout’s sense, since individuals can seek out a jurisdiction that most closely corresponds to their preferred mix of goods and costs (public services and taxes, liberties and responsibilities). It does thus optimise individual preferences, but does not – as some economic theory would have it – necessarily lead to economic convergence, because jurisdictions are not equally endowed with resources. The race between jurisdictions is thus not one to the bottom, for the elites need to compete for investment, economic growth and wealth, but also for the loyalty of their workers, taxpayers and consumer – in short, the ordinary people without whom the elite could not call itself elite.

Vietnam’s move toward global market integration itself is a strong indicator that true liberalisation of the movement of all factors of produc-
tion, capital, goods and labour, would not cause the state to wither away and create more poverty, as anti-globalisation theory has it. Such conclusions are premised on the assumption that the state is inherently benevolent and trying to protect its citizens against the vagaries of the market. This corresponds with a Hobbesian view of the state, where individuals voluntarily give up their freedoms to escape a life in the state of nature that would perforce be solitary, poor, nasty, brutish and short (Hobbes 1997/1651: 70). The state is also a protection racket (Tilly 1985), a monopolist on the legitimate use of violence (Weber 1965). The vast literature on democracy, rent-seeking and federalism, a very small part of which is referenced here, show that the state is not always a protector, but in many cases an institution of great power against which the individual needs protection. The withering of the unencumbered powers of the state is thus often desirable, as long as what replaces these powers provides the individual with more, not less, protection against the vagaries of the world.

In the case of Vietnam, the state did not wither – it transformed itself. Instead of an overpowering planner of economic failure, it is now a still-powerful facilitator of economic growth and a provider of transfer payments from the wealthiest to the poorest provinces. All this started not out of altruism, but because the elites became painfully aware that a starving nation cannot be controlled forever. Moreover, the economic state Vietnam was in before doi moi did not leave much to be skimmed off, even by a very powerful elite. Change toward economic liberalism was thus imposed by structural forces paired with elite self-interest – the very story Tilly tells us about Europe’s path toward political liberalism. A key component of Vietnam’s success was the right of ordinary people to migrate and indicate with their feet whether they approved of their elites’ policies.

It would, however, be naïve to assume that in a globalised world, a WTO or similar economic regime would take it upon itself to provide transfer payments for the losers of globalisation. This marks a significant difference in the comparison between a globalised world and a market-preserving federal Vietnam. Nonetheless, in a truly quasi-federated world economy, where people could pick up and migrate and send remittances back home, the same income-inequality-reducing effect would be perceivable that we can observe in Vietnam, the European Union or parts of Central America, with a high rate of migrant workers living in the United States. Extremely poor areas lacking the initial capital necessary for long-distance migration would exist in a globalised world, just as they do in Vietnam. Transfer payments would have to be made for them. International aid flows could be redirected toward these areas.
To be sure, one cannot base a concept of world governance on the unique experiences of Vietnam. Nevertheless one can hold Vietnam up as an example that anti-globalisation theory’s most strident criticism does not resonate in one crucial case of recent economic reform and global integration, forcing anti-globalisers to reconsider their arguments. Freedom of movement has altered the bargaining power among elites, and between elites and non-elites in the past, and would appear to have a significant impact on Vietnam’s successful economic development. Elites are Leviathans bent on deriving benefits from their elite status. Only where structural forces provide incentives aligning social optima with the elites’ individual optima will elites consent to reducing predation.

The alternative is revolution – but revolutions tend to replace one elite with another, rather than changing the fundamental equation between elites and society. Barrington Moore’s discussion of revolutions and the lack thereof in the case of India tells us that there is a price to pay for revolution, but there is also a price to be paid for not having any change at all (Moore 1993/1966). Vietnam shows us that there was a high price to be paid indeed for revolution and war. What really turned Vietnam around, however, was the evolutionary change in incentives when FDI became the main source of wealth, and migration the means to get a part of the pie.

This case study has built its argument on a limited amount of empirical data. More research is necessary on migration patterns, especially of temporary migrants thought to comprise a large part of the workers in the most successful EPZs. More data are needed on patterns of remittances and their impact in receiving provinces as well. Lastly, knowing more about social wages in the most economically successful and best-governed provinces would shed light on the shifting bargaining power between elites and regular Vietnamese. But with the household registration system still affecting social wages, such research will depend on a better understanding of migration patterns of temporary migrants as well.

Notes
1 In reality 58 provinces and five municipalities – for reasons of simplicity here called jurisdictions or provinces.
2 The IFC’s Foreign Investment Advisory Service reported as early as 1999 that Vietnam was the world’s top FDI recipient among developing and transitional countries, compared to the size of their economy (in Malesky 2007). As far as absolute investment numbers are concerned, official FDI statistics only go to 2005. Vietnam’s latest boom began in 2006, when FDI increased to just under $10 billion in expectation of

3 It has been argued that the economic results from the discovery of the Americas actually destroyed Spain as a major power in the long run, by swamping it with silver and thus allowing it to become a country of rentiers rather than one of producers. See North (1981; Chapter 11) for a discussion.

4 Recall Marx’s assumption that under conditions of capitalism, the employer would provide the worker with as much as the worker needs to survive and procreate, to assure future generations of workers. This is actually a rather generous assumption, in the sense that employers are not maximizing their personal short-term utility, but the utility of their social class across generations.

5 Some would dispute this. See for example the debate over brain drain and poverty traps.

6 Nonetheless, even the provinces that lack the endowments to compete successfully for FDI can make the best of their situation. The Provincial Competitiveness Index highlights especially the remote mountainous province of Lao Cai, which shows excellent governance, yet cannot compete with better located provinces for manufacturing investment.
4 The State and Ulama in Contemporary Malaysia

Yuki Shiozaki

Introduction

The objective of this paper is to discuss the role of *ulama* or Islamic scholars in setting relationship between the state and Islam in late twentieth-century Malaysia. This is a study of their social network, associations, activities, and ideas in contemporary Malaysian society. This study is concerned with relationships between Islamic movements, political parties, and the government.

‘*Ulama*’ is a plural form of an Arabic word ‘*ašlim*’ which literally means ‘man of knowledge.’ In Malaysian society *ašlim* is called ‘*ustaz*’, which means ‘teacher’ in Arabic. They are conveyers of Islamic knowledge or ‘*ulum shari*a.’ The social network of *ulama* is based in religious schools or *madrasah* (*pondok* or *sekolah agama* in Malay), mosques or *masjid*, associations, and religious departments in the government. The network of *ulama* is social capital, which has a function for education, ceremonial occasion, and moral authority in the community. One of the social roles of *ulama* is *amr bil ma’ruf wa nahi anil munkar* (commanding the right and prohibiting the wrong). *Ulama* communities have been autonomous in the society. They always try to adjust Islamic values and norms in Muslim societies.

Traditionally, *ulama* are advisors to rulers. The Islamic law is not to be constituted by a state. *Ulama*, having the interpretive authority as an expert group, are originally private individuals and not appointed by a state (Kosugi 2006: 527-531).

In traditional Muslim society, non-governmental associations cover a large segment of social activities. Traditional Muslim society is decentralised and there are many centres of social activities. The network of *ulama* is significant for sustaining Islamic non-governmental associations such as *Tariqa* (Islamic mystics order) and buildings of *waqf* (religious endowment), including mosques and religious schools (See Figure 4.1).

In the contemporary Muslim world, the Muslim community or *umma* is divided into nation-states. In each modern state, administration is centralised and modern facilities are developed. Because social functions including education were placed under government control, *ulama* often lost their roles in the society as educators and spiritual authorities. Many of them are marginalised and forced to change their social positions.
However, ulama’ as social networks and social capital still have the potential to revive their social roles in contemporary Muslim world. The most outstanding case is the Islamic Revolution in Iran led by an outstanding a’lim, Ayatollah Khomeini, in 1979. There are cases of political participation of ulama’ in Lebanon, Afghanistan, Iraq, etc. The Malaysian case is different from those countries. Professional Islamists have been playing an important role in Malaysian Islamic movements since the 1970s, although ulama’ are also important in the movements. Especially in the largest Islamist movement in Malaysia, an opposition party called Islamic Party of Malaysia or Parti Islam SeMalaysia (PAS), ulama’ role is very significant, because they implemented ‘Pimpinan Ulama’ or ‘Leadership of ulama’ as their guiding principle.

Islam in the modern state of Malaysia

Malaysia declared her independence in 1957. British-style administration was instituted in the colonial period. Contemporary Malaysian bureaucracy is a legacy of the colonial administration. A Westminster-style parliamentary system was also implemented in Malaysia. Even after the independence, the bureaucracy developed, and Islamic affairs were en-
rolled in the bureaucratic administration. Islamic Administration includes Islamic education in government schools, *syariah* courts in the judiciary system, collection and distribution of *zakat* (religious donations) and *waqf* (religious endowment) administration, and *Halal* (permitted) products certification etc. In each state, Islamic administration falls under the jurisdiction of the *Jabatan Agama Hal Ehwal Islam* (Islamic Religious Affairs Department) and *Majlis Agama Islam* (Islamic Religious Council). In the Federal Government, Islamic administration is under *Jabatan Kemajuan Islam Malaysia* (Malaysia Department of Islamic Development) of the Prime Minister’s Office.

According to the Federal Constitution of Malaysia, Islamic affairs are not covered under Federal administration. They are under states’ administration. However, the Federal government has been intervening in Islamic affairs and standardizing Islamic administrations in every state since the 1980s. As a result, Islamic administration in Malaysia has been institutionalised, centralised, and federalised by the direction of the Federal government. Federalisation of Islamic administration was promoted under Mahatir’s government in particular.

In contemporary Malaysia, Islamic activities are tightly controlled by the state. There is only limited room for private associations such as Islamic NGOs and traditional *ulama*’ associations. Therefore, compared with other regions, Muslim associations in Malaysia are very limited in terms of their influence, activities, and affiliated institutions. They are not comprehensive associations for education, welfare, and propagation etc. such as those found in other regions.

**Organisations of *ulama*’**

Under British colonial administration, a *Majlis Agama Islam* (Islamic Religious Council) was established in each state. A *Syeikhul Islam* as head of Islamic administration was also appointed in each state. *Kaum Tua* or old generation *Ulama*’ were enrolled in British administration systems (Roff 1994).

Some *ulama*’ were enrolled in British administration and independent Malayan administration as bureaucrats for Islamic administration purposes. However, the majority of *ulama*’ in Malaya organised opposition parties. In the 1940s and 1950s, most Islamist activists were nationalists, and hoped to create a modern, independent, centralised republic. Many *ulama*’ joined the *Partai Kebangsaan Melayu Se-Malaya* (Pan-Malaya Malay National Party, PKMM) established in 1945, although PKMM was a nationalist party rather than an Islamist party. The *Hizbul Muslimin* (Muslims Party) was established in 1948 as a
more Islamist party than PKMM, but was disbanded by the British administration.

Finally, Persatuan Islam Se-Tanah Melayu (Pan-Malay Islamic Party, PMIP) was established as a flagship party of Malayan Islamists in 1951. In 1973, the party changed their name to Parti Islam SeMalaysia (Pan-Malaysia Islamic Party) or PAS. PAS was established in 1951 under the ruling party United Malay National Organisation (UMNO). In 1954, PAS separated from UMNO. Until the 1980s, PAS’ mainstream was composed of nationalists. In 1983, PAS introduced Pimpinan Ulama’ or Leadership by Ulama’ (Farish 2004, Funston 1980, Nakata 2000, Nasarudin 2001).

The main objective of PAS is the establishment of an Islamic state. An Islamic state or Negara Islam in Malay, Daulat Islamiyah in Arabic, is a modern concept. An Islamic state is any state, in which Islamic law or shari’a is implemented in its territory; however, excepting the implementation of shari’a, it is no different from other modern nation-states with sovereignty. The Islamic state is a different concept from a traditional concept of governance in Islamic thought, the khilafah or Caliphate state. The concept of an Islamic state is a product of modern Islamic political thought. It is a common agenda among the mainstream Islamist movements in the world, such as Muslim Brothers in the Middle East. Leaders of PAS always emphasise necessity of realising an Islamic state in Malaysia. The late president of PAS, Fadzil Noor, said, ‘The line and the creed of PAS’ struggle for Islam never changed. We act and work for Islamic governance.’ (Fadzil 1993: 87)

The present president of PAS, Abdul Hadi Awang, said, ‘Verily the responsibility of establishing an Islamic State is as important as performing the daily obligatory rituals of Islam.’ (Parti Islam SeMalaysia 2003)

There is another ulama’ organisation in Malaysia, Persatuan Ulama’ Malaysia (PUM) or Ulama’ Association Malaysia. PUM was established in 1975. Members are represented in the government, UMNO, PAS, universities, and NGOs. Their membership reflects the social network of ulama’. PUM is a social association of ulama’, and they are not a political movement. However, members of PUM have played important roles in the contemporary Islamic movement in Malaysia. They were in both the government and opposition parties. Their interpersonal relationship was built in the Middle East during their study years, and through participation activities in Malaysia after they returned.

Many of PUM’s active members became leaders of Islamic movements and departments within the Islamic administration structure. For example, Abdul Hamid Othman became an advisor to Prime Minis-
ters Mahatir and Abdullah Badawi in Islamic affairs. Nakhaie Ahmad became vice president of PAS, and later he became a UMNO member, and president of Yayasan Da‘wah Islamiyah (Islamic Da‘wah Foundation). Nakhaie’s contribution for Islamisation policy in Malaysia is significant. He was a main player in the creation of Islam Hadhari (Civilisational Islam) as a guideline for Abdullah Badawi’s administration. Harussani Zakaria became Mufti of the state of Perak.

PUM activists such as Fadzil Noor, Ahmad Awang, and Abdul Ghani Shamusuddin became PAS leaders. Fadzil Noor (1937-2002) was born in Kedah. He became president of the Malay Student Association in Egypt in 1971. He was a deputy president of Angkatan Belia Islam Malaysia (Islamic Youth Movement Malaysia, ABIM) from 1974 to 1978. Furthermore, he served as president of PAS from 1989 to 2002. He contributed to the organisation of ulama’ into a contemporary movement. In PAS, Fadzil Noor’s contribution was significant. After the 1980s, PAS became an Islamist party of an international standard, similar to Muslim Brothers in the Arab world and Jamaata-e-Islami in Pakistan. Before that, PAS was a party of Malay nationalists rather than an Islamist party. PAS stated its main objective, to establish an Islamic state in Malaysia, quite clearly. Leadership by ulama’ was instituted to achieve the objective.

Islamisation and ulama’

In and after the 1970s, there arose various movements called da‘wah, aiming at a return to Islam and introduction of Islam as the lifestyle and social norm. During the 1970s, da‘wah movements including ABIM\(^3\) took a critical attitude toward the government. At that time, PAS was part of the ruling coalition Barisan Nasional (National Front). After the Mahatir administration was established in 1981, many members from ABIM, such as Anwar Ibrahim, the president, joined the government and the ruling party UMNO in 1982. During the same period, Fadzil Noor, deputy president of ABIM, and many other persons from ABIM joined PAS. As a result, the Islamisation policy was launched under the initiative of the federal central government. In the fields of education, economic policy and the law, the Islamisation agenda ABIM had been advocating through the da‘wah movement began to affect the government and the ruling party in developing policies.\(^4\) Roff points out that the Islamisation led by the federal central government was the centralisation, federalisation and institutionalisation of Islamic administration (Roff 1998).

Since the 1970s, the network of ulama’ has been promoting Islamisation in Malaysian society so as to achieve governance of shari‘a, which
is their ultimate goal. Shari’a-based governance needs appropriate social order as a precondition. So-called Islamisation policy by the Malaysian government since the 1980s, and da’wah activities by Islamic NGOs since the 1970s, can be considered as preliminaries for the shari’a-based governance. Since 1982, Islamisation policy has been actively promoted in Mahatir’s administration. As a result, many ulama’ took offices in governmental organs.

There was a traditional ulama’ network, such as a network of Sufi tariqa (Islamic mystics order). Studying in the Middle East, the ulama’ returned with a dedication to forming a contemporary ulama’ network. Since the 1970s, ulama’ have been playing important roles in Islamic NGOs such as ABIM (Angkatan Belia Islam Malaysia, Islamic Youth Movement Malaysia) and Persatuan Ulama Malaysia (Malaysian Ulama’ Association). The da’wah movement reconstituted and activated ulama’ networks. ABIM and Persatuan Ulama’ members joined UMNO, PAS, and governmental institutions. PAS questioned the Islamic legitimacy of UMNO’s government. To protect their legitimacy, UMNO promoted Islamisation policy. Islamists in the government supported Islamisation of UMNO and the government. There has been competition for Islamic legitimacy between UMNO and PAS, and a ‘spiral of Islamisation’. Ulama’ utilise their networks to escalate the competition.5

Ulama’ networks transmit Islamic discourses in the parliamentary framework and public sphere of Malaysia, and thereby act as a powerful criticizing force and counterbalance to the government. Pressure from the opposition force and the necessity to compete against PAS for support of Malay Muslim voters keenly motivate the government to promote the Islamisation policy. Many ulama’ and people from ABIM involved in administrative organs, think tanks, and government foundations provide an important mechanism for the smooth advancement of Islamisation. More specifically, if the opposition force such as PAS gains broader support of Malay Muslim voters by legitimacy based on Islamic logic, Islamists in the government and the ruling parties then emphasise the opponent’s threat and consequently assert that the Islamisation policy should be promoted to protect the legitimacy of the government (Shiozaki 2007). In this manner, ulama’ utilise the parliament, election system and administration and, in so doing, continue to play their traditional role as an expert group having the authority to interpret shari’a and as an adviser to or critic of the ruler. Even though they are members of different parties, they still closely communicate with each other. Ulama’ also communicate with one another irrespective of which party they belong to, because they share the common system of knowledge, discursive resources, and the experience of study in the Middle East, and there is a traditional network of ulama’. UMNO and PAS have been competing with each other for the legitimacy in Islam and have introduced poli-
cies based on Islamic logic. As a result, Islamisation has improved exponentially and advanced in quality and scale (see Figure 4.2).

Even in Abdullah Badawi’s administration (2003-present), Islam Hadhari (Civilisational Islam) is assumed as guideline of administration. The ‘spiral of Islamisation’ continues even now. Mainstream Islamists are not against Islamisation and promotion of Islam Hadhari at all, substantially speaking. Many ulama’ and Islamist professionals believe that they can stockpile resources and power through Islamisation, and at last, they can Islamise the modern state of Malaysia.

However, ulama’ became bureaucratic under governmental control. Many ulama’ were institutionalised. Their authority and influence in society were weakened. Some ulama’ believe that Muslim society cannot resist secularisation without the leadership of ulama’ conveying Islamic knowledge. For example, one Da’wah NGO, Darul Arqam, formed a non-governmental Sufism network community, under the leadership of a charismatic a’lim, Ashari Muhammad.

Mainstream PAS members support Islamisation and the idea of an Islamic state as a modern state. However, many ulama’ demand an intensification of ulama’ leadership.

Figure 4.2  Public Spheres in Modern Malay Muslim Society
Tuan Guru Nik Aziz’s utopia of pondok community

The Mursydul’Am (spiritual leader) of PAS and Chief Minister of Kelantan state, Nik Abdul Aziz Nik Mat, shows a unique idea concerning the relationship between the state and Islam. Nik Aziz (1931) was born in Kelantan. He studied in Deoband, Northern India and Al Azhar in Egypt. He was the main player in establishing the leadership of ulama’ in PAS in the early 1980s, when he was the head of the Ulama’ Division. Later he became Mursyd ul’Am (spiritual leader) and the chairman of Majlis Syura Ulama’ (Ulama’ Council) of PAS. Since 1990 he has been the Chief Minister of Kelantan.

Kelantanese people call Nik Aziz ‘Tuan Guru’ with affinity. ‘Tuan Guru’, or ‘Tok Guru’ for short, is a title for a founding headmaster of a pondok or Islamic boarding school. ‘Tuan Guru’ is also a revered title for a great Islamic teacher. A pondok is a characteristic facility in the Malay Islamic world. Tuan Guru and his followers (murid) live together around a school complex, work together, and form a community. Residents in a pondok follow (taqlid in Arabic, ikut in Malay) Tuan Guru’s leadership in their study and social life.

The pondok community is a model of Islamic governance to realise by Tuan Guru Nik Aziz, the Chief Minister of Kelantan. Nik Aziz has been trying to realise leadership of ulama’ through the pondok community method. After PAS took over the state government of Kelantan, pondok-style Islamic schools were increased. In 1991, the Kelantan state government allocated 15 million ringgit to Yayasan Islam (Islamic Foundation). Yayasan Islam supports Islamic schools financially. Sekolah Agama Rakyat (People’s Religious School) and Tahfiz Al Quran (School for Koran study) increased rapidly in Kelantan. Enrolment in Sekolah Agama Rakyat in Kelantan was 34,721 in 1990, 37,726 in 1991, 39,633 in 1992, and 41,864 in 1993 (Farish 2003).

Tuan Guru Nik Aziz’s other strategy to realise leadership of ulama’ is guiding the society by halaqat or circle. Halaqat is a group gathering to study the Quran and Islamic teachings, or for preaching on Islamic affairs. In Kelantan, halaqat gatherings have been organised by the state government since 1998. Unit Halaqat of Da’wah Section in Jabatan Hal Ehwal Agama Islam Kelantan (Islamic Religious Affairs Department Kelantan) of the Kelantanese state is in charge for halaqat activities. In 1998, Unit Halaqat hired 2,462 stuffs as preachers, Quran teachers and religious teachers. Unit Halaqat sends them to each halaqat gathering. The employees of the Islamic Religious Affairs department in Kelantan totalled 2,839 in 1998 (Jabatan Hal Ehwal Agama Islam Kelantan 1999). In 2007, stuffs of Unit Halaqat rose to 3,167. In Terengganu state, religious preachers and teachers employed by religious departments number 436 (Jabatan Hal Ehwal Agama Islam Terengganu 1999).
2004). Obviously many ulama’ are employed by the Kelantanese state government as religious guides for local communities.

The objectives of Unit Halaqat are as follows:
- *Da’wah* activities and improvement of Islamic understanding within Muslim society and non-Muslim society;
- *Amr bil ma’ruf wa nahi anil munkar* (Commanding the right and prohibiting the wrong);
- To establish a peaceful society guided by Islam;
- To sustain the government led by ulama’ (Jabatan Hal Ehwal Agama Islam Kelantan 1999).

Tuan Guru Nik Aziz believes that ulama’ should be guides for material and spiritual life in local communities.

**Conclusion**

The power to centralise and standardise the administration by the Federal government is very mighty indeed. Islamic activities were also incorporated in the centralisation and the institutionalisation processes. In the process of bureaucratisation, ulama’ lost their autonomous position in Muslim society. Bureaucratised ulama’ lost their authority and influence on the Muslim masses. Islamisation policy enlarged the impact of Islam in Malaysian society. However, on the other hand, Islamic activities came under the control of the modern government. Islamic activities lose their dynamism if they stay under governmental control.

*Ulama’* have been dealing with a great puzzle. They are seeking the answer to questions of how to overcome modernisation and the modern state, which both promote secularisation. One answer was establishing an Islamic state, which is an amalgam of traditional *shari’a* and the modern state. However, Islamisation in Malaysia did not manage to realise an Islamic state. Islamisation policy promoted by the government was simply a reinforcement of state power rather than governance of *shari’a*.

In contemporary Malaysia as a modern state, ulama’ have not succeeded in flourishing, or utilizing the potential dynamism of their social network as social capital, because of the trap of Islamisation policy which enforces governmental control on Islamic activities, even though there are some interesting exceptions.
Notes

1 Federal Constitution of Malaysia, Article 74.
2 PAS was established in 1951 under the instruction of the Religious Affairs Department of UMNO. It separated from UMNO in 1954 after the opposition Islamic force joined. PAS was strongly nationalistic at the beginning, but reinforced Islamist features in and after 1986, when the ulama’s leadership was adopted by Ulama’s Council (Majlis Syura Ulama). Their ultimate goal is to establish an Islamic state. Currently, it consists of about 800,000 members.
3 ABIM was established in 1971 by Anwar Ibrahim et al Da’wah movements were led by university-educated professionals, aiming at Islamization and anti-secularism of Malaysian society. President Anwar Ibrahim joined UMNO in 1982 (he later became Deputy Prime Minister.) In the following year, Deputy President Fadzil Noor assumed the office of Vice President of PAS (later, President). Currently, PAS consists of about 60,000 members.
4 UMNO’s Islamization policies do not include a ruler’s obligations under shari’a as required by PAS, such as an Islamic panel code, but they include preliminary steps or Islamization in the fields of education (religious education at public educational facilities), finance (Islamic banks and insurance), distribution (halal certification system), increases in a budget for JAKIM (Malaysia Department of Islamic Development), IKIM (Institute of Islamic Understanding Malaysia), YADIM (Islamic Da’wah Foundation Malaysia), establishment of Islamic University, and Islamic content in the mass media: in other words, Islamization in accordance with ABIM program.
5 ABIM members, who have joined UMNO to promote the Islamization policies, do not deny that establishment of an Islamic state as a distant future goal, but they consider it necessary to advance gradual Islamization as preliminary steps for it. ABIM’s assertion on Islamization is influenced by the Islamization argument by Syed Muhammad Naguib Al Attas, and Islamization in this sense means dissemination of modern intellectual systems and other systems re-created in line with shari’a.
5 Counting Votes That Count: A Systemic Analysis of the 2007 Timorese Elections and the Performance of Electoral Institutions

Rui Graça Feijó

In the course of three months, Timor Leste has held three successive elections, all reputed as ‘free and fair’ by several international observation teams – who have nevertheless raised critical issues in the way the whole process was carried out from the beginning.¹ If all goes well, a period of up to five years will now elapse before new elections will be called, as the stabilisation of the country will be enforced by those who have fought the last elections and accepted their results, both as government and as opposition. This is the moment to review critically the kinds of political choices made regarding the electoral system adopted for those elections, and to lay the groundwork for an evaluation of what should be corrected in due course.²

This paper aims not to discuss the political outcome of the three elections, but rather to cast a critical look at the ways the established electoral framework performed; and what systemic features are perceived as less efficient than the expected level of compliance with internationally accepted standards, or that have eventually been responsible for distorting the will of the people as expressed directly in their vote.

The creation of the legal framework and the electoral mechanism

As of 2 August 2007, Timor Leste possessed the legislation and the necessary institutions to organise a new election if and when the need arises. Just one year ago, this very statement would be completely false. There was no legal framework in place, and the independent body required to supervise the organisation and proceedings of any election as required by the Constitution was missing.

The decision made by President Xanana, both to rely on elections as a means of laying the foundations for a political solution to the crisis that erupted in early 2006, and his willingness to wait for the proper legal framework and institutional capacity on the part of the Timorese elections, should be considered among the major factors contributing to the present situation. Indeed, Xanana’s concern with the lack of con-
ditions for proper elections had been expressed earlier in 2005, both at the ceremony in which the new members of the first constitutional government were sworn in (July), and in his presidential address to the Parliament at the beginning of the fourth legislative session (September). Moreover, in February 2006, during the state visit of Portuguese President Jorge Sampaio, the Timorese presidency had launched an initiative to discuss the foundations of the electoral system, and to foster the largest possible convergence of political parties and respected public figures. Xanana’s insistence on the basic idea that the organisation and the staging of elections should be viewed as an act of sovereignty in accordance with the Constitution, and not as lip-service paid to the international observers and donors available in the supermarket of worldwide organisations ready to settle in the country and organise elections for a fee, was therefore critical in securing the broad framework of a Timorese-oriented electoral scenario.

In the government camp, Ana Pessoa – Minister for the Public Administration, which comprised the unit for electoral affairs (STAE – Secretariado Tecnico para os Assuntos Eleitorais) – wrote a letter to the Secretary General of the United Nations asking for international help of a technical nature in preparing for elections. This would comprise three aspects: legal, institutional and logistical.

The UN responded by sending a NAM (Needs Assessment Mission) led by Judge Kriegler of South Africa, who had already been involved on previous occasions with Timor regarding electoral matters. The NAM’s report, issued in December 2005, identified a number of critical points to be addressed, and strongly recommended immediate action in order to adhere to the constitutionally expressed deadlines. However, the UN team’s document was not followed by substantial multilateral involvement as the minister turned to Portugal instead as a major partner in the process.

FRETILIN and its leaders abstained from participating in the workshops set up by the President. On the other hand, Portuguese advisors were brought in to work directly with the minister and STAE. Rumour had it that they were advised not to pursue any sort of relationships with anyone outside STAE, including MPs of opposition parties. In early May 2006, the government was in a position to submit a legal proposal to the National Parliament – but the fall of Alkatiri and his replacement by a new government, headed by Ramos-Horta, washed the opportunity away. FRETILIN would later resurrect the project and submit it under its own initiative. Parliamentary debate on these proposals would only resume in the fifth and last session, starting in September.

Parliament confronted two basic proposals; one from FRETILIN, the other from an ad hoc coalition of opposition parties. The main topics of disagreement were the following:
– the nature of the constitutionally required body of electoral supervision. FRETILIN envisaged it along the lines of the one erected for the local government elections in 2004 and 2005, i.e. a non-permanent body, whereas the opposition clamoured for a permanent institution;
– the replacement of the Hare quota method of allocating seats used in the 2001 election by the d’Hondt method, on the grounds of favouring political stability;
– a legal threshold of five per cent for parties to win seats in Parliament;
– the opposition claimed a gender quota which FRETILIN opposed.

The opposition claimed that votes should be counted at the local polling stations, and FRETILIN favoured counting them at district level, without any mention of sub-district results. The last formula had been adopted in earlier polling, namely in the 1999 referendum, as a precautionary measure against intimidation and retaliation – two phenomena one would have expected to be more or less eradicated.

Agreement existed on the creation of a single constituency and the adoption of the maximum number of deputies (65) allowed by the Constitution. Parliamentarian debate was assigned to the specialised Commission A, which submitted the proposals to a short, three-day public forum.

It was announced that there had been a global agreement to use the opposition’s document as the one to receive general approval, followed by a number of substantial amendments. Under this agreement, the Comissão Nacional de Eleições (CNE – National Committee for Elections) would receive permanent status but would remain distinct from STAE; the threshold would be lowered to 3 per cent; and the gender quota accepted at a lower level of exigency. In general, the similarity of the solution to Portuguese practices (d’Hondt method, double-headed electoral administration) is striking. The most significant divergence is that Portugal has refused to alter electoral legislation without an enlarged convergence and at a prudent date far from elections, whereas in Timor Leste, FRETILIN failed on the agreement, passed its own proposal as the one to be generally validated, and thus saw the opposition walk out and take no part in the voting procedures. Electoral legislation was therefore vulnerable to a presidential veto, since it could only earn the majority party vote, which is less than two-thirds of the House. These were not the most auspicious conditions for the electoral laws to be adopted in mid-December. The President of the Republic decided, given the very short time before the constitutional deadlines were reached, and judging the convergence to have been partially inscribed in the bills, to approve them on 28 December 2006.
However, this would not be the end of the process – it required fine-tuning which far exceeded the time designated for the political campaign. For one, the letter of the law asked for transparent ballot boxes – but STAE had none and it could not afford to have them shipped in time. (This example clearly shows the Portuguese influence in the tendency to be ultra-specific on details, and the scant awareness of the advisors as to the actual conditions of the country). Also, some contentious issues during the run-up to the presidential elections – like the legitimacy of using party symbols on the ballot – were settled by law, the last of which was approved on 27 March for an election to be held on 9 April. When the party of international observers was briefed on the legal framework, less than a week before polling day, some legal dispositions could not be found in writing. One might imagine the extent to which these regulations were actually passed on to the teams working the polling stations, and the panicked training sessions they must have generated.

Another issue of great magnitude was subject to controversy: voter registration. The Constitution requires voter registration to be conducted under the supervision of what was to be CNE; that is, an independent body. Yet CNE could only be installed on 15 January 2007. In the absence of such an institution, STAE undertook the task with a generous grant from UNDP, under the assumption that updating an existing register was not covered under the above mentioned constitutional rule, and without very clear rules of procedure. Efforts have been made to gain access to the full file of regulations and procedures for registration of voters – but so far to no avail. Those few applications which could be submitted to CNE by early March were approved, only five weeks before the actual voting day.

The general image emerging from close contact with the reality on the ground in Timor is that of a fairly loose legal framework, subject to ad hoc changes in periods that would be inconceivable elsewhere, and controlled to a large extent by the government rather than CNE – who struggled bravely to lay claims to its fundamental role in assuring fair treatment of electoral matters.

Having reviewed here the main steps of the process of creation and institutionalisation of the electoral mechanisms in Timor Leste, and their major faults, a comment is perhaps allowable; it need not have been so contentious. Both the ruling party in Timor Leste and the international community, through its various branches, bear responsibility for these avoidable traps. May all of them be alert and willing to discuss ways to right things that were written wrong.
An appraisal of the electoral legislation

The Timorese constitution requires electoral matters to be supervised by ‘an independent body’, and stipulates that its ‘competence, composition, organisation and working procedures are determined by law’ (Article 65.6). This independent body had been created previously, in the bill that set the procedures for local government elections, as a temporary body to be formed each time an election was called and disbanded upon formal acceptance of its results. The government legislative initiative in 2006 adhered to this model which, in order to perform its duties, would have to rely heavily on the government’s own unit for electoral affairs – the STAE.

From the very early stages of public debate – namely during the visit of the UN’s NAM in the fall of 2005 – it became clear that a serious dividing line would appear, as the opposition parties voiced very critical views of the model. The balance of power between CNE and STAE seemed too much tilted in favour of STAE which, in turn, seemed to take to heart the differences of status between the two bodies, and considered itself exempt from the obligation to be neutral – or so it was perceived by large sectors of actors in the process. As a consequence, and realizing the mighty power entrusted to STAE, opposition parties claimed the need for this body to be moved from under the command of the government to become the technical and operational arm of the new independent body. In the end, as we have already seen, a compromise was achieved, to reproduce in Timor Leste the model which has been operating in Portugal for three decades: the co-existence of both an independent body (CNE in both cases) and a governmental unit, under the supervision of a senior minister (STAPE in Portugal, STAE in Timor Leste).

To guarantee real independence for the newly-created CNE, the designation of its members was entrusted by the law on electoral administration (Lei nº 5/2006 de 28 de Dezembro – Lei dos Órgãos da Administração Eleitoral) to a large number of institutions – some organs of the state administration, like the President of the Republic (3 members), the National Parliament (3), the Government (3), magistrates (3) and others of the so called ‘civil society’, such as the Catholic Church (1) and other religious denominations (1), women’s groups (1), with provisions for those who were supposed to appoint three members to include at least one woman amongst them (Article 5). Also, the term was fixed at six years, with a possible second term (Article 7.1). Additionally, it was granted the right to dispose of its own budget (Article 11.1). The underlying principle of independence was that the wide variation of institutions brought into the process of appointing the members of CNE
would create the conditions for no one group to be unduly benefited by its actions.

The actual nomination of the fifteen CNE members took place in the very beginning of 2007, and the inauguration on 15 January – to supervise the whole process of elections to be held within 90 days, starting nearly from scratch. Although some members of CNE had previous experience in the job, such was not the case for the majority.

The story told by the first six months in office is that of an epic battle for survival – understaffed, inadequately budgeted, entrusted with heavy duties and a shortage of time allowed for most of its duties, CNE appeared in the eyes of the electorate and the observers as one pole in a battle with STAE, each institution mud-slinging the other at every single step in any procedure of the electoral process. Regardless of the actual reason behind each of the contentions, the image of an ‘electoral civil war’ was the relevant, eye-catching feature of the relationship between those critical players in the Timorese electoral cycle. Much thought must already have been devoted to ways of ameliorating the situation and creating a more adequate frame for electoral administration.

Three questions remain unresolved:

1. **How to ensure the independence of CNE.** The model chosen last year places great emphasis on the selection procedures for the designated members, and avoids altogether any form of monitoring their activity and performance. As it stands now, CNE is virtually free from monitoring its own activities, and – for better or worse – only the President of the Republic may intervene in case of failure, under his power to oversee the regular functioning of the democratic institutions. Alternatively, a model based on extended powers placed in parliament and requiring a substantially qualified majority (two-thirds or even four-fifths of all deputies) could offer better guarantees of independence cum political responsibility.

2. **Budget.** One major issue pertaining to the independence of a body entrusted with a mandate, such as the one ascribed to CNE, is the budget. As a matter of fact, both the amount of the annual (or better: the multi-annual) budget for CNE and the way it is managed need to correspond with the purpose of this institution. The ways CNE has existed so far, and was called upon to perform its duties in the electoral cycle of 2007, are a far cry from assuring any real independence. CNE cannot claim decent levels of real independence if its budget remains under the control of the government, and worse, under the control of the same minister who manages STAE, as it did throughout the first electoral cycle.

3. **Relations with STAE.** It remains to be proven that the political convergence on the bi-polar model of electoral administration is more efficient and credible than the one proposed by the opposition par-
ties in 2006. Eventual duplication of tasks, frequent feuding over the respective roles and functions, and the actual cost of maintaining two units on a rather parallel level could perhaps be reduced if electoral administration would be consolidated under a single organic unit addressing the constitutional requirements of independence.

The current situation needs to be confronted with an alternative model, which would simplify the electoral administration by merging both CNE and STAE under a politically independent leadership, elected and accountable before a qualified majority in parliament, capable of negotiating its own budget and managing it without external interference, thus reducing costs and avoiding unnecessary confrontation and feuding. At a moment when the empowerment of the Timorese authorities in electoral affairs is clearly on the table, to clearly illustrate the 2007 experiences and to improve on their own capacities to perform elections with reduced international cooperation, it would seem wise to bring the actual experience of the past half year or so under close scrutiny. The electoral results have produced a major change in the positions all parties involved in the political arena occupy; it therefore seems likely that a new frame for electoral administration would emerge.

The electoral cycle of 2007 viewed with critical eyes

The presidential election presented no problem in the way the legislation adopted the constitutional predicaments. There would be a first ballot open to all the registered candidates; if none could secure a 50 per cent plus one majority of votes, a run-off election should be held thirty days later, open only to the two highest vote-getters. The polling of 9 April returned a verdict calling for a second round between two candidates whose score on the first was sufficiently different from each other, and from the third, so as to diffuse any possible contention over legitimate tallying of the votes. Elections on 9 May returned a new President, who scored a landslide victory so that no conflict over the outcome was possible. CNE credited Ramos-Horta with 69.18 per cent of the national vote. Parliamentary elections would prove to be somewhat different.

Having examined earlier the way the polling proceeded, let us turn now to an analysis of the impact of the main contentious issues on the actual results of the parliamentary election. Three items will be considered: the adoption of the d’Hondt method; the creation of a threshold of votes to gain access to parliament; and the degree of representation achieved by the parties that succeeded in electing deputies.
Table 5.1  Results of the Parliamentary Elections, 2007

<table>
<thead>
<tr>
<th>Party</th>
<th>Voters and votes</th>
<th>Percentage</th>
<th>Seats</th>
<th>Seats as % of total MPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electors</td>
<td>529,198</td>
<td>100.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total votes</td>
<td>426,210</td>
<td>80.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blank votes</td>
<td>2,636</td>
<td>0.62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Void votes</td>
<td>7,970</td>
<td>1.87</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UNDERTIM</td>
<td>13,247</td>
<td>3.19</td>
<td>2</td>
<td>3.1</td>
</tr>
<tr>
<td>CNRT</td>
<td>100,175</td>
<td>24.10</td>
<td>18</td>
<td>27.7</td>
</tr>
<tr>
<td>PR</td>
<td>4,408</td>
<td>1.06</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>PDRT</td>
<td>7,718</td>
<td>1.96</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>PDC</td>
<td>4,300</td>
<td>1.03</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>UDT</td>
<td>3,753</td>
<td>0.90</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>PMD</td>
<td>2,878</td>
<td>0.69</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>PD</td>
<td>46,946</td>
<td>11.30</td>
<td>8</td>
<td>12.3</td>
</tr>
<tr>
<td>PST</td>
<td>3,982</td>
<td>0.96</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>ASDT/PSD</td>
<td>85,958</td>
<td>15.73</td>
<td>11</td>
<td>16.9</td>
</tr>
<tr>
<td>FRETILIN</td>
<td>120,592</td>
<td>29.02</td>
<td>21</td>
<td>32.3</td>
</tr>
<tr>
<td>KOTA/PPT</td>
<td>13,294</td>
<td>3.20</td>
<td>2</td>
<td>3.1</td>
</tr>
<tr>
<td>PNT</td>
<td>10,057</td>
<td>2.42</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>PUN</td>
<td>18,896</td>
<td>4.66</td>
<td>3</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: CNE

These figures allow for two immediate considerations.

First, the votes which failed to elect any member of the National Parliament total 47,702 (or to 37,096 if considering only the correctly expressed votes). That represents 11.19 per cent of all votes (or 8.9 per cent of the valid votes), and therefore a sharp increase in this index when compared with the results from 2001. In those elections, only 2.8 per cent of the electors voted for parties which did not win any seat (Feijô, 2006: 77).

Secondly, the three per cent threshold adopted is responsible for the elimination from parliament of two parties that would otherwise have won a seat (PDRT and PNT), thus excluding 17,775 electors from direct representation. The other parties failed to secure representation on grounds of their own poor performance.

Considering now the effects of the replacement of the conversion formula and the adoption of the d’Hondt method, the results allow for the following comments.

– The cost of each seat, expressed in the number of votes needed to acquire one seat, varies from the lowest figure of 5,565 votes for each seat won by CNRT, to a maximum of 6,624 for UNDERTIM. The largest party, FRETILIN, required 5,743. Curiously, the second party got ‘cheaper’ mandates. In a parliament with as few as 65 deputies, the disparity in this index is remarkably small, and does not produce noticeable distortions.
- The percentage of deputies gained through the application of this method is quite similar to the percentage of the vote, with gains for the largest two parties under four percentage points for each. Distortion in favour of the largest parties was, thus, relatively mild.
- Had the conversion method been the same that was used in the 2001 constitutional election, two parties (PDRT and PNT) would have won one seat each from FRETILIN and CNRT, the remaining distribution being unaltered.

As a general conclusion, the system performed according to the proportionality required by the Constitution, and the main factor responsible for distortion in this case was the inclusion of the threshold barrier, rather than the adoption of the d’Hondt method in lieu of the Hare quota previously used. In general, the effects of the electoral system management upon the distribution of seats were limited. The choice of a single national constituency and the largest number of deputies accepted in the Constitution did offset any tendency that the choice of the d’Hondt method might produce away from proportionality. However, the degree to which the new parliament represents the electorate as a whole has been reduced, as some parties were not able to secure enough votes. The total number of regular votes which produced no deputy is closer to the votes received by the fourth largest party, PD, with eight seats.

The gender issue

A contentious issue in the debate leading up to the drafting of the electoral bills was the gender quota, favoured by the opposition parties under the leadership of a number of determined women. Previous electoral laws under the UN administration did not provide for such a quota, but affirmative action has been pursued in different fields of activity in Timor Leste, and electoral legislation would be no exception. In the first Parliament, directly issued from the Constituent Assembly elected in 2001, the proportion of women amounted to roughly one-quarter. There were 22 women voting on the Constitution out of a total 88 deputies. In 2006, convergence among parties led to a quota of one-quarter of women. In every party or coalition slate presented to the electors, one of every four candidates for election needs to be a woman, and the internal organisation of the list must respect this principle in the way it distributes the candidates. Also, in the case of replacement, gender quota must be maintained.

The parliament elected on June 30 has 65 deputies, 18 of whom are women (27.7 per cent), thus in keeping with previous elections. Two or-
ganisations that elected only two deputies (KOTA/PPT and UNDER-TIM) have no woman as their representative; FRETILIN has 5 of 21 (23.8 per cent); PD 2 of 8 (25 per cent); CNRT has 6 of 18 (33.3 per cent) and PUN 1 of 3 (33.3 per cent); the latter being the only party to present a candidate as its head of list. ASDT/PSD is tops in the group with 4 of 11 (36.4 per cent).

The inclusion of the gender quota did not yield substantial change in what was the previous practice. Nevertheless, it may have been a useful tool in the ongoing struggle to ascertain a role for women in public life in line with the experience from the first political cycle of the new country.

Vote counting: rules and practical issues

For many observers of the 2007 national elections in Timor Leste, election days could be divided into two very separate parts – from early morning before the polls opened at 7:00 a.m. to 4:00 p.m., when they closed, all in accordance with the prescribed procedures and attracting a very high voter turnout; and from 4:00 p.m. onwards, as the task of making good use of the votes cast was placed in the hands of the electoral administration, and the book of rules was set aside and replaced by good will and improvisation at the cost of reliability. This is the main reason explaining why all votes were counted in the few hours after the closing of the polling stations, but why it took almost a week in all cases for the results to be known with certainty. This reason, in turn, has its own reason.

Some observers have suggested that long delays and the fluctuation of explanations given by CNE in Dili in the days after polls had closed were mainly due to poor training of the staff assigned to the 705 stations. Training for more than 3,500 people was a detrimental factor in the performance of the electoral administration. However, the group exists and has already benefited from three consecutive elections for on-the-job training, learning from their own mistakes, and should be maintained and brought into the process of reviewing standard provisions.

My own experience suggests, however, that behind the poor training was the very nature of the process of drafting the rules to be obeyed – a highly political process disguised in ‘technical’ jargon. Two aspects are more salient. In the first place, some rules were adopted in Parliament few days before the actual voting, some of them after the official start of the electoral campaign. Delays in the formulation of the procedural rules made it impossible to organise nationwide information on those matters, let alone to train all the teams involved (for the record, may I recall here that several stations were reachable by helicopter alone, and
that several others could only be reached by the 70-odd horses and mules hired by the electoral administration, four-wheel-drive cars being prevented from reaching them).

Rules and procedures themselves should come under scrutiny. They seem to have as much bureaucratic zeal as lack of adherence to local reality. Let me recount here part of my own experience as an observer.

At 4:00 p.m. local time on 9 April 2007, I was present as a registered observer in one polling station located in a sizeable neighbourhood outside of Dili, where a little over a thousand people had cast their votes. Rules required the room to be vacated by all but the electoral officers, the delegates from candidates, and accredited observers. This was not the case, however, since the presence of anxious voters prevented the officers from closing the door, and it remained open throughout the vote-counting period. The first task consisted of taking all ballot papers from the box, opening them, and placing them in a pile. This operation was designed to check that the number of votes found in the box matched the number of voters registered by the officers. In the end, one vote was missing – but no action was taken to correct this, given that this operation had taken two hours.

Next came the separation of ‘valid’, ‘null’ and ‘blank’ votes. At this stage, contested votes were also set aside. My initial understanding was that those votes would be scrutinised after the end of that procedural step, but they were never to be seen again. This procedure took another two hours. It was 8:00 p.m. and pitch dark when the final separation and counting of the valid votes actually began under the light produced by four tiny gas lamps. This process, vividly commented upon by all present in the room, took another two hours. Midway through the counting, light started fading, and in the last half-hour or so some lamps were turned out in order to save them for the time ahead – only to be too little too late, for when electoral officers had to verify the distribution of votes (actually, figures would not match) and fill out the forms, they needed to use light produced either by cigarette lighters or mobile phones. Contested votes were not checked and discussed at the end of each stage, and some colleagues reported that in some cases the people present in the room took sort of an ad hoc vote as to in which pile they should go – and forfeited the right of appeal inscribed in the regulations. Little wonder that CNE would state publicly that a great proportion of forms gathered from polling stations contained ‘errors and inconsistencies’.

Ballot boxes and completed forms were then taken to district headquarters – but only to be forwarded to Dili without any sort of processing. This stage of the proceedings was totally wasted. So CNE was granted with 705 ballot boxes and as many forms filled out in who knows what circumstances. CNE’s efforts in making votes count were
at all levels remarkable. The whole process does appear though to have been conceived without the most superficial level of consideration for actual local conditions. Responsibility for this may be attributed to the Timorese authorities to the extent that they were active in choosing external help from the wide range of options available. It falls also on the shoulders of international institutions – namely those from the UN galaxy and the Portuguese bilateral advisers – whose familiarity with Timorese conditions ought to have been more efficiently used in the recruitment procedures and the definitions of adequate profiles for the jobs. As the rules and procedures stand, training may well be available for the next five years in massive doses, and nonetheless still prove to be the scapegoat for next round’s problems.

A note on personal experience

The short description of my own experience on 9 April 2007 and subsequent days should not be understood as an attempt to summarise the shortcomings of the electoral process, but rather as an illustrative narrative. To be sure, international organisations have deployed observation teams on the ground, some for an extensive period of time, and reports have been or are being produced. The UN, for its part, decided early in the process (actually, in the last quarter of 2006) to set up an Electoral Certification Team (ECT) which has been monitoring very closely the whole electoral cycle, from the drafting of regulations to the actual results of the voters’ choices, including all institutional and organisational aspects. So far, seven detailed reports have been issued, using internationally accepted benchmarks, still pending one report of their appraisal of the legislative elections.

Reports of that kind are valuable tools in the hands of the Timorese leaders to perfect their electoral system. They should be discussed and, as much as required and judged adequate, used in changing the current situation. This is a task that belongs first and foremost to the Parlamento Nacional, as the electoral legal framework belongs, by virtue of the Constitution (Article 95.2.h), to the realm of its own prerogatives.

These reports focus very strongly on what has happened and the valuation of how the process was implemented. Perhaps they do not reflect enough on issues missing from regulation or not obviously present. The question of party and candidate financing – namely in the case of presidential candidates deemed to be running on their own merits rather than representing party lines – figures prominently on the list. An effort is also required to address these questions, and international comparisons are a sound way to proceed, if conducted under the per-
spective of adaptation rather than adoption of extant models. The opportunity is at hand.

Notes

1 For a systematic discussion of the electoral process, step by step, see the reports of the United Nations Electoral Certification Team on the UNMIT website; for a critical appraisal of the same process, see the IFES website.
2 News from Timor as this paper was being finalized (November 2007) indicated that the new authorities have decided to establish a commission to elaborate a revision of the electoral laws, in line with the position of the then-Opposition, at the time of the approval of the legal framework under which these elections were fought.
3 This issue is further discussed in Feijó (2006: 61-84).
Since the abrupt collapse of the East Timorese security institutions in April-May 2006 and the ensuing political crisis, the country has been going through cycles of complete desperation to rounds of some civility amongst its politicians and general populace. The political crisis became so deep that it has resulted in more than 150,000 Internally-Displaced Persons (IDPs) and in the intervention of international military forces and police services to perform basic security functions.

Despite the 2006 upheaval in the spring and summer, the refugee problem has been slightly reduced and the 2007 presidential and legislative elections have taken place without major violence or disruption. However, one of the main rebel leaders, Major Alfredo Reinado, is still at large. This situation raises serious questions regarding the capacity of the East Timorese leadership and state to capture and try Reinado and his supporters.

One of the outcomes of this ongoing crisis is that East Timor’s international image and reputation has been severely tarnished. What was until the outbreak of the 2006 violence perceived as a success story, not only for the Timorese themselves but more importantly for the United Nations, has since then raised serious concerns and doubts as to the capacity of this country’s leadership to perform minimal state functions, and has led many scholars to believe ‘that East Timor had more in common with other post-colonial, post-conflict societies’ (Kingsbury & Leach, 2007).

A considerable number of studies have been written on the ongoing crisis. Some place emphasis on power struggles amongst the members of the East Timorese elite, while others blame external actors; namely, Australia, Indonesia, Portugal, and the United Nations, for the troubles that have taken place in this country.

In this paper we will attempt to reorganise some of these arguments and we will mix both sets of factors to create a more realistic and heuristic understanding of this crisis. Because it is out of this mixture that we may find some plausible explanations for this highly complex and controversial crisis, we shall break down the crisis into two major factors: endogenous and exogenous. This is needed because many Interna-
tional Relations theoreticians and other social scientists have observed that there is no clear border between domestic and foreign, therefore, revealing its inherent complexity and non-mono-causal relationship.

The endogenous factors

There seems to be a consensus amongst academics that political crises should be settled domestically, even when there might be some indications that they might have been fostered from abroad (Jenkins & Plowden 2006). At this broad level, we will analyse the power struggle amongst the elite; the ‘founding fathers’ syndrome; the alleged ethnic conflict; the re-emergence of gangs and youth groups; the lack of sufficient political institutionalisation of the different organs of power in East Timor, except for the executive; and the need for the East Timorese Catholic Church hierarchy to find a new role in a post-colonial environment.

A considerable amount of studies tend to place an emphasis on the long-standing power struggle between East Timorese key decision-makers. The Brussels-based International Crisis Group squarely states that ‘the entire crisis, its origins and solutions, revolve around ten people, who have a shared history going back 30 years’ (2006: 1). This power struggle comes apparently from a long-standing feud between various East Timorese elites, dating back all the way to the 1975 civil war and to the 24-year occupation by Indonesia.

Based on fieldwork done between 2002 and 2003 in East Timor, Silva argues that quite a few members of the FRETILIN executive came from Mozambique, while key presidential advisers to Xanana Gusmão had lived in Australia. Upon their return to East Timor, these two elite groups had competing agendas. The ones who came from Mozambique and from other Portuguese-speaking countries were successful in pushing for Portuguese to be the official language and in modelling the judicial system after the Portuguese one, while those who went to Australia favoured the introduction of tétum as the sole national language and English as an official language (Silva 2006: 189-190). Therefore, she believes that these two elite groups have ‘a tendency to value, celebrate and reproduce in East Timor institutional and bureaucratic habits learned in the countries that granted them shelter during their exile period.’ Although it is true that in post-colonial states the issue of power struggles is a strong variable, it is not the only one in play at the domestic level.

Another issue occupying a role in this crisis is the concept of ‘founding fathers’. Almost all post-colonial states share the concept of founding fathers. Most scholars who have studied East Timor tend to state
that politics emerged only after the Portuguese revolution back in Lisbon in April 1974 (Anderson 1993; Hill 2002; Jannisa 2005; Niner 2007), and that the vast majority of them studied at Catholic-run schools in the 1960s and the early 1970s. However, research conducted over the last few years reveals that naming the founding fathers of East Timor is an issue far from being settled. There are other non-Catholic and non-Lusophone protagonists who can legitimately claim the distinction. Amongst them are the leaders of the Vicarda rebellion of 1950 (Oliveira 1983: 175; Thomaz 1977: 40-41; Duarte 1981: 14-16; Duarte 1987: 32-33; Chamberlain 2005: 4-5), the three East Timorese who allegedly attended the 1955 Bandung Conference (Chamberlain 2005: 7), the ones who took part in the 1959 Viqueque rebellion, namely those who were deported to Portugal and Angola (Gunn 2006b: 27-53; Gunter 2006: 27-41; Chamberlain, 2007), and those who ran the first East Timorese independence movement, the Union Republic of Timor (União da República de Timor), which came into being in 1960 and lasted until the late 1990s (Fernandes 2005: 355-431; Chamberlain 2005: 24-58).

Other authors have strongly argued that there is an ethnically-based crisis between the loromonu and lorosae, or ‘East-West’ conflict. This argument was, however, cast aside by the then-American ambassador in Dili, Grover Joseph Rees, who argued that it was above all a political crisis, and not an ethnic one. Asked by the Dili correspondent of the Lisbon daily Diário de Notícias if the crisis was ethnically based, Rees replied: ‘[n]o, I don’t think that the roots of the conflict have ever been ethnically based. There are several ethnic groups in East Timor, not only two, but nearly thirty. There is lots of mixture. For the great majority of my friends their fathers are from the East and their mothers from the West, or vice-versa. For this reason I do not believe that this is the source of the conflict. There are other reasons. They are mainly political.’

Even the Bishops of Dili and Baucau, who were strongly anti-Mari Alkatiri and anti-FRETILIN, have also dismissed this argument. D. Basílio do Nascimento, the Bishop of the latter diocese, for example, has contended more than once that the conflict is not an ethnic one, but that someone from abroad was exploiting this issue to pit people against each other. Although for a while this division was politically exploited to convince naïve people, as the crisis became less violent, it was quietly dropped and slowly the issue was shifted to disgruntled gangs and youth groups, made up of unemployed East Timorese instructed during the Indonesian occupation. This converged with the ‘pervasive intergenerational differences’ between the young and the older leaders (Scambray, Leach, and Jollife). James Scambray’s report, commissioned for the Australian Agency for International Development (AusAID), marks a turning point. Besides recognizing that one basis for the violence that
shook the country had been the ‘long-standing ethnic tensions’ which were related to the ‘control of the markets and trading routes’ (Scambray 1), he identified other factors, such as ‘property disputes, rival factions within the security forces, endemic gang rivalries, and a politically driven destabilisation campaign by opposition parties’ (idem). Although it was made public on 15 September 2006, this report seems to be confirmed by some media reports. Micael Pereira, of the Lisbon weekly newspaper Expresso, has argued that East Timor’s main problem is widespread gang violence, and calculated that more than 10% of the population is involved in gangs. Although he and other journalists attribute the culture of violence to the Indonesians’ deliberate policy of creating militias in East Timor in the mid-1980s to undermine the resistance against Indonesian occupation, Scambray’s report traces its origins to the Portuguese colonial (idem).

Others argue that the main problem has nothing to do with the wider agenda of nation-building, but instead with state-building (Feijó 2006: 159). For this former political advisor to President Xanana Gusmão, East Timor is a democracy in transition which has not become yet institutionalised (ibid: 162) mainly due to the existence of a weak civil society and a feeble political society (168). Regarding the distribution of power within the political system, Feijó argues that the several state institutions, such as the National Parliament, the Judiciary, and even the Presidency (168-169), are too weak compared to the Cabinet. In his opinion, during the first four years as an independent country, the only branch of government which gained more power was the executive (governo). For him there was an ‘excessive governmentalisation of the regime’ (181). Despite these unique circumstances, all state institutions, including the powerful Cabinet/Executive, failed to provide an answer to long-standing problems that afflicted the relationship between the Defence Forces and the National Police, which had been already diagnosed by an inquiry commission as far back as January 2004.

On the other hand, there appears to be a strong relationship between religion and politics in the democratisation process of East Timor. During the 24-year Indonesian occupation, the local East Timorese Catholic Church hierarchy, which disagreed with the Vatican’s policy towards Indonesia on the status of East Timor and with the Jakarta-based Indonesian Catholic Bishops’ Conference, became almost exclusively the spokesperson and protector for the average East Timorese citizen. This gave them a strong identity and role in East Timor politics.

However, all this changed with the withdrawal of Indonesia and especially after the election of local political leaders. Right away, tensions emerged between the local Catholic Church and the new political elite. The confrontation between local conservative-leaning Catholic Church’s hierarchy and Mari Alkatiri’s Cabinet intensified when the latter, in an
attempt to establish some mild form of church and state separation, proposed to make religion an optional, rather than a mandatory, subject in public schools in February 2005. However, over a four-week period, thousands of East Timorese took part in demonstrations and rallies against Alkatiri, in April and May. The Catholic Church’s strong capacity to mobilise the inhabitants of Díli against the government’s plan forced the Alkatiri’s Cabinet to back down when it signed a joint declaration with the Díli and Baucau Bishops on 7 May 2005, which allowed the situation to return to some kind of normal state of affairs. As Molnar observed, ‘[i]t would appear that the Catholic Church’s activism for legalizing at least some aspects of Catholic doctrine and principles may achieve what they could not prior to the writing of the Constitution – a Constitutional inclusion of Catholicism as state religion. Should the Church continue with their agenda and succeed, Catholicism might as well have been declared a state religion’ (Molnar 2005).

This conflict was not the first between the Catholic Church and East Timorese political leadership. The first major dissension can be traced back all the way to Xanana Gusmão’s agreement with Susilo Yudhoyono, in January 2005, not to prosecute the Indonesians involved in the massacres up to 1999. The Bishop of Díli, D. Alberto Ricardo da Silva, criticised the East Timorese political elite shortly after for reaching a compromise with Indonesia ‘over the atrocities committed during the country’s independence process.’ The Church’s overt criticism of the political leadership regarding key public policy choices reveals that it envisions a far greater role in domestic politics, and that it has had a hard time adapting to a new reality: an elected political leadership that conducts foreign policy based on a realpolitik approach.

All these domestic underlying factors are insufficient, though, to allow us to understand comprehensively the causes of the crisis. In other words, although a wide range of endogenous factors allows us to see how complex East Timorese politics and society really is, there is a strong need to move away from mono-causal or one-sided reasons, and to concentrate also on external reasons for the crisis.

The exogenous factors

Like any other state, East Timor is confined to a highly complicated sub-region. All international organisations place East Timor into the Southeast Asian sub-region. Although they are correct from a geographic point-of-view, in fact from a political perspective it is confined to the South Pacific island-states. Two reasons explain this interpretation. First, while Southeast Asia is made up of sizeable countries that tend to be medium or small powers in their region, East Timor quali-
fies clearly as a rather tiny actor. Second, key indicators regarding the country tend to point at an enormous dependency on foreign powers to ensure the viability of state institutions, a rather similar trend characterizing other states in the South Pacific. To sum up, from a political perspective, East Timor is obviously located in the South Pacific sub-region.\footnote{11}

Besides being part of this sub-region, a substantial number of analysts are of the opinion that East Timor has been suffering from considerable Australian pressure tactics to control it. Barbedo de Magalhães contends that Canberra is noticeably gambling on the destabilisation of East Timor so that it may have unlimited access to her key resources: oil and gas (Magalhães 2006). In his opinion, the Howard administration was committed to the overthrow of the Alkatiri Cabinet to be able to negotiate a better oil and gas deal than what the Australian government had intended originally. On the other hand, Fernandes traces back Australia’s attempts to control East Timor all the way to the 1999 intervention, and the cover-up by Australian media and academics for Canberra’s policy of connivance with Indonesia, during this country’s occupation of East Timor for 24 years. Gunn laments president Xanana Gusmão’s recommendation to the East Timorese parliament that no country should pay reparations for supplying ‘weapons and military training to Indonesia’ for her 24-year occupation period, and for retreating ‘from a call for revival of the UN-backed special crimes unit to consummate the justice process’ (Gunn 2006b: vii).

Indeed, the preponderance of Australia in East Timor is due, in part, to three reasons. First, it was the first external power to send in 150 commando forces ahead of a promised 1300-man contingent, on 24 May 2006. This compares extremely well with other powers which deployed initially much smaller forces. Portugal, for example, sent a 110-man contingent, while Malaysia and New Zealand sent 500 and 60, respectively, made up of military and police personnel. A second point is the close geographical proximity between the two countries.

Third is the ‘generous’ aid package provided to East Timor by Australia. According to AusAID, Canberra has disbursed over $370 million in Official Development Assistance (ODA) to East Timor, between 1999 and June 2007 (AusAID, 2007). However, because of its nature, this generosity has raised serious concerns amongst East Timorese NGOs, even before the unfolding of the 2006 crisis. The pressure tactics used by the Howard Government to extract concessions from the Mari Alkatiri Administration during the oil and gas negotiations raised questions about the ‘generosity’ of Australian aid to East Timor. On average, Australia disburses annually AUS$40 million, but it dragged its feet during the negotiations, despite the fact that East Timor could get millions from the oil and gas fields. According to Anderson, ‘[t]he latest ‘re-
source sharing” agreement of 2006 involves a 50/50 share of the Sunrise oil and gas field (previously 82/18, Australia’s way), a field which East Timor has claimed as 100 per cent its own. The East Timorese still feel they are being robbed, and serious injustice over oil is not compensated for by small time AusAID charity’ (2003). A number of East Timorese NGOs which disapproved of Australia’s negotiation tactics during the Timor Sea talks had their AusAID funds cut in 2005 (La’o 2005).

The ever-growing predominance of Australia in East Timorese politics is moreover related to the re-emergence of China and her need for oil and gas. China established diplomatic relations with East Timor on 20 May 2002, during the visit of the Chinese Foreign Minister to the newly established state to open their embassy in Dili. Shortly before the breakdown of East Timor’s security and defence apparatuses, the East Timorese Defence Minister, Roque Rodrigues, visited Beijing, and during the talks with his Chinese counterpart, Cao Gangchuan, stated that ‘China will continue to enhance exchanges and cooperation with East Timor to further boost development of nation-to-nation and military relations.’ Shortly afterwards, President Xanana Gusmão’s planned to visit Beijing not only to strengthen political, economic, and financial ties, but more importantly to sign two Memoranda of Understanding regarding the exploration of oil and gas in the East Timor Sea. However, on the eve of leaving Dili for Beijing, the collapse of the security and defence apparatuses prevented him from departing. In short, the deal never went ahead. However, the Chinese multinational PetroChina was granted a contract to conduct an onshore seismic survey, and there is a possibility that it might get involved in offshore oil development. A Chinese business delegation visited Dili and presented to the East Timorese Government with several investment projects worth USD$100 million, according to the East Timor Embassy in Beijing in September 2007.

Despite China’s keen interest in East Timor’s oil and gas, commitment to build the new East Timorese Foreign Office’s building and Presidential Palace, and the USD$13.6 million in bilateral trade, Storey is quite right when he contends that ‘for economic, political and historical reasons, it seems unlikely that China can ever displace Australia and Indonesia from the top hierarchy of East Timor’s foreign relations’ (p. 4).

As the violent 24-year occupier of East Timor, Indonesia has had a more settled and cautious approach to its neighbour during this crisis. The youth gang-related violence that pervades much of East Timor has been attributed to Jakarta-incited groups. One of the most common rumours plaguing Dili in the first few days after the onset of the crisis was that the looting of the Serious Crimes Unit in the Attorney General’s Office and the East Timorese Truth Commission had been master-
minded by Indonesians involved in the 24-year occupation. Although these rumours were never confirmed this view still lingers today.

Indeed, there was a preoccupation in Jakarta with the inquiries taking place in East Timor. In order to assuage them, in 2005, Jakarta and Dili established a Commission of Truth and Friendship to look into violent Indonesian withdrawal from East Timor. The aim of this Commission was to improve bilateral relations. Although it has taken voluntary statements from hundreds of witnesses, the inquiry panel had no authority to prosecute individuals or order anyone to testify. If this Inquiry Commission does not abandon the possibility of granting amnesty to human rights violators, the United Nations refuses to take part in it. Although Indonesia as an important role to play in East Timor, it has been moving cautiously to avoid any charges that it has been an important source for the current crisis.

Contrary to unfounded assumptions, Portugal has no material interests in East Timor whatsoever. Two main indicators attest this reality: Portuguese direct investment and trade figures. Total Portuguese direct investment in East Timor from 1999 up to 2005 amounted to a mere €2.9 million. This figure represents 0.008 of Portugal’s total foreign direct investment. Trade ties are also irrelevant. As can be seen in Table 6.1, between 2000 and 2006 imports represented on average nearly 0.002%, while exports stood at 0.008% (Portugal 2007b: 1).

<table>
<thead>
<tr>
<th>Table 6.1 Portuguese-East Timorese Trade Balance, 2000-2006 (Share of Total Portuguese Foreign Trade)</th>
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<tr>
<td>2000</td>
</tr>
<tr>
<td>Imports (%)</td>
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<td>Exports (%)</td>
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*Source:* Portuguese Ministry of Economics and Innovation

As of 2006, in terms of imports East Timor ranked 133rd, while in terms of exports it was 111th in foreign trade (ibid.). However, nearly 93% of Portuguese exports from East Timor were coffee-based (Portugal 2007a: 2; Portugal 2007b: 2).

In terms of East Timorese foreign trade, the picture is slightly different. While for Portugal, East Timor is an insignificant market. Portugal is a somewhat important market outside Asia. In 2004, Portugal ranked as the third largest trading partner of East Timor, with 12.4% of total exports (Portugal 2006: 4), while it ranked in sixth place with 3.0% in terms of the total, behind Indonesia, Australia, Singapore, Vietnam, and Bangladesh (ibid.). Although it remained ranked in the same position, East Timor imported less from Portugal and it dropped to 2% (2007a: 1).
Portugal’s main interests are essentially political. These tend to concentrate on three key issues: to make East Timor a viable state actor; to reintroduce the Portuguese language and to turn it into a *de facto* official language and not just a *de jure* one; and to counterbalance Australian and Indonesian political weight in Dili.

There has been a permanent Portuguese objective in Asia since the invasion and occupation of East Timor by Indonesia in 1975: to turn its former colony into an independent and viable independent state actor. This enduring foreign policy goal is in part related to the fact that East Timor is the only former Portuguese Asian colony where there was a constitutional promise of self-determination in the 1976 Constitution. Goa’s integration in India was accepted by Portuguese decision-makers in December 1975, while Macau was handed over peacefully to mainland China, after a 12-year transition period, in December 1999. Due to the fact that the other two former Portuguese colonies became part of other key regional actors, Portuguese decision-makers have traditionally put a heavy emphasis on the independence and viability of East Timor.

Another reason for Portugal’s strong commitment to the viability of East Timor has to do with the reintroduction of Portuguese as an official language. While in other former colonies, the Portuguese language is gradually vanishing (Wiarda 2002), in East Timor there is a possibility that the number of Portuguese-speaking persons might increase, as the number of enrolled pupils grows in public and Catholic-run schools. The two bilateral Indicative Cooperation Programs signed between Portuguese and East Timorese authorities place as the top priority the reintroduction of Portuguese into East Timor’s education system, from kindergarten through university (Portugal 2004: 10-12). For example, the Indicative Cooperation Program from 2004 to 2006, signed by Foreign Ministers Maria Teresa Gouveia and José Ramos Horta, stated quite categorically that ‘education, which is understood to include the teaching of Portuguese language, will be the first priority of education with East Timor, the main concern being to cover the territory to the greatest possible extent’ (ibid.: 10).

The third reason for Portugal’s commitment to East Timor has to do with the perception that Portuguese decision-makers have of themselves playing a counterbalancing role in Dili to Canberra’s and Jakarta’s interests, and in the process helping the East Timorese leadership in dealing with the Indonesian and Australian colossus.

These three main goals have been shaping key Portuguese foreign policy instruments towards East Timor. Portugal was the largest bilateral aid donor to East Timor from 1999 to 2001, and continued to do so until the first semester of 2007, as it is shown in Figure 6.1. Overall, from 1999 to the first half of 2007, Portugal has disbursed € 393.7 million.
In percentage terms of total Portuguese foreign aid programs, the disbursements represent a significant share, as shown in Figure 6.2. From 1999 until 2003, East Timor was the largest recipient of Portuguese foreign aid. This changed only when Portugal decided to forgive part of Angola’s debt in 2004.

In terms of allocation, Portuguese foreign aid has gone through a rather interesting evolution in the past nine years. In an effort at promoting state-building, Portuguese ODA has concentrated heavily on the item of ‘Government and Civil Society’, with the exception of 2005, when it was surpassed by education, which really started to be a big item in 2004; that is, over a quarter of the total bilateral aid program. Contrary to widely spread beliefs, education became an important item in the Portuguese foreign aid package in the last three years.

The greater emphasis on the education sector has drawn heavy criticism from at least one East Timorese NGO. Probably influenced by the fact that Brazil is also strongly promoting the reintroduction of the Portuguese language in East Timor, Guteriano N.S. Neves criticised Portuguese and Brazilian aid for being overwhelmingly concentrated in the education sector, in a lecture delivered at the University of Brasília (Neves 2005).

Like Australia, Malaysia, and New Zealand, Portugal also deployed a small 120-strong contingent of its paramilitary force, the GNR, in East Timor on 4 June 2006. Since then, its contingent has been strength-
In terms of costs, the Portuguese contingent costs on an annual basis around €10 million to the Portuguese treasury. Around 25% of this amount is paid by the United Nations. Despite the long distance and the logistical problems associated with this operation, the trade of diplomatic barbs between then Portuguese Foreign Minister Diogo Freitas do Amaral, and the Australian Prime Minister, John Howard, and his Foreign Affairs Minister, Alexander Downer, and the difficult relationship between the two countries at the beginning of their deployment, the role of the GNR has been welcomed. However, both countries have quite a different approach to the whole issue. While Australia maintains most of her contingent outside the UN umbrella, Portugal joined Malaysian police contingents in the command of the United Nations Police Force (UNPOL), on 13 September 2006 (UNMIT, 2006). Besides keeping public security throughout the country, the UNPOL has been entrusted with the reconstitution of ‘the Timorese National Police, training officers in human rights, community policing and incident management’ (ibid.).

Another key external actor in East Timorese affairs has been the United Nations (Ferro 2005; Feijó 2006). It was through the UN that Portugal and Indonesia negotiated the plebiscite in 1999, and until 2002, it basically governed East Timor and made quite huge investments in the country. After the independence of East Timor, the UN scaled down its presence. Since the crisis of April and May last year, the UN has returned to East Timor. Under Security Council resolution 1704, it established the United Nations Integrated Mission in Timor-Leste (UNMIT) on 25 August 2006. The mandate was basically to enhance capacity-
building in several state institutions, foster national reconciliation, support the 2007 presidential and parliamentary elections, restore and maintain public order, re-establish the National Police Service, PNTL, and the Defence Forces, among many other functions. Although there are some fears that the United Nations might commit some of the same mistakes as prior to the outbreak of the 2006 crisis, it seems dedicated to maintaining an extended presence in East Timor in order to make it a feasible actor.

In short, exogenous actors have played and most likely will continue to perform an important role in East Timor. However, these are not enough by themselves to explain the ongoing crisis. To get a full picture of what is at stake in this small South Pacific island-state, it requires a comprehensive and heuristic approach uniting both endogenous and exogenous factors.

**Conclusions**

The ongoing East Timorese crisis can be broken down in two main levels of analysis: domestic and external. At the endogenous level, we have a wide range of factors that ought not to be neglected or isolated from each other. The same goes for the external factors. Contrary to a recently-published book, which argues that there has been an overwhelming failure in nation-building (Jenkins & Plowden 2006) there is a need to broaden the scope of analysis to include underlying endogenous and exogenous factors in order to get a more measured and realistic view of East Timorese state-building.

At this point in time, East Timor’s immediate future is, in part, held hostage by an understanding between Australia and Portugal. Without its dissolution, and in the absence of an East Timorese elite reconciliation, we can not foresee the settlement of the ongoing crisis.

The East Timorese political leadership has to find ways to settle this issue. There is, in short, a need by the East Timorese leadership ‘to rise above and overcome the challenge of dividedness and differences’ in order to build pluralistic state institutions, with checks and balances, and to integrate the country into a globalised world. If they fail in this endeavour, they run the risk of becoming perceived by other international actors as another failed South Pacific island-state, and not as a Southeast Asian country.

In short, this study underscores the importance of endogenous and exogenous factors to understand the ongoing East Timorese crisis.
Notes

1 At the height of the crisis in April-May 2006, it was estimated that there were between 150,000 to 178,000 Internally-Displaced Persons (IDPs). According to the UN Office for the Coordination of Humanitarian Affairs, as of July 2007 there were still 100,000 IDPs, that is, nearly 10% of the population. ("How Many Are Currently Displaced?" [http://www.internal-displacement.org/idmc/website/countries.nsf/(httpEnvelopes)/3FDA482E5D76F2E125723005344BB?OpenDocument#disclaimer], accessed on 26 July 2007.

2 ‘A tendência a valorizar, celebrar e reproduzir em Timor-Leste hábitos institucionais e burocráticos aprendidos nos países que os acolheram durante o período de exílio’ (Silva 2006: 184).

3 Paulo A. Azevedo, ‘Nunca foi um conflito étnico’ (It was Never an Ethnic Conflict), Diário de Notícias (29 May 2006), [http://dn.sapo.pt/2006/05/29/internacional/nunca_um_conflito_etnico.html], accessed 1 June 2007.


7 This larger concept means ‘a people who share common customs, origins, history, and frequently language’ (Chesterman 2005: 1).

8 Feijó sees signs of this difficult relationship as far back as the 2004 Lospalos incidents (166).

9 It should be noted that the East Timorese educational system is under the control of the local Catholic Church.

10 ‘Timor-Leste: Bispo opõe-se a acordo para não julgar crimes cometidos durante o processo de independência’ (East Timor: The Bishop is opposed to the agreement not to try the crimes committed during the independence process), Fundação Ajuda à Igreja que Sofre [http://fundacao-ais.pt/page_content.php?id_code=274], accessed 1 June 2007.

11 James Cotton clearly places East Timor in Southeast Asia (2004). However, the 2006 collapse of the defence and security apparatuses clearly shows that it resembles more a South Pacific island-state than a Southeast Asian regional actor, which has never witnessed the public dissolution of such important instruments of power.


19 Clinton Fernandes mentions en passant ‘Portuguese corporate’ interests in East Timor (Fernandes 2004: 116). This might be the case for Australia, but not for Portugal. Besides being interested in having access to the large and rich, but highly competitive, EU market, Portuguese corporate interests are concentrated in two former colonies, Brazil and Angola. In Mozambique, for example, Portugal does not rank among the first ten foreign investors (‘Moçambique: Portugal sai da lista dos 10 maiores’ [Mozambique: Portugal leaves the list of the 10 best], Oje [Lisbon], No. 253 [18 July 2007]: 3).


7 Populism in East Asia’s New Democracies: An Analysis of the Taiwanese Discourse

Christian Schafferer

Defining populism

What is populism? In 1981, one of the most comprehensive books on populism was published. Margaret Canovan, the author, notes in the introduction to her book that the ‘term is exceptionally vague and refers in different contexts to a bewildering variety of phenomena’ (Canovan 1981: 3). Notwithstanding, I should like to briefly explore the original meaning of the term populism and explain its current usage, which should enable the reader to obtain a clear and distinct understanding of what definition is used in this study.

The existence of populism as a political ideology can be traced back to the early 1870s, when members of various agrarian organisations engaged in a social analysis of contemporary American society and wanted to reform the societal structure. Lawrence Goodwyn (1991: 854) writes, ‘Populist reformers felt that business domination of the political process – through massive campaign contributions to friendly officeholders and persistently effective lobbying in the national Congress and the state legislatures – had proceeded to the point that the practice had begun to undermine the democratic idea itself.’ Populists at that time held that elite circles in society oppressed the common people, and they made it their mission to grasp the power from these self-serving elite circles, to use it for the benefit and advancement of the oppressed masses. At its early stages, populism was believed to be an ideology capable of solving the various societal problems that existed in late nineteenth-century America. Goodwyn notes that it was, however, soon blurred with primitive and demagogic elements, and finally developed into a mere political instrument to instigate the masses. It regressed into a vehicle for racism, anti-Semitism or other similar repugnant concepts. The demeaned form of populism is ‘a behavioural manifestation of deep-seated prejudices and “status anxieties,” not a sensible product aimed at correcting unbalanced or generally exploitative economic practices pervading American society’ (Goodwyn 1991: 855).

The modern usage of the word populism mainly reflects Goodwyn’s description. The Collins English Dictionary, for example, defines populism as ‘a political strategy based on a calculated appeal to the interests
or prejudices of ordinary people.’ According to this definition, a populist is someone, especially a politician, who appeals to the interests or prejudices of ordinary people to obtain his or her (political) objectives.

The global discourse on populism

In recent years, the international academic community has addressed three sets of research questions dealing with the concept of populism. The first set of questions deals with the factors behind the emergence of populist leaders and movements. The vast majority of literature related to this issue specifically looks at the phenomenon of growing right-wing populism in late twentieth-century Europe. The second set looks at the question of whether populism poses a threat to democracy, and the third endeavours to define and classify populism into several different types.

Regarding the first area of research on populism, there have mainly been four different sub-groups of scholars. The first, such as Goodwyn (1991), Benett (1969), Lowndes (2005), and Ware (2002), have looked at the origins of populist leaders and movements in American political history and tried to establish the reasons for their success and eventual downfall. The literature related to the second sub-group enriches the body of knowledge on the phenomenon of growing right-wing populism in late twentieth-century Europe. Scholars such as Betz (1994, 2002), Biorcio (1991/92), Surel (2002) and Tarchi (2002) may be mentioned here. The third sub-group has published extensively on the causes of what is usually termed populist authoritarianism, and the rebirth of populism in South American countries. Among this group we find scholars such as Knight (1998), Conniff (1999), and Di Tella (1965). The fourth sub-group has worked on establishing non-country specific causes behind the evolution of populism in modern democracy.

The second set of research questions deals with whether populism poses a significant threat to liberal democracy, and has been addressed by scholars such as Mair (2002), Canovan (1999, 2002), Müller (2002), Panizza (2005), Papadopoulos (2002) and Taggart (2002).

The third set of research questions seeks to define a generic concept of populism and to set up a thorough theoretical framework, allowing scholars to categorise the various forms of populist movements and leaders that have existed over the last two hundred years, in democratic and authoritarian polities in Europe and America. Among other scholars, such as Berlin (1968), Di Tella (1997), Ernst (1987) and Laclau (2005), it is Canovan (1981, 1999, 2002, 2005) who has been the most influential. Her seminal work on populism was first published in 1981,
and has since then been the basis of further theoretical analysis of typologies of populism.

**Populism in Taiwan**

Taiwan is the world’s thirteenth largest economy. It has a population of about 23 million people. The People’s Republic of China, which considers Taiwan a renegade province, questions its sovereignty. Nevertheless, Taiwan is de facto an independent island-state. Between 1895 and 1945, Taiwan was part of the Japanese empire. In 1945, the Chinese Nationalists (generally known as the Guomindang, GMD) under Chiang Kai-shek seized power over the island. After Mao’s victory in the Chinese Civil War, Chiang Kai-shek and his supporters fled to Taiwan and imposed martial law, which was finally lifted in 1987. Subsequent political reforms paved the way for democracy. In recent years, Taiwan has been internationally appraised as one of the most stable and vibrant democracies in the region. Democratisation has fundamentally changed the island’s political landscape and culture. Increasing electoral competition among the different political parties and their candidates led to a more voter-oriented campaign environment. More and more politicians have become aware of how powerful public opinion can be and how easily it can be used to beat political enemies. It did not take long for populism to emerge as a catchword used by journalists and the local academic community. Over the last decade, Taiwan has experienced an intensified discussion on the rise of populist leaders and the possible implications on the island-state’s future democratic development.

**Research questions and methodology**

In this article, I would like to analyse this discussion by addressing the following set of research questions:

– How do Taiwanese intellectuals define populism?
– Do they consider it a threat to liberal democracy?
– Has the attitude towards populism changed over the years?
– What are the shortcomings of the Taiwanese discourse on populism?

As an answer to these questions, I have searched for articles about populism in back issues of local academic journals, and browsed the databases of leading newspapers for news stories and commentaries containing the term *min cui*, which is the Chinese equivalent of populism. Newspaper archives have been particularly helpful in my attempt to trace the changing attitude towards populism over half a century. This
is especially true for commentaries in the morning editions of island-state’s leading newspapers, where Taiwanese scholars in the fields of social and economic sciences tend to author newspaper commentaries about recent political, legal and economic issues. Such commentaries may either be summaries of research results or simply outline the author’s own ‘professional’ opinion. (A number of leading local scholars hardly have any other publications besides these newspaper commentaries.) The United Daily News (liannebao, UDN) and the China Post (zhongguo shibao, CP) are Taiwan’s largest print media groups, and have the most influential commentaries in their morning editions.

Research findings

The electronic database of the United Daily News covers editions back to the early 1950s, whereas the China Post electronic archive only allows browsing back to 1994. In total, I have found 1462 articles and commentaries in the UDN and 958 in the CP (see Figure 7.1). The very first article appeared in 1952, and in the following three decades, only few more instances can be counted. It was not before the 1990s that the term populism frequently appeared in the newspapers reviewed. A

Figure 7.1  Number of News Articles Containing the Term Mincui, 1980-2005
considerable proportion of observed cases appeared in that decade, roughly one-third and one-fifth respectively. The majority of news items containing the term mincui have, however, been in evidence in recent years: about 65 per cent of all observed articles in the UDN, and approximately 80 per cent in the CP (see Table 7.1).

Table 7.1  Articles Containing the Term Mincui in Leading Newspapers, 1950-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>United Daily News</th>
<th>China Post</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Frequency (%)</td>
<td>Frequency (%)</td>
</tr>
<tr>
<td>1950-1979</td>
<td>9 (0.62)</td>
<td>-</td>
</tr>
<tr>
<td>1980-1989</td>
<td>20 (1.37)</td>
<td>-</td>
</tr>
<tr>
<td>1990-1999</td>
<td>479 (32.76)</td>
<td>198 (20.67)</td>
</tr>
<tr>
<td>2000-2005</td>
<td>954 (65.25)</td>
<td>760 (79.33)</td>
</tr>
<tr>
<td>Total</td>
<td>1,462 (100.00)</td>
<td>958 (100.00)</td>
</tr>
</tbody>
</table>

Source: Author’s own calculation based on databases of the United Daily News and China Post

Early debates on populism

Between the early 1950s and the late 1970s, only nine articles published in the UDN contained the word mincui, all of which were written by local scholars. In their contributions, the authors wrote about Communism rather than elaborating on the concept of populism. The term mincui was mentioned in a historical context, mostly with reference to the Russian populist movement of the nineteenth century, the narodnichestvo.

Destructive populism

In 1980, the concept of mincui appeared for the first time in Taiwan’s mass media, in connection with domestic social and political developments. During the electoral campaign period of the 1980 national election, the UDN printed in two editions the research findings of Huang Ji, a graduate student at National Zhengzhi University. (Although martial law was in effect until 1987, local elections and, to some limited extent, national elections were held regularly throughout the island.) The conclusions made in Huang’s articles were drawn from his master thesis. Huang’s work dealt with the growing electoral competition between the authoritarian GMD and the rising opposition. Up to the present, his commentaries have remained among the very few publications that use the concept of populism in the analysis of Taiwan’s opposition in the late 1970s. He pointed out that the opposition movement at that time believed in the mobilisation of the masses to bring about political changes. Huang felt that the opposition misused the rising social pro-
blems to gain political power. In his writings, populism was portrayed as an enemy of the state. Huang posited that an opposition has to oppose, not obstruct, the government. He argued that populism is obstructive, because it disregards the opinion of experts and solely relies on the mobilisation of ordinary people who lack the ability to formulate reasonable economic, social and political policies (UDN 30 November 1980: 2; UDN 1 December 1980: 2).

**Populist Jiang Jing-guo**

Several years later, scholars and journalists began to write about the mincui character of then President Jiang Jing-guo (Chiang Ching-kuo). Chen Yang-de, a professor at Donghai University and member of the National Assembly, wrote in a commentary published in the United Daily News about the success of the seventh National Assembly session in enhancing constitutional rule in Republican China. He positively appraised Jiang Jing-guo’s contributions and concurred with the view expressed in an article published in the US weekly *Newsweek*, which lauded Jiang Jing-guo’s populist leadership style. In Chen’s view, it was Jiang Jing-guo who had accelerated the political reform process. Chen attributed much of Jiang’s success to his populist leadership style, that is, Jiang’s closeness to the ordinary people (UDN 20 February 1984: 15).

Zhou Yang-shan, another scholar, came to similar conclusions in his commentary published after the death of President Jiang Jing-guo in 1988. One of the most hotly discussed issues at the time was Jiang’s leadership succession and the formation of a new cabinet. Zhou expressed his hope for a leader who would preserve Jiang’s populist spirit (mincui jingshen) and a cabinet that was close to the people (qinmin neiye). He described Jiang Jing-guo as an authoritarian leader who listened to the hearts of the ordinary people, the laobaixing, and drafted his policies according to these wishes (UDN 26 July 1988: 2). The 1988 commentary was Zhou’s first to deal with the concept of populism, and it remained one of the only with an overtly positive connotation. Over the following years, he would turn into one of the most outspoken critics of populism. He later authored a dozens of commentaries in the United Daily News and the China Post on democratic rule and the evil of populism.

The discussion about Jiang Jing-guo’s populist character continued until early 1990, when the UDN printed a summary of Ray S. Cline’s book entitled *Chiang Ching-kuo Remembered: The Man and His Political Legacy* (UDN 14 January 1990: 28). Cline worked as a CIA agent in Taiwan in the late 1950s and became a close friend of Jiang Jing-guo (Chiang Ching-kuo), or CCK as he called him. He firmly believed that CCK had been very concerned about the lives of the ordinary people of
Taiwan. Moreover, he saw in CCK a populist whose policies and achievements should serve as a role model for the People’s Republic of China. Cline’s book summary was the last news item describing CCK as a populist.

**Radical populism**

At the end of the 1980s, the concept of mincui also came up during discussions around the idea by key GMD bureaucrats to introduce party primaries. Party reformists, such as Guan Zhong, vigorously advocated for party primaries, whereas other intellectuals, such as Lin Shui-bo, professor of political science at National Taiwan University, argued in a commentary in the United Daily News that party primaries represented ‘radical populism’ (jiduan mincui zhuyi), which he thought would provide greater political participation, but circumvent organisational rules and circumscribe the power of the party leadership. Without being specific, Lin saw in party primaries a contradiction to Chinese cultural traditions, and believed that they would, all in all, have overtly negative effects on inter-party stability (UDN 4 June 1989: 10).

The discussion about populism intensified with the rising confrontation between the mainstream and the non-mainstream faction of the GMD over whether Taiwan’s future presidents should be directly elected by universal suffrage or indirectly by the National Assembly. The mainstream faction, led by President Li Deng-hui (Lee Teng-hui), supported constitutional amendments stipulating direct presidential elections, while members of the non-mainstream faction voiced opposition to such plans and insisted on the continuation of the current electoral procedures, or indirect elections. Zhou Yang-shan, for example, authored a series of commentaries in the United Daily News opposing direct elections, on the grounds that they would imperil democratic order and stability. He referred to Russia and Poland as examples of countries where direct elections had caused political observers to question the stability of these new democracies. In his writings, Zhou drew a distinction between representative democracy (indirect elections) and populist democracy (direct elections), and outlined several differences. First, representative democracy centres upon political parties and parliaments. Populism mistrusts these two institutions and relies on charismatic and powerful leaders to rule the country. Second, established representative democracies are mostly parliamentary systems, and their leaders (prime ministers) are indirectly elected. In several democracies, such as Austria, Iceland and Ireland, presidents are directly elected, but they only represent their countries in international affairs and do not play any role in determining national affairs. Zhou argued that direct presidential elections in new democracies, such as South Korea, the
Philippines and Poland, only caused severe political and social problems. Third, representative democracy is based on constitutionalism and places importance on rationality and cooperation between different political, social and economic entities. According to Zhou, populism lacks those characteristics and uses racial and emotional appeals instead (UDN 5 August, 1991: 4; UDN 10 April, 1991: 4).

**Populist authoritarianism**

The discussion about the populist character of direct presidential elections continued until major constitutional reforms in 1994 paved the way for Taiwan's first direct presidential election of March 1996. The amendments meant a victory for incumbent President Li Deng-hui. However, his rising appeal to people of various social strata and political orientations soon became the target of mainstream academia. Several scholars anticipated the formation of a new authoritarian state led by Li Deng-hui. Wang Zhen-huan and Qian Yong-xiang were among the first scholars to discuss in public the rise of Li Deng-hui and the dangers he posed to Taiwan's young democracy. Wang and Qian wrote in a commentary in the UDN about the drastic shift from Chinese to Taiwanese nationalism in Li's speeches. Wang and Qian asserted that, in the past, the GMD had represented China and that the people of Taiwan had been taught they were ethnic Chinese, and that Taiwan was part of China, whereas GMD Chairman Li Deng-hui increasingly tended to echo the voices of the opposition and frequently challenged the one-China concept so as to gain popular support. The two scholars warned about the emergence of an era of populist authoritarianism (UDN 21 January 1995: 11; see also Wang and Qian 1995).

Huang Guang-guo, professor of psychology at National Taiwan University, elaborated on the Wang and Qian's observations in his book *About Populism and the End of Taiwan*, which was discussed not only in several newspaper articles after its release, but also in academic forums. Huang branded Li Deng-hui a populist who would in the end bring about the country's collapse. He believed that Li's democratic reforms were nothing but populism, and claimed that Li as well as others misunderstood the true meaning of liberal democracy. In a liberal democracy, he argued, the government should protect the rights of the individual. The rules and regulations concerning how to protect those rights are obtained through a democratic process. The task of the government is to guarantee the execution of those rules and regulations. Elections are only part of the democratic process, not the ultimate goal. Huang believed that in Taiwan, elections were viewed as the core value of democracy, which he thought was a misconception that would finally lead to populist authoritarianism and the end of the rule of law and social
justice (UDN 11 October 1995). The discussion about Huang’s book intensified in 1996, the year the first direct presidential election was held.

**Populist fascism**

In 1998, the focus turned away from Li Deng-hui to other politicians, such as Chen Shui-bian of the DPP. Chen (unsuccessfully) ran for re-election as mayor of Taipei and his campaign was criticised for focusing too much on ethnic issues, i.e. telling the people that they were Taiwanese rather than Chinese. Apart from that, journalists, political observers and opponents extensively criticised his leadership style as being too populist. Chen defended himself by saying that his form of governance was democracy, not populism. In his view, the government should serve all the people rather than a particular group of people. Chen argued that during the martial law period, and to a considerable extent even after that, the GMD had regarded the government as a party organ to serve its interests rather than those of the people. The city government should however put the people at the centre of attention and not at the periphery. Moreover, Chen said that his aim was to train public servants to serve the people and to interpret laws and regulations in favour of the people rather than to the advantage of the state (Li 1998).

Despite all the criticism, Chen Shui-bian’s popularity increased steadily and led to his victory in the presidential election of March 2000. While Western observers and media outlets praised Chen’s victory as a crucial development in Taiwan’s democratisation, the majority of influential local scholars and media outlets regarded it a major setback. Before and after the election, commentaries and news items attacking Chen Shui-bian reached a new record high. In the mid-1990s, Li Deng-hui was accused of using his charisma and Taiwanese nationalism as a means to increase his popularity and political power. He was believed to be the nation’s new authoritarian leader—an authoritarian populist.

Now, Chen Shui-bian found himself confronted with even more criticism. Scholars explained in newspaper commentaries and academic journals that Chen Shui-bian would have to depend far more on populism than Li Teng-hui, since the latter controlled a party that had a majority in Parliament, but Chen did not. Lin Bing-you (2000), for example, wrote that Chen’s so-called government of the people (qinmin zhengfu) in fact meant populism, i.e. the circumvention of democratic institutions, such as Parliament. He asserted that Chen’s minority government solely depended on populism. He accused Chen of using the power of the people to suppress (yazhi) the democratic process which, he believed, is a clear contradiction of the basic principles of representative democracy and ‘very dangerous.’
Chen’s intention to re-define Taiwan’s identity and his call for transitional justice intensified the discussion about his government’s anti-democratic character. The following is a summary of the most often-voiced concerns about Chen’s ‘populist’ policies.

Nan Fang-shuo, a leading social critic, saw in Chen’s leadership and policies the emergence of what he termed state-seclusionism (suoguo zhuyi) and populist fascism (mincui faxisi zhuyi). Nan (2002) and others argued that Chen’s emphasis on a new Taiwanese identity had created ethnic tensions between the Taiwanese majority and the mainland Chinese minority. Chen’s populist fascism was believed to have instigated the masses to follow his subversive politics of national identity, which attempted to legitimise racial hatred and turn it into a moral obligation. As a consequence of such despicable move, relations with China were said to have worsened and international companies were claimed to have turned their backs on Taiwan and relocated to China. In his writings, Nan warned that Chen Shui-bian and his fascist policies would further accelerate the process of Taiwan’s isolation and marginalisation, and he saw a need to put an end to Chen’s dictatorship (Nan 2002).

Nan’s theory of state seclusionism and populist fascism was shared by a considerable part of Taiwan’s intelligentsia and soon became a key concept in the mainstream academic world. Huang Guang-guo included the new concept in the revised 2003 edition of his legendary work, *About Populism and the End of Taiwan*.

A year later, the people of Taiwan elected their president for the third time. Chen Shui-bian won his re-election bid by a very small margin, the day after a failed assassination attempt. The GMD and its supporters claimed that the election was rigged and the assassination attempt staged. In addition, two referenda held on election day were claimed to be illegal and considered to be yet another of Chen’s populist election gimmicks.

As shown in Figure 7.1, the number of news items containing the term *mincui* reached an all-out high in 2004. The presidential election and the subsequent dispute were the prime reason for all the enthusiasm for talking about populist fascist Chen Shui-bian. Even months after the dispute, Taiwan’s intelligentsia continued to lash out at Chen, not only in newspaper commentaries by Taiwan’s leading newspapers, but also in political talk shows and a variety of mainstream academic and non-academic journals. One key mainstream intellectual of the time was political activist and writer Huang Zhi-xian, who authored a number of books and articles in influential periodicals. Her writings indeed reflected the thinking of supporters of what the Chinese media termed the new democracy movement. On various occasions, she ascertained that Chen’s re-election was the result of populist manipulation, and that his policies had brought the country on the brink of collapse;
economic development came to a standstill and democracy decayed. Under Chen, she believed, Taiwan transformed into a fascist one-party dictatorship. Furthermore, she claimed that Chen had brought about the death of the Republic of China, which not only meant the end of a nation but also the end of the Republican Chinese value system. According to her, the Republic of China was Asia’s first republic and a nation that had been striving for ethnic harmony and peace. Under the GMD leadership, the Republic of China had moved from authoritarian developmentism (*weiquan jinzhan*) to democracy, whereas under Chen, the Republic had turned into an isolated and marginalised piece of land. She further stated in her works that Chen’s fascist populism had led to four regrettable phenomena (Huang, 2004a: 53-64):

1. Skilled and talented people had become disillusioned about Taiwan’s future and left for other countries.
2. Taiwan had gradually isolated and marginalised itself (state-seclusionism).
3. Social and economic development had come to a standstill.
4. Because of the above-mentioned developments, an alarming number of people had fallen victim to Chen Shui-bian’s populist rhetoric, triggering off a vicious circle that would eventually lead to Taiwan’s self-destruction.

The academic discourse on Chen Shui-bian’s fascist populism entered a new stage with the founding of the Democratic Action Alliance (*minzhuxingdong lianmeng*) in April 2004. Huang Guang-guo (National Taiwan University), Li Ming-hui (Academia Sinica), Xie Da-ning (Zhongzheng University), and Guo Zhong-yi (Soochow University) were among the founding members of the Alliance. The aim of the alliance was to ‘relinquish fascist populism in Taiwan’ (Tong 2004: 54). Lao Si-guang, the spiritual father of the Alliance and a leading scholar at the Academia Sinica, said in an interview with the influential Hong Kong weekly *Yazhou Zhoukan* (*YZZK*) that Taiwan’s political landscape had been plagued by two phenomena, the commodification (*shangyehua*) and utilisation (*gongjuhua*) of politics. Society, he believes, does not bother to separate right from wrong, but pursues selfish goals. Democracy in Taiwan came overnight. Although all of its formal institutions exist, people lack an understanding about its role and nature in a modern society. Politicians and big business work together in an effort to enlarge their power and profits. Under such a system, elections no longer serve their original purpose. They have become a ‘tool’ for greedy politicians and corporations. Lao states that Jiang Jing-guo applied the same strategy. While emphasising the importance of elections in the democratic process, he used them as a tool to preserve his political power without attempting to nurture a democratic culture. Lao asserts that scrupulous
politicians work hand in hand with gangsters and dubious local faction leaders to maintain the electoral machine. He believes that because of this, society lacks a self-regulatory mechanism that would ensure deepening respect for the rule of law. Lao Si-guang views Singapore and Hong Kong as models for Chinese societies, with a profound respect for the rule of law and a common value system, even though he agrees that the laws and regulations themselves are flawed and anti-democratic. Lao claims that the people in Taiwan lack that sort of common understanding and shared value system. Instead, society merely focuses on the binary question whether something is beneficial to them or not (youli vs. wuli). The basic intention of all members of society is to turn each other into tools which may ultimately be used to obtain individual goals. Lao believes that this process of gongjuhua leads to a society without human values, a society in which voters are proud to elect gangsters into office in exchange for a few cents and promises. Moreover, Lao thinks Chen Shui-bian uses the concept of gongjuhua to control the masses and to turn democracy into fascist populism (Tong 2004: 54-6; see also Lao 2004).

Lao and his Alliance strongly influenced (if not even controlled) the mainstream academic discourse on populism in Taiwan. Taiwan’s mainstream mass media extensively covered the activities of the Alliance and provided them with a forum to present their ideas about fascist-populist Chen Shui-bian. Newspaper commentaries, articles in magazines, and books authored by members of the Alliance and their supporters virtually flooded Taiwan’s print media market. Among other publications, the alliance released two popular books, one in July and another in September 2004. The first was authored by political activist and writer Huang Zhi-xian (2004) and the latter by one of the Alliance’s founding members, National Taiwan University Professor Huang Guang-guo (2004). Both publications attempted to provide scientific evidence of what the GMD political strategist had claimed in a series of political advertisements during the presidential election: Chen Shui-bian is more than a fascist populist; he is Taiwan’s Adolf Hitler. Both scholars see striking similarities in the way Adolf Hitler and Chen Shui-bian rose to power by using populist strategies, such as stirring up racial hatred and emphasising the superiority of the Aryan/Taiwanese race.

A year after the presidential election, the discussion about populism continued and still focused on fascist populist Chen Shui-bian, Taiwan’s Hitler. While a year earlier, scholars had dominated the discourse, it was now journalists and political commentators who elaborated on Chen’s fascist populism and his striking resemblance to Adolf Hitler.

Moreover, Taiwan’s mainstream intelligentsia began to draw comparisons between Chen Shui-bian’s lavish private life and those of former dictators. In June, Chen’s son married and a glamorous wedding took
place. Unfortunately, heavy rainfalls around the island caused severe damage and the death of twenty people, and thus overshadowed the ceremony. The wedding was soon spotted as a further sign of Chen’s repugnant populist rule. For example, highly respected political commentator Nan Fang-shuo (2005) lamented Chen’s extravagant lifestyle in an article entitled _The Last Stage of Populism_, and dramatised the people’s suffering caused by the floods. Nan depicted Chen as a man of evil character who did not care about the ordinary people. In the article, he painstakingly described every detail of the ‘wedding of the century.’ Nan questioned how Chen and his family could possibly enjoy a glittering wedding when people were dying in the heavy floods. Populism, he ascertained, neither requires ability, knowledge nor a feeling of appropriateness. On the contrary, one only had to know how to use the weakness and blind spots of others to get unlimited control. Nan regarded Chen’s wedding as an extreme form of populism. In his view, Taiwan’s financial situation deteriorated daily just because Chen’s government had lavishly spent money. He compared Chen with the wife of the former Filipino dictator Marcos, who like Chen came from a low social stratum and worked her way up to the top. Once in that position, she abused her power and became a spendthrift. While most people in her country were poor, she enjoyed dressing up. Nan elucidated that she had possessed more than three thousand pairs of shoes, all of which were brand names. Photos juxtaposing Chen’s wedding with flood victims and their demolished homes were added to Nan Fang-shuo’s analysis of the last stage of Taiwanese populism.

**Conclusion**

The Taiwanese discourse on populism can be separated into six periods. During the first, populism (_mincui_) was hardly discussed by local scholars and was only mentioned in reference to agrarian movements in Russia.

In the late 1970s, local intellectuals used the term populism for the first time in connection with the rising opposition movement (see Table 7.2). Several years later, the term appeared more frequently in academic writings and in the mass media. Scholars and journalists made use of the term _mincui_ whenever they would describe the leadership style of President Jiang Jing-guo. At that time, there was a positive connotation attached to the meaning of populism and phrases like _mincui jingshen_ (populist spirit) and _qinmin neige_ (government close to the people) were commonplace.

The lifting of martial law in 1987 paved the way for democratic reforms and further increased the interest of the local academic commu-
Some of the Taiwanese intelligentsia regarded the growing demand for direct presidential elections and party reforms as calls for radical populism (see Table 7.2). During the fourth period (1995-1997) of the Taiwanese discourse on populism, mainstream intellectuals warned about the possible occurrence of a further dictatorship. They were concerned about the growing popularity of President Li Deng-hui and his utilisation of Taiwan’s quest for identity. In their eyes, Li was nothing but a populist authoritarian ruler who tried to circumscribe democratic institutions by directly appealing to the people. The last period of the discourse began in 1998, when a group of local scholars foresaw the end of a democratic Taiwan and the emergence of a populist fascist dictator. Former human rights lawyer and democracy activist Chen Shui-bian of the Democratic Progressive Party became the frequent target of the mainstream intelligentsia, who described Chen as promoting populist fascism by attacking the mainland Chinese ethnic minority and calling for the establishment of a Taiwanese nation. The Taiwanese discourse on populism has several severe shortcomings.

Firstly, there appears to be no clear concept about populism. Some of the Taiwanese intelligentsia regarded the growing demand for direct presidential elections and party reforms as calls for radical populism (see Table 7.2). During the fourth period (1995-1997) of the Taiwanese discourse on populism, mainstream intellectuals warned about the possible occurrence of a further dictatorship. They were concerned about the growing popularity of President Li Deng-hui and his utilisation of Taiwan’s quest for identity. In their eyes, Li was nothing but a populist authoritarian ruler who tried to circumscribe democratic institutions by directly appealing to the people. The last period of the discourse began in 1998, when a group of local scholars foresaw the end of a democratic Taiwan and the emergence of a populist fascist dictator. Former human rights lawyer and democracy activist Chen Shui-bian of the Democratic Progressive Party became the frequent target of the mainstream intelligentsia, who described Chen as promoting populist fascism by attacking the mainland Chinese ethnic minority and calling for the establishment of a Taiwanese nation. The Taiwanese discourse on populism has several severe shortcomings.

Firstly, there appears to be no clear concept about populism. Taiwan’s mainstream intellectuals have differently interpreted the meaning and impact of populism on the island’s political and social landscape over the last few decades. In the late 1970s and early 1980s, populism was seen as something harmful to the political process. Scholars, such as Huang Ji, accused the growing opposition movement of using social problems to stir up the masses to gain electoral support. A few years later, populism had a positive connotation and was exclusively used to de-

### Table 7.2: Discourse on Populism in Post-war Taiwan

<table>
<thead>
<tr>
<th>Period</th>
<th>Major theme</th>
<th>Leading intellectuals</th>
<th>Connotation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945-1977</td>
<td>mincui only with reference to Russia</td>
<td>-</td>
<td>neutral</td>
</tr>
<tr>
<td>1977-1980</td>
<td>Destructive populism</td>
<td>Huang Ji</td>
<td>negative</td>
</tr>
<tr>
<td>1984-1990</td>
<td>Populist Jiang Jing-guo; mincui jingshen and qinmin neige</td>
<td>Chen Yang-de and Zhou Yang-shan</td>
<td>positive</td>
</tr>
<tr>
<td>1995-1997</td>
<td>Populist authoritarianism</td>
<td>Wang Zhen-huan, Qian Yong-xian and Huang Guang-guo</td>
<td>negative</td>
</tr>
<tr>
<td>1988-present</td>
<td>Populist fascism</td>
<td>Zhou Yang-shan, Lin Bing-you, Nan Fang-shuo, Huang Guang-guo and Huang Zhi-xian</td>
<td>negative</td>
</tr>
</tbody>
</table>

Source: Author’s own research
scribe the leadership style of President Jiang Jing-guo. At the end of the
decade, the negative connotation returned. It appears to me that that
the definition of populism and its role in the political process has
merely depended on the political affiliation of the observed politician,
which has caused several paradoxes to arise. Although Jiang Jing-guo
was an authoritarian leader, mainstream intellectuals never used the
term authoritarian populism to describe Jiang’s leadership. He was sim-
ply referred to as a populist. When President Li Teng-hui succeeded
Jiang Jing-guo and voiced his support for groundbreaking democratic
reforms, such as direct presidential elections, local scholars began to
worry about the emergence of a new form of authoritarian rule, namely
populist authoritarianism. The election of former democracy activist
and human rights lawyer Chen Shui-bian as head of state in March
2000 intensified the discussion about the evil character of populism.
Chen’s disputed re-election in 2004 triggered off a new wave of attacks
on Chen and his populist authoritarianism. The so-called new democ-
racy movement emerged with the sole aim of putting an end to what
the movement termed ‘fascist populism.’

Secondly, most of the arguments found in the literature on populism,
especially those contributions about populist fascism, tend to be mere
populist rhetoric. Nan Fang-shuo’s article about the final stage of popu-
lism in Taiwan certainly is a good example here (Nan 2005).

Thirdly, there has not been any systematic and scientific attempt to
analyze populist leaders and movements in Taiwan. By scientific, I
mean an analysis based on logical reasoning rather than on political
preferences. As I have shown earlier, the discourse on populism has
been mostly restricted to analyzing the leadership style of incumbent
presidents. This rather arbitrary approach has prevented any meaning-
ful discourse on the various forms of populism and their impact on Tai-
wan’s political and social development.

The future discourse on Taiwan’s populism should at least include
the following four periods:

1977-1980: Growing opposition movement, such as the Meilidao
group, and leading politicians, such as Taoyuan county
magistrate Xu Xin-liang.

Late 1980s: Local and national politicians, such as Wang Yi-xiong,
supporting the labour and environmental movements.

1998-2005: New, powerful and more radical populist leaders, such as
former Provincial Governor Song Chu-yu and former
Vice-President Lian Zhan.

2005-2006: Former democracy activists who, after being politically
marginalised, turned against former comrades, such as
Xu Xin-liang and Shi Ming-de.
8 Dominance of SMEs among Overseas Chinese Business Networks: A Network Structural Approach

Bahadir Pehlivanturk

Introduction

The remarkable economic growth of East and Southeast Asia in the closing decades of the twentieth century, and the significant contributions of overseas Chinese to this development, brought about a lot of interest among scholars, professional analysts, and policymakers to explain the roots of the success of overseas Chinese. The phenomenon of rising China and the role played by the overseas Chinese investments as one of the most important engines of growth in China further added to interest in this topic.

While this spectacular dominance of overseas Chinese economic activities in Asia has renewed scholars’ interests in the ethnic Chinese of Southeast Asia (which was before mostly confined to some anthropological studies and particular historical narratives), the field of overseas Chinese studies has suffered some setbacks. The main setback is that, while the field had ample historical data and cultural analysis even before it emerged as an independent field of study, it lacks the necessary theoretical tools to aid the researcher and place the previous studies in a systematic framework. Despite a richness of approaches and attempts to solve the puzzle of overseas Chinese success, as well as their influence on East Asia, according to Wu Wei-Ping, ‘In the study of Chinese business networks, there still lacks a generally accepted conceptual framework which can give in-depth theoretical explanations’ (Wu 2000: 36). Edmund Terence Gomez, another critic, also argues that ‘one of the key issues in the literature on Chinese enterprises is the limited amount of theorizing on the subject’ (Gomez 2001: 16). This criticism seems to be shared by Chan Kwok Bun and his colleagues, who attack former Weberian and culturalist approaches as reductionist, and believe these ‘do not square with the geopolitical realities of history and today’ (Chan 2000: 3). In their collective work, they attempt to bring theoretical approaches to the field. In light of these criticisms, it seems that providing such a framework is one of the major challenges facing the field, and there are various attempts at reaching this goal.
Study of ‘overseas Chinese business networks’ became a popular attempt at theorizing in the field, since it is well-known that overseas Chinese business activities are functioning through a multitude of intricate connections, and since it is mainly through these connections that they are fuelling change and economic growth in the region. Together with this, network analysis became a favoured instrument to produce theoretical tools and analytical frameworks for the field. As the body of research on overseas Chinese became richer, many approaches emerged, combining network analysis with other fields, ranging from economic to cultural approaches.

While there are many popular ‘network’ approaches in the field, there seems to be a lack of unity in the meaning attached to the metaphor of ‘network’. While sometimes it simply means the connections one individual has, encoded in the word ‘networking’, sometimes it means the dark and corrupt side of these connections. In this case, the word guanxi is frequently utilised, to underline the cronyism, corruption, and nepotism rampant in Southeast Asian countries. In quite a few of the studies, it refers to the social structures created by the cultural properties of overseas Chinese (i.e. Fukuyama 1995, Redding 1990). In other ones, as a result of the dominance of business network approaches, it frequently means the social and business connections and the ‘Chinese way’ of economic organisation. In this case it is used as an abbreviation for the institutions, norms, and practices of ethnic Chinese while conducting business (i.e. Hamilton 1991, East Asian Analytical Unit 1995, etc.). Most of these approaches not only focus on the importance that connections and networks have for Chinese businesses, but they also frequently evaluate these together with the cultural attributes that underlie them. There are also other studies and approaches; such as taking the meaning of the network from a more economic theoretical standpoint, as in the case of its relation with the transaction cost theory (i.e. Chen 1998); or from a more sociological perspective, such as taking them as a medium for acquiring high social capital (Liu 2001, Pye 1999).

While the lack of a theoretical framework in the field is a serious problem that needs to be addressed, it would be too ambitious (and probably not realistic) to try to achieve this goal within the scope of this study. However, this study claims that the concept of ‘network’ (despite being an overused term) can be a starting point for the development of a theoretical framework, and it aims to contribute to such a beginning. The network approach maintained here is different than the previous approaches, and here we endeavour to take the word in an exact, clear, non-ambiguous manner not seen in previous studies. This can be said to be an interdisciplinary approach that bridges into natural sciences. Here, the term network is taken in its most basic form: as a mathemati-
cal object. While the previous studies applied the term network for addressing the cultural, social, economic, and political attributes of the overseas Chinese, here we use the term to evaluate the actual structure of this network and how this structure influences various overseas Chinese issues. In achieving this goal, a newly emerging field of science is used, which is called the Science of Networks.

Science of Networks

The science of networks is a newly emerging field, having already spanned a huge number of studies across a wide spectrum of disciplines. The science of networks, as the name implies, has the study of the properties of networks as its main focus, and has fuelled numerous applications of its concepts in a wide variety of subjects, ranging from sociology to theoretical physics. What Science of Networks shows us is that there are two universal aspects of networks, especially networks of living things.

The first one is: the structure of a network influences its properties. Applications, observations and tests done on different types of networks have shown that when the shape of a network changes, inherent features, as well as the efficiency of the network, change too. Network Science shows us that networks have properties hidden in their construction that limit or enhance their abilities. According to this view, studying the construction and structure of networks is the key to understanding the complex world around us. As mentioned above, while there are many studies using the network metaphor as a tool to investigate various overseas Chinese issues, no study has yet approached overseas Chinese networks from such a structural perspective.

The second aspect learned from the Science of Networks is that most living networks are formed from what we can call the ‘building blocks’. These are: clusters; bridges linking these clusters to each other; and hubs. Since we are talking about the overseas Chinese networks, an approach that will take the structural formations of this network and its underlining properties into account is necessary. By applying the science of networks to the field of overseas Chinese networks, it is hoped that the relation between the actual shape of their network and its influence on them can be exposed.

Network Science research exploded after the ground-breaking article by Duncan J. Watts and Steven Strogatz, published in Nature (Watts & Strogatz 1998). A huge number of other publications arose in a short time, particularly in physics but also in many other fields from epidemiology to ecology to sociology. All these studies showed that a small number of amazingly simple and far-reaching natural laws govern the
structure and evolution of all complex networks. These studies unearthed the fact that the food webs in ecosystems, electricity power distribution lines, the spread of infectious diseases, the network of connected neurons in the human brain, the Hollywood movie database, and the network of interacting molecules in a living cell, all share common structural properties. These structural properties are also shared by social networks, which also turn out to be nearly identical in their architecture to the World Wide Web. Networks which have sprung up under different conditions to meet markedly divergent purposes turn out to be almost identical in their essential architecture. Understanding the structure and dynamics of these complex webs is giving researchers new insights into the issues surrounding them. Also, in the case of overseas Chinese, some deepest truths of their world may turn out to be truths about the structure and topology of their networks, rather than about what kinds of things make up their world or how those things behave independently.

The findings of Watts-Strogatz, which opened the door to Small World theory and the science of networks, came from an unexpected place; while investigating the mathematical properties of synchronisation in cricket chirping. They later found out that same rules apply to different types of networks, from power distribution lines to the friendship networks of human societies. They have discovered that most of the real-world networks display a high degree of clustering, with long-distance links (shortcuts) tying these clusters to each other.

Their theory rests heavily on the findings and theories of sociologist Mark Granovetter. Linked with the concept of clustering in the networks, there is the concept of ‘strong’ and ‘weak’ ties within a network. This idea is introduced by Granovetter’s classic work, ‘The strength of weak ties’ (Granovetter 1973). In Granovetter’s depiction, society is structured into highly connected clusters, or close-knit circles of friends, in which everybody knows everybody else. A few external links connecting these clusters keep them from being isolated from the rest of the world. According to this interpretation, the internal links connecting the members of these clusters are called the ‘strong ties’. These clusters can be labelled in many ways. They can be friendship circles, families, ethnic associations, guilds etc. Each member of these groups would also have a collection of acquaintances, few of whom also know each other. These acquaintances would also be members of different groups. According to Granovetter, these links tying one cluster to another would be called the ‘weak ties’. The strength of a tie is determined not by some inherent feature of the tie itself, but by the structure of the surrounding network. To put it in other terms: strong ties are the intra-cluster ties and weak ties are the inter-cluster ties. In a later article, Granovetter stresses that weak ties are, in fact, more significant in a so-
cial network than are their strong counterparts. ‘Each of the weak ties becomes not only a trivial acquaintance tie, but rather a crucial bridge between the two densely knit clumps of close friends’ (Granovetter 1983: 203). The weak ties are significant in making the overall network a highly connected, strongly knit network, where information, as well other things (such as ‘social capital’) diffuse rapidly on a large scale.

Watts-Strogatz’s study formalised Granovetter’s vision by offering a network model that did display significant clustering. They also provided mathematical tools that made it possible to systematically measure clustering in networks. The surprising finding of Watts and Strogatz is that, by introduction of a small number of long-distance links to the network to act as bridges connecting clusters to each other, the average separation between the nodes decreases drastically. Because of these links – thanks to the long bridges they form – the network suddenly becomes a ‘small-world’ network. To put it in simpler words, by the addition of a few shortcut links in the net, the members of the network become closer to each other, with greater chances for information, trust, money, fashion, culture, to pass from one to another, spreading to the entire network. This makes the network not only more durable and strong, but also various parts of it will be tied much more closely to one another. It will increase the ‘proximity’ of the members of the network, despite divisions, conflicts, and heterogeneity contained within it.

With a Small World structure, the cohesiveness and the efficiency of the network will be abiding over very long distances, a quality the overseas Chinese networks display. It will also not be undermined by cracks and unconnected links within the network, since these shortcuts between the clusters and the multiplicity of these so-called ‘weak ties’ will compensate for the lost links by connecting them through different pathways.

According to the Small World theory, these newer paths will not be significantly distant, and the network ‘closeness’ (the average proximity of its members) will remain. The networks which demonstrate Small World phenomenon are markedly more efficient as a medium for things to be transmitted within them, whether these things are business information, norms and values, or infectious diseases.

This has many implications for the overseas Chinese networks. Before proceeding further, let us evaluate the small-world structure of overseas Chinese networks.
Clustered Nature of Overseas Chinese Networks

The basis for the clusters of overseas Chinese networks can be found in a number of places. In our definition, we take clusters to represent formal or informal groupings among the ethnic Chinese. The first things that come to mind to form the basis of clusters are various institutions of overseas Chinese: families, ethnic associations, or conglomerates. In a study on Chinese migrant networks in the Americas, Adam McKeown argues that institutions are taken to mean ‘the nodes in interlinked networks that moved people throughout the world.’ According to the writer, ‘Networks are indistinguishable from institutions’ (McKeown; 2001: 20). In Science of Networks terminology, one might say that clusters are indistinguishable from institutions.

Previous research on overseas Chinese gives us abundant clues for the way we can classify and define clusters of overseas Chinese networks. In the literature, the following institutions (which are often accentuated with cultural and value-based arguments) can be identified as providing the basis of the clustered nature of overseas Chinese networks: 1. family (and Chinese ‘familism’ forming its basis); 2. hometown associations (Qiaoxiang clusters); 3. economic (business) clusters (as in guilds, conglomerates, chambers of commerce etc); 4. ethnic and religious affiliations (such as dialect (bangs) and temple associations); 5. modern/miscellaneous clusters (alumni networks etc.).

In almost all of these institutions, Confucian values are commonly given as their value-basis to a certain extent. Several of these have emerged as a result of migration patterns and various historical tides in the region. Various associations, such as clan associations, locality associations, dialect associations, and guilds formed as mutual aid societies, a phenomenon accompanying the immigration of the Chinese throughout Asia. Creation of mutual aid societies was based around clans in each place of new settlement. Usually, these organisations helped subsequent arrivals in settling, financial matters and information. These mutual aid associations were formed around principles of kinship, locality, dialect, or crafts (East Asia Analytical Unit 1995, Pan 1990).

Family is the best studied phenomenon in all of these clusters. Its cultural and value-based background – the Chinese familism with its basis in Confucianism – and its importance in the economic life of East Asia is already very well established by other research in the field. A short glimpse into the history of the region, especially Southeast Asia, further demonstrates the importance of the family as a cluster. The history of the political economy of Southeast Asia is sometimes explained simply as family histories. In political terms, the word family does not simply mean household, as defined narrowly by demographers, nor kin-
ship. Alfred McCoy offers the term 'kinship networks' to expose the political role of a family (McCoy 1994: 10).

Another important type of cluster is what we can call the hometown clusters. The hometown cluster is labelled frequently as the qiaoxiang cluster. The hometown associations were formed through the creation of mutual aid societies to help the newly arriving migrants with settling, financial matters, and information. Originating from the same native village or region in China creates a strong bond among the immigrant communities. Especially for the newcomers, this creates a basis for trust, and a way for dealing with the homesickness experienced in the new place. Those returning to the village for short visits make it possible for the sojourner abroad to communicate with the relatives left behind, and receive information from these travellers. By such means, through the symbol of a common place of origin, the bonds between the Chinese were strengthened. This became another way of promoting clustering and group feeling among overseas Chinese.

It should be appropriate to define Qiaoxiang as also forming partly the basis of the next two types of clustering in the overseas Chinese networks: guilds and dialect associations. Economic motivation has also been a basis for clustering. Guilds and trade associations were established, both in China and overseas, as a means for counteracting foreign competition and state control in business (Wang, 1991). These merchant associations have played an important role in the economic life of China and Southeast Asia. Hamilton defines guilds' activities as networked economic activities, which vaguely reflects their function as a part of a larger network (Hamilton, 1977). In the more systematic approach taken here, guilds are understood as a form of clustering within the overseas Chinese network. Economic motivations were a very important driving force towards clustering in overseas Chinese networks. With strong ties established between the members of these groups, Chinese managed to accrue many advantages, not only economically but socially as well. Even today, these institutions and groupings are another factor increasing the small-world capital of overseas Chinese networks.

As mentioned above, all these clusterings are interconnected and their explanations will not be complete without the ethnic or dialect foundation they also possess. It is common for associations based on common-trade and local origin like gongsuo or huiguan to have common language in their basis as well. In this case, the term bang is often used interchangeably with the previous terms. It denotes the dialect-based groupings. A good example would be the dialect associations that can still be found around the world within Chinese communities. Formed around the usage of the same Chinese dialect, the members of these groups share the same identity (besides other ones) and regularly contact each other, thereby establishing bonds among themselves. Ethnicity
should be thought of as something beyond hometown ties or economic organisations. Beyond the same village, district, or state in China, as in the examples of Hakkas, the same ethnicity can be referred to as an ethnic cluster unbound by space. Religion can be seen as a form of ethnic cluster as well. Together with the migration (or even before it), overseas Chinese had a quite differentiated religious make-up as well. Usually grouped around temple associations and churches, Chinese sharing the same religious beliefs form clusters that lay the basis for regular meetings, socialisation, and trust-building.

Modern trends have further created clusters in overseas Chinese communities. These are clusters that do not necessarily have their roots in deep historical settings. An economic perspective classifies modern companies as an economic type of cluster. Different conglomerates and companies are tied to each other by joint ownership of each other’s stocks and interlocking directorships (Gomez 1999). As the Chinese societies become more modernised, some newer institutions, such as the alumni organisations (old boys’ network) tend to gain in importance, as well as do political groupings such as MCA (Malaysian Chinese Association, the largest political party representing the interests of Malaysia’s ethnic Chinese). A complete list of Chinese ‘clusters’ is yet to be compiled. From the tongian groupings in Taiwan to surname associations, there are many clusters that have received mixed attention from researchers.

**Weak ties in Overseas Chinese Networks**

Being a clustered network is not enough to make the network a ‘Small-World’ one. As a matter of fact, Granovetter’s study shows that too much clustering can have damaging consequences for the efficiency of the network, in the case of an absence of ‘weak ties’ to bridge these clusters to each other. What makes overseas Chinese so successful and strong in the region is that they are blessed with a multitude of such long-distance links. A high number of long-distance links benefit the overseas Chinese networks enormously, by increasing the level of connectedness and also by increasing the robustness and strength of the network.

To locate the weak ties of overseas Chinese networks, we can search for them in a number of places. First is by concentrating on the overlaps of clusters and multiple memberships, as a form of long-distance ties. Most of the institutions (and/or clusters) tend to overlap with each other, creating channels of connections within the overseas Chinese networks. It is quite common that people coming from the same locality in China speak the same dialect, and practice similar professions. This result of this is an overlapping in craftsman associations, locality
associations, and dialect associations. Ethnic groups tend to share the same religion, and they also naturally tend to share the same language. This results in creating further overlap, through religious associations incorporating other ethnic groups, and through language associations that cover different ethnic groups with common languages. Overlaps have been very important in making the overseas Chinese societies a highly ‘connected’ network. The strength it gave to them can be observed historically in other parts of the region as well. In his study on nineteenth-century Chinese merchant associations, after examining the business strength of Swatow Opium Guild against the Western merchants, Hamilton argues that the superior competitiveness of local merchants can be better understood as based in the diverse contacts maintained through ‘long-distance trade networks’ and ‘memberships in multiple merchant associations’ (Hamilton 1977). As seen from this example, overlapping clusters benefited the Chinese in their economic activities.

The second place we find the source of cluster-to-cluster bridging ties of overseas Chinese networks comes from the historical tides in the region. This is the factor with the biggest impact on the processes shaping the social, economic, cultural, and political form of the region: the patterns of migration. The winds of migration have created many bridging ties among the overseas Chinese groups, in geographical terms as well as in social terms. The process of remigration or secondary migration had the effect of elongating strong-ties, turning them into weak-ties. It can be said that what was previously an intra-cluster tie became an inter-cluster tie after migration. The early waves of migration from China were in the way of sojourning. The sojourners were expected to return to their homeland once their fortunes were made. However, not all returnees ended up in their hometowns. After resettlement in a non-native town or city, some of them migrated again, bringing their newly acquired ties to their new destinations as well. For instance, among about one hundred thousand Indonesian Chinese who returned to China in 1960s, dissatisfied with their life there, a large number of them resettled in Hong Kong (Pan 1998). Assuming some of them have kept their old linkages to their fellow countrymen in Indonesia, the intra-cluster links (strong tie) they had in Indonesia before migration became a long-distance link (weak tie), bridging the new cluster they formed in Hong Kong to their old clusters that remained in Indonesia. Secondary migration is a recurring theme in overseas Chinese migration histories. With ups and downs in their adopted lands, recurring political turmoil, persecutions and hostilities, the rise and fall of fortunes, a fair proportion of the migrants had to migrate once more to another place, again carrying their old connections to their old networks into the new locations with them. As mentioned above, all these migration patterns had
stretched out the old strong ties, turning them into crucial weak ties. Here we prefer to call this ‘the elongating effect of migration’. In the new communities and clusters the migrants joined, their previous links acted as links tying these new clusters to the old ones, thereby increasing the connectedness of the overseas Chinese networks.

The third type of long-distance-ties would be the institutions that function as a collection of long-distance ties. Globalisation has created many worldwide clusters that link disparate parts of the globe with each other through these globalised institutions. Imagined from this viewpoint, it can be said that many institutions of overseas Chinese function to create many long-distance connections between separate social and geographical groups. Especially with globalisation gaining speed in the current era, the way of looking at clusters as a collection of weak ties is especially useful, as old institutions tend to globalise, while new international institutions emerge thanks to the developments in communications technology and the ease of travel. There are many loosely organised institutions in Southeast Asia and all over the world, which provide means for establishing long-distance ties among the Chinese overseas. One example of this is the same-surname associations: groupings of men bearing a common surname. Possibly the best examples of institutional means of establishing long-distance ties are the so-called ‘umbrella organisations’. During the late nineteenth and early twentieth centuries, a new type of organisation appeared, called the ‘umbrella organisation’. These were the overarching bodies subsuming existing organisations under their leadership. These organisations not only simplified the transactions between the governments and overseas Chinese, but also simplified the dealings among the overseas Chinese themselves. In this way, they became grounds for the establishment of many important long-distance links, connecting disperse social clusters to each other, adding further robustness to the overseas Chinese networks.

Almost each analysis on the subject shows that overseas Chinese networks not only have a large number of weak ties, but these ties are also rather ‘strong’ weak ties. Now let us approach some of the issues in overseas Chinese research in light of science of networks, and see what kind of advantages this small-world structure gives to the overseas Chinese.

**Chinese ‘Network-type’ Capitalism, Dominance of SMEs, and High Social Capital**

The dominance and success of Chinese family-based small and medium-sized enterprises (SMEs) has attracted a lot of attention in the field.
While this persistence of SMEs was explained mainly through cultural explanations, the science of networks perspective offered here brings an alternative explanation to this phenomenon.

In the theories developed by Alfred Chandler, it is argued that the success of the corporations depends on one corporation’s ability to proceed from personal capitalism (based on networks) to managerial capitalism (operating through hierarchies). As a model of the Western path to success, Chandler argues that by abandoning personal (non-hierarchical) management and replacing it with impersonal managerial hierarchies, it becomes possible to achieve tighter bureaucratic control over the major functions of industrial enterprises, such as purchasing, production, and distribution. This, in turn, makes it possible to achieve higher efficiency. Chandler argues that the American and German firms surpassed the British firms because they could make this transition earlier. He terms this the ‘managerial revolution’ in Western history (Chandler 1977: 484-500).

However, Sherman Cochran shows that the Chinese path to success is different. After World War II, Chinese businesses outside China in Taiwan, Hong Kong, and Southeast Asia have matched Western and Japanese businesses in efficiency by depending on social networks rather than corporate hierarchies (Cochran 2000). Instead of building large impersonal corporations, Chinese entrepreneurs dominated the market by activating particular ties through regional networks. As a matter of fact, the so-called ‘Chinese-way to capitalism’ or the ‘Chinese network capitalism’ approach by Hamilton and his colleagues (Hamilton 1991) discussed earlier in this study can be said to result from this distinguishing structure of Chinese businesses, as opposed to those of Western and Japanese businesses. In Gordon Redding’s words, ‘In many Western economies, the main efficiencies in coordination derive from large-scale organisation. In the case of Overseas Chinese, the equivalent efficiencies derive from networking’ (Redding 1991: 45).

The strength of network-type of capitalism continues today. For instance Chen Tain-Jy’s study on Taiwanese SMEs says that ‘network linkage provides the impetus to drive an export-oriented economy like Taiwan’s in which SMEs play a dominant role’ (Chen 1998: xiii). Foreign direct investment is a difficult process. It is perceived as a risky venture that only large and strong companies are qualified to enter. The conventional image of a transnational firm is that they are big, resourceful, prestigious, and hierarchical. To this image, as Chan points out, the Taiwanese transnationals stand in sharp contrast: they are small, short of managerial and technological resources, lack prestige, and are quite independent from the parent company. When examining the sources of the strength of SMEs in Taiwan, researchers often point out the flexibility and nimbleness a small size provides.
The arguments put forward in the previous sections of this study can shed light on this unusual strength and the persistence of family SMEs among overseas Chinese businesses. It can be said that Taiwanese firms enjoy the benefits accrued by the small-world structure of the networks to which they belong. This underlying structure provides the basis for the accumulation of benefits that large hierarchical conglomerates enjoy in their deals with foreign investment. The science of networks and small world theory shows that networks with this particular structure are better channels for transfer, internal diffusion, and connectedness. Therefore it can be said with certainty that, in terms of transaction costs, in terms of managerial and other resource allocations, and in terms of information collection in the form of market information as well as other essentials for FDI, overseas Chinese networks benefit from this structure. Furthermore, this structure also provides the best infrastructure for the ‘cultural proximity’ to function to its fullest extent and benefit the members of the network. The reason for the success of overseas Chinese firms in their overseas ventures and the persistence and success of SMEs is simple to find: it lies in the small-world topology of their networks.

Furthermore, this clustered, long-distance linked structure of overseas Chinese networks creates for them a fertile ground for social capital building. According to social capital theorists, social capital is something that can be multiplied with connectedness, that is to say by membership in groups. Pierre Bourdieu states that the volume of the social capital depends on the size of the network of connections that can be effectively mobilised. He argues that connections exert a multiplier effect on the social capital possessed (Bourdieu 1986). Sociologist James Coleman argues that social capital is something that is embodied and maintained in relations among persons; increased and utilised by the efficient flow of information; by conversion and re-conversion to other types of capital; and also by norms and sanctions enforced by closure of social structures (Coleman 1988).

All these conditions are supplied in a social network with a small-world structure. It will ensure connectedness by multiple memberships, will be the most efficient structure to carry information from one end to the other, make room for conversion, and emulate closeness by the densely knit social fabric, thus strengthening norms and sanctions. Such a structure, by expanding the size of the network of connections, will increase the ‘multiplier effect’ mentioned by Bourdieu, and increase the social capital inherent within the network. Furthermore, as Francis Fukuyama has argued, social capital is something that can be transmitted. Fukuyama states that ‘social capital differs from other forms of human capital insofar as it is usually created and transmitted through cultural mechanisms like religion, tradition or historical habit’ (Fukuya-
ma 1995: 26; emphasis added). The power of small world networks lie in their ability to be an efficient medium for this transfer. It is believed that the structure of their networks is another factor endowing the overseas Chinese with a high level of social capital, hence giving them an advantage and competitive edge over with their indigenous nationals. With all these advantages, overseas Chinese businesses do not need the make the leap towards deep hierarchical enterprises to keep being competitive.

Conclusion

In this study, we approached overseas Chinese business and social networks from a structural perspective, provided by the concepts derived from the science of networks. We believe that focusing on the clustered, long-distanced aspects of overseas Chinese world gives us, as researchers studying the overseas Chinese, a more structured framework to study various issues. It also provides a basis to take into account the institutional basis of overseas Chinese networks, through mapping them with clusters, and to clarify the ambiguous meaning ‘network’ has in this literature by mapping long-distance links with the phrase ‘networking’ and (sometimes ignominious) ‘guanxi’ and ‘connections’. In this study we also attempted to provide an alternative explanation to the dominance of family-based firms and SMEs among overseas Chinese businesses, and their relatively high level of social capital that makes them so successful in Southeast Asia, through utilizing network science concepts. We hope that this will contribute to the interest in the structural properties of overseas Chinese networks, which has been ignored until now, and further the research on implications of this structure for the overseas Chinese societies.

Notes

1 Here it should be clarified what is meant by the structure of a network since this term also assumes different meanings in overseas Chinese studies; mostly implying the cultural dynamics of networks. In Science of Networks nomenclature it means the topology – the actual shape – of a network.
2 The term “Small World” was coined after a social experience we all share time to time. It is quite common that two people from different social backgrounds sometimes meet and find out that they have a common acquaintance or friend. At such a situation one generally exclaims, ‘it’s a small world after all.’ Small World theory looks into the underlying principles of this intriguing aspect of our social world, and definitely any researcher who has investigated the ‘intricately’ linked world of overseas Chinese would feel the same too.
3 Native-place

5. Individuals born in the same lunar year.
9 Building Regional Security Architecture: 
The Shanghai Cooperation Organisation 
From an Organisational Theories Perspective

Thomas S. Wilkins

Introduction

Security cooperation between Moscow and Beijing has intensified over the past decade though the medium of the Russo-Chinese ‘Strategic Partnership’ (Wilkins 2008). This partnership is based upon shared interests, economic cooperation, and corresponding national worldviews, and has developed, at least partially, in response to American hegemonic ambitions. A fundamental element of the partnership has been the creation and expansion of the Shanghai Cooperation Organisation (SCO) in the Central Asian region. Kozhokin identifies ‘one of the tasks of the strategic Russo-Chinese partnership in its regional aspect is to create a new security model for Central Asia. This entails, above all, collaboration within the SCO’ (2002: 2).

The significance of a new security model pivoting on the Moscow-Beijing axis has been subject to varied interpretations by Western commentators, ranging from derision to alarm. However, few analysts have pursued rigorous conceptual investigations, either directly employing IR theories or developing new ones to explain this significant new phenomenon. Indeed, a SIPRI Policy Paper determines that the SCO ‘has remained one of the world’s least-known and least-analyzed multilateral groups’ (Bailes & Dunay 2007: 1), while officials at the US State Department admit, ‘We don’t fully understand what the SCO does’ (Feigenbaum 2007). This is despite the fact that the SCO is headed by two of the world’s great powers; nuclear weapons states with permanent UN Security Council membership, and with the SCO as a whole covering a vast territory accounting for a quarter of the world’s population, 23% of its oil reserves, 55% of its natural gas, and 35% of its coal (Nizamov 2007). De Haas rightly states that ‘the SCO in theory has a formidable economic, political and military potential’ (de Haas 2007: 6).

This chapter seeks to contribute to a better appreciation of the SCO as a new security archetype, and to advance a suitable conceptual framework to understand it. First it raises the issue of how the SCO may be characterised: as ‘alliance’, ‘security community’, or ‘strategic partnership network’? Having settled this question in favour of the latter, it
then provides a brief conceptual framework, tied to traditional IR theories, but largely based upon Organisational Theories (Part I). Organisational Theories are designed to explain the structural properties and behavioural patterns common to all intergovernmental institutions and are employed to analyse the SCO in the main text (Part II). These theories have been previously applied to IR questions with great success, as the well-known works of Allison & Zelikov and Sagan testify (Allison & Zelikov 1999; Sagan 1995).

Conceptual framework

Defining the SCO

Observers of the SCO are unclear on how to characterise this seemingly new form of alignment, and the organisation’s official proclamations have done little to dispel this uncertainty. The Chinese Foreign Ministry describes it thus:

A new security concept, a new mode for nation-to-nation relations and a new mode for regional cooperation have appeared on the horizon as the SCO deepens cooperation in line with ‘the Shanghai Spirit,’ which calls for mutual trust and common security, partnership and non-alliance, openness and transparency, equality and consensus, mutual benefit and being not against any third country or regional groups.

(SCO Summit Website/Xinhua)

This is a broad definition, and many of the particulars will be examined in the following analysis, but with respect to its nature, it raises some fundamental issues. Despite its paradoxical claims to the contrary, it evidently is a form of alignment; this being defined as ‘a state of agreement or cooperation among persons, groups, nations, etc., with a common cause or viewpoint’ (Dictionary.com 2008).

But what type of alignment? The SCO only partially adheres to the typical definition of alliance: ‘formal associations of states for the use (or non-use) of military force, in specified circumstances, against states outside their own membership’ (Snyder 1997). Both the SCO itself and its commentators are adamant that it is ‘not a new Warsaw Pact’ (Feigenbaum 2007) or a ‘NATO of the East’ (Weir 2005). Therefore, since it does not conform to alliance definitions, theories developed to explain that phenomenon, derived from Realist ‘balance of power/threat’ and its subsidiary, ‘intra-alliance politics’, are of limited application. However, this is not to say that elements of this literature cannot still be tangentially introduced; the role of the external (threat) environment,
power inequalities, and domestic politics in state-to-state relations, for example, demonstrate significant cross-over potential with Organisational Theories.

Second, the SCO cannot as yet be considered a security community, a phenomenon which Karl Deutsch describes as ‘the attainment, within a territory, of a sense of community and of institutions and practices strong enough and widespread enough to assure, for a “long” time, dependable expectations of peaceful change’ (Deutsch 1957: 5). Though Constructivist explanations about community, identity, and norms can still contribute to our understanding of the SCO’s internal behaviour, it has by no means achieved the degree of integration evidenced by the ASEAN security community, let alone the EU, and thus, this concept is not appropriate.4

Instead, the SCO, as its instigators are at pains to point out, is a new (or non-traditional) form of alignment; one that amalgamates some of the common traits of alliance and security community, but exhibits unfamiliar or novel characteristics of cooperation. The SCO represents the correlation of multiple strategic partnership dyads into a combined institutional form; a ‘strategic partnership network’, if you will. Headed by the Sino-Russian strategic partnership, it subsumes existing or desired strategic partnerships between these two powers and the individual Central Asian states (e.g. China-Kazakhstan, Russia-Uzbekistan, etc.). The term ‘strategic partnership network’ is entirely apropos, since Organisational Theorists Berquist et al define it as a ‘pact between two or more organisations to achieve a mutual goal or set of goals’ (1995: 27). Reduced to its essence, it is ‘a relationship between two or more organisations that involves building mutual long-term goals and commitments’ (Glencoe Marketing Essentials 2004). This captures the nature of the SCO as a cooperative multi-state organisation and thus renders it amenable to the tools of analysis drawn from the Organisational Theories literature.5

**Analytical template**

Organisational Theories make the following assumptions as to the properties of a strategic partnership (network).

First, it will be built around a general (security) purpose known as a ‘system principle’, rather than one specific task, such as deterring or combating a hostile state. Second, strategic partnerships, unlike alliances, are primarily goal-driven rather than threat-driven alignments. Following from this, no enemy state is identified by the partnership as a ‘threat’, though the partnership may be concerned with joint security ‘issue-areas’. Third, strategic partnerships tend to be informal in nature and entail low commitment costs, rather than being enshrined in a for-
mal alliance treaty that binds the participants to rigid courses of action. This permits partners to retain a greater degree of autonomy and flexibility, thus alleviating the ‘entrapment’ dynamic common to orthodox alliances (Snyder 1997). This in no way precludes issue-specific bilateral/multilateral declarations and other confidence-building measures (CBMs), though. Fourthly, perhaps due to the term’s inception in the business world, economic exchange appears salient among their ‘functional areas’ of cooperation, and acts as one of the key drivers behind the partnership, alongside security concerns.

The essence of strategic partnership arrangements is neatly summarised by Goldstein, when he writes that:

> the essential elements are a commitment to promoting stable relationships and extensive economic intercourse, muting disagreements about domestic politics in the interest of working together on matters of shared concern in international diplomacy, and routinising the frequent exchange of official visits, especially those by representatives of each country’s military and regular summit meetings between top government leaders. (Goldstein 2003: 75)

Founded upon these assumptions, a simplified three-point framework can be posited to analyse the SCO. This framework tracks the association between strategic partners across a ‘collaboration continuum’; from its formation, through its implementation, to its evaluation. Through this process it is possible to expose the different spheres in which the partners interact, and ascertain its durability and prospects for growth.

(i) The formation of strategic partnerships can be reduced to three main factors: environmental uncertainty, strategic fit, and system principle. First, actors in a competitive (‘anarchic’) international environment are confronted by uncertainty and act to reduce this by searching for partners to share risks (Mytelka 1991). Joining forces for this purpose is an effort to mitigate the uncertainties of a potentially hostile international system. Second, suitable partners are identified and assessed in relation to their ‘strategic fit’; that is, their degree of mutual interests, perhaps shared values/ideology, and the resources and other benefits they might contribute to a partnership (Bergquist et al 1995: 69-70; Austin 2000: xii; Wilkins 2007). Thirdly, once suitable partners have been selected, the parties concerned will promulgate their joint purpose into an overarching framework for cooperation and collaboration known as a ‘system principle’ (‘a reason for being’: Roberts 2004: 24). The system principle embodies the joint organisational identity and emblematises its goals. However, it should be noted that individual partners are perfectly capable of deviating from these official goals, through their
pursuit of covert (or ‘unofficial’) national objectives. The political leadership, often supported by business and military interests, typically plays a key role in initiating and presiding over the formation process (Austin 2000: 53).

(ii) The next phase, implementation, concerns the building and maintenance of the partnership and involves differing degrees of formalisation and institutionalisation in each instance (Bergquist et al 1995: 87). First, any strategic partnership incorporating national polities and their immense state apparatus will be a ‘meta-organisation’ of tremendous complexity. This complexity will rise exponentially as the number of partners grows and thus necessitate further institutionalisation in order to govern it effectively. Second, a form of organisational structure will emerge by mutual effort and consensus that serves to operationalise the partnership as an organisational entity. This structure defines the respective roles and responsibilities of the partners, and the joint rules and policies to be observed. It establishes, in a vertical hierarchy, the various bureaucratic components of the partner states to be interconnected: executive, ministerial, financial, military, and public, for example. A typical strategic partnership can be characterised by its (officially) non-hierarchical, collaboration-based culture, and a nominally equal distribution of authority between the participants (Bergquist 19). Thirdly, the scope of the partnership’s operations will be horizontally demarcated across designated ‘functional areas’ of cooperation – diplomatic/security, defence/military, economic, societal and cultural, for example. It is likely that economic interaction will be salient, given the origin of strategic partnering in the business world. Depending on the degree of cooperation present on these two axes we can determine how tightly the partners are ‘coupled’. It should be stressed, however, that though the state partners pool their identity in a joint organisation, they do not merge or subsume their individual national sovereignty (as in the EU, for example).

(iii) Evaluation is the last phase of partnering and remains an ongoing process until the organisation itself disbands. This phase provides metrics by which the organisation’s efficiency, success, and future prospects may be gauged. These factors determine if the organisation will decline and disintegrate, or whether it will build its capacity and perhaps expand its membership. First, the organisation can be measured against its efficacy in achieving its stated goals, those embodied in its system principle. If it is failing to attain these it must be restructured or disbanded; an ‘exit stage’ has been reached. The partnership can be expected to endure as long as it achieves its shared goals and still serves as a useful vehicle for attaining the individual goals of its member states. Second, the durability of the organisation will be reflected in its adherence to the common interests and values of its members. The
more closely these align, the more durable the relationship (Wilkins 2007). Moreover, the very existence of the partnership may shape the values and interests (even the goals) of the participant states, by generating new interests or socialising them into new values or norms over time (as in security communities). Third, positive mutual perceptions by the constituent states are important. These stem from current and past behaviour, ideology, and cultural affinities or clashes. The creation of a climate of trust between partners through their demonstrated commitment to the organisation is integral to its successful performance and continued survival.

**Analysis of the SCO**

**Formation**

The SCO emerged largely as a by-product of Russia-China rapprochement in the mid-1990s. After the perceived failure of its pro-Western or ‘Atlanticist’ foreign policy in the immediate post-Cold War period, the Kremlin began to look eastwards for new strategic partners – the so-called ‘Eurasianist’ approach. Responding to an uncertain international environment and greatly diminished in global standing, the Russian Federation sought to repair its bilateral relations with its increasingly powerful neighbour, the People’s Republic of China. As a consequence of the isolation resulting from the Tiananmen Square crackdown in 1989, and galvanised by a series of diplomatic outrages committed by the United States, such as the bombing of the Chinese Embassy in Belgrade (1999) and the interception of a US spy plane over Chinese territory in 2001, Beijing proved highly responsive. This was a dramatic turnaround from the frosty relationship between the powers ever since the acrimonious ‘Sino-Soviet split’ of the late 1950s, which led to a brief border skirmish in 1969. In a changed climate, and subject to the pressures of globalisation, Moscow and Beijing jointly recognised that the post-Cold War world was in danger of being dominated by the United States and its allies, and this motivated them to upgrade their heretofore ‘Constructive Partnership’ (1994) to a ‘Strategic Partnership’ in 1996, alongside the foundation of the Shanghai Five (with Kazakhstan, Kyrgyzstan, and Tajikistan); the precursor to the SCO. Person states that ‘the main engines driving the strategic partnership between Russia and China are external factors arising from the international environment and its key player, the United States’ (2006: 9), while Moral concurs that the SCO is a ‘mirror of new trends in the world’ (in EPC Report 2008). For the former Soviet Republics in Central Asia, the driving force was (and is) a question of regime survival in a dangerous environment. The increased
commitment to the SCO is a natural reaction, a huddling of harried elites who have seen the waters around them rise and are intent, now more than ever, on not rocking the boat’ (Kimmage 2005). Both the major and minor states of the SCO therefore sought to reduce their uncertainty and increase their security in response to systemic forces.

Russia and China saw real advantages in partnership and evince a good ‘strategic fit’ with each other, and with the Central Asian states. This is manifest in their economic complementarities, compatible domestic regimes, and shared worldviews. Moscow sought Chinese investment and low-cost manufactures, whilst Beijing was interested in Russian high-technology, heavy industry, and energy supplies. Each of the smaller states in the SCO needed trade and investment from their larger partners in return for natural resources. In addition, each of the partners viewed the other’s domestic regimes as compatible with their own (quasi-) authoritarian systems. With similar worldviews, dubbed the ‘Beijing consensus’, and united against the opposing worldview of the Western world, the so-called ‘Washington consensus’, the leadership of these states took a key role in cementing the partnership, particularly under the auspices of Presidents Vladimir Putin and Hu Jintao. For this reason, the SCO evolved rapidly, from CBMs relating to border demarcation and demilitarisation to joint declarations across a spectrum of common issues and a plethora of ‘good neighbour’ treaties.

The system principle of the SCO in geopolitical terms is regional security cooperation in Central Asia (and beyond), and the exclusion of Western (American) intervention or interference in this sphere. The SCO is not designed with a hostile enemy state in mind (‘not targeting any third country’), but rather seeks to advance a set of positive goals (see below). Anderson argues that ‘Beijing and Moscow claim this emerging partnership as the foundation for a new security mechanism in the Asia-Pacific region and, eventually, a new international order’ (1997: 7). This order was outlined in the 2000 Dushanbe Declaration and encompasses: belief in a multipolar world, strengthening of the UN, and respect for national sovereignty, human rights, and political pluralism (Russian Ministry of Foreign Affairs 2000). It is no coincidence that the content bore striking similarities to Beijing’s ‘new security concept’ approach to foreign relations.12 Much of this sentiment has now been formalised in the SCO’s official goals, which in the words of the Secretariat, are:

strengthening mutual confidence and good-neighbourly relations among the member countries; promoting their effective cooperation in politics, trade and economy, science and technology, culture as well as education, energy, transportation, tourism, environmental protection and other fields; making joint efforts to
maintain and ensure peace, security and stability in the region, to move towards the establishment of a new, democratic, just and rational political and economic international order. (SCO Website)

A significant aspect of their regional security aims is combating joint security issue-areas; what the SCO calls the ‘three evils’: terrorism, separatism, and extremism. These dangers are especially evident in the disputed regions of Chechnya in Russia, and Xinjiang in China, for example.

Implementation

Plater-Zyberk points out the SCO had ‘two births’ (2007: 1). These were delivered in the context of the Russia-China partnership, from which the organisation is virtually inseparable. Both the Beijing-Moscow Strategic Partnership Declaration and the establishment of the Shanghai Five took place in 1996 – the first birth. Following steadily expanding CBMs, such as the Treaty on Reduction of Military Forces in Border Regions (1997) and a further three annual summit meetings, Uzbekistan was admitted to membership in 2001 when the Shanghai Six became institutionalised into the SCO on 15 June of that year – the second birth. Following on from the Russia-China Treaty of Good Neighbourly Friendship and Cooperation in 2001, which further deepened relations between the two SCO leaders, 2002 saw the promulgation of the SCO Charter, detailing the organisation’s purpose, structure, and activities. The Secretariat was established in Shanghai in 2003. Though the Organisational Theories model assumes that most strategic partnerships, unlike alliances, are not treaty-based, a point of distinction should be made. Accession to a formal military defence pact (e.g. NATO, Warsaw Pact) is a much greater commitment and obligation than signing treaties agreeing to joint CBMs or bilateral trade deals, for example. It is the predominance of the formal military agreement that distinguishes alliances from other alignments.

As the framework predicts, the SCO is a huge intergovernmental organisation of tremendous complexity and incorporates a sizeable bureaucratic apparatus (see Figure 9.1). It is moderately institutionalized, with the member-states ‘coupled’ at a number of levels. The SCO is vertically divided into councils, of which the Heads of State Council (HSC) is the most important decision-making body, with a summit meeting once a year to determine organisational goals, strategy, and budgetary matters. Beneath this are the Heads of Government Council (HGC), which also meets annually, and the Council of National Coordinators (CNC), who serve to implement multinational policy initiatives. The
member states are also bureaucratically represented by Speakers of Parliament, Secretaries of Security Councils, Foreign Ministers, Ministers of Defence, Emergency Relief, Economy, Transportation, Culture, Education, Healthcare, Heads of Law Enforcement Agencies, Supreme Courts and Courts of Arbitration, and Prosecutors General, who meet as required to coordinate joint policy (SCO Website).

The two major permanent bodies are the Secretariat, based in Beijing, with a Secretary-General appointed on a three-year rotating basis, and the Regional Anti-Terrorist Structure (RATS), with an Executive Committee Director similarly appointed. The RATS, based in Tashkent, governs joint responses to the ‘three evils’; one of the organisation’s core activities (ibid). Beyond this is a plethora of associated commissions, special working groups and non-governmental organisations. Lastly, the SCO maintains external inter-organisational relationships, holding observer status in the UN General Assembly, and has Memoranda of Understanding with ASEAN, the Collective Security Treaty Organisation (CSTO), and Commonwealth of Independent States (CIS).

The scope of the SCO ranges horizontally across three major functional areas of cooperation. Firstly, security and diplomatic collaboration are prominent. The existence of the SCO regional security organisation bolsters the multilateral standing of the participants in the international arena and allows the parties to exclude unwanted Western interference in domestic or regional affairs – a sort of Central Asian ‘Monroe Doctrine’, in effect. Ruslan observes, ‘Participation in consensus-based multilateral decisionmaking potentially elevates Central Asian foreign policy to a qualitatively new level’ (4).

Secondly, the states collaborate in the military/defence sphere with high levels of arms transfers between members, with Russia as the dominant supplier. Moscow has delivered advanced technology such as fighter/bombers, destroyers, diesel submarines, battle tanks and surface-to-air missiles to China. This is underwritten by service, support, training, and in some cases production rights for Russian hardware. Military exchange and education programmes are also offered. This cooperation is given a practical dimension in joint (live-fire) military exercises, such as the peace missions. The 2007 manoeuvre took place in tandem with the annual SCO Summit at Bishkek in Kyrgyzstan, and was particularly significant for involving major military assets, the presence of all the Heads of State of the SCO member countries, and observers from India, Iran, Pakistan and Mongolia. The main thrust in this sphere of cooperation is combating non-traditional security threats such as terrorism, extremism and separatism (the ‘three evils’). RATS collects and analyses data on terrorist groups, conducts studies on WMD, and prepares and coordinates anti-terrorist legislation, building upon bilateral intelligence-sharing agreements. Other transnational
threats, such as criminal organisations, drug trafficking and illegal migration fall under the ambit of RATS (in cooperation with the CSTO).

Thirdly, economic interchange is a crucial part of the SCO’s remit. Notwithstanding substantial bilateral trade linkages between the partners (especially Russia and China), the SCO aims to realise an increase in intra-regional economic exchange and integration. An Action Plan for reducing trade barriers, setting up an SCO Business Council and Interbank Association, and eventually a free trade area (slated for 2020), is currently in progress. Joint energy extraction and infrastructure projects are also among the organisation’s key priorities.

The SCO’s organisational identity and ideology rests upon a clearly articulated set of norms, known as the ‘Shanghai spirit’, which closely adhere to the framework’s predictions. This is

based on the principles of mutual trust, mutual benefit, equal rights, consultations, respect for the diversity of cultures and aspiration towards common development, [while] its external policy is conducted in accordance with the principles of non-alignment, non-targeting anyone [sic] and openness. (SCO Website)

The organisation therefore conforms to the basic principles of non-hierarchy, collaborative culture and relatively equal distribution of power/authority between the partners. Nevertheless, as Topilov notes, the states are not de facto equals, with Beijing and Moscow being far more powerful in demographic, economic, and military terms. It may be best thought of as a ‘2+4’ structure between Russia/China (2) and the Central Asian states (4) (2004: 2). This asymmetry notwithstanding, the existence of de jure equality written into the SCO structure protects the smaller states and allows them to balance their interests against those of the great powers.

Evaluation

Judging the SCO’s success as an organisation with reference to its stated goals and functional areas reveals a mixed record that is subject to multiple interpretations.

Certainly in the functional area of diplomacy and security, the Six have eliminated border disputes, generated a climate of trust and secured the region against outsiders. In the wider international arena, the multipolar worldview has held its own. With Moscow and Beijing jointly controlling a combined 40% (veto) vote in the UN Security Council, this creates a diplomatic front that bolsters China’s position on Taiwan and Tibet, and Russia’s position with regard to its ‘near abroad’. As Weitz notes, ‘Chinese and Russian officials also regularly endorse
each other’s domestic policies’ (43). Their alternative worldview, the new security concept/Beijing consensus, has also proven attractive to other countries threatened by American hegemony and fearing Western interference in their regional or national politics (e.g. Iran). De Haas states that ‘while there is no need for the organisation to explicitly criticise the hegemonic role of the US, its mere existence shows the world that alternatives to American domination of security issues exist’ (2007: 37). Having the SCO championed by two great power patrons has proved invaluable as a diplomatic shield for the Central Asian members. It has allowed them to fend off Western denunciations of their authoritarian, non-democratic regimes (especially with regard to human rights abuses).

In the military/defence sphere, Russian arms transfers and technical assistance to its partners have been robust, with China accounting for 45% of Russian sales. The widespread diffusion and use of Russian (and Chinese) equipment increases military interoperability between the partners (as it does in NATO). Joint training exercises, such as the regular peace missions, lend real tactical and operation teeth to this functional area, adding credence to Russian Defence Minister Sergei Ivanov’s statement of the SCO’s willingness to use force to ‘fight back against new threats and challenges, especially international terrorism’ (Komersant 2007). In this respect, the battle against the ‘three evils’ has registered some success. The European Policy Centre (EPC) notes, ‘Since the SCO’s formation, militant separatist activity in Central Asia has calmed down noticeably’ (EPC 2008). Tashkent was able to count on Russo-Chinese support for its crackdown on separatist revolts in Andijan in 2005, and the United States was summarily ejected from its bases there, much to Russian and Chinese satisfaction (Levine 2005). As for tackling transnational criminal challenges, ‘tangible achievements have been claimed for this activity’ with Operation KANAL-2006 involving over 74,000 personnel and resulting in the seizure of over nineteen tons of narcotics (Ruslan: 17). De Haas concludes that ‘the SCO indisputably has made huge steps in intensified security cooperation, operational (military exercises), as well as political (policy concepts)’ (2007: 55).

Economic cooperation has performed relatively well in some cases, less so in others. Despite the strong trading bloc rhetoric, the economics functional area ‘remains essentially unrealised’ according to Rumer (2002: 64). For example, he notes that Russian trade with Central Asia has plunged (exports from Uzbekistan down by 56%), with Russian exports to Uzbekistan down by 69% (ibid: 60). On the other hand, Chinese trade in Central Asia has increased markedly, expanding by 129% with Kyrgyzstan and 60% with Kazakhstan, for example (McDermott 2007: 8-9). There has also been a substantial increase in Sino-Russian
trade, which reached $30 billion in 2006, not counting an estimated $10 billion in unregistered and barter trade (Wishnick 2006: 65). Plans are afoot to increase this figure to $80 billion by 2010 (China Daily 2008). Cooperation in the energy sector is also growing, as Beijing turns to Russia to meet its spiralling hydrocarbon fuel needs. A range of deals have been struck and high-profile joint ventures such as the Sakhalin-3 project, between Rosneft and Sinopec, plus pipeline infrastructure development are gaining momentum (Blagov 2007). This of course is not officially under SCO auspices, but represents strong cooperation at its core between the leading partners. China and Russia have also offered $500 million and $900 million respectively toward infrastructure development in Central Asia. Nevertheless, the Central Asian states (and Russia) are wary of too much economic integration, such as a free trade area, since they believe China would dominate this. Russian proposals for an SCO ‘energy club’ have likewise received a temperate response from the other members. Kozhokin concludes that ‘the viability of the organisation will largely depend on the successful solution of the problems of financing joint projects in the economy, infrastructure, water supply, (the problem of transborder rivers) and other spheres’ (2002: 2).

All members of allied organisations are compelled to compromise their individual interests and values against those common to the whole. The SCO is no exception. In general terms the members are all content with the overall ‘system principle’. This is due to the fact that each of the members is able to interpret broad doctrine in ways acceptable and satisfying to their own national interests. The cost of commitment to the SCO is low at present, and the gains tangible. Weitz goes so far as to describe the SCO as ‘the institutional manifestation’ of ‘shared Chinese and Russian interests’ (41). The ‘Shanghai spirit’ serves as a safeguard for the weaker members, preventing Russia and China from explicitly abusing their greater power to coerce cooperation. As Ruslan notes, ‘The smaller powers of the SCO are still able to outline their national interests (...) and (...) articulate them within the frameworks provided by the organisation’ (5). There is, however, potential for future friction within the SCO, particularly between the leading powers. Though Russia and China are closely cooperating at present, Moscow has misgivings about Beijing’s long term ambitions. In particular, the Kremlin fears that it will become the China’s junior partner in the SCO, as the PRC’s military and economic power continues to eclipse that of its ally. Thus, Russian academic Kapitza declares that ‘in the near future the NATO zone will become our rear in an unprecedented confrontation with the Chinese giant’ (cited in Bazhanov 1998: 71).

Lacking the joint Marxist-Leninist ideology of the former Sino-Soviet alliance, the present Moscow-Beijing-led axis is less animated by a set
of shared values and ideology, but acts more as an ‘anti-philosophy’ to the Washington consensus, especially as it pertains to democracy, human rights, and intervention in states’ internal affairs (Lo 2005: 6). Russian Colonel-General Baluyevskiy argued during SCO military consultations that ‘promotion of Western-style democracy within Central Asia... serves to destabilise the region’ (McDermott 2007: 18). Though the autocratic regimes of Central Asia may be comfortable with their partners, should this be upset through domestic instability and calls for democratisation, it could jeopardise the cohesion of the SCO, since it is predicated on elite, not popular, opinion. Fears of popular democratic uprisings on the pattern of the ‘colour revolutions’ are a constant danger to these regimes. Lo points out that ‘the lack of a “values base” underpinning the Sino-Russian relationship could mean that, in times of difficulty, it lacks the resilience to withstand setbacks and downturns’ (Lo 2005: 9).

Following from this are issues of mutual perceptions. One of these revolves around the ethnic and linguistic diversity of the member states. An EPC Report notes that it ‘lacks a “transnational social basis”, as it is grounded in contrasting civilisations: Russian, Chinese, and Central Asian’ (EPC 2008). This is true – lack of Chinese language skills creates problems in joint exercises – but there are overlaps in the traditions, customs, and history of these countries. In particular, the Soviet legacy in Central Asia has dispersed five million ethnic Russians across the region, and left the other inhabitants with an affinity for Russian culture and language. Likewise, the Silk Route might be a distant memory, but it speaks of the longstanding connections between Central Asia and the Middle Kingdom, waiting to be revitalised.

Another issue is the lack of popular support for the SCO. Donaldson and Donaldson point out a ‘fundamental divergence is their mutual distrust and indifference to one another’s’ culture’ (2003: 722). Even quasi-authoritarian or limited democracies such as China and Russia realise the need to garner public support for foreign policy initiatives with their neighbours. More is being done now to address the goals of the SCO to promote joint education, tourism and cultural exchanges; 2006 and 2007 saw the ‘Year of Russia’ in China and the ‘Year of China’ in Russia, respectively. Although the Shanghai spirit has paid dividends in creating a climate of trust in the SCO, problems, especially with the ‘big two’ remain. Russian fear of China is stoked by sensationalised press accounts of illegal Chinese migration into Russia’s sparsely populated Far Eastern provinces, amounting to ‘colonisation’. This is fuelled by what Sherr dubs a ‘primordial distrust’ of China, held by Russians since the thirteenth-century Mongol invasion of Muscovy; a distrust replicated amongst the Central Asian states (2001: 22).
Conclusions

The conceptual framework reveals that the SCO has proven a qualified success in achieving its objectives and elaborating a new security model for the Central Asian Region. Bailes et al state that ‘the SCO makes some real impact on the security of the wide territories it covers and... has real potential for future development’ (2007: preface). Respondents to the Asia Pacific Security Survey Report 2008 voted the SCO the third most effective regional institution (behind ASEAN and ASEAN+3) (East West Center 2008). This placed it far ahead of the US alliance network, in tenth place; an institution traditionally cited by many as the bedrock of Asia-Pacific security. In its short lifespan, much has been achieved and the SCO demonstrates a capacity to deepen its security governance and economic integration and attract new membership, the first tier of candidates being the ‘observer’ states of Iran, India, Pakistan, and Mongolia. It is too soon to determine whether the SCO may develop into an alliance, or even a security community. Perhaps this is a moot point.

Figure 9.1   The Structure of Shanghai Cooperation Organisation

since the SCO is not designed with these purposes in mind, but should be considered a new form of ‘alignment’ in itself and judged in accordance with its stated objectives and its effectiveness in achieving them.

A degree of ethnocentrism is at work when Westerners analyse the SCO. Because it subscribes to a system principle at odds with that espoused by the Western allies, and its member states are not fully-fledged democracies, there is a tendency to perceive the SCO as lacking in legitimacy or effectiveness. This is a misperception. According to Bailes et al, ‘It is clear that the SCO is here to stay. It has developed the self-elaborating dynamic and the influence on neighbouring states that are characteristic of successful regional initiatives elsewhere – such as Europe and South East Asia...’ (2007: 2). It offers a plausible alternative to the increasingly unpopular ideology championed by the United States, and is designed to address transnational challenges such as terrorism and joint economic development in a non-provocative and non-judgmental fashion. As the geopolitical centre of gravity shifts from the West to China and other developing countries (such as India), the SCO is likely to assume a greater role in international affairs, as that of the West and NATO diminishes in relative terms.16

Notes

1 The author would like to acknowledge the International Institute for Asian Studies (Amsterdam) for hosting him as an Affiliated Fellow from June to August 2008.
6 A more complex and systematic framework is available in Wilkins, ‘The Russo-Chinese Strategic Partnership’. This is based upon a substantial literature on strategic partnerships in Business/Organisation Studies. For example, see: Silver, D.A. (1993),


14 Details of which can be found at the Secretariat’s website.


Since 2000, RTAs have proliferated among East Asian countries. An important driver was increased intra-Asian trade, as regional value chains became more important, highlighting the need for institutional arrangements to facilitate trade. The consequences included deepening of ASEAN and flourishing of bilateral RTAs. The ASEAN Free Trade Area, announced in 1992 and implemented cautiously during the 1990s, was implemented more enthusiastically, and in 2003 an ASEAN Economic Community blueprint was adopted. China assumed a leading role in Asian regionalism after 2000, notably in concluding an RTA with ASEAN. Japan responded by encouraging a wider grouping, the East Asian Summit, which includes India, Australia and New Zealand (ASEAN+6). Unresolved questions include what form of regionalism will dominate and which countries will be included.

A striking feature of international economic relations in Asia in the half-century after 1945 was the absence of significant policy-driven regional integration. In the 1960s, when the European customs union was established and many regional trading arrangements (RTAs) were formed in Africa and the Americas, the only regional agreement in East Asia was the Association of Southeast Asian Nations (ASEAN). During the 1980s and early 1990s, with the deepening of the European Union (EU) and formation of the North American Free Trade Area (NAFTA), there were predictions of a world dividing into three large blocs, but in practice nothing along those lines happened in Asia. In the 1990s, China, Japan, Korea and Taiwan stood out in the world trading system as the most important economies which were not members of any RTA.

Attitudes towards regionalism in Asia changed after the 1997 Crisis. Especially since the turn of the century, dozens of free trade agreements and other bilateral and multilateral arrangements have been announced. ASEAN itself has moved from the target of creating a free trade area to establishing an ASEAN Economic Community. This chapter analyses why Asian regionalism has become prominent, what agreements have been signed and have come into effect, and what the prospects are for regionalism in Asia.

The focus is on East and Southeast Asia. There is a history of regional agreements in South Asia, but the impact of the South Asian Asso-
Association for Regional Cooperation and the South Asian Free Trade Area (SAFTA) has been small. The international economic relations of the region have centred on bilateral arrangements, especially the often tense relations between the two largest economies, India and Pakistan. The Asian borders of the Soviet Union were essentially closed and, although Soviet successor states have signed agreements with their Asian neighbours since 1991, these agreements have had little economic effect.

**Regionalism before 1997: The rise and fall of APEC**

The outward-oriented growth of East Asian economies in the second half of the twentieth century was based on multilateralism. Japan in the 1950s and 1960s, the new industrialised economies of the 1960s and 1970s (South Korea, Hong Kong and Taiwan) and China in the 1980s and 1990s all benefited from the openness of the multilateral trading system, even before they were GATT/WTO members and although they suffered from some special trade barriers. A corollary to this was that they avoided preferential trading arrangements, which might appear to discriminate against their major trading partners in North America, in Europe or, increasingly, in Asia itself.

The only significant regional trade organisation in East Asia was the Association of Southeast Asian Nations (ASEAN), established in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand and joined by Brunei in 1984. The initial driving force was political; ASEAN was an association of the non-Communist countries of the region, aimed at reducing regional tensions such as the confrontation between Malaysia and Indonesia. ASEAN’s economic initiatives had minimal impact in the 1970s and 1980s (Pomfret 2001: 146-147, 302). Even after ASEAN members agreed in 1992 on the establishment of an ASEAN Free Trade Area (AFTA) with tariffs of no more than 5 per cent on trade between ASEAN members, progress towards the target was slow. Unprocessed agricultural goods were excluded from the 1992 agreement, and each country put other goods on an Inclusion List or one of three Exclusion Lists, which varied by the degree of temporariness. By the late 1990s, the coverage of AFTA was far from universal, as countries included goods which already had low tariffs and excluded many goods which had substantial trade barriers. In the second half of the 1990s, ASEAN underwent a major expansion in membership when Vietnam joined in 1995, Laos and Myanmar in 1997, and Cambodia in 1999, which increased its size but reduced its internal cohesion. Commitments to establish AFTA and subsequent initiatives distinguished between the ASEAN 6 and the ‘CLMV’ group, which would proceed at a slower pace.
In the late 1980s, Malaysia proposed an East Asia Economic Group (later Caucus) which would include the ASEAN countries plus China, Japan and South Korea – a grouping that would later be called ASEAN +3. Japan, by far the largest Asian economy at the time, remained cool. Australia, concerned about being excluded from an Asian regional grouping, suggested the concept of open regionalism, whereby countries would negotiate in a regional body to liberalise trade on a multilateral basis. This was embraced by the USA and Japan as a preferable alternative to the discriminatory trade policies inherent in Malaysia’s proposal. The creation of APEC (Asia-Pacific Economic Cooperation) in 1989 was a reaction to the need for a regional framework in East Asia, which would not conflict with specialisation in the global economy. APEC rapidly expanded its membership, and the participation of China, Hong Kong and Taiwan in 1991 increased APEC’s importance. Membership is open to any country bordering the Pacific Ocean, and with eastern Pacific countries Canada, Chile, Mexico, Peru and the USA as members, APEC is not a purely Asian grouping.2

Various agreements in 1992 further institutionalised APEC, including establishment of a secretariat in Singapore. In 1993, the new US administration embraced APEC as the centrepiece of a more Asia-focused strategy, including promotion of trade liberalisation in the Asia-Pacific region. APEC’s function during the 1993-7 period was to provide a framework for concerted unilateral liberalisation.3 At the November 1994 Bogor summit, APEC leaders adopted the goal of trade liberalisation by APEC’s developed country members by 2010, and by the developing economies by 2020. The Bogor Declaration was the high point of APEC’s concerted liberalisation. Differences over the comprehensiveness of liberalisation and about the relationship between voluntarism and collective action were papered over in the 1995 Osaka Action Agenda. There was also fuzziness about the implications of open regionalism for countries’ commitments not to discriminate against other WTO members, under the unconditional most-favoured nation clause, and for pre-existing discriminatory arrangements; for example, how did NAFTA, the Closer Economic Relations (CER) agreement between Australia and New Zealand, and ASEAN fit into non-discriminatory trade liberalisation, and how could the EU be prevented from free-riding on intra-APEC trade liberalisation?2

The APEC phase of Asian integration was soon threatened by a widening split between the US and East Asian countries, who had conceived of APEC as a way of curbing US unilateralism and keeping Asia high on the US trade priority list (Barwick 2007). The US soon made it clear that its trade remedy actions (anti-dumping and countervailing duties) were non-negotiable, and the conclusion of NAFTA in 1994 and the 1995 Miami Declaration, pledging a Free Trade Area of the Americ-
cas by 2005, signalled an apparent return to a Western-hemisphere-centred trade policy. In 1996, the US pushed its market-opening strategy by launching the Early Voluntary Sectoral Liberalisation (EVSL) Initiative for APEC liberalisation in fifteen sectors, but by 1998 the EVSL had collapsed acrimoniously amid conflicting interpretations of what was meant by ‘voluntary’. Japan was particularly incensed by US assumptions that as a high-income country Japan had no opt-out rights, but there was a broader Asian disillusionment with APEC in reaction to perceived aggressive market-opening by the US (Munakata 2006: 91-92), and a growing sense among the East Asian countries that ‘it is more important to conceive of APEC as a trans-regional rather than a regional body’ (Ravenhill 2001: 214). China kept a low profile, but its chief negotiator was one of several participants to suggest that if sensitive items were to be liberalised on an unconditional most-favoured nation basis, then the appropriate forum was the World Trade Organisation (WTO).

APEC summits provide East Asian leaders with an opportunity to meet other regional leaders and the US and Russian presidents without the formality and pressures of a bilateral summit. The 2001 APEC summit in Shanghai illustrated the importance of this function, with the attendance of President Bush a mere month after 9/11. However, APEC’s economic role has been minimal since the EVSL fiasco. In the trade area, China mainly used APEC during the late 1990s as a forum to announce liberalisation measures which pushed along its WTO accession negotiations, and this became less important as those negotiations reached the endgame.

During and after the 1997 Asian Crisis, open regionalism and APEC became passé. APEC’s focus on the EVSL Initiative in the midst of the Asian Crisis raised questions about the forum’s priorities and capacity to handle more than one issue at a time. Hiding behind the fig leaf of APEC’s mandate not to concern itself with financial issues was unconvincing. APEC’s lost influence was further emphasised by the events of 11 September 2001 in the US, which distracted US attention from East Asia and highlighted that APEC was not well-equipped to deal with political issues, such as security and their interconnection with economic decisions. APEC affiliates such as the APEC Business Advisory Council provide assistance in trade facilitation, but APEC is no longer the driving force for trade liberalisation that its promoters anticipated in the early and mid-1990s. Sporadic attempts to revive the goals of open regionalism, such as a 2003 Thai initiative to revive the Bogor targets, and a 2004 proposal by Australia, New Zealand and Singapore for a Free Trade Area of the Asia-Pacific, failed to reinvigorate APEC. The Bogor targets for 2010 will clearly not be met, and this failure becomes more striking as the target date approaches.
The 1997 Asian Crisis and Regionalism

The Asian Crisis that erupted in July 1997 was an important stimulus to regionalism in East Asia. The multilateral institutions, notably the International Monetary Fund, were perceived to have let the region down, and there was a loss of confidence in the USA as guarantor of the system. In contrast to substantial financial support for bailouts of countries in other regions earlier in the decade (e.g. Argentina, Mexico, Turkey, and Russia), the assistance given to the worst-hit Asian countries, notably Indonesia and Thailand, was seen as too little too late. Japan reacted to this situation by proposing regional monetary cooperation.5

Regional initiatives were initially in the monetary sphere (Pomfret 2005a). Japan’s August 1997 proposal for an Asian Monetary Fund received a cool reaction in Asia and strong opposition from outside Asia. However, China, Japan, Korea and the ASEAN countries participated in negotiations which led to the May 2000 Chiang Mai Initiative. The Chiang Mai Initiative, which became effective in November 2000, allowed countries to swap their local currencies for major international currencies for up to six months and for up to twice their committed amount. By March 2002, six bilateral swaps, worth $14 billion, had been concluded under the Chiang Mai Initiative (Manupipatpong 2002: 118), and by the end of 2003 this had increased to sixteen bilateral swaps amounting to $35.5 billion (Wang 2004: 944). After 2002, however, when the ASEAN+3 Shanghai meeting failed to move beyond the Chiang Mai Initiative, monetary integration appeared to stagnate.6

The first ASEAN+3 summit was held in December 1997 in Kuala Lumpur, after which these summits became annual. Although coinciding with the Asian Crisis, the 1997 meeting was in fact the culmination of a lengthy process to establish a regional forum after the USA had objected to a 1994 revival of Malaysia’s proposal for an East Asia Economic Caucus. Regional trading arrangements were on the agenda in 1998 and 1999, although without any immediate actions.

China began to take a leadership role in the late 1990s as the emphasis shifted to trade agreements. Until 1998, China had remained a steadfast supporter of the multilateral system and followed the US lead, but felt it received little acknowledgment or reward for its role. In particular, during the Asian Crisis, China had maintained a stable exchange rate, resisting any temptation to join in competitive devaluations, which could have set in motion a spiral leading to trade wars, and cold-shouldering Japan’s proposal for an Asian Monetary Fund. Feelings of lack of appreciation were heightened in spring 1999 when the US bombed the Chinese embassy in Belgrade, and were not assuaged by half-hearted explanations in terms of a mistake based on obsolete maps. At the same time, China was becoming more aware of the interdependence between
itself and the outside world (Shambaugh 2005) and of its growing economic importance within East Asia, which was emphasised by Japan’s long economic malaise during the 1990s and by the impact of the Asian Crisis on South Korea and most of southeast Asia, but with much less effect on China.\footnote{7}

The rapid growth of intra-Asian trade during the 1990s, temporarily reversed by the Crisis but quickly resumed, was a positive force for creating institutions to facilitate trade within Asia. Although Japan started the trend towards integrated production chains when it invested heavily in Southeast Asia after the yen’s post-1985 appreciation, the networks became denser in the 1990s and China played an increasingly central role in the chains. Moving intermediate goods across borders required minimal delays and charges. Trade facilitation could have been pursued on a non-discriminatory multilateral basis or by bilateral negotiations (as happened between some pairs of ASEAN countries). The endgame of China’s WTO accession negotiations, which were concluded in 2001, could have been a force for multilateralism, but China’s moves towards regionalism were a political phenomenon, seen by China’s own negotiators for WTO accession as economic madness. Although China initially proposed trade liberalisation among the ASEAN+3 group, foot-dragging by Japan and Korea led China to push ahead with its own RTA with ASEAN, which became the prime example of economic regionalism in Asia.

**Regionalism in the Twenty-first Century**

Towards the end of 2000, the leaders of the three major trading nations of the North Pacific announced steps to initiate bilateral trading agreements within the region, in a sharp break from their previous practice. On 22 October, the prime ministers of Japan and Singapore agreed that on 1 January 2001 they would launch negotiations of a ‘new age’ preferential trade agreement, to be known as the Japan-Singapore Economic Partnership Agreement.\footnote{8} On 16 November, the US president and Singapore’s prime minister announced that they would start negotiations on a bilateral free trade agreement.\footnote{9} On 25 November, at the fourth ASEAN+China summit, China’s premier Zhu Rongji called on the ASEAN members ‘to explore the establishment of a free trade relationship’ with China (Munakata 2006: 8-9).

Thus, trade relations assumed centre stage in East Asian regionalism. This process was related to the rapid development of intraregional trade and investment during the 1990s.\footnote{10} The increased regionalisation of the East Asian economy is usually dated from the post-1985 appreciation of the yen and the subsequent surge of Japanese direct investment.
in Southeast Asia. Another harbinger of greater intra-Asian trade was the emergence of subregional zones as Hong Kong and Singapore became increasingly integrated with neighbouring regions; Guangdong province of China for Hong Kong, and Johor in Malaysia and Riau province of Indonesia for Singapore (Pomfret 1996). By 1996 intraregional trade was 50 per cent of the East Asian countries’ total trade, compared to about a third at the start of the 1980s. The share of intraregional trade in total exports dipped after the Asian Crisis, but it had climbed back to 52 per cent in 2004, when the import share was 57 per cent (Munakata 2006: 47); these are higher than equivalent measures for NAFTA and similar to the shares for the EU in the mid-1980s.11

China’s initial role was related to Japanese foreign investment, and these links are reflected in the increasing share of intra-industry trade in Sino-Japanese trade during the 1990s. Xing (2007) calculates intra-industry trade (measured at the three-digit Standard International Trade Classification level) to have accounted for 6 per cent of China’s bilateral trade with Japan in 1980, 18 per cent in 1992 and 34 per cent in 2004, and finds that Japanese foreign direct investment performed a significant role in enhancing intra-industry trade (a result which was not replicated for US FDI in China).12 Although increased consumer demand within the region due to rising incomes is a contributory factor, the driving force behind increased intra-Asian trade continues to be the creation of value chains through fragmentation of production.13 As China’s economic weight increased dramatically over the decade of the 1990s, China’s role in intraregional networks became more central (Gaulier, Lemoine & Ünal-Kesenci 2006) and China changed from being a minor player in moves towards Asian regionalism before 2000 to become the major player after 2000. As China’s export bundle shifted from clothing and light manufactures in the 1980s, towards office equipment, furniture and industrial supplies in the 1990s, and data-processing equipment and consumer electronics in the 2000s, the country has become more and more involved in regional value chains.14

East Asia’s increasingly dense production networks provoked interest in, for example, streamlining customs procedures along a standard model, and created a sense that institutionalised approaches to reducing transactions costs within East Asia were needed. Within ASEAN, this was reflected in national and bilateral initiatives to facilitate trade by agreements simplifying border procedures, such as creating a single window where importers would clear all border formalities, rather than dealing separately with immigration, customs, quarantine and other regulatory agencies. The pace of establishing the ASEAN Free Trade Area noticeably accelerated in the late 1990s as unprocessed agricultural products were phased in, and manufactured and processed agricultural products were transferred to inclusion lists. The climax was Malay-
sia’s removal in 2005 of assembled and knocked-down automobiles from its exclusion list, signalling that even its most high profile import-competing industry would be opened up to free trade within ASEAN. By 2006, all temporary exclusions had been brought on to the inclusion lists of the original six ASEAN members, and the unprocessed agricultural products still considered ‘sensitive’ (less than 150 tariff lines) will be included by 2010, leaving only a General Exceptions List of 377 tariff lines, representing less than one per cent of all tariff lines and mainly connected to the protection of national security, public morals and articles of historical significance.

Reflecting the accelerated pace of regional integration, at the 2003 ASEAN summit in Bali an initiative to establish an ASEAN Economic Community was launched. At the February 2007 summit, the target date was brought forward to 2015, and later in the year a roadmap was drawn up, with twelve sectors prioritised for creation of a single ASEAN market: electronics, information and communications technology, healthcare, wood-based products, rubber-based products, autos, textiles and clothing, agricultural products, fisheries, air travel, tourism and logistics. The ASEAN Economic Community project is an attempt to unify and extend the ASEAN Free Trade Area, the ASEAN Investment Area and the ASEAN Framework Agreement on Services. Despite the apparent similarity to the EU, however, there is as yet no political will for integration as deeply felt as in the EU, and tackling non-tariff barriers will be harder than the tariff reductions negotiated in the ASEAN Free Trade Area.

While ASEAN was deepening its own regional integration, it looked for new institutional arrangements with its northeast Asian trading partners. ASEAN had been considering a proposal in 2000 for integration among ASEAN+3, but rejected this in favour of individual trade agreements with Japan, Korea and China. While Japan and Korea were lukewarm, China moved swiftly in 2001 towards negotiating a trade agreement (Munakata 2006: 117-8). China had an advantage over Japan or Korea because, as a developing country, it could reach a WTO-compatible agreement with ASEAN under the Enabling Clause, whose conditions are less restrictive than those of Article XXIV, and China was less concerned about protecting uncompetitive farmers. Even allowing for these advantages, the Chinese attitude in 2001/2 was notably more flexible and sympathetic to ASEAN members’ concerns.

In November 2002, ASEAN and China signed the framework agreement on Comprehensive Economic Cooperation, which foreshadowed establishment of an ASEAN-China Free Trade Area within ten years. China addressed ASEAN concerns by granting most favoured nation treatment to the three ASEAN countries which were not yet WTO members (Cambodia, Laos, and Vietnam), and by promising special...
and differential treatment for the newer ASEAN members who feared competition from China, while proposing an ‘early harvest’ whereby both sides could move quickly to reduce tariff barriers on goods of particular interest. In June 2003, China and Thailand signed an early harvest agreement to eliminate tariffs on 108 edible vegetables and 80 edible fruits and nuts from 1 October 2003. Early harvest measures involving other ASEAN members were introduced on 1 January 2004. In November 2004 the formal Agreement on Trade in Goods between ASEAN and China was signed. It envisaged establishment of a free trade area with tariff rates of 0-5 per cent on ‘normal’ goods by 2010 for six ASEAN members and by 2015 for the four newest ASEAN members. In addition, the framework agreement foresaw more comprehensive liberalisation, with agriculture, human resource development, information and communication technology, investment, and development of the Mekong River Basin identified as priority areas (Sen 2004: 76). Collaboration on illegal immigration, drug smuggling, counterterrorism and other security concerns was also on the agenda (Kwei 2006: 121).

As China proceeded with its ASEAN+1 strategy, it continued participating in the ASEAN+3 summits and also in trilateral cooperation talks with Japan and Korea. The trilateral talks, however, revolved around setting up study groups rather than any immediate policy agenda. For China (as for Korea) there are deep-seated historical obstacles to cooperation with Japan, which were highlighted by the violent anti-Japanese demonstrations in several Chinese cities in spring 2005. In sum, the pattern for China, as for most of East Asia, in the first five years of the 2000s was one of talking regionally but acting bilaterally.

China’s ASEAN+1 agreement and the bilateral FTAs signed by some ASEAN members (notably Singapore and Thailand) with countries within and outside the region undermined the role of the ASEAN+3 grouping in regional trade liberalisation. The ASEAN+3 framework became used not for trade issues, but for various other functional areas such as finance, information technology, standards, the environment, health after the severe acute respiratory syndrome (SARS) outbreak in 2003, and energy security after the oil price hikes in 2004.

At the eighth ASEAN+3 summit in 2004, it was agreed to convene a regular East Asian Summit. In the early preparatory stages, China had proposed holding the first summit in Beijing, but Chinese policymakers quickly recognised that Chinese overpresence might stimulate concerns within the region about a Chinese threat. China was happy to let ASEAN play the leadership role, and the First East Asia Summit met on 14 December 2005 in Kuala Lumpur. The East Asia Summit was preceded by arguments about whom to invite, with China favouring a guest list limited to ASEAN+3. Japan argued successfully for Austra-
lia, India and New Zealand to be included, so that the East Asian Summit configuration is sometimes referred to as ASEAN+6. At the summit, China argued for Russia’s inclusion, but no agreement was reached on this issue. The second East Asian Summit held in Cebu in January 2007 had the same participants as the first. There was also no clarification of the relative roles of the East Asian Summits and the ASEAN+3 summits in the evolving regional architecture.

One consequence of the East Asia Summit was to highlight the competition for regional leadership. Even though China gave way to Japan on the invitation list, the Summit was a Chinese initiative and Japan felt a need to respond. The Japanese proposal of a Comprehensive Economic Partnership in East Asia among the sixteen East Asia Summit participants was a non-starter, especially because it seems even more than the EAEC to be an RTA which excludes the US. Japan’s next response was to negotiate further bilateral trade agreements. When Australia had raised the prospect of a free trade agreement in 2002, Japan (unlike the US or China) declined to negotiate, but in 2006 Japan pushed for a free trade agreement. Meanwhile, China broadened its regional perspective in November 2006 by signing a free trade agreement with Pakistan, whose relations with China were described by President Hu Jintao on Pakistani TV as ‘higher than the Himalayas, deeper than the Indian Ocean, and sweeter than honey’. China has also become more active in South Asian regional fora.

A feature of the various regional permutations described above is the absence of Taiwan. As a condition of China’s WTO accession, negotiations with Taiwan proceeded more or less in tandem. Taiwan is also a member of APEC. In determining the composition of the various recent East Asian groupings, however, China has been able to exclude Taiwan. Thus a side-benefit for China of the shift in emphasis from the multilateralism of the WTO or the open regionalism of APEC to regional trading arrangements in a broader context of growing bilateralism has been the opportunity to exclude Taiwan from the main currents of Asian regionalism.

Although regionalism may be viewed as an alternative to multilateralism, in the East Asian context there may be little conflict between the two. Duty payments on intra-Asian trade tend to be low, as a result of trade liberalisation and of the prevalence of duty-drawback systems, in response to the production fragmentation and networks which emerged over the last two decades. The bilateral trade agreements tend to be narrow in scope and coverage, with trivial economic impact and problematic politics, corrosive of regional integration, wasteful of policymaking capacities, sucking oxygen from reform momentum, and causing negative reactions which lead to poor dynamics. Their saving grace is that most of the mooted trade agreements are not completed. Even
when they are implemented, many traders continue to trade on an MFN basis rather than invoking bilateral agreements, e.g. less than 15 per cent of Singapore’s trade with preferred partners is conducted under the terms of bilateral agreements.\textsuperscript{25}

From a broader perspective, China’s increasing engagement with its neighbours, and especially its good-neighbourliness over the last decade, is a positive development. In the 1980s, almost all of China’s borders were disputed; and in the 1990s, China threatened to settle ongoing disputes, such as in the South China Sea, by force. Today, apart from the major exceptions of the sea-border with Japan and the land-border with India, the disputes have been settled and China is no longer seen as a threat to its smaller neighbours. Although political struggles for hegemony continue in Asia, that is far preferable to the militaristic overtones of power struggles of the recent past.

Finally, there has been a proliferation of bilateral agreements between individual ASEAN members and other Asian countries, and between Asian countries and other countries. Taking a broad definition of Asia, Menon (2007) reports that 176 bilateral agreements had been signed by October 2006, of which fifty had been implemented. Including South Asia and Australasia as well as the East Asian countries, Tumbarello (2007) counts 32 such agreements coming into force between 2001 and June 2007. Some of the agreements are paper agreements only, and even those that have come into force are often driven by a small number of specific issues. The Japan-Thailand agreement, for example, excluded areas with significant trade barriers such as rice; its principal results were to reduce the tariff on components imported by the mainly Japanese-owned carmakers in Thailand and to ease restrictions on temporary migration of Thai chefs into Japan. Others have been driven by areas not covered by other agreements, and would previously not have merited the name RTA (such as bilateral tax agreements in the past). Yet others cover trade flows that are, and always will be, tiny, such as Korea-EFTA or Thailand-Bahrain. In sum, these agreements are of little economic significance (Pomfret 2007b).\textsuperscript{26}

\textbf{Conclusions}

Asian regionalism was conspicuous by its absence before 1997. ASEAN was essentially a political association of the non-Communist countries of Southeast Asia, which struggled to find a new role in the two decades after the end of the Vietnam War and only became more proactive after its expansion to ten members in 1995-9. When Malaysia proposed a broader regional arrangement to include northeast Asian countries, the proposal was superseded by APEC, whose ‘open regionalism’ played
some role in the 1990s but had become an economic dead-end by the turn of the century.

The 1997 Asian Crisis proved a catalyst for Asian regionalism. The lead was initially taken by Japan, which emphasised monetary cooperation. After the high point of the 2000 Chiang Mai Initiative, however, the progress of monetary integration stalled. The focus shifted to regional trade agreements, and China’s regional leadership role in East Asia emerged as Japan’s economy faltered and several ASEAN countries and Korea were weakened by the Asian Crisis. Since China secured WTO membership in 2000/1, a major vehicle for its regional leadership aspirations has been trade agreements. Apart from the accelerated implementation of the ASEAN Free Trade Area and aspirations of an ASEAN Economic Community, the most important trade agreement is the 2004 Agreement on Trade in Goods between ASEAN and China.

ASEAN remains important because the norms of behaviour which it espouses – equality, mutual respect, pragmatism and openness – remain central to progressing East Asian regionalism, perhaps similar to the role of Benelux in early steps towards European regional integration. Nevertheless, key issues remain unresolved, in large part because of fundamental differences between China and Japan as both seek to establish their leadership of the process. The content of Asian regionalism is still undetermined, with ‘free trade areas’ only aiming at reducing tariffs to 5 per cent or less, and few serious steps towards deeper integration, with monetary integration an even more distant prospect. The geographical scope is also unsettled, especially the role of Australia, New Zealand and India, who attend the East Asian Summits but not the ASEAN+3 summits, and the role of Hong Kong and Taiwan which are major trading units but have no separate involvement in either process.

Notes

1 Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, together with Afghanistan, joined Iran, Pakistan and Turkey in the Economic Co-operation Organization. Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan are members with China of the Shanghai Cooperation Organization.

2 APEC now includes Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, the USA and Vietnam.

3 Concerted unilateral liberalization was not an empty slogan. Unilateral liberalization captures many actions in the 1980s and 1990s in Japan (e.g. the aluminium industry), China, Australia, New Zealand and Southeast Asia, and there was an expectation that this could be more beneficial if concerted.

4 On the US side, disappointment with APEC and the EVSL led to a refocussing on the P5 likeminded countries (Australia, Chile, New Zealand, Singapore and the US).
which only strengthened Asian views that a regional body without the US was needed.  

5 Although the Crisis provided a catalyst, Japanese disillusionment with the multilateral system had been growing during the 1990s as its economy stagnated and the need to assert some kind of regional leadership was stimulated by concerns about the rise of China. The desire for monetary cooperation in Asia may also have been kindled by signs that European countries were moving definitively towards adopting a common currency (Ravenhill 2001).  

6 Attempts to create a more active regional bond market progressed slowly and involved a more diffuse country grouping. In 2003, the Executives’ Meeting of East Asia and Pacific (EMEAP) central banks forum launched the Asian Bond Fund Initiative. The EMEAP members (Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand) pooled $1 billion in reserves for investment in US dollar denominated bonds issued by sovereign or quasi-sovereign borrowers from eight EAMAP countries. In 2005 the eleven EMEAP central banks launched ABF2, which invested $2 billion in sovereign or quasi-sovereign bonds from the same eight EAMAP countries, with the intention that ABF2 funds will be traded.  

7 Some commentators (e.g. Medeiros & Fravel 2003) interpret China’s more active diplomatic engagement since the mid-1990s, including greater willingness to play a leadership role in Asia, in a global rather than a regional context. Howe sees China’s move towards regionalism in East Asia as the latest stage in China’s embracing of globalization; China’s need for ‘rapid, specific access to markets where Chinese goods are likely to be competitive’ and need to ‘avoid its growing power causing serious conflict and disruption to the world system’ (Howe 2007: 97) can both be addressed by regional agreements.  

8 Japan intended initiating negotiations for bilateral trade agreements with South Korea (a move prompted by Korean President Kim Daejong’s bold attempt at reconciliation between the two countries and reflected in agreement to co-host the 2002 World Cup football and Singapore. The attempt to improve bilateral relations with South Korea made slow progress (Munakata 2006: 109-110), but a Singapore free trade agreement was quickly concluded because there were no significant obstacles (e.g. agriculture was irrelevant to Singapore).  

9 President Clinton’s 1997 Trade Policy Agenda had included negotiation of bilateral trade agreements with individual Asian countries and the P5 proposal (for RTAs with Australia, Chile, New Zealand and Singapore) was on the table, but divisions within the administration led to limited follow-up (Munakata, 2006, 188 n5). When President Bush took office in January 2001, the US had one bilateral free trade agreement, with Israel, and one RTA, NAFTA. By 2007 the US had seven bilateral FTAs in force (with Israel, Jordan, Chile, Singapore, Australia, Morocco and Bahrain), one pending (Oman), four awaiting Congressional approval (Peru, Colombia, Panama, and Korea) and three under negotiation (Malaysia, Thailand and United Arab Emirates), plus two RTAs (NAFTA and CAFTA-DR, with El Salvador, Nicaragua, Honduras, Guatemala and the Dominican Republic).  


11 Other measures also show strong increases in intraregional trade in East Asia. Sohn (2002) used trade intensity indices to show that trade within the East Asia region was increasing during the 1990s. Ng & Yeats (2003) also calculated trade intensity indices
in their study of trade relations involving China, Hong Kong, Japan, South Korea Taiwan and seven ASEAN countries. Ando & Kimura (2005) calculate very high shares of machinery (HS84-92) in East Asian countries’ trade in 1996 and 2000, and conclude that this structure is especially suited to production fragmentation; they also use a large Japanese firm-level dataset from 2000 to analyse the nature of production networks, concluding that such networks are a feature not just of large Japanese firms but also of small and medium-sized Japanese enterprises.

Zhang, van Witteloostuijn & Zhou (2005) have comparable estimates, although their study does not focus on East Asia.

Kimura, Takahashi & Hayakawa (2007) and Haddad (2007: 10) provide evidence that the intra-industry trade in Asia is vertical intra-industry trade associated with fragmentation of production rather than the horizontal intra-industry trade due to product differentiation observed in Europe.

This makes it difficult to know whether China is displacing or augmenting other Asian countries’ exports to the rest of the world. If final assembly is in China, then exports will be recorded as Chinese, even though they have generated substantial intermediate goods exports from other Asian countries.

This was a low-cost gesture of goodwill, which would soon be redundant, as Cambodia joined the WTO in 2004 and Vietnam in 2007, while Laos is negotiating accession.

The Thai-Chinese trade in agricultural products had been a problem due to non-tariff barriers such as food safety requirements and import licensing. Even though agricultural trade between northern Thailand and southern China surged after October 2003, disputes remained. A further bilateral agreement aimed to simplify inspection and quarantine procedures from May 2005, but it did so by restricting fruit exports to registered orchards and packing houses – a regulation whose market-friendliness is unclear.

Because this is a south-south FTA, it can be negotiated under the GATT/WTO Enabling Clause, which provides greater latitude than Article XXIV to exclude items. Thus, some 400 tariff lines at the HS 6-digit level (accounting for 10% of trade between China and the ASEAN-6 using 2001 trade data) and 500 tariff lines for Cambodia, Laos, Vietnam and Myanmar are to be exempted from inclusion in the ASEAN-China Free Trade Area (Hedi Bchir & Fouquin, 2006: 14-15).

At the start of the decade, China’s trade relations with Japan and Korea were not good. Trade wars were sparked in 2000 and 2001 by restrictions on China’s exports of leeks, reeds and shiitake mushrooms to Japan and of garlic to Korea, followed by Chinese retaliatory tariffs on Japanese cars and air conditioners and on Korean mobile phones. The disputes were settled in 2001 and 2002. At the same time all three countries joined forces with the EU in a WTO complaint against US steel tariffs.

Bilateral agreements signed by individual ASEAN members with non-ASEAN partners (e.g. Thailand with Australia, New Zealand and Bahrain, Malaysia with India, Pakistan and the US, and Singapore with Australia, Japan, Jordan, New Zealand, Panama and the US) also undermined preferential intra-ASEAN trade despite the existence of the ASEAN Free Trade Area and the 2003 decision to deepen integration by establishing an ASEAN Economic Community.

In 2004 and early 2005, the US lobbied Japan not to cooperate with proposals for an East Asian Summit, because the summit was designed to enhance the influence of China, while others suspected that the goal was to exclude the US (Munakata 2006: 15). In general, however, the US showed less concern towards East Asian regionalism in the early 2000s than it had in the 1990s. This reflected other priorities, especially the war on terrorism after September 2001, but also the Bush administration appeared to have few principled opponents of discriminatory trade arrangements,
whether signed by the US or by other countries. Fostering ASEAN integration had become US policy (see, for example, US Department of State Fact Sheet, ‘ASEAN Cooperation Plan’, 4 December 2002), influenced by the increased involvement of US transnational corporations in Asian production networks. Within APEC the US shunned a 2003 Thai initiative to revive the Bogor Goals and a 2004 proposal for a Free Trade Area of the Asia-Pacific which was supported by Australia, New Zealand and Singapore (Barfield: 2007).

21 Tumbarello (2007) takes a guardedly more positive view of a pan-Asian FTA among the 16 East Asian Summit countries, arguing that such consolidation might help to unravel the current ‘noodle bowl’ of overlapping trade agreements. Proposals for a Free Trade Area of the Asia Pacific among APEC members, which have been voiced in the Pacific Economic Cooperation Council (PECC), seem even more unlikely to be adopted.

22 Some of Japan’s motivation was directly related to perceived competition with China. Japan fears loss of Australian markets to China in areas such as auto components. More specifically, Japan aimed to secure the same exemptions from foreign investment review as those contained in the Australia-US free trade agreement, in order to facilitate Japanese investment in Australia’s energy and minerals sectors, where it sees itself in competition with China to secure resource supplies. Concerns about food supply have also helped to counter the Japanese Ministry of Agriculture’s apparent veto of free trade agreements with Australia or other food suppliers. Kimura (2007) takes an optimistic view of the Australia-Japan free trade agreement.

23 In 2007 China was granted observer status at the South Asian Association for Regional Cooperation (SAARC), whose members are Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. Along with the other observers (Japan, Korea, the EU and the US), China attended the April 2007 SAARC summit, but China generally emphasizes areas other than trade as fields for cooperation with SAARC. In 2001 China signed the Bangkok Agreement, which is open to all 62 members and associate members of the United Nations Economic and Social Commission for Asia and the Pacific, but currently has six members (Bangladesh, India, Republic of Korea, Laos, Sri Lanka and China – Pakistan was invited to accede in January 2007). China and India offer each other tariff preferences but the coverage is minimal, e.g. China’s 2001 offer covered 2% of imports from India. In July 2006, the Bangkok Agreement was renamed the Asia-Pacific Trade Agreement with some extension of the list of included items and increased depth of tariff preferences.

24 This chapter does not deal with Closer Economic Partnership Agreements with Hong Kong and Macao, which were negotiated in 2003 and whose implementation began in 2004, and which are seen by China as potentially including Taiwan under a ‘one country - four regions’ formula.

25 The litany of shortcomings draws on a public lecture by Peter Drysdale entitled Where to Asian Regionalism? at the Johns Hopkins University Bologna Center on 2 November 2006. On the trivial economic impact of many bilateral and other regional trading agreements, see Pomfret (2007a).

26 Dee (2007) has a more negative interpretation, seeing such agreements as obfuscations. Governments publicize their ‘free trade’ credentials through such limited agreements in order to avoid addressing more difficult and more costly regulatory obstacles.
The Impact of China-ASEAN Free Trade Agreement on Textiles and Clothing Sectors of Asian Regions

Sadequl Islam

Introduction

In recent years, free trade agreements (FTA) involving developing countries have proliferated in various forms. Some new phenomena concerning FTAs are: enlargement of existing FTAs and deeper economic integration, involving not only flows of goods, but also of services and investment. The Association of Southeast Asian Nations (ASEAN) provides a good example of such an FTA. China and ASEAN signed a Framework Agreement on Comprehensive Economic Cooperation, which calls for the establishment of an FTA between China and the six older member countries of ASEAN by 2010, and between China and the four new ASEAN member countries by 2015. The possibility of an FTA between China and ASEAN raises several questions:
1. What will be the impact of such an agreement on China and ASEAN countries?
2. How will this agreement affect major sectors, including the textiles and apparel sectors, in China and ASEAN countries?
3. What will be the impact of this agreement on non-member countries? A few studies (for instance, Tongzon 2005 and Wattanapruittipaisan 2003) have addressed the first and second questions from different perspectives.

My paper concentrates on the impact of the proposed China-ASEAN free trade agreement on the textiles and apparel sectors of China, ASEAN countries, and other Asian regions. The paper differs from existing studies in several ways. First, it uses the latest version of the Global Trade Analysis Project (GTAP) model and database (Version 6). Secondly, the paper highlights the effects of the China-ASEAN free-trade agreement on intra-Asian trade in textiles and apparel. Finally, the paper examines the effects of this agreement on the textiles and apparel sectors of other Asian countries, such as South Asian Countries.

The paper is organised as follows. The second section discusses theoretical and methodological issues. The third section provides some basic statistics on trade-related variables for China and ASEAN countries.
The impact of China-ASEAN agreement is explored in Section IV. The final section summarises the main findings and makes some concluding remarks.

**Theoretical and methodological issues**

A large body of literature has emerged discussing bilateral and regional free trade agreements, covering a number of issues: types of FTA, economic and political reasons for the emergence of FTAs, implications of FTAs for multilateral trade liberalisation, and static and dynamic effects of FTAs. Effects of FTAs depend on several variables, including 1) depth of integration, 2) width of integration, 3) the initial level and structure of tariffs in relevant countries, 4) economic structures of member countries, and 5) initial stages of development of member countries. Depth of integration implies the coverage of trade policy instruments and related policy variables such as tariffs, quotas, and other non-tariff barriers, while width of integration implies the coverage of sectors. The ASEAN, established in 1967, formally became the ASEAN Free Trade Area (AFTA) in 2002, with a tariff-free regime for most goods for member countries assessing different tariff regimes against non-member countries. The economic integration in the AFTA, however, is less deeply established and wider, compared to the NAFTA and European Union.

A traditional method of evaluating the effects of an FTA is the Vinerian approach, which distinguishes between trade creation and trade diversion. Several simple quantitative indicators, such as the Herfindahl index of specialisation, the Revealed Comparative Advantage, the Index of Trade Competition, the Trade Intensity Index, and the Trade Propensity Index have been used to ascertain likely gainers and losers and the extent of trade creation and trade diversion (World Bank 2002; Cerra, Rivera & Saxena 2005). Based on these indicators, one may argue that over all, major trade blocs such as the European Union and the NAFTA have improved the economic welfare of member as well as non-member countries (Schiff & Winters 2003). However, this does not suggest that trade diversion generated by the European Union and the NAFTA in all sectors has been insignificant. A second method of exploring the effects of free trade agreements is the gravity model (Roberts 2004; Soloaga & Winters 2001; Frankel 1997). A major finding of the study by Soloaga and Winters is that regional integration has had a lesser effect on trade flows of developing countries than the effect caused by multilateral trade liberalisations. The criteria for choosing partners for trade blocs, being important from the policy perspective, has drawn the attention of several researchers (for instance, Schiff 2001 and Venables...
These researchers have explored the validity of alternative hypotheses such as ‘the natural trading partner hypothesis’ and comparative advantage. The former hypothesis implies that countries with geographical proximity can save transport costs and are natural trade partners.

A third approach to evaluating benefits and costs of free trade agreements is given by applied general equilibrium (AGE) models. The AGE models can differ greatly depending on various assumptions about the production and utility functions, the market structure, and the number of countries and sectors. Several studies (Francois & Shiells 1994, Harrison, Rutherford & Tarr 1996) using AGE models find that regional free trade blocs generate gains for member countries; however these gains are not very large. Islam (2003) finds that expansions of the NAFTA and the European Union will substantially benefit new member countries in Latin America, Central and Eastern Europe. However, these expansions are likely to cause significant trade diversions in the textile and apparel sectors of Asia.

In exploring the effects of China-ASEAN free trade agreement, this paper primarily relies upon the Global Trade Analysis Project (GTAP) model and database, Version 6, which is a standard static AGE model maintaining the assumptions of perfect competition and constant returns to scale. The latest GTAP database contains 87 regions/countries and 57 sectors with the benchmark data for the year 2001. The database contains two sets of ‘Armington elasticities’: one is concerned with the substitution between domestic products and imports, and the other with the substitution between imports from different regions. In order to make the empirical analysis of this paper manageable, 87 regions/countries have been aggregated into 14 regions/countries: 1) North America (Canada and the USA); 2) the European Union comprising 25 member countries; 3) Japan; 4) China; 5) the Newly Industrializing Economies (NIEs) comprising South Korea, Taiwan, and Hong Kong; 6) Latin America (Latinam) comprising Latin American and Caribbean countries including Mexico; 7) Indonesia; 8) Malaysia; 9) the Philippines; 10) Thailand; 11) Singapore; 12) Vietnam; 13) South Asia; 14) Rest of the world (ROW). It should be noted that the GTAP database contains separate data for six of the ten ASEAN countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. The GTAP database does not contain separate data for four ASEAN countries: Brunei, Myanmar, Cambodia, and Laos. In this paper, the 57 sectors in the GTAP database have been aggregated into six sectors: 1) textiles; 2) apparel; 3) other manufactures; 4) agriculture; 5) mining; and 6) services. One limitation of the GTAP database needs to be mentioned here. The textile sector of the GTAP database lumps together all types of textile products such as yarn, cotton fabrics, man-made fabrics, and assembled...
textile products. Similarly, the apparel sector does not have separate data on men’s apparel, women’s apparel, apparel made from cotton fabrics, apparel made from man-made fabrics, apparel made from knitted fabrics, and apparel made from non-knitted fabrics.

**Basic statistics**

Table 11.1 reports data on population, GDP, per capita GDP, and the trade-GDP ratio for China and selected ASEAN countries. Several facts are noteworthy. First, the overwhelming size of the Chinese economy, compared to ASEAN countries, is clearly evident. The population of China is more than two and half times that of the combined population of the seven ASEAN countries mentioned in Table 11.1. The total GDP of China is about three times that of the seven ASEAN countries combined. Second, the per capita GDP of China, based on purchasing power parity, is higher than that of Indonesia, the Philippines, Vietnam, and Cambodia, but lower than that of Singapore, Malaysia, and Thailand. Finally, the trade-GDP ratio, which is often used as an indicator of openness, is the highest in Singapore and lowest in China.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Population (Million), 2003</th>
<th>GDP (Billion), 2003</th>
<th>GDP per Capita, 2003</th>
<th>Trade-GDP Ratio (%), 2001-03</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,288.4</td>
<td>6,435.8</td>
<td>4,995.2</td>
<td>57.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>214.5</td>
<td>721.6</td>
<td>2,972.2</td>
<td>68.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>24.8</td>
<td>240.2</td>
<td>9,696.1</td>
<td>211.2</td>
</tr>
<tr>
<td>Singapore</td>
<td>4.25</td>
<td>104.0</td>
<td>24,480.5</td>
<td>366.8</td>
</tr>
<tr>
<td>Philippines</td>
<td>81.5</td>
<td>352.2</td>
<td>4,321.1</td>
<td>97.7</td>
</tr>
<tr>
<td>Thailand</td>
<td>62.0</td>
<td>470.1</td>
<td>7,580.3</td>
<td>124.3</td>
</tr>
<tr>
<td>Vietnam</td>
<td>81.3</td>
<td>202.5</td>
<td>2,489.9</td>
<td>112.5 *</td>
</tr>
<tr>
<td>Cambodia</td>
<td>13.4</td>
<td>29.3</td>
<td>2,189.2</td>
<td>126</td>
</tr>
</tbody>
</table>

*Source:* the World Trade Organisation

*Notes:* GDP and GDP per capita figures are in US dollars based on purchasing power parity.

*2000-02*

Table 11.2 reports data on China’s trade with ASEAN countries and other regions of the world. The following points deserve to be mentioned. First, in 2003, China’s exports to the ASEAN countries totalled US $30.9 billion, constituting about 7.1 per cent of total Chinese exports to all countries. Second, China maintains a trade deficit with most of the ASEAN countries (Brunei, Indonesia, Malaysia, Singapore, the Philippines, and Thailand) with a combined trade deficit of about US$
16.4 billion. In contrast, China maintains a trade surplus with other developing countries in Asia, and also with industrial countries.

Table 11.3 reports data on the self-sufficiency ratio (SSR) for various sectors in different regions/countries. The SSR is defined as: production as a proportion of total availability (production + imports − exports). It is evident from Table 11.3 that China is more than self-sufficient in textiles, apparel, and other manufactures. For Philippines, Vietnam, and Singapore, the SSR is less than 1 in textiles. In apparel, the SSR is greater than 1 in China and all ASEAN countries. Furthermore, the ‘Newly Industrialising Economies’, (NIEs) group has a higher SSR in textiles than China and other Asian regions/countries. Table 11.4 shows figures on export-intensity (exports as a proportion of output) for various sectors in different regions/countries. In China, export-intensity is only 14.8 per cent in the textile sector, lower than the figures for other Asian regions/countries. This suggests that production of textiles in China is overwhelmingly destined for the huge domestic market. In the apparel sector, however, export-intensity for China is 51.8 per cent, substantially higher than in the textiles sector. The importance of the external market for apparel is strikingly the greatest in Vietnam, where export-intensity is 93 per cent. The importance of textiles and apparel in an economy can be ascertained by the shares of these two sectors in total exports. As reported in Table 11.5, the shares of textiles and apparel in China were 6.3 per cent and 9.7 per cent, respectively, in 2002. These figures are higher than those for Singapore, Philippines, Thailand, and Malaysia. Table 11.5 also reveals that the shares of textiles and apparel are higher in South Asia than in China and ASEAN countries.

Since the focus of this paper is on textile and apparel sectors, it is instructive to examine the network of trade in textiles and apparel. Table 11.6 reports data on the network of trade in apparel. Several points need to be highlighted. First, leading markets for Chinese apparel are Japan, North America, the European Union, and the NIEs. For ASEAN countries, the top two markets are North America and the European Union. Thus compared to ASEAN countries, the geographical distribution of exports of apparel from China is more diversified. Second, trade in apparel involving China and ASEAN countries is quite small. For instance, China’s exports of apparel to Indonesia in 2001 amounted to only US$ 27 million, while imports amounted to US$ 18.6 million. This suggests that China and ASEAN countries are competitors in external markets such as North America, Japan, and the European Union. Third, trade in apparel involving China and the NIEs in 2001 was quite large: China’s apparel exports to the NIEs amounted to over US$ 5 billion, while Chinese imports amounted to US$1.9 billion. Finally, China maintains a trade surplus in apparel with respect to all ASEAN coun-
tries and other regions of the world. Table 11.7 displays data on the network of trade in textiles which present a different picture.

Table 11.2  China’s Trade Relations with the ASEAN Countries, 2003

<table>
<thead>
<tr>
<th>Countries/Regions</th>
<th>Exports (US $ millions)</th>
<th>Imports (US $ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>34</td>
<td>312</td>
</tr>
<tr>
<td>Cambodia</td>
<td>295</td>
<td>26</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4,482</td>
<td>5,748</td>
</tr>
<tr>
<td>Lao</td>
<td>98</td>
<td>11</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6,141</td>
<td>13,987</td>
</tr>
<tr>
<td>Myanmar</td>
<td>908</td>
<td>170</td>
</tr>
<tr>
<td>Philippines</td>
<td>3,094</td>
<td>6,306</td>
</tr>
<tr>
<td>Singapore</td>
<td>8,869</td>
<td>10,484</td>
</tr>
<tr>
<td>Thailand</td>
<td>3,828</td>
<td>8,827</td>
</tr>
<tr>
<td>Vietnam</td>
<td>3,179</td>
<td>1,456</td>
</tr>
<tr>
<td>ASEAN</td>
<td>30,928</td>
<td>47,327</td>
</tr>
<tr>
<td>Industrial</td>
<td>238,773</td>
<td>177,436</td>
</tr>
<tr>
<td>ODA</td>
<td>114,126</td>
<td>109,247</td>
</tr>
<tr>
<td>Rest of World</td>
<td>54,423</td>
<td>78,826</td>
</tr>
<tr>
<td>World</td>
<td>438,250</td>
<td>412,836</td>
</tr>
</tbody>
</table>

ODA = Other developing countries in Asia.
Source: IMF, Direction of Trade Statistics

Table 11.3  Self-Sufficiency Ratio (SSR), 2001

<table>
<thead>
<tr>
<th></th>
<th>Other manufactures</th>
<th>Service</th>
<th>textiles</th>
<th>apparel</th>
<th>agriculture</th>
<th>Mining</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. Amer</td>
<td>0.94</td>
<td>1.01</td>
<td>0.87</td>
<td>0.69</td>
<td>1.05</td>
<td>0.72</td>
</tr>
<tr>
<td>EU</td>
<td>1.01</td>
<td>1.01</td>
<td>0.93</td>
<td>0.8</td>
<td>0.92</td>
<td>0.37</td>
</tr>
<tr>
<td>China</td>
<td>1.04</td>
<td>0.99</td>
<td>1.01</td>
<td>1.88</td>
<td>0.98</td>
<td>0.91</td>
</tr>
<tr>
<td>NIE</td>
<td>0.98</td>
<td>1.07</td>
<td>1.48</td>
<td>1.26</td>
<td>0.73</td>
<td>0.36</td>
</tr>
<tr>
<td>Japan</td>
<td>1.07</td>
<td>1</td>
<td>0.98</td>
<td>0.77</td>
<td>0.82</td>
<td>0.19</td>
</tr>
<tr>
<td>Lat. Amer.</td>
<td>0.94</td>
<td>1</td>
<td>0.91</td>
<td>1.16</td>
<td>1.07</td>
<td>1.43</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.12</td>
<td>0.94</td>
<td>1.19</td>
<td>4.15</td>
<td>1.02</td>
<td>1.73</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.33</td>
<td>1.2</td>
<td>1.12</td>
<td>3.22</td>
<td>0.91</td>
<td>1.5</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.95</td>
<td>0.99</td>
<td>0.75</td>
<td>6.92</td>
<td>0.98</td>
<td>0.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>1.08</td>
<td>1.03</td>
<td>1.14</td>
<td>1.62</td>
<td>1.05</td>
<td>0.32</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.69</td>
<td>0.82</td>
<td>0.44</td>
<td>6.25</td>
<td>1.13</td>
<td>2.49</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.89</td>
<td>1.1</td>
<td>0.65</td>
<td>2.14</td>
<td>0.91</td>
<td>0.04</td>
</tr>
<tr>
<td>South Asia</td>
<td>0.92</td>
<td>1.01</td>
<td>1.23</td>
<td>6.41</td>
<td>0.99</td>
<td>0.54</td>
</tr>
<tr>
<td>ROW</td>
<td>0.89</td>
<td>1.01</td>
<td>0.85</td>
<td>1.07</td>
<td>1.02</td>
<td>1.89</td>
</tr>
</tbody>
</table>

Source: the GTAP database
### Table 11.4  Export Intensity, 2001

<table>
<thead>
<tr>
<th>Region</th>
<th>Domestic</th>
<th>Export</th>
<th>Region</th>
<th>Domestic</th>
<th>Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. Amer.</td>
<td>0.9</td>
<td>0.1</td>
<td>N. Amer.</td>
<td>0.943</td>
<td>0.057</td>
</tr>
<tr>
<td>EU</td>
<td>0.54</td>
<td>0.46</td>
<td>EU</td>
<td>0.66</td>
<td>0.34</td>
</tr>
<tr>
<td>China</td>
<td>0.852</td>
<td>0.148</td>
<td>China</td>
<td>0.482</td>
<td>0.518</td>
</tr>
<tr>
<td>NIE</td>
<td>0.434</td>
<td>0.566</td>
<td>NIE</td>
<td>0.479</td>
<td>0.521</td>
</tr>
<tr>
<td>Japan</td>
<td>0.762</td>
<td>0.238</td>
<td>Japan</td>
<td>0.991</td>
<td>0.009</td>
</tr>
<tr>
<td>Lat. Amer.</td>
<td>0.808</td>
<td>0.192</td>
<td>Lat. Amer.</td>
<td>0.693</td>
<td>0.307</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.656</td>
<td>0.344</td>
<td>Indonesia</td>
<td>0.211</td>
<td>0.789</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.354</td>
<td>0.646</td>
<td>Malaysia</td>
<td>0.089</td>
<td>0.911</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.719</td>
<td>0.281</td>
<td>Philippines</td>
<td>0.081</td>
<td>0.919</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.697</td>
<td>0.303</td>
<td>Thailand</td>
<td>0.591</td>
<td>0.409</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.557</td>
<td>0.443</td>
<td>Vietnam</td>
<td>0.07</td>
<td>0.93</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.322</td>
<td>0.678</td>
<td>Singapore</td>
<td>0.12</td>
<td>0.88</td>
</tr>
<tr>
<td>South Asia</td>
<td>0.731</td>
<td>0.269</td>
<td>South Asia</td>
<td>0.135</td>
<td>0.865</td>
</tr>
<tr>
<td>ROW</td>
<td>0.8</td>
<td>0.2</td>
<td>ROW</td>
<td>0.533</td>
<td>0.467</td>
</tr>
</tbody>
</table>

### Table 11.5  The Composition of Exports

<table>
<thead>
<tr>
<th>Region</th>
<th>Other manufactures</th>
<th>Services</th>
<th>Textiles</th>
<th>Apparel</th>
<th>Agriculture</th>
<th>Mining</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. Amer.</td>
<td>0.7</td>
<td>0.22</td>
<td>0.013</td>
<td>0.006</td>
<td>0.04</td>
<td>0.02</td>
<td>1</td>
</tr>
<tr>
<td>EU</td>
<td>0.732</td>
<td>0.202</td>
<td>0.023</td>
<td>0.014</td>
<td>0.021</td>
<td>0.008</td>
<td>1</td>
</tr>
<tr>
<td>China</td>
<td>0.75</td>
<td>0.058</td>
<td>0.063</td>
<td>0.097</td>
<td>0.019</td>
<td>0.013</td>
<td>1</td>
</tr>
<tr>
<td>NIE</td>
<td>0.639</td>
<td>0.259</td>
<td>0.069</td>
<td>0.03</td>
<td>0.003</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Japan</td>
<td>0.887</td>
<td>0.088</td>
<td>0.02</td>
<td>0.001</td>
<td>0.003</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Lat. Amer.</td>
<td>0.631</td>
<td>0.13</td>
<td>0.026</td>
<td>0.037</td>
<td>0.077</td>
<td>0.1</td>
<td>1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.603</td>
<td>0.061</td>
<td>0.065</td>
<td>0.068</td>
<td>0.043</td>
<td>0.16</td>
<td>1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.76</td>
<td>0.169</td>
<td>0.013</td>
<td>0.01</td>
<td>0.016</td>
<td>0.032</td>
<td>1</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.827</td>
<td>0.064</td>
<td>0.02</td>
<td>0.061</td>
<td>0.022</td>
<td>0.007</td>
<td>1</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.754</td>
<td>0.13</td>
<td>0.041</td>
<td>0.04</td>
<td>0.035</td>
<td>0.001</td>
<td>1</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.504</td>
<td>0.135</td>
<td>0.029</td>
<td>0.103</td>
<td>0.079</td>
<td>0.151</td>
<td>1</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.752</td>
<td>0.196</td>
<td>0.014</td>
<td>0.024</td>
<td>0.014</td>
<td>0.001</td>
<td>1</td>
</tr>
<tr>
<td>South Asia</td>
<td>0.42</td>
<td>0.195</td>
<td>0.179</td>
<td>0.137</td>
<td>0.052</td>
<td>0.018</td>
<td>1</td>
</tr>
<tr>
<td>ROW</td>
<td>0.459</td>
<td>0.169</td>
<td>0.022</td>
<td>0.028</td>
<td>0.052</td>
<td>0.269</td>
<td>1</td>
</tr>
</tbody>
</table>

*Source:* the GTAP database
China maintains a substantial trade deficit with respect to the NIEs and Japan, the two leading suppliers of textile products to China. However, China’s trade deficit with Japan in textiles in 2001 was an aberration. Since 1991, China has maintained a trade surplus in textiles with respect to Japan. Indeed, in 2002, China had a trade surplus of about US $1.9 billion. China maintains a modest amount of trade deficit in textiles with respect to Malaysia and Indonesia. However, China maintains

Table 11.6 Matrix of Apparel Exports (US$ millions), 2001

<table>
<thead>
<tr>
<th>O/D</th>
<th>N. Amer.</th>
<th>EU</th>
<th>China</th>
<th>NIE</th>
<th>Japan</th>
<th>Lat. Amer.</th>
<th>Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. Amer.</td>
<td>1,799.6</td>
<td>799.68</td>
<td>102.36</td>
<td>99.39</td>
<td>256.48</td>
<td>3,263.5</td>
<td>8.02</td>
</tr>
<tr>
<td>EU</td>
<td>2,650.16</td>
<td>24,498.14</td>
<td>224.82</td>
<td>711.94</td>
<td>1,253.9</td>
<td>551.84</td>
<td>24.11</td>
</tr>
<tr>
<td>China</td>
<td>7,318.79</td>
<td>7,118.53</td>
<td>0</td>
<td>5038.84</td>
<td>11,263.42</td>
<td>1,266.98</td>
<td>27.04</td>
</tr>
<tr>
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ODA = Other developing countries in Asia.
Note: O = Origin D = Destination Source: the GTAP database

China maintains a substantial trade deficit with respect to the NIEs and Japan, the two leading suppliers of textile products to China. However, China’s trade deficit with Japan in textiles in 2001 was an aberration. Since 1991, China has maintained a trade surplus in textiles with respect to Japan. Indeed, in 2002, China had a trade surplus of about US $1.9 billion. China maintains a modest amount of trade deficit in textiles with respect to Malaysia and Indonesia. However, China maintains
a trade surplus in textiles with respect to the Philippines, Thailand, Singapore, and South Asia.

It is essential to elaborate on the significance of the information reported in Table 11.3 through Table 11.7 for the relations between stage of development and the ‘textile cluster.’ At an initial stage of industrial development, a labour-abundant country concentrates on the production and export of standardised apparel products, which are the most labour-intensive component of the textile cluster. As a country moves upward

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Note: O: Origin D = Destination
Source: the GTAP database
along the ladder of industrial development, it upgrades its capacity to produce and export other components of the textile cluster which are more capital intensive: yarn, fabrics, and textile machinery. As a country becomes an advanced industrial country, it loses its comparative advantage not only in apparel but also in yarn and fabrics. For instance, Japan, being an advanced industrial country, has lost its comparative advantage in textile and apparel products but not in textile machinery. On the other hand, a country such as Vietnam currently has a comparative advantage in apparel but not in other components of the textile cluster. China by contrast is at an ‘advanced intermediate stage’ of the ‘textile cycle,’ a stage which allows China to have comparative advantages in most components of the textile cluster. It appears that China’s competitive position in standardised textile products is stronger than several ASEAN countries and South Asia. However, China’s position in high-quality textile products (which are used to produce high-value-added apparel), with respect to the NIEs and Japan, is still weaker. Nevertheless, China’s ability to upgrade its comparative advantage in high-quality textile products is improving significantly (US International Trade Commission 2004). For instance, China has become the leading exporter of virtually all categories of not only apparel but also textiles. In 2002, China replaced South Korea as the leading exporter of man-made woven fabrics. In 2000, China became the leading exporter of textile yarn, replacing Italy. As of 2003, China was second in knit-fabrics exports only to South Korea.

Before exploring the impact of China-ASEAN free trade agreement, it is pertinent to examine the level and structure of tariff rates in China,

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<th>Origin</th>
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Source: the GTAP database
and also the levels of tariffs on textiles and apparel in various countries. Table 11.8 shows the tariff rates in China for different sectors. Note that the tariff rates in Tables 11.8 and 11.9 are average 'ex-post' tariff rates which are computed as duties collected on all products belonging to that sector divided by the value of imports corresponding to that sector. Accordingly, these tariff rates may vary across different countries which export to China because of differences in the product composition of imports. It is evident from Table 11.8 that the tariff rates on apparel are in the range of 20 to 25 per cent, and are higher than those on textiles. It can be observed that some ASEAN countries face higher tariff rates.

Table 11.9  The Tariff Matrix for Textiles, 2001

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Table 11.9  continued

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</table>

Note: O: Origin D = Destination
Source: the GTAP database
on textiles and apparel in China compared to some industrially developed regions. For instance, while the average tariff rate on EU apparel in the Chinese market is about 23 per cent, the tariff rate on apparel from the Philippines is about 25 per cent. Furthermore, while the tariff rate on textiles from North America is about 15 per cent, the tariff rates on textiles from ASEAN countries are significantly higher than that. Table 11.8 further reveals that the tariff rates on other manufactures from Thailand and Vietnam face higher tariff rates than those on other manufactures from other regions. The tariff rates on agriculture appear to have the highest degree of dispersion, ranging from 3.5 per cent to over 100 per cent.

Table 11.10  The Tariff Matrix for Apparel, 2001

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Table 11.10  continued

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Note: O: Origin D = Destination
Source: the GTAP database
Table 11.9 and Table 11.10 show the tariff matrices for textiles and apparel, respectively. It can be easily observed that the tariff rates on textiles in China are higher than in ASEAN countries, with the exception of Vietnam. The tariff rates on textiles in Thailand are also high compared to other ASEAN countries. Table 11.9 also reveals that South Asia has the highest tariff rates on textiles among all regions. The tariff rates on apparel are reported in Table 11.10. China’s tariff rates on apparel are higher than that of Singapore, Malaysia, Indonesia, and the Philippines. However, the tariff rates of Thailand, Vietnam, and South Asia are higher than that of China. It appears from Table 11.10 that Asian countries/regions maintain a highly protectionist trade regime in the apparel sectors.

Accordingly, elimination of tariffs on apparel is likely to increase intra-Asian trade in apparel.

The impact of China-ASEAN free trade agreement: A general equilibrium analysis

As stated in Section II, this paper examines the impact of the China-ASEAN free trade agreement on the basis of the Global Trade Analysis Project (GTAP) model (Version 6), an applied general equilibrium model. The policy experiment carried out here implies elimination of all tariffs and quantitative restrictions on all goods and services involving China and ASEAN countries. Table 11.11 shows the effects of this policy experiment on output in different sectors. Several points can be mentioned. First, in China output is likely to increase modestly in the

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<th>Regions</th>
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<td>0.09</td>
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</tr>
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<td>-0.1</td>
<td>-0.06</td>
<td>-0.02</td>
</tr>
<tr>
<td>NIE</td>
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<td>0.06</td>
<td>0.26</td>
</tr>
<tr>
<td>Japan</td>
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<td>0.07</td>
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<td>0.43</td>
</tr>
<tr>
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<td>0.17</td>
<td>-0.02</td>
<td>0.05</td>
</tr>
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<td>-0.86</td>
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<td>16.72</td>
<td>4.82</td>
<td>-2.06</td>
<td>-1.06</td>
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<tr>
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<td>-1.92</td>
<td>-0.49</td>
<td>0.05</td>
<td>-2.73</td>
</tr>
<tr>
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<td>-2.89</td>
<td>0.64</td>
<td>-1.31</td>
</tr>
<tr>
<td>Vietnam</td>
<td>-3.08</td>
<td>0.56</td>
<td>2.91</td>
<td>9.16</td>
<td>-0.57</td>
<td>-0.87</td>
</tr>
<tr>
<td>Singapore</td>
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<td>-2.54</td>
<td>-8.57</td>
<td>-0.67</td>
<td>-3.17</td>
</tr>
<tr>
<td>South Asia</td>
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<td>0</td>
<td>-0.01</td>
<td>0.34</td>
<td>-0.01</td>
<td>0.09</td>
</tr>
<tr>
<td>ROW</td>
<td>-0.07</td>
<td>0.01</td>
<td>0.09</td>
<td>0.23</td>
<td>-0.02</td>
<td>0.06</td>
</tr>
</tbody>
</table>

Source: GTAP simulation
textile and service sectors. It is important to notice that output in China is predicted to decrease in other manufactures and apparel. For Indonesia, output is likely to decrease in apparel, service, and mining sectors and to increase in textiles and other manufactures. In Malaysia, output is likely to increase in other manufactures, textiles, and apparel. Relatively high figures for Malaysia concerning textiles and apparel may reflect the fact that initial output levels are low. In the Philippines, output will decrease in other manufactures, textiles, and apparel sectors. In Thailand, output will increase in other manufactures and agriculture.

Table 11.12 The Impact on Export (%)

<table>
<thead>
<tr>
<th>Regions</th>
<th>Other manufactures</th>
<th>Services</th>
<th>Textiles</th>
<th>Apparel</th>
<th>Agriculture</th>
<th>Mining</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. Amer.</td>
<td>-0.14</td>
<td>0.32</td>
<td>-0.24</td>
<td>0</td>
<td>-0.12</td>
<td>0.19</td>
</tr>
<tr>
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<td>-0.13</td>
<td>0.3</td>
<td>-0.14</td>
<td>0.14</td>
<td>0.03</td>
<td>0.12</td>
</tr>
<tr>
<td>China</td>
<td>2.23</td>
<td>-0.24</td>
<td>3.09</td>
<td>-0.11</td>
<td>2.04</td>
<td>1.5</td>
</tr>
<tr>
<td>NIE</td>
<td>-0.71</td>
<td>0.96</td>
<td>-1.38</td>
<td>0.86</td>
<td>-0.07</td>
<td>1.16</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.13</td>
<td>0.76</td>
<td>-2.43</td>
<td>-0.55</td>
<td>0.23</td>
<td>-0.21</td>
</tr>
<tr>
<td>Lat. Amer.</td>
<td>-0.09</td>
<td>0.26</td>
<td>0.04</td>
<td>0.47</td>
<td>-0.11</td>
<td>0.13</td>
</tr>
<tr>
<td>Indonesia</td>
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<td>-5.07</td>
<td>7.36</td>
<td>-5.42</td>
<td>-0.19</td>
<td>-1.89</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.07</td>
<td>5.7</td>
<td>23.24</td>
<td>6.37</td>
<td>6.18</td>
<td>-2.9</td>
</tr>
<tr>
<td>Philippines</td>
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<td>-4.55</td>
<td>1.39</td>
<td>-0.11</td>
<td>9.05</td>
<td>-0.66</td>
</tr>
<tr>
<td>Thailand</td>
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<td>4.56</td>
<td>-6.46</td>
<td>7.08</td>
<td>-4.53</td>
</tr>
<tr>
<td>Vietnam</td>
<td>11.07</td>
<td>10.26</td>
<td>13.61</td>
<td>10.3</td>
<td>7.31</td>
<td>-0.88</td>
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<tr>
<td>Singapore</td>
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<td>-6.72</td>
<td>-0.82</td>
<td>-9.07</td>
<td>3.86</td>
<td>-2.32</td>
</tr>
<tr>
<td>South Asia</td>
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<td>0.44</td>
<td>-0.18</td>
<td>0.38</td>
<td>-0.58</td>
<td>0.11</td>
</tr>
<tr>
<td>ROW</td>
<td>-0.33</td>
<td>0.35</td>
<td>0.01</td>
<td>0.32</td>
<td>-0.18</td>
<td>0.13</td>
</tr>
</tbody>
</table>

Source: GTAP simulation

Table 11.13 The Impact on Trade Balance (US$ millions)

<table>
<thead>
<tr>
<th>Regions</th>
<th>Other manufactures</th>
<th>Services</th>
<th>Textiles</th>
<th>Apparel</th>
<th>Agriculture</th>
<th>Mining</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. Amer.</td>
<td>-197.73</td>
<td>1,024.58</td>
<td>-15.22</td>
<td>94.24</td>
<td>-16.51</td>
<td>57.33</td>
</tr>
<tr>
<td>EU</td>
<td>-1,581.88</td>
<td>2,323.93</td>
<td>-74.8</td>
<td>79.75</td>
<td>80.11</td>
<td>40.91</td>
</tr>
<tr>
<td>China</td>
<td>-991.35</td>
<td>-165.94</td>
<td>281.84</td>
<td>-61.17</td>
<td>-241.26</td>
<td>35.67</td>
</tr>
<tr>
<td>NIE</td>
<td>-939.31</td>
<td>1247.5</td>
<td>-376.88</td>
<td>118.21</td>
<td>75.68</td>
<td>59.87</td>
</tr>
<tr>
<td>Japan</td>
<td>426.11</td>
<td>732.19</td>
<td>-181.05</td>
<td>81.82</td>
<td>94.54</td>
<td>-12.93</td>
</tr>
<tr>
<td>Lat. Amer.</td>
<td>-151.7</td>
<td>195.11</td>
<td>-0.39</td>
<td>74.93</td>
<td>-29.05</td>
<td>69.07</td>
</tr>
<tr>
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<td>-470.33</td>
<td>223.13</td>
<td>-217.92</td>
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<td>-205.18</td>
</tr>
<tr>
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<td>-1,284.39</td>
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<tr>
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<td>-91.67</td>
</tr>
<tr>
<td>Vietnam</td>
<td>-375.23</td>
<td>-594.13</td>
<td>-41.98</td>
<td>132.83</td>
<td>50.72</td>
<td>-15.66</td>
</tr>
<tr>
<td>Singapore</td>
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<td>-1,920.46</td>
<td>27.02</td>
<td>-221.02</td>
<td>-121.41</td>
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<tr>
<td>South Asia</td>
<td>-37.08</td>
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<td>38.87</td>
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</tr>
<tr>
<td>ROW</td>
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<td>775.6</td>
<td>3.16</td>
<td>80.3</td>
<td>-41.26</td>
<td>449.5</td>
</tr>
</tbody>
</table>

Source: GTAP simulation
but decrease in textiles and apparel. In Vietnam, output will increase in textiles and apparel sectors, but decrease in the other manufactures sector. In Singapore, output will increase only in the other manufactures sector. Table 11.11 also shows the effects on non-member regions/countries such as South Asia, NIEs, and Japan. In South Asia, output will increase in the apparel sector, but decline modestly in the textile sector. In Japan and the NIEs, output will fall in the textile sector but rise in the apparel sector.

The likely impacts of the China-ASEAN free trade agreement on textiles and apparel exports are reported in Table 11.12. The main findings can be summarised as follows. First, in China exports are likely to increase for the textiles and other manufactures sectors but decrease in the apparel sector. This result may appear to be somewhat inconsistent with many studies (Bhattasali & Martin (eds.) 2004; European Commission 2004; Francois & Spinanger 2002; Francois & Reinert 1997; Gilbert & Wahl 2002; OECD 2004; and US International Trade Commission 2004), which show that multilateral trade liberalisation in the textile and apparel sectors will lead to a greater expansion of China’s apparel exports than its textile exports. However, the policy experiment under review in this paper is elimination of tariffs and non-tariff barriers involving China and ASEAN countries, rather than multilateral trade liberalisation. The competitive position of China’s textile sector is stronger than in most of the ASEAN countries. In Indonesia, exports are predicted to significantly fall for the apparel sector but rise in other manufactures and textile sectors. In Malaysia, exports will rise for most sectors including other manufactures, textiles, and apparel sectors. In the Philippines and Thailand, exports are predicted to rise for other manufactures, textiles, and agriculture but fall in the apparel sector. In Vietnam, exports will rise for most of the sectors including other manufactures, textiles, and apparel sectors. In Singapore, by contrast, exports will rise only for the other manufactures sector. The effects on non-member regions/countries are also reported in Table 11.12. In South Asia and the NIEs, exports will fall for the textiles sector but rise for the apparel sector. In Japan exports will decrease for textiles as well as apparel sectors.

The effects of the China-ASEAN free trade agreement on the trade balance in various sectors are shown in Table 11.13. For China, the trade balance will improve in the textiles sector but worsen in apparel and other manufactures sectors. A similar scenario holds for Indonesia. For Malaysia, the trade balance will improve in other manufactures, textiles, and apparel sectors. For the Philippines, the trade balance will worsen in all sectors, with the exception of agriculture. For Thailand, the trade balance will improve in other manufactures and agriculture but worsen in the textile and apparel sectors. For Vietnam, the trade balance will
improve in the apparel sector but worsen in textiles and other manufac-
tures sectors. For Singapore, the trade balance will improve for other
manufactures and textiles but worsen in the apparel sector. For South
Asia and the NIEs, the trade balance will improve in the apparel sector
but worsen in textiles and other manufactures sectors. For Japan the
trade balance will improve in other manufactures and apparel sectors
but worsen in the textiles sector.

It is useful to explore the impact of the China-ASEAN free trade
agreement on the network of trade in textiles and apparel. Table 11.14
provides the results for textiles and Table 11.15 for apparel. It is evident
from Table 11.14 that the agreement will boost exports of textiles from

### Table 11.14

**The Impact on the Network of Textiles Trade (%)**

<table>
<thead>
<tr>
<th>O/D</th>
<th>N. Amer.</th>
<th>EU</th>
<th>China</th>
<th>NIE</th>
<th>Japan</th>
<th>Lat. Amer.</th>
<th>Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0.17</td>
<td>0.1</td>
<td>-3.18</td>
<td>-0.44</td>
<td>-0.29</td>
<td>0.06</td>
<td>-5.45</td>
</tr>
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<td>-3.23</td>
<td>-0.48</td>
<td>-0.34</td>
<td>0</td>
<td>-5.5</td>
</tr>
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<td>-0.78</td>
<td>-0.64</td>
<td>-0.3</td>
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<tr>
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<td>0.71</td>
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</tr>
<tr>
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<td>0.97</td>
<td>-4.53</td>
<td></td>
</tr>
<tr>
<td>Lat. Amer.</td>
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<td>-0.46</td>
<td>-0.31</td>
<td>0.03</td>
<td>-5.48</td>
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<td>-4.76</td>
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<td>-5.13</td>
<td>-4.8</td>
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<td>9.16</td>
<td>9.55</td>
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<td>-2.79</td>
<td>-2.68</td>
<td>-2.34</td>
<td>27.67</td>
</tr>
<tr>
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<td>-6.6</td>
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<td>-7.1</td>
<td>-6.96</td>
<td>-6.63</td>
<td>19.3</td>
</tr>
<tr>
<td>Vietnam</td>
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<td>4.23</td>
<td>122.02</td>
<td>3.69</td>
<td>3.86</td>
<td>4.21</td>
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</tr>
<tr>
<td>Singapore</td>
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<td>-11.11</td>
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<td>-11.49</td>
<td>-11.73</td>
<td>-11.16</td>
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<tr>
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<td>-2.97</td>
<td>-0.23</td>
<td>-0.09</td>
<td>0.26</td>
<td>-5.25</td>
</tr>
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<td>ROW</td>
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<td>-0.21</td>
<td>0.14</td>
<td>-5.37</td>
</tr>
</tbody>
</table>

**Source:** GTAP simulation
China to all ASEAN countries, with the exception of Singapore. For instance, textile exports from China to Vietnam will increase over 170 per cent. Textile exports from China to other regions, including Japan, the NIEs, and South Asia will decline modestly. Table 11.14 also confirms substantial increases in textile exports among ASEAN countries, especially involving Vietnam. The effects on the network of trade in apparel are displayed in Table 11.15, which reinforces the results shown in Table 11.14. For instance, apparel exports from China to Vietnam are predicted to rise by about 211 per cent, while apparel exports from Vietnam to China are likely to rise by 146 per cent. Table 11.15 further reveals that exports of apparel from South Asia and the NIEs to China and ASEAN countries are likely to decline.

Table 11.15 The Impact on the Network of Apparel Trade (%)

<table>
<thead>
<tr>
<th>O/D</th>
<th>N. Amer.</th>
<th>EU</th>
<th>China</th>
<th>NIE</th>
<th>Japan</th>
<th>Lat. Amer.</th>
<th>Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. Amer.</td>
<td>0.52</td>
<td>0.19</td>
<td>-1.47</td>
<td>-0.11</td>
<td>-0.2</td>
<td>0.19</td>
<td>-15.07</td>
</tr>
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<td>-1.46</td>
<td>-0.11</td>
<td>-0.2</td>
<td>0.2</td>
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</tr>
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<td>China</td>
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<td>-0.94</td>
<td>-0.55</td>
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</tr>
<tr>
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<td>0.93</td>
<td>0.85</td>
<td>1.25</td>
<td>-14.03</td>
</tr>
<tr>
<td>Japan</td>
<td>1.55</td>
<td>1.22</td>
<td>-0.43</td>
<td>0.82</td>
<td>1.25</td>
<td>-14.05</td>
<td></td>
</tr>
<tr>
<td>Lat. Amer.</td>
<td>0.54</td>
<td>0.22</td>
<td>1.24</td>
<td>0.43</td>
<td>0.82</td>
<td>1.25</td>
<td>-14.05</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-6.18</td>
<td>-6.51</td>
<td>137.02</td>
<td>-6.83</td>
<td>-6.9</td>
<td>-6.56</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.97</td>
<td>5.64</td>
<td>146.12</td>
<td>5.35</td>
<td>5.2</td>
<td>5.67</td>
<td>26.64</td>
</tr>
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<td>143.37</td>
<td>-1.85</td>
<td>-1.94</td>
<td>-1.56</td>
<td>18.39</td>
</tr>
<tr>
<td>Thailand</td>
<td>-7.19</td>
<td>-7.57</td>
<td>132.75</td>
<td>-7.92</td>
<td>-7.93</td>
<td>-7.61</td>
<td>15.26</td>
</tr>
<tr>
<td>South Asia</td>
<td>0.73</td>
<td>0.4</td>
<td>1.25</td>
<td>0.09</td>
<td>0.01</td>
<td>0.41</td>
<td>-1.87</td>
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<td>ROW</td>
<td>0.62</td>
<td>0.29</td>
<td>-1.36</td>
<td>-0.01</td>
<td>-0.09</td>
<td>0.31</td>
<td>-14.96</td>
</tr>
</tbody>
</table>

Table 11.15 continued

<table>
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<tr>
<th>O/D</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Thailand</th>
<th>Vietnam</th>
<th>Singapore</th>
<th>South Asia</th>
<th>ROW</th>
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<td>-33.15</td>
<td>-0.69</td>
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</tr>
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<td>-33.13</td>
<td>-0.68</td>
<td>0.76</td>
<td>0.47</td>
</tr>
<tr>
<td>China</td>
<td>64.14</td>
<td>77.3</td>
<td>163.79</td>
<td>211.21</td>
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<td>0.01</td>
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<tr>
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<td>-16.41</td>
<td>-30.66</td>
<td>-32.1</td>
<td>0.36</td>
<td>1.77</td>
<td>1.51</td>
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<tr>
<td>Japan</td>
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<td>-30.69</td>
<td>-32.11</td>
<td>0.35</td>
<td>1.76</td>
<td>1.51</td>
</tr>
<tr>
<td>Lat. Amer.</td>
<td>-51.55</td>
<td>-17.43</td>
<td>-31.68</td>
<td>-33.11</td>
<td>-0.66</td>
<td>0.78</td>
<td>0.5</td>
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<tr>
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<td>10.96</td>
<td>185.1</td>
<td>206.79</td>
<td>2.57</td>
<td>5.92</td>
<td>-6.22</td>
</tr>
<tr>
<td>Malaysia</td>
<td>23.3</td>
<td>137.44</td>
<td>217.47</td>
<td>4.96</td>
<td>6.18</td>
<td>5.96</td>
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<tr>
<td>Philippines</td>
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<td>142.46</td>
<td>211.78</td>
<td>-2.38</td>
<td>-1.01</td>
<td>-1.28</td>
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<tr>
<td>Thailand</td>
<td>30.6</td>
<td>9.92</td>
<td>119</td>
<td>-1.79</td>
<td>-6.97</td>
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<td>Vietnam</td>
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<td>16.52</td>
<td>158.37</td>
<td>15.72</td>
<td>10.35</td>
<td>9.95</td>
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<tr>
<td>Singapore</td>
<td>25.75</td>
<td>11.07</td>
<td>147.01</td>
<td>203.21</td>
<td>-9.12</td>
<td>-9.65</td>
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<td>South Asia</td>
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<tr>
<td>ROW</td>
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<td>-33.04</td>
<td>-0.58</td>
<td>0.86</td>
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</table>

Source: GTAP simulation
It is now instructive to concentrate on overall gains and losses from the China-ASEAN free trade agreement. Table 11.16 reports changes in economic welfare, terms of trade, and GDP. As measured by equivalent variation, China and ASEAN countries will gain from this agreement while all other regions will lose. In absolute amounts, Singapore will be the biggest winner while the Philippines stands to gain the least. The figures on the percentage in GDP are in accord with the figures on equivalent variation. Table 11.16 also suggests that while the terms of trade will improve for ASEAN countries, for other countries including China, the terms of trade will worsen.

### Summary and concluding remarks

Given the fact that China is now the third largest trading country, and that China’s GDP is about three times the combined GDP of ASEAN countries, the China—ASEAN free trade bloc will be an asymmetrical trade bloc. China is less industrially advanced than Japan, NIEs, and Singapore but more advanced than such ASEAN countries as the Philippines, Thailand, and Vietnam. China maintains a trade surplus in apparel with respect to ASEAN and other regions of the world, and also a trade surplus in textiles with respect to the Philippines, Vietnam, Thailand, Singapore, and South Asia. However, the value of trade in textiles and apparel, especially apparel involving China and ASEAN countries, is small. One of the reasons for the small amount of trade in textiles and apparel is the protectionist trade regime operative in such countries as China, Thailand, and Vietnam.
The main objective of the paper was to explore the effects of the China-ASEAN free trade agreement based on the GTAP model. The empirical analysis shows that in absolute terms, the countries which would gain most are Singapore, Malaysia, China, and Thailand. However, measured in terms of the percentage change in GDP, the major winners would be Singapore, Vietnam, and Thailand. The empirical results show that in China, output would increase in the textile sector but decrease in the apparel sector. On the other hand, in Vietnam, output and exports would increase for the textile and the apparel sectors alike. The results also show that China’s trade balance would improve in textiles but worsen in apparel. Several other countries/regions would experience a decrease in the trade balance in textiles; for example, the NIEs, Japan, the Philippines, Thailand, and Vietnam. This suggests that under the China-ASEAN free trade agreement, China’s competitive advantage in textiles would improve with respect to high-wage countries such as the NIEs and Japan. Furthermore, China’s competitive advantage in textiles would also improve with respect to the Philippines, Thailand, and Vietnam, the countries which have less sophisticated and integrated textile clusters. With the elimination of high tariffs on apparel, China’s apparel sector is likely to face two types of competitive pressures. First, in low value-added and standardised products, China would face increased competition from low-wage countries such as Vietnam and South Asian countries. Second, China would face greater competition from the NIEs and Japan in high value-added apparel products. Finally, it should be noted that the above results, generated by the China-ASEAN free trade agreement, may be counterbalanced or reinforced by other phenomena such as increased regional integration through trade and foreign investment, involving not only China and ASEAN countries but also the NIEs and Japan and multilateral trade liberalisation.

Notes

1 The original six member countries are Indonesia, Malaysia, Singapore, Brunei, and Thailand. The new member countries are Cambodia, Myanmar, and Vietnam. Vietnam joined the ASEAN in 1995, Laos and Myanmar in 1997, and Cambodia in 1999.

2 Through the Common Effective Preferential Tariff (CEPT) mechanism, tariffs on goods within the original six member countries of the ASEAN were reduced to 0-5 per cent by the year 2002/2003. The new member countries have longer transition periods.

3 Among the NIEs, Chinese apparel exports mainly go to Hong Kong and South Korea. In 2001, China’s apparel exports to Hong Kong, South Korea, and Taiwan were US $3.8 billion, US$1.1 billion, and US$0.11 billion, respectively. Some apparel exports to Hong Kong are re-exported to other countries.

4 For detailed discussions on the relations between stage of development and the textile cluster, see Islam (2001), Chapter VI.
Changes in economic welfare are measured by the concept of equivalent variation. For technical discussions on this concept, see Francois & Reinert (eds.), Chapter 3.

This suggests that the Chinese threat induced by multilateral trade liberalization for developing countries’ exports of apparel has been exaggerated by many studies. For further discussions on this issue, see Yang and Zhong (1998) and Shafaeddin (2004).

For discussions on production sharing and foreign direct investment involving China, see Gaulier, Lemoine & Unal-Kesenci (2005).
Introduction

The emergence of two Asian giants – China and India – as upcoming industrial producers, traders and investors in the world economy is rapidly changing the geopolitical landscape of Asia. That change is full of contradictions. For example, in real GDP, China is the second largest economy in the world. It is also the second largest exporter. The monetary authority of the country accumulated the largest foreign exchange reserves of all. However, in per capita terms, China is in the lower-middle income category. About one-third of its massive population lives on $2 a day or less. Paradoxical as it is in terms of neo-classical capital theory, China’s state institutions shift a considerable portion of the meagre average household incomes of the country as savings, to high-income and capital-rich America. Highly indebted America has been teaching its largest creditor the fundamentals of what its financial sector leaders consider to be the proper rules of financial management. However, America’s recipe for running the world economy is the root cause of the greatest collapse since America exported its Great Depression to the rest of the world. With military forces in over 130 countries, the US claims to be the military master. It patrols Chinese coasts and positions its naval and naval-air forces astride Chinese maritime supply lines. If that were not enough, the dismemberment of the Soviet Union, followed by American-led military interventions in the greater Middle East region, made possible by the Soviet collapse, do not only indicate the repositioning of states in the largest and most populous continent on earth. It also reflects the multi-dimensional, yet interrelated and converging, shocks to the geopolitical order of the Pax Americana. At the societal level, the cross-border spread of radicalised political religion, responding to Western military activities alongside the new energy transport routes in the same region, and the reassertion of an authoritarian energy-exporting Russia, coalesce into a process of rapid change in the Cold-War geopolitical order. China’s industrialisation and the positioning of reasserting post-Soviet Russia as energy intermediary between the rising ‘East’ and the declining ‘West,’ the failed response of European leaders to create a unitary foreign policy actor, possible insol-
vency of US and the loss of its legitimacy, have further complicated the manageability of the changes underway. In this chapter, we study these transformations and the forces shaping its direction of change. The focus is on China’s direction of change, though, and its contribution to the remaking of the post-war geopolitical order. How and by which policy-choices did China manage to get onto its upwardly mobile trajectory? How far has it progressed after its decline between the mid-nineteenth and mid-twentieth century? What is the impact of its rise on contemporary geopolitical change underway?

Since the early 1950s, social forces transforming the post-war geopolitical constellation began to build, slowly and barely noticeable at that time. The weakening American hegemony due to Europe’s re-industrialisation and integration, and Japan’s successful post-war export-oriented re-industrialisation drive did evolve within the grand arena of America’s hegemonic order. European and Japanese recovery was followed by the industrialisation of the so-called Newly Industrialised Countries (NICs), nicknamed the Asian Tigers: South Korea, Taiwan, Hong Kong and Singapore. In the last three decades, the world’s two most populous countries, India and China, have joined the East Asian industrialisation process from behind. The rise in East Asia of new centres of capital accumulation is a force of change external to America’s grand arena of control.

Today, China and previously neutral India are evolving into core areas of the global industrial, financial and military order. This shift does not mean the regional transfer of absolute capabilities, but the narrowing of the distance between these industrial latecomers and the initially industrializing Euro-Atlantic region in relative wealth, and its correlative distribution of resources required for the exercise of power in global relations.

The chapter is organised as follows: in section one, we introduce key terminology used in this chapter. The study of geopolitics and geopolitical orders at a global level does not have an agreed-upon conceptual framework. Section two discusses two historical instances of geopolitical orders. For the sake of convenience, we call them the Pax Britannica, and the Pax Americana. In sections three to five, we deal with China’s role in the global industrial division of labour and its impact on post-Cold War transformation of the Cold War geopolitical order. In section six we review impediments and challenges to the continuing transition to industry in the People’s Republic of China, in particular the scarcity of resources and the impact of their use on the natural environment.
On terminology: Sequential industrialisation, geopolitics and geopolitical orders

We refer to the time period since the late-eighteenth century and the present as the era of sequential industrialisation (SI). In this study the term ‘industrialisation’ refers to a series of interrelated and comprehensive social processes of changes in state, society and international system. Replacement of the pre-industrial agrarian-based imperial order with a partially industrialised one is underway since the final decades of the eighteenth century. Industrialisation changes the social structures of societies, states and of the international system.

At the domestic level, rapid population growth, outward migration and urbanisation meant people were uprooted and left their traditional agrarian ways of life, which led to the dissolution of inherited social and familial relationships. The process of industrialisation created a modern class-divided (civil) society with related organisations. Literacy is the condition for the emergence of a mass circulated printing press. Last but not least, the process of industrialisation in late-industrialised countries was activated by the state or state-led development. As a result of these interrelated processes, states and nations became synonymous, providing the groundwork on which ‘nationalism’ could be built. Thus, the industrialisation process is an expression of a complex set of causally connected social forces that are already rooted in the more general processes of modernisation (see Berg 1979)."
some actors and some transactions as complementary to economic planning in other parts of the economy.

Ideal types, or models of a social system, do not tell how real existing systems were put in place, acquired dominance in society, or were kept into position or got lost. In all three models of economic systems under which a transition to industry may be set up, peasant household subsistence farmers get subjected to some regime of surplus extraction for investments in urban industry. The core problems to be solved by transition regimes are always the same. The first problem to solve is how to transfer people from the land to industrial urban work. Second is how to provide access for farmers to urban industrial inputs, in particular fertiliser and machinery, to be followed by consumer durables. Third is determining how urban dwellers are supplied with food. The difference between these models is in the social mechanism of implementation. In ideal-type planned economies, government bureaucracy is in charge. In ideal-type market-driven transitions, rational economic actors responding to market pressures do the work. In authoritarian industrialisation, one finds a combination of market pressures released by the government into peasant society and government planning. In each real existing system approximating one of these models, the transition did have hugely destabilizing consequences (see Houweling 1996). Why?

Firstly, pre-industrial societies are local and often plural in terms of ethnicity, religion and culture. Practical reasoning by members of plural societies prescribes ‘my group first.’ In fragmented societies, within-group ethics has to give way to market/social forces, and its norms, in relations between groups. In fragmented societies, economic transactions are conducted under group norms of fairness. The exercise of political power tends to be concentrated in the hands of agrarian and religious elites. In relationships with outsiders, or in between-group ethics, norms tend to prescribe discrimination between insiders and outsiders. The removal of the difference between insider and outsider ethics is the core of nation-state building by the state in charge of the transition. Examples of nation-state building and authoritarian modernisation/industrialisation are supplied by the greater part of Asian and Latin American countries ranging from the early and mid-twentieth century. Secondly, at the global level, the great powers which industrialised first under the institutions of capitalism brought the external world into their orbit by trade and investment, backed up by the force of conquest, through plunder of resources, extermination of indigenous peoples and slave labour. Marx saw in colonialism the tool to implant the social mechanism of capitalist accumulation in societies that, in his view, had stagnated for centuries. At any rate, the political economy of a world system did not emerge, as advocates of liberalism or Marxists tend to present it, out of self-interested trade and investment. In socialist sys-
tems, the planned economy did not achieve peaceful domestic hegemony through the force of its attraction. Revolutionary enthusiasm cannot hide the violence used under its aegis. In the Soviet Union, millions of farmers lost their lives. The Party literally conquered peasant society, instigating a huge famine. In China, revolutionary enthusiasm collided with pragmatists who properly believed that industrialisation without household responsibility in agriculture was doomed to failure.

Sequential industrialisation is not repetitive between societies at different points in time as Marx and Rustow thought. Three broad factors create differences among transition efforts:

- Firstly, starting points for the process in each case differ, as domestic societies have long pre-industrial histories of their unique social structures. Societies are not ready-made by nature, or by human desire, to industrialise. The first transition to industrial social relations is barely two centuries old. We consider therefore each pre-industrial society as a field of causal forces affecting transition efforts.

- In the mid-eighteenth century, the British Industrial Revolution, preceded by the fiscal revolution of 1689, created conditions for Britain to emerge as the initial leader in productivity-enhancing innovations, and their application in factories for mass production. Innovation in Britain’s textile and machinery industry was boosted by huge state demand for war uniforms and weaponry for warfare with revolutionary France. Today we have a global economy, making economic competition at the global level the ‘quintessential logic of social systems’ (Senghaas 1988: 3). As the domestic order becomes more sensitive to, and dependent upon, uninterrupted flows of natural resources beyond legal state borders, pressure to expand builds up. Falling behind, and its global and domestic consequences, pushes regimes of whatever nature to undertake a transition strategy. The position of a country in the sequence of industrializing states selects for the methods of catching-up (see Senghaas 1991; Jang-Sup Shin 1996; Chang 2002).

Efforts to catch up are rife with failed attempts to modernise/industrialise state and society: while few succeeded, many more failed. The latter was overrun by those who succeeded. The vanishing of well-functioning stateless societies and Empires overseas at the hands of expanding Europeans demonstrates selection at its most brutish level. The price of falling behind, in the generation of wealth and power, may be illustrated with the fate of agrarian-aristocratic empires. From the late eighteenth century on, these socio-political agrarian structures had become increasingly vulnerable to European merchant, naval, and political penetration. Military power projection of countries in the earlier-industrializing part of Europe doomed their economic fate. Europeans took over shipping
and merchant activities from indigenous traders. The Persian Safavid-Empire gradually lost its balance of trade surplus with Europe, leading to a reversal of bullion flows from east to west in the second half of the nineteenth century. Between the 1750s and 1850s, the Ottoman Empire was peripheralised in the European world economy. Mughal-India was the first Asian political economic power to be marginalised and colonised. Safavid Persia and the Ottoman Empire later faced similar fates, although they were not colonised (Frank 1998: 267-76; Matthee 1999: 212-218; Richards 1993; Savory 1980).

Those who succeeded in escaping from marginalisation and exclusion found a path to an autonomous ‘catch-up’ development process, through industrialisation from above. This involved state-led socio-economic and political modernisation by authoritarian patterns of political mobilisation and domination. In pre-industrial agrarian-based societies, control over land is the basis of political power. Here political power is fragmented between a weak political centre and strong landed elites. The latter group controls extraction of wealth from peasant labour in villages. Authoritarian industrialisation in late-industrializing agrarian societies therefore implies a land revolution brought about by a victorious regime that manages to concentrate social and political power within the embrace of the state elite. Although the ruling elite may have powerful forces on its side, it has to deal with the conflict between traditionalist and modernist forces within society. In late-industrializing societies, modern social forces (particularly the bourgeoisie) are usually not strong enough to act independently from the state. In a number of peripheral countries, this process impeded the self-organisation of domestic modern social forces and a self-regulating civil society (Trimberger 1978 and Skocpol 1979; Senghaas 1988; Amsden, 1989; Amineh 1999; Leftwich 1995: 401-419; Nolan 2004; Houweling 2005; Amineh 2007: Ch. 1).

Eighteenth-century France, mid-nineteenth and early twentieth-century Germany were all successful in their attempts at nation-state building and succeeded in virtually closing the power-wealth gap with Britain. Subsequent successful efforts at catch-up development in Europe, in some respects, are first, those in Southern Europe (e.g. Italy, in particular, Spain, Portugal, and Greece). The Soviet Union succeeded in creating an industrial base up to a certain point. In the former colonial part of the world, Mexico, Brazil, Argentina, and Chile in Latin America experienced sound economic growth between 1950 and the mid 1970s. In East Asia, China, Korea and the other East Asian NICs are the few examples of late-industrializing countries that have improved their industrial development record since 1973. In Africa, the Middle East and West and Southeast Asia, with the exception of South Africa, Iran, Turkey, and India, efforts toward nation-building and mod-
ernisation/industrialisation were less successful (i.e. Egypt, Saudi-Arabia). Fragmented societies such as Syria, Jordan, Pakistan and Iraq failed to create an industrial base for long-term growth in per capita income. Consequently, only a small number of peripheral countries were able to advance the industrialisation process. The conclusion therefore is that efforts to catch up by late-industrializing countries are reactive. The effort itself is under the exogenous pressure and indigenous crises of time constraint pressures. Reactive responses to penetration, and respectively colonisation, are visible throughout Asia in the nineteenth and second half of the twentieth century (see on Persia, Abrahamic 1980; Amineh 1999: 124-137; on Ottoman Empire, Islamoglu-Inan 1987; on Japan, Howe 1996: Ch. 4 and 5).

In nineteenth-century China, foreign policy crises amplified local instability caused by population growth, the loss of silver to pay for opium, the ineffectiveness of the state bureaucracy to keep up dikes along the Yellow River and the silting of the Grand Canal, which affected the transport of rice from the south. During the Taiping Rebellion (1852-1864), the Court called upon British and French troops to protect it against the rebelling peasants, demonstrating its true priorities to all. However, from fighting the Taiping Rebels, a new energetic leadership emerged; one that undertook reform and restoration in order to better cope with the invading powers. The ideological factor of Chinese late industrialisation under a planned economy is reactive. External pressure, the prominence in political language of the ruling political elites to get rid of feudalism (fragmented society), and the social struggle at home reflect the reactive nature of the effort. In the foreign policy role concept of revolutionary China, the mission of the state in international relations was cast in the language of international class struggle. Notions such as acting out a proletarian role on the world stage, and creating a planned economy as shortcut to industry, have been imported from and responsive to challenges originating in industrialised and class-divided Western Europe.

Sequential industrialisation therefore is a summary concept, uniting under one heading arrays of interrelated social forces at domestic, regional and global levels. Accordingly, we consider the invention of industrial capitalism and its global spread from the region and country of origin, to be a mechanism of rapid change, measured in system-time, in the emergence of, and succession between, geopolitical orders.

We start with the philosophy of science assumption, that generalizing statements about causes and consequences of succession of geopolitical orders are regularities at the phenomenal level only. These are not general laws explaining past cases and thus predictive for future cases (Little 1993: 183-207). In our view, following Organski (1968: Ch. 12, 13 and 14), Cox (1987); Agnew and Corbridge (1993), the succession of
geopolitical orders in the era of sequential industrialisation emerges from social forces new to the industrial era.

We refer to world structures generated by the process of sequential industrialisation as geopolitical orders. The political element of these orders shows up, firstly, in alignments between and among ruling elites of the hegemonic power, and those in countries exposed to pressures to catch up. The hegemonic power and political elites, in states and societies that have fallen behind the leader, have a shared interest in opening the market of the more advanced hegemonic state. Providing market access to allies provides the elite of the hegemonic power with new sources of wealth and thus influence, in relation to allies that open their markets in return for protection against contender forces at home and abroad. Being ahead in productivity, in wealth and in military power, facilitates the hegemon to export the fruits of its productive superiority in exchange for importation of products with lower value-added content.

Secondly, the political element of hegemony is manifested in the ability of hegemonic power to transform inter-state anarchy in its area of dominance into a temporary, rule-governed, hierarchical order. Thirdly, the political element of hegemony emerges in its encounters with contender states. Hegemonic states have no interest in the catching-up of contender states external to the order. Contender states challenge the legitimacy of the foreign policy of a hegemonic power and the order it created.

We consider geopolitical orders also as ‘geo-economic’. Classical geopolitics approaches in the realist theory of International Relations (IR) concern spatial concentrations of resources required for war potential to achieve world dominance by conquest. We have attempted to synthesis the traditional understanding of geopolitics, by bringing into the framework of geopolitics the forces released from the global political economy. We call this synthesis critical geopolitics (See Amineh 2003 Ch. 1; Amineh and Houweling 2005: Introduction). In the era of sequential industrialisation, the hierarchy of states changes more rapidly than in the pre-industrial era, due to success and failure in industrialisation and modernisation. Taking the lead in the creation of wealth and power, falling behind and catching up, or the failure to do so, all redistribute economic and warring potential among states and between classes within states in a more or less regular and measurable way. Therefore, countries move into, and out of, core positions, peripheries, spheres of influence, flashpoints, and buffer zones, as strategic relations change. The underlying process is the redistribution of shares in wealth and power available in the world system. We argue that due to success or failure to create or close power-wealth gaps, global space is divided, and re-divided, by national and transnational governmental and non-governmental institutions and organisations, such as states, enterprise sys-
tems, armed forces, terrorist groups, but also peace movements, human
rights activists, and environmental organisations20 (see Agnew & Cor-
bridge 1995: 4-5; Amineh 2003: Ch. 1).

We add the differential prefix ‘geo’ to ‘economics’ due to the power-
projection activities of an emerging hegemon. An emerging hegemon
uses violence beyond borders without being under the threat or use of
force by its target against the home base of the state.

In the era of sequential industrialisation, political elites are travellers
in a rapidly changing landscape without a route planner. They tend to
have short-term memory, lots of ambitions for appropriating wealth and
an open eye for honour. They profit from opportunities along the traject-
ory of rise and decline, where they also run up against the constraints
and limiting factors they had not anticipated. Since the onset of the in-
dustrial era, system-time has moved even faster. The trend-driven (Pier-
son 2003: 177-207)21 force of change driving hegemonic transition in
the partially industrialised world is closing the power-wealth gap be-
tween a hegemonic state and state-society units inside, or external to,
the area of hegemonic control. Catching-up efforts by a late-industrializ-
ing country, one with a substantial proportion of the world population
within its borders, changes the polarity of the system through spatial re-
distribution of productive and coercive resources available in the world.
Therefore, outcomes of direct inter-state competition depend on less
dramatic indirect competition between and among domestic, growth-
promoting, respectively growth-retarding, institutions. Different na-
tional institutional arrangements for organizing work, for creating new
technology, for investing it in capital stock, including human capital, for
raising taxes and for using surplus of production over consumption, dif-
er in productivity. These society-state complexes compete in the global
system indirectly and over the long haul.

The rise and decline of a geopolitical order can therefore be analysed
through trend analysis of time series data (see Doran: 2003: 13-49).
Geopolitics as policymaking and strategy, on the other hand, is event-
driven. The units competing in trend-driven and in event-driven direct
interstate competition differ. Indirect global competition is played out at
inter-and intra societal levels. Direct competition is visible in short-time
evolving action-response sequences in networks of diplomatic and mili-
tary relations between hegemonic powers and their contenders for glo-
bal order creation. Shares in power capabilities are aggregates of ‘brute
facts.’ These facts acquire action-relevance through policy-pertinent
ideas in direct competition. The content of policy-relevant ideas is in
our view not determined by the (re)distribution of shares among major
powers in global resources. However the ‘brute facts’ of gaining or los-
ing capability shares get action-relevance through policy-oriented ideas
in direct inter-state competition. Without a foreign policy-role concept
and strategy, material resources have no meaning. However, it is known from experience that the trend-driven change in capability shares does not harmonise well with the mental worlds of policymakers and their advisors. Success or failure in direct inter-state competition depends ultimately on the reality-content of foreign policy-role concepts, under which a leadership frames its foreign policy objectives and strategy.

Political leadership structures in the era of sequential industrialisation are prone to lose track of the current position of their country and the direction of change underway. The governing elite of a declining hegemon may hasten its relative decline by suffering from the illusion of control, acting out its self-created ideology. Acting in any multi-actor system brings unanticipated, time-delayed, undesired consequences. In periods of hegemonic transition, these indirect effects of policy decisions are more difficult to gauge. Following Jervis (1979), we call this type of risk ‘systemic risks’.

We will notice below that the leadership of both Anglo-Saxon powers suffered, at specific positions in their period of (relative) decline, from the illusion of control over the outcomes of foreign policy actions. Consequently, their contemporary successors are kept busy with challenges which originated in behaviour of their predecessors. Today’s hegemon is reaping the harvest of sorrow itself, and its British predecessor, sowed earlier in Iran, in Iraq, in Afghanistan, Pakistan, in Russia and in China. Unfortunate as it may be, the trend-driven, indirect, competition and event-driven interaction sequences of direct competition and cooperation in interstate relations, are not well synchronised or matched. The disconnection between trend-driven change in relative position and event-driven change originating in decision-making creates cognitive shocks at ‘critical points’. At ‘critical points’, cognitive shocks cause anxiety, resulting in risk-taking behaviour. The nervousness of foreign policymakers in such critical junctions comes from their awareness that the institutional and ideological basis of their daily routines are no longer effective to secure, respectively improve, their position. In these shorter time periods, foreign policy role ideas may turn into causes of foreign policy behaviour. Policymakers from start-up major powers such as Germany and Japan may be led astray by fear and ambition or by ideological blinders to reality. The rulers of the nineteenth-century Chinese empire were caught unaware by the forces building up around their realm which did not respect the cultural traditions of the Empire. The foreign policy-role concepts under which political leaders operate therefore are an additional source of system-change.

Following Legro, among others, we refer to the subset of leadership ideas concerning how society and state should be connected to the global system and the proper way to achieve it, as respectively foreign pol-
icy-role concepts and as strategy. Strategy puts foreign policy-role concepts into action, in interactions in networks of diplomacy and in domestic coalition formation. Foreign policy-role concepts contain answers to three questions: (i) What is the external world all about? (ii) Where do we stand relative to other actors and (iii) How should and could we position state and society into a global system to our best advantage? These questions imply a self-definition: who are ‘we’ in relation to the external world. We consider foreign policy role-concepts as open-ended in relation to the material world of resources. The content of foreign policy-role concepts is not open-ended in the sense of being ‘free’, of having no social causes. Foreign policy role ideas of a leadership and strategy are its conceptual apparatus to do things with the resources available to it within and across borders. Foreign policy role-concepts are rooted in the religious-political culture of society and its remembered history, or worldviews, which are processed and reconstructed for current practice (see Halbwachs 1925). Foreign policy role-concepts therefore also verbalise a forward-looking trajectory. Machiavelli and his most famous student, Thomas Hobbes, the founders of realism, were well aware of the treacherous nature of political language used by political man. Hobbes argued that man’s invention of language creates the capacity for political reasoning, and worse, for leaders to express their ambitions and fears concerning power, wealth and honour, in imaged futures destructive for state and society.

Changing geopolitical order in the era of sequential industrialisation

Following relevant literature, we can identify two hegemonic orders since the mid-1800s, namely Pax Britannica in the nineteenth century, and the Pax Americana.

Outpacing the world in creating growth-promoting institutions in state and society and in technological innovations in the economy and military, Britain paved the way for its rise as the dominant economic and sea power. Its leaders burst into the world by the force of superior arms, extending its commercial networks worldwide. Empowered by the foreign policy role-concept of being the civilizing influence in barbarous worlds, the British elite took on the mission of conquering primitive society. Nineteenth-century Britain fought outside of Europe, against entities too weak to threaten the security of the British Isles. In this process, native hunter-gatherer and agrarian societies were phased out of history for good at the hands of civilised Britain. Material culture artefacts left behind by those societies are now on display in the British Museum in London. British exports in the mid-nineteenth century ac-
counted for about 40 percent of world trade – about the same as the combined share of France, Germany, and the US – with world trade increasing five-fold between 1840 and 1874. This overwhelming industrial dominance was reflected in the structure of Britain’s trade; throughout most of the nineteenth century it imported 90 percent of its raw materials and foodstuffs, while industrial products made up about 85 percent of its exports (Brown 1970: 62; Krippendorff 1975: 107). Industrialisation allowed Britain to become the co-financer of US industrialisation in 1860.

Industrialisation requires increased consumption of fossil fuels. We consider energy intensity, which until now meant fossil fuel use, by an economy to be a valid measure of the level of industrialisation, in particular in the stage of metal-intensive industrialisation. The annual time series on energy consumption created by the Correlates of War Project\(^9\) ranges from 1815 to 2001. Annual country measures of energy consumption demonstrate that up until the late 1800s, Britain was the leading energy consumer in the world economy. The trend line of British energy consumption follows the linear pattern of growth between 1820 till 1913. However, in the US, and to a lesser extent in Germany, energy consumption follows an upward arc in its trend line between the 1880s and the outbreak of World War I. Accordingly, the time rate of change in energy consumption in Germany and the US indexes the faster growth of the industrialisation process.

In its hegemonic period, Great Britain dominated the world’s trading system at the global level, in particular in the Western Hemisphere. It was the largest buyer of overseas food and agro-mineral inputs required for the industrialisation process. Great Britain was the driving force in imposing free trade by force on political entities which did not previously participate in international trade, using superior firepower, and the power projection capability of the navy, as tools to create and patrol routes that provided access. Between 1846 and 1895, the British empire functioned as a free trade area, in which the most advanced producer, Great Britain, created routes to access target societies for sales agents abroad. In 1934, 44% of British exports went to the British Empire, with a higher proportion for cotton textiles; in that year 35% of imports into Britain came from the Empire. However in the late nineteenth century, areas of white settlement in Canada, Australia and New Zealand began to catch up from behind, competing with producers and traders in the British Isles. The political leadership of white dominions could not be prevented from imposing restrictions on the import of British manufactured products. By the early 1900s, all three had erected substantial tariff borders against British products to protect their own local industries (see Fieldhouse 1999: 19: 93-94). The US, Germany and Japan were entities external to the Pax Britannica. Their faster rate
of growth and industrial catching up is reflected in the trade composition of these countries. In 1899, British share in world trade in machinery was 37.6%; in 1913 it had declined to 28%. German trade share in world machinery trade increased from 23.6% in 1899 to 34% in 1913. Britain was losing the competition for share in world trade in advanced capital goods. By the end of the century, British consuls in China were astonished to find that Japanese entrepreneurs had improved Lancaster textiles machinery and put it to work in China, leading to a takeover by Japan of the once fabulous China textile-annex-opium market. The famous downward flexible British wage scale imposed the cost of empire onto British workers. That did not deter the conservative leadership from mobilising the working class into the drive for empire overseas. In areas penetrated by Great Britain, such as Persia, or colonised by Britain, as in Egypt, the British government prevented industrialisation, using force as a last resort to prevent the launching of an autonomous catching-up process (for the case of Iran see Abrahamian 1982; Bakhsh 1978).

Britain led other countries in switching from silver coins to issuing gold-backed banknotes issued by the Bank of England as the legal means of payment. However, it would take until the completion of German unification before other major traders, including France, Germany, the US and Japan, switched to gold. The gold standard, managed in London, facilitated the creation of profits from financial transactions. The US and Germany, on the other hand, industrialised in what is now termed the industries of the Second Industrial Revolution. The City of London, through portfolio investments, played the key role for industrialisation in the United States. London commanded a stock of foreign investment valued at 20 million pounds sterling; France’s stood at slightly more than 2 million and Germany’s at about 1 million. Nearly 50% of the British investments were in the US and settler colonies, weakening the British productive economy but strengthening the creation of world capitalist core economy (Kenwood and Lougheed 1971: 45, Tables 4 and 47; Williams 1968: 89). In a sense, British management of the Gold Standard came quite late in its hegemonic period.

The crisis period for the Pax Britannica set in during the decade of the 1870s. To date the onset year of the crisis of the Pax Britannica at the year 1875 is rather arbitrary, though not unfounded. Underlying it is a process of re-distribution of material capabilities to Britain’s disadvantage. Change in Britain’s military geopolitics happened under the pressure of emergence of Germany and the US as contender states. The proclamation of the German Empire in 1871 created a new contender state entity in the heart of Europe. This was accompanied by its successful industrialisation. Germany’s rise was predicated on the annexation of the iron ore and coal-producing area of Lorraine. Liberal Britain de-
explored Bismarck’s methods but welcomed its effect: a strong Germany at Russia’s western border would give pause to Russia, frustrating its expansion and/or influence in the realm of the Ottomans, in Persian Qajar, and in Central Eurasia, Afghanistan and Tibet. Britain’s foreign policy role-concept changed; the British elite found solace in empire building and in living from rents on accumulated wealth. In 1868, the provision in the Preamble to the Mutiny Act, under which British land forces also had as their mission ‘the preservation of the balance of power in Europe,’ was deleted.34 In that year the gap in relative capability between Great Britain on the one hand and the United States of America and Prussia [Germany] on the other was still considerable, though declining.35

The crisis of British hegemony is reflected in what probably is the first theory of geopolitics for the industrial era (see Mackinder 1998: 27-35).36 The rise of newly-minted contender states (from the industrialisation of Germany, the US and also Japan) entered the diplomatic agenda around the same time. In 1902, the United Kingdom, in search of relief in Europe against industrializing, fleet-building and oil-hungry Germany, agreed with Japan to cooperate in maintaining the status quo in Imperial China. In the then ‘Far East,’ Japan was thus confronted with a formerly united front of European powers that two years earlier had fought the Boxer Revolt in China, now disintegrated. In 1905, Japan defeated Russia, France’s ally, in the battle of Mukden. Within three weeks of the defeat of Russia, the UK re-committed its land forces on the European continent, preparing to deploy them on the fields of Flanders. Their objective was to prevent the defeat of France and Russia by the newly industrialised Germany (see Howard 1972).

Declining Britain and the rising US remained at peace. Both countries were involved in programs of power projection whose trajectories did not intersect. The leadership of the American state and the immigrants who settled there were busy with internal affairs: the destruction of Indian communities, conquering along the way the greater part of Mexico’s land base. The UK stayed away from such activities after it lost the war of America’s independence. Forging ahead in industrialisation, Great Britain founded a new empire in the still largely non-colonised parts of the world outside the Western Hemisphere. At the time of the American Civil War, the UK was engaged in both South Asia and in China. The geographic axis of the policies of power projection by Britain and the US thus did not intersect. In 1934, the First Lord of the Admiralty spoke for a colonially satisfied elite governing an economy which had lost its pre-eminence in the world.37 The UK had been overtaken as an industrial and institutional innovator by both the US and Germany.38
The gradual crisis of British hegemony culminated in the Great War. Carr’s classic work on realist appeasement policy, *The Twenty Year’s Crisis 1919-1939* (Carr 1939), separated the Great War from World War II in Europe, respectively from the Pacific War in Asia. Both wars are causally connected by factors including the treatment by the allies of the loser Germany, the unravelling of the world’s financial system on the gold standard, caused by the war debts of the allies and of Germany, the disintegration of the world’s financial and trading systems and its domestic political consequences, and the competitive colonisation by the Britain and France of the Arab portion of the Ottoman Empire.

*Pax Americana and forces ripping it apart*

The industrial foundation underlying the post-war Pax Americana evolved in the time period between the American Civil War and 1945. The US’ natural resources and its continent-sized domestic market were all within borders and well protected behind high to extremely high tariff walls. The birth of America as a world industrial power at the end of the nineteenth century is founded on technological and managerial innovations which required a domestic market of continental size. Corporations financed universities and drew from them expertise in technology, management and marketing (see Zunc 1990; Burnham 1972; Chandler 1994). During World War II, the US government financed technological breakthroughs in the military sector. After the war, American companies incorporated some of these technologies in their product chain and traded their products wherever its exporters managed to get access.

The creation of institutions in the US for America’s post-war hegemonic role is the work of Post-War planners. Fearing that the domestic order in the US would not survive a repetition of the collapse of the world market (Block 1980: 35-58), post-war planners in America realised the country needed to be strong enough to change the international environment to fit domestic institutions in economy and politics. The new hegemon resorted to international institution building in the domains of security and economy. The US founded a new world order around its own domestic institutions, with the objective of safeguarding these against a repetition of the Great Depression and externally against contender states. Learning from the collapse of the capitalist system during the twenty-year armistice between the two world wars, the new system would prevent competitive currency devaluation, though without removing the capacity of the state to conduct an effective monetary policy at home. The gold-dollar standard instituted fixed exchange rates. The price of a fixed exchange rate monetary standard, while maintaining a state’s monetary policy autonomy, was the abolition of free capital
movements. Free trade was designed to facilitate access abroad for American exports – irrespective of the level of development of a country – and to open the door for US companies to foreign markets and available stocks of natural resources worldwide. The world economy should be policed – another lesson from the inter-war period. To prevent contender states switching from trade to a policy of conquest, President Roosevelt invented the notion of the ‘Four Policemen,’ the US being the biggest one. The coalition of major powers that defeated the axis powers was brought together in the Security Council of the United Nations. Chapter VII of its Charter empowers it to wage war legally, conceived as (law-based) punishment, against aggressors – a lesson in international organisation from the collapse of the Pax Britannica in the inter-war years.

The geopolitical lessons drawn by American strategists from both world wars are as relevant to the Cold-War as to the post-Cold War eras. Firstly, keep Germany and the Soviet Union separated. The fear that a united and industrialised Germany would merge with the Soviet Union, through either a war of conquest or through peaceful cooperation, has a long pedigree in the US. Secondly, prevent Japan from allying with China. Fear in the US of a rising Japan pre-dates the Pacific War (Horn 1999: 453; Dower 1986). Thirdly, shift America’s military border across the world’s oceans, around the Eurasian landmass. This gave the US control over routes for transporting food and energy supplies to defeated Japan and contender China, and to wage war far away from the US’ legal borders.

However, the crystallisation of two late-industrializing contender states – the Soviet Union and China – prevented the global scope of the Pax Americana. The governments of both contender states believed they had found a short-cut, a will power-based method, to industrialise fast, skipping the stage of capitalist development. Self-reliant and democratic, India still remained outside the grand area of US hegemony.

The geopolitical order during the Cold War thus was not bipolar. Global level military unipolarity indeed prevailed till the Soviet Union acquired a secure, residual, capacity to retaliate against the US homeland. Though the US aimed at regime change within the Soviet Union after Kennan’s policy containment was replaced by military activism of Nitze (Wells 1979: 116; Bloc 1980: 35-58), the US considered the Soviet zone of dominance as a military no-go area. The Cold War battlefield shifted to East Asia, to peasant societies perceived to be linked to the contender states of Russia and China. Being relieved from direct pressure on its borders, America had specialised since the early twentieth century in long-distance force projection by naval and air power. Through power projection, huge areas of the globe, including East and Southeast Asia, got incorporated into the definition of the ‘na-
tional interest’. For example, peasant society in the buffer state of Laos received during the civil war in Southeast Asia about a tonne of high explosives per capita, delivered from the air, free of charge, without being able to pose a threat to the US homeland. It took until the 1970s for the US to respond to the Soviet-Chinese conflict.

Above we defined a ‘crisis of hegemony’ as a period of time in which social forces begin to build up, weakening a geopolitical order and making policymakers aware of the change underway in relative positions. The period of the American hegemonic decline begins to show up in public awareness in the 1970s. Firstly, the end of the gold-dollar standard signalled the end of the illusion that a permanent US trade surplus would finance US Foreign Direct Investment and its military exploits overseas. The 1970s saw the return of currency instability and financial crises. Secondly, the closing of the productivity gap by its allies in Europe and Japan undercut the profitability of US manufacturing enterprises, ending in escalating deficits in the balance of trade. The Treaty of Rome (1957), centralised the bargaining power in trade policy of the six member states of the European Economic Community (EEC) in multilateral trade negotiations. During the Kennedy round, the US negotiators found to their surprise that they could no longer play the bilateral divide-and-rule game.

Between 1972 and 1976, a stream of high-level visitors from Europe, (Schmidt, German Chancellor (1974-1982); Scheel, President of the German Federal Republic (1974-1979); Pompidou, President of the French Republic (1969-1974); Heath, Prime Minister of Great Britain (1970-1974); Thatcher, Prime Minister of Great Britain (1979-1990); Strauss, Minister of Defence of the German Federal Republic (1956-1962) and Van der Stoel, Dutch Minister of Foreign Affairs (1973-1979) flew to Communist China. In 1978, the President of the European Commission met Deng Xiaoping, and a trade agreement soon followed. Churchill’s ‘iron curtain’ became rustly in the 1970s. Brandt’s Ost-Politik, much deplored by the Nixon-Kissinger team, began to pierce the bipolar image of world politics. In the mid-1980s, Japanese electronic goods producers replaced the previously IBM-dominated Japanese computer market. In the same decade, Japanese automotive producers began to penetrate the American car market. In December 1989, the future Deputy Secretary of the Treasury under Clinton declared that Americans who believed that Japan had become a greater threat to the US were right. America’s loss of productive superiority was reflected in increased levels of import penetration and the shift of investments by non-financial companies from productive to financial activity (Krippner 2005: 173-208). Accordingly, economic forces from within America and internal to the Pax America itself began to weaken its foundations. We discussed above that Britain responded to its loss of productive super-
iority by expanding the empire and by shifting investments to overseas. How is the US responding to the loss of financial and productive superiority? Firstly, since the Reagan presidency, America has been putting more and more of its eggs in the military basket. The new thing is the creation of a network of land bases in southern Europe and in the Greater Middle East (see Johnson 2004: Ch. 6; Bacevich 2005: Ch. 7; Amineh and Houweling 2005). Secondly, in the 1980s, America entered into a 25-year period of building a financial sector. The decline of America’s goods sector is reflected in its decreasing contribution to total corporate profits of non-financial corporations. Krippner (2005: 174) defines ‘financialisation’ of an economy as the share in corporate profits which non-financial companies make from the transfer of liquid capital in the expectation of future interest, dividends or capital gains. Due to space limitations, and the topic under discussion, we have no opportunity to discuss the relationships between the dollar’s position as a reserve currency, the bias in fiscal policy of US governments since Reagan in favour of the top 10% of income earners, respectively the 1% richest wealth-owners, the ability of the US consumer to expand spending even in times of recession due to the low-interest rate policy of the Fed, the swindle of mortgage brokers and the financial industry, the housing bubble and indebted consumer spending. All we will mention here is that in the twenty-five years since the 1980s, the share in total corporate profits from productive work declined for both domestic and internationally active non-financial enterprises, that state debt and household debt escalated, and the balance of trade landed permanently in the red. The net investment-income balance is heading in the direction of a deficit due to the build-up of US liabilities. The leadership in America’s financial industry welcomed the Asian financial crisis as a golden opportunity to gain access to till-then closed financial markets in East Asia, believing that America’s financial industry ‘combined so effectively the integrity of high-quality regulation with the absence of excessive state interference’ with innovation, in particular in the derivative market. In these years, specialists in international relations who participate in the policymaking community in America produce a massive output on the unipolar moment and recommend a policy of ‘primacy,’ giving it a more or less indefinite extension into the future by military power projection.

The Mao era and the first attempt toward industrialisation

China’s changing fortunes, due to the industrial empowerment of countries in North-western Europe in the nineteenth century, can be traced in the ups and downs of its reputation in pre-industrial European scho-
larly social science literature. Adam Smith and Kant (1957: 21-22), among a host of other thinkers in Western Europe, recognised China’s advance over Europe. Contemporary economic historians support their speculations (see Frank 1998). In the mid-nineteenth century De Tocqueville, corresponding with the French ambassador in the service of Persia, raised the question of whether or not the empires had moved down, or that Europeans had moved up, or both. He believed a ‘double movement’ was underway and speculated about a future in which European peoples would get temporary control over most of the planet. Hegel, however, had settled Tocqueville’s question before it was raised. Hegel is one of the first nineteenth-century political theorists who turned around the ordering of both regions.

In this paragraph, we study the Chinese policy of industrialisation between 1949 and 1978. To understand it, one has to contextualise China in the Cold War environment.

One of the founding fathers of liberal America, Alexander Hamilton (1791), properly commented that ‘not only the wealth, but the independence and security of a Country, appear to be materially connected with the prosperity of manufactures’. He therefore recommended state support in the launching of America’s industry. We quote Hamilton to better understand the path to industrial development of late-industrializing China. In Western Europe and America, the evolution from agricultural to industrial social relations, conceptualised as ‘progress,’ is assumed to be driven by choices people freely make in order to improve their fate. Accordingly, social institutions generating long-term growth by improving total factor productivity are believed to originate in choices made without external compulsion. In the previous section, we argued that reality operates on a different scheme.

The experience of having ‘free trade’ externally imposed through a racially-coloured policy of military power projection by liberal democratic states has put late industrialisation efforts in East Asia into a different, non-liberal context. Latecomers are in a hurry to play catch-up and regain domestic and international sovereignty, including tax and customs autonomy. We therefore understand Moore’s typology of transitions to industrial-based state and society in terms of the different opportunity sets and constraints facing leaders and economic actors in initial and later-industrializing countries. In late industrialisation, the state has a more important role to play than in first-industrializing countries (see Chang 2003; Nolan 2001). In Moore’s work, mainly Britain and the US followed the liberal path, at least as far as white males were concerned. In these countries, the industrializing bourgeoisie originated in commercialised peasant society. This group achieved domestic hegemony through worldwide commercial expansion preceding industrialisation. These countries industrialised more ‘from below’,
though supported by the protecting hand of the state. Second-tier latecomers such as Germany, Italy, Spain and Japan, industrialised more ‘from above’ under the regime of a landowning nobility and an authoritarian, respectively a fascist dictatorship, which defeated the fragmented liberal-revolutionaries. In China, a revolutionary counterelite from peasant society presided over the transition to industrialised state society.

During the Pacific War, the outcome of the wars within China mattered most for the upcoming hegemon of United States. China figured prominently in America’s grand strategy and in war-fighting tactics in Asia (Tuchman 1980 [1970]). However, the US failed to prevent the re-unification of mainland China by the Communist Party, despite its superior military airlift and resupply capacity to that of the K.M.T. (gwō ‘mǐn dāng’, kwō ‘mǐntāng’) forces. Accordingly, the Chinese market and state was lost to American business; China would become an outsider, and contender state, to the Pax Americana. Instead of using China for balancing Japan, America incorporated Japan into its own economic and security space and helped to reconstruct its economy. In one of his first speeches, Mao reflected angrily on America’s role, using the departure of the American ambassador-missionary from the People’s Republic as the occasion for an outburst.66 Theorists of geopolitics participated in America’s policy debate on post-war Asia even before the Japanese attack on the US navy in Pearl Harbor.67 During the war, the US had elevated a weak Republic of China into one of the big Four and recognised its territorial sovereignty. The US had wagered on the ability of the National People’s Party/ K.M.T. to win the war against Japan and the Communist Party. In the geopolitical order of the Pax Americana, a weakly governed China should offset a revived Japan and open the fabulous Chinese market for sales and missionaries from America. After the war, the US instead incorporated defeated Japan in its geopolitical orbit, preventing accommodation between Japan and China.68

The new Chinese state, instead of a ruling over a fabulous market, faced a vast and impoverished peasant society based on peasant-lord agriculture, free farming and an army of landless, radicalised agricultural workers.69 Unlike Soviet Russia under Stalin, the new state emerged from peasant society, its temporary home between 1927 and 1949. The Stalinist regime in the Soviet Union saw peasant society as its domestic enemy and conquered it, eliminating a considerable number of its members. Revolutionary China continued until the mid-1950s with the practice of household farming. However, the rationale of the new state was to industrialise the peasant workforce with the objective to regain power and to throw out invaders. The objective to industrialise, and to do it fast, was and still is the raison d’être of the new state. The ultimate criterion of judging a political party’s role in Chinese history is to see
how it may influence the development of productive forces in China; that is, whether it will promote or fetter China’s industrialisation.\textsuperscript{70}

Rapid industrialisation turned into the core mission and primary tool to defend the independence of the country during the Cold War. Without large-scale industry, independence of the country would be soon lost again.\textsuperscript{71} How to industrialise? The new centralised state faced the series of interrelated policy puzzles it first encountered in parts of peasant society under communist control. Firstly, how to improve agricultural productivity without inputs from industry; secondly, how to feed the urban population, whose labour power and consumer spending is required for industrial production; thirdly, how to find savings for investment in industry in a desperately poor and revolutionary peasant society. As the mixed economy era came to an end in 1957-58, state-led mobilisation of economy and society took over.\textsuperscript{72} That required the regime to project its administrative power deep into peasant society, mobilizing it, taking control over its labour and using its appropriated surplus for investment in urban-based industry.

To understand the policy choice in favour of self-reliance, one has to recall that Communist China was under international economic and military blockade.\textsuperscript{73} The new regime inherited a series of weakly connected local, provincial and regional economies with wide price differentials. The regime prioritised industrialisation in the iron, steel and rail sectors. Rail transport, in particular to the far west, is the pre-condition for asserting political control within borders, military defence against renewed invasion and the creation of a nationwide economic system. The construction of the red enemy in the US thus matters for the choice of Chinese industrialisation policy. Imperial China had suffered aggression by industrialised states. These states had taken the lead over China in the creation of wealth and power by industrializing earlier. Their governments had caused enormous damage to the Empire and its people.\textsuperscript{74} The Western powers had supported the Qing Empire as long as it was useful to preserve treaty rights won since 1842. The scale of operation of a capitalist system is global; the state is local. In the history of global capitalism, hegemonic states served, and still serve, as the agent of global expansion of the system by creating and protecting routes that provide access for entrepreneurs. Imperial China had been on the receiving end of this process. The revolutionary political elites did construct the connection between both systems by importing ideas from the class-divided West, borrowing from the socialist counterelite and the worldview it invented. Imperial China turned into the People’s Republic of China by cutting through the link between domestic society and the system level (i.e. capitalist order) whose agents, the states, had invaded the Empire. However, the revolutionary regime had first to survive at home and in a global system hostile to it. Regime sur-
vival is the necessary condition for implementing the mission to transform the global system. For this reason, like any other global level mission a political leadership may dare to invent, it was imbued with a national power content, and thus had to be compromised. This is no less true for the planned economy as for any other economic system; it is part of the ruling political elite’s coalition that puts the system into place and defends it against domestic and foreign contenders. Inevitably, trade-offs have to be made between policy objectives of survival and the global mission. Consequently, domestic power struggles over the content of the mission at home are at the same time struggles over the organisation of the domestic economy, the content of foreign policy and the definition of the global system. This is a fact for Communist China as for any other state.

This chapter is not the place to survey literature studying the complex set of problems and policy solutions to achieve the mission to rapidly industrialise peasant society through the setting up of a self-reliant, state-society economy system at home and to defend it against domestic contenders and threats coming from abroad (see Qing 2007). All we have to say here is that at the level of conceptualisation, the new leadership with related political elites worked till 1955 on the mixed-economy concept. It was inspired by Sun Yat-sen. Its content called for an economy in which family farming, small private service producers and artisans, would co-exist with state-owned enterprises in heavy industry and its upstream suppliers during a long transition period to socialist perfection. This system was practiced by Mao Zedong in areas under communist control before 1949. Till the mid-1950s, it served as the blueprint for industrialisation (Qing 1999: 3). However, in 1956, competition for capital and raw materials, conflicts between labour and capitalists in the private sector and discontent among landless peasant workers, caused a gradual shift towards a ‘socialist transformation’ from individual to cooperative farming in rural areas, and from private enterprise to private-public mixtures in urban areas. The further shift in 1957 towards a radical blueprint for fast industrialisation and a rapid socialist transition through class struggle did stop the discussion in the leadership by expelling the pragmatists. The disastrous Great Leap Forward experiment in mass mobilisation was the first shock that shifted the leadership, at the Ninth Plenary Session of the Eighth Central Committee meeting in January 1961, from fast and faster to a more realistic time horizon in realizing China’s industrialisation. Hegemonic states, by expanding the system of industrial capitalism to outsiders, also create pressures in these polities to catch up, assuming society survives the invasion. Hegemons thus help to engineer a process of system transformation that limits their own expansion.
**Figure 12.1** Chinese and Indian Growth Performance Relative to the World

OECD Development centre, Available at http://www.oecd.org/dataoecd/61/32/37337538.ppt

Annual growth (%) calculated as the average annual growth rate for the last six decades; Deviation (%) in the beginning of each decade.

**Source:** Based on Groningen Growth and Development Centre and The Conference Board, Total Economy Database, 2005

**Figure 12.2** Real GDP China-US, 1950-2006

**Source:** Based on Groningen Growth and Development Centre and The Conference Board, Total Economy Database, 2005, available at www.ggdc.net/dseries/totecons.shtml#1
The transformative impact of Chinese industrialisation

In this section, we first discuss the impacts of Chinese industrialisation and participation in the global economy on the transformation of the global system. This part is followed by a discussion of the emergence of two regional systems, one among the Shanghai Cooperation Organisation, and the other one in Southeast Asia.

The proclamation of the People’s Republic of China and its transition from agricultural social relations to industrial social relations under Communist leadership, created the foundation for upward mobility of a contender state in post-war East Asia. However, China’s contender role external to the Pax Americana changed remarkably over time. Between 1949 and the rupture in relations with the Soviet Union in the mid-1950s, the leadership took on the role of dominant socialist combatant of the colonial capitalist order in East Asia. It was left to the Soviet Union to take up the contender role in Europe. After the Sino-Soviet conflict turned into a public shouting match in 1960, the leadership switched to a radical ‘China stands alone’ foreign policy role-concept. The outcome of the worldwide struggle against the now revisionist Soviet Union and capitalist America ended in isolation and domestic chaos in the 1960s. The establishment of diplomatic relations with the US and the stream of visitors from integrating Western Europe in the 1970s, were steps on the road from an outside contender to a participant in the inter-state system. That change implied the victory of state interest over shared interest with the Soviet Union in the establishment

![Figure 12.3](http://pwt.econ.upenn.edu/)

**Figure 12.3** Chinese Per Capita Income as a Percentage of American Per Capita Income

of an alternative, ‘International Socialist Order’. The restoration of Deng Xiaoping and the domestic reform policy he initiated brought China into the heart of the international capitalist division of labour. Instead of overthrowing the system by the export of revolution, China’s participation in the industrial division of labour is transforming the global system through the producer-exporter and banker’s roles of the P.R.C.

Above we referred to the damage suffered by late industrializing societies. In this section we point to the other side of that coin: the opportunities the system provides to upstart China, leading to integration of the country in the global system, as well as limits it imposes in the post-Cold War context.

Latecomers managing in one way or another to incorporate available technology into the productive process faster than industrialised economies are able to push their production-possibility boundary outward, and will have superior growth rates. Latecomers, however, greatly differ in the social and political capacity to catch up. How late-industrializing countries may get access to more advanced technology available beyond borders differs. At this point, prior history meets present reality. Unlike Japan and the East Asian Newly Industrializing Countries, China opened its borders for foreign entrepreneurship in a rather early stage of the industrialisation process. The Communist era in economic development prepared China to insert foreign technology into the productive process. As noted above, the Chinese Communist Revolution of 1949 instituted an industrial and societal revolution in terms of education and health care in the era of self-reliance (see Skocpol 1979). Despite the misadventures of the Great Leap period and Cultural Revolution, Chinese industrialisation did not begin with the reform era. In this re-
spect, China follows the regularity that the state has a fundamental role to play in starting up and protecting nascent industries against more advanced foreign producers (Hamilton 1791 and List 1885; Senghaas 1988; Chang 2002; Chang 2003). In Russia, the changeover from plan to market is part of regime change, leading to dismemberment of the state and the impoverishment of society. State collapse allowed so-called ‘oligarchs’ toappropriate the natural resources from the state. Under Yeltsin, the shock therapy engineered by Chicago-boys, pushed the mass of Russia’s population into deep poverty. Similar to East Asia’s ‘Tigers’, the transition from plan to market in China is undertaken by the regime itself. In China, the transition from plan to market has lifted millions of Chinese out of poverty. Experiments with the ‘the big international circle’ started in the 1980s in Special Economic Zones in coastal areas. Since 1991, foreign capital has brought international market forces to bear in domestic enterprise reform throughout China. The outcome of reforms and opening markets since 1978 is a rate of economic expansion above the world level.

Figure 12.1 compares the Chinese rate of growth with both the world average and with India.

Whatever the uncertainty may be about the size of Chinese real economy, there is no disagreement that the rate of economic growth in China is well above the world level. Accordingly, the share of world GDP produced in China expands. A country that has for decades a rate of economic expansion above the world rate of GDP is reducing the power-wealth gap between itself and the hegemon. This development is demonstrated in Figure 12.2. Closing in on the productivity gap is not properly reflected in comparing economic size. Simplifying a bit, China consists of an impoverished third world of hundreds of millions of small-plot subsistence farmers, of a second world of an industrial work force and business class, and a small but growing part of its population joins the first world, high-income group in the world economy. It will take at least half a century to fully close the per capita wealth gap with the high-income societies of the western world. Figure 12.3 gives Chinese GDP per capita as a percentage share of the American GDP between 1952 and 2006.

China’s upward mobility in the global system may also be indexed by its increasing share in a broader set of capability variables. We have used the Material Capabilities dataset of the Correlates of War project. It measures for each year, between 1815 and 2001, a country’s share in economic, demographic and military variables. These variables are aggregated into the Composite Index of Material Capabilities [CINC]. Though China’s share is rising, US decline went faster due to the impact of re-industrialisation in integrating Europe, in Japan and the NICS.
In order to better appreciate America’s current position on this index, we give in Figure 12.4 the rise and decline since 1815 of America’s share in world resources, as measured and aggregated in the above mentioned Composite Index.83

*Complementarity and competitiveness in the US-China relationship transform the global system*

In the 1970s, the leadership in the US and China both changed course, each ‘making use of the opposing strengths’ of the other, with the objective ‘to eliminate’ a ‘problematic nature’ of their ‘institutions, laws, [and] behaviours.’84 We argued above that US hegemony was confronted with two contender states on the Eurasian landmass. From the moment these contender states got access to the international artillery of the nuclear age, viz. secure inter-continental bombers and missiles, America’s geopolitical maritime position could no longer protect its home base. The US lost its disarming first-strike capacity against the Soviet Union first. After its retreat from Cuba in 1962, the Soviet Union built an intercontinental missile force targeted on the US homeland. As a response to the loss of unconditional viability of the home base, the Nixon-Kissinger team used China’s locational advantage as the largest border state of the Soviet Union to ally against the Russian foe. This is a case of strategic complementarity in triadic major power diplomacy. The relative decline of the US as a military power is reflected in its need of support from one contender state against the other. The Sino-Soviet rift revealed for a world public the supremacy of state interest over socialist harmony. Due to the Sino-soviet rift, the US could make a strategic choice between two contenders. For China, this move meant a step from being an outsider to becoming an insider. America’s pivotal position in the triad is determined by its status as a territorial outsider to Eurasia and to Eurasian history. The freedom to choose a partner from a pair in conflict was demonstrated by America’s foreign policy response to the collapse of the Soviet Union. Strategic complementarity between the US and the P.R.C. did not last.

Above we noted that self-reliant development had ended in the chaos of the Cultural Revolution. The death of Lin Biao stunned the Chinese people. The inner conviction in the righteousness of the anti-capitalist mission had evaporated.85

China began in the mid-1990s to turn to economic complementarity, complementarity between both in productive technologies and industrial structures. At that time, the Pax Americana was well into its period of crisis, despite its advance over all other economies in information and communications technologies. In section three, we noted the catching-up of America’s allies in Western Europe and Japan.
That development from within the area of hegemonic control created a world economy with two closely intertwined, competing, centres of capital accumulation. The rise of China is now creating a tri-polar world economy of integrating regions. Enterprises chartered in each of these poles are competing worldwide. Post-World War II planners in the US had anticipated a permanent trade surplus large enough to finance foreign direct investment. That proved to be a miscalculation. For the first time, in 1971, America’s goods balance plunged into the red. Since 1971, the US goods balance has not had a single year of surplus. The increase of the shortfall in the goods balance to $819.362 million in 2007, against a positive service balance of $119.115 million, is the flip side of industrial rebuilding in Europe and Japan, which are now joined by China’s export-oriented industrialisation. The combined force of Chinese competitiveness, and the complementarity between its industrialisation process and economic and technological change in the high-income economies, translates into the relative decline of the West and rise of the rest outside of Africa and the Middle East.

Below, we explore the connection between both somewhat further.

Economists define competitiveness of an enterprise system as its ability to design, manufacture, sell and service worldwide, human capital-intensive consumer goods and high-tech capital equipment under such a level of profitability as makes continued innovation possible. The question therefore arises as to where, in the value-added creating process of Chinese exports, Chinese-owned capital is located. Gilboy (2004) finds that between 1993 and 2003, the production of Chinese exports of advanced machinery and durable consumer goods shifted from state-owned enterprises to largely wholly foreign-owned enterprises. For example, in 1993, Chinese industrial machinery exports originated for 64% in state-owned enterprises, for 17% in wholly foreign-owned enterprises and for 15% in joint ventures; in 2003, 62% of these exports were produced in wholly foreign-owned enterprises. In the production of exported computers, components and peripherals, and in the sector of electronics and telecommunication equipment, wholly foreign-owned enterprises made comparable gains. Gilboy concludes that China, in other words, has joined the global economy on terms that reinforce its dependence on foreign technology and investment and restrict its ability to become an industrial and technological threat to advanced industrialised countries. In fact, the United States and China are developing precisely the type of economic relationship that US strategy has long sought to create. [...]
Foreign funded enterprises accounted for 55% of China’s exports last year [...].

Thysen, Chairperson of the Council of Economic Advisors under President Clinton, therefore recommended free trade in goods imported from third-world countries and ‘managed trade,’ which stands for state-subsidies, for technological innovation of pioneer enterprises, as well to promote access for America’s high-tech goods exports.

In her view, the basis of comparative advantage has changed from nature-determined relative factor proportions to man-made technology. To exploit that technology, it should be protected and exploited in strategic interactions between enterprises at home and abroad. If that were the end of the story, complementary would exist without the competitiveness of Chinese-owned enterprises. Gilboy may have overlooked Chinese capital accumulation in Township and Village Enterprises and their supply function to wholly-foreign-owned TNCs. Chinese capital is at work in domestic retailing of imports. Li Cui finds that the shift in Chinese exports from primary goods and semi-finished goods to capital goods goes together with the increased processing with imported materials, and the use of domestically produced intermediate goods. He finds rising domestic value added for each dollar of exports ‘from the tens in the mid-1990s to 40% in 2006.’ In the 1990s, as the inflow of foreign capital intensified, the share of low-profit items in exports decreased, while the share of hi-tech in Chinese exports increased from 21% to 31%. With about 36% of Chinese GDP going abroad in 2006, the importance of the upward sloping trend in value added retained in China is incompatible with the rather pessimistic conclusion of Gilboy. In the current decade, China is by far the fastest growing export market for the US, with heavy emphasis in high-tech sectors. It confirms the compatibility of the increasing dependence of Chinese exports on processing for high-tech goods for export with retaining a growing domestic share of value added in the traded goods sector of the Chinese economy, leading to upgrading of production processes involving Chinese-owned capital.

We conclude that the competitiveness and complementarity, as defined above, between the goods sector of the US and China are both somewhat together welding a geopolitical order. Instead of China integrating in the global order of Pax Americana, as a weak and dependent actor, as Gilboy argues, the joint impact of complementarity and competitiveness is turning China into the co-author of a new post-hegemonic, multi-polar geopolitical order.

To continue the domestic transition from an agricultural- to industrial-based economy requires high rates of growth. The huge size of the traded goods sector in China’s GDP reflects export and import depen-
dence, exporting to the US and the European Union, and importing from, among others, Southeast Asia. In return, China accumulated a mountain of US debt, which gives it financial influence over the hegemonic state. Will the current financial crisis-induced global recession bring this mutually profitable relationship to an end?

That seems to be unlikely. Why? Firstly, since the 1970s, America and north-western Europe shed most labour-intensive manufacturing, followed in the 1990s by outsourcing a substantial portion of the production of household durable consumer goods and capital goods to China. These latter industries now participate as advanced components of global business networks which extend deep into the Chinese manufacturing economy. Business elites involved in this globalisation process may be expected to ally internationally against a reasserting state. For high-income economies to dismantle international business networks and return to national-level industrialisation requires either a level of protection without precedent or a decline in wages to about the Chinese level. Secondly, for China any sudden and drastic revaluation of the Yuan would reduce US Yuan debt to China. One may expect that the US will continue pressuring China to do precisely that. The US is combating the economic malaise caused by the indebtedness of state and society by creating more debt. To print additional currency, which is an option for the US due to the status of the dollar as a reserve currency, will in the end cause worldwide price inflation and decline in real interest rates. To print and sell a new wave of Treasury bonds is an alternative method to finance the rapidly increasing US debt. East Asian savings, principally from Chinese savers, will be needed more than ever before. Unlike the indebted US, China is awash with money. That comfortable position is unlikely to change, giving the Chinese the tool to prevent Yuan appreciation, despite falling exports. Price declines in imported raw materials are greater and resolve faster than those for manufactured exports, increasing the Chinese surplus in the trade balance. We therefore expect that Chinese financial institutions will continue spending a portion of their society’s savings on US debt.

In September 2008, China did become the largest creditor of America, to be followed by Japan. However, exports as a driver of Chinese growth will lose strength. Whether or not the expansion of domestic consumption expenditures by the Chinese government will inject enough purchasing power to continue the transition from agricultural to industrial social relations is an open question.

In section three, we noted that the end of the gold-dollar standard signalled the end of the financial hegemony of the US. The end of the gold-dollar standard did not end the role of the US as the banker in the world economy. A reserve economy can run into debt without problems as long as it owes assets that generate a stream of income over time.
above the cost of debt servicing. That is no longer the case. America’s productive decline is reflected in the increasing trade deficit/GDP ratio from .6% in 1982 to 5.8% in 2006. Imports of consumer goods, not capital goods, explain the bulk of the shortfall.94

Freed from the constraint of size of the gold stock in Fort Knox, the US could, and did print, dollars to regulate the national economy. Since that time, the US has run up ever-higher levels of state and trade debt. Under President G.W. Bush, debt increased faster than GDP, pushing up the debt ratio of the economy.

In the recent past, when the US Federal Reserve printed money during a recession, the US and the rest of world integrated in the hegemonic system, ran into inflation. This happened in the 1970s. When the Fed raised interest rates to control inflation, economies integrated in the dollar system ran into debt. That happened when Reagan ordered Volker to stamp inflation out of the system. At that time, China was an outsider to that system. Today China is a very important financier of US debt. We argued above that debt-investment complementarity between China and the US may be expected to continue. In December 2008, the Fed resorted to printing money to shock the home economy out of domestic recession. President Roosevelt did that too. However, the US emerged from the Great Depression during World War II. State orders for war equipment completed the work started by Roosevelt in the 1930s. Today, America is a declining hegemon. In the 1930s, the US was decades away from obtaining full spectrum hegemony. During the Great Depression, state debt of less than 20% of GDP was owned by Americans. The US government at that time had no unfunded obligations for future spending. Currently, China, Japan and oil exporters hold a substantial portion of US debt. Today the US has hundreds of billions of obligations for future spending.95 China is fighting its recession by huge domestic spending programs. In terms of trade and foreign investment, China is more integrated into the world economy than the US is. One may expect therefore that part of the boost to Chinese consumer spending will spill over abroad. Direct Chinese spending abroad significantly increased in 2008, demonstrating that the economic downturn also provides an opportunity for long-term expansion. China’s upward mobility and deep integration into the world economy thus has turned the country into an important growth pole of the world economy in recession. For the most indebted reserve country, money printing is similar to inserting toxic dollars into the world economy.

When will the US reach the critical level of solvency? For China, holding ever more US debt after the consumer driven-export boom has lost its growth potential for the Chinese economy will inevitably come to an end, sooner or later. Will a new growth track be found fast enough
to continue the process of rural-urban migration? If not, the Chinese population may be greying\textsuperscript{96} before it gets rich in per capita terms.

\textit{Lateral pressure, the competition for share and core statehood creates the potential for conflict and alliance transformation}

The concept of lateral pressure has been introduced into International Relations by Choucri and North (1975). These authors compiled a model connecting domestic growth during the second Industrial Revolution [1870-1914] in the major powers of Western Europe to competitive colonisation, conflict and its escalation to war.\textsuperscript{97} We use the concept of lateral pressure for industrializing state-society complexes whose uninterrupted functioning and domestic elite structure depend on access to resources and markets beyond borders. Lateral pressure in industrializing countries rises when the ruling political elite is confronted with a growing population, which earns higher income, with domestic resource scarcity and unfulfilled demands. Such a government is exposed to lateral pressure. Situated in a partially non-industrialised world, it acquires the incentive to expand beyond borders and has the capability to do so. Sequential industrialisation turns the exposure of countries to simultaneous lateral pressure into a competitive undertaking between vested interests and recent upstarts. In the current system, lateral pressure, and its international correlate of power projection beyond borders, is most visible in the energy sector. US military power projection in South-eastern Europe, its involvement in the domestic politics of the Ukraine and Georgia, and its involvement in Central Asia have brought Russia and China together. The bilateral July 2001 Treaty on Good-Neighbourly Relations, Friendship and Cooperation was the first such treaty between the two countries in a half-century. It included provisions for up to two thousand Chinese officers to be trained annually in Russian military schools, and for Russian arms sales to China to increase, including high-technology exports for indigenous Chinese weapons development.\textsuperscript{98} The creation of the Shanghai Cooperation Organisation (SCO) in 1996 was also the beginning of Chinese attempts in cooperation with Russia to limit US influence in Central Eurasia and the Middle East. In 1996, the presidents of Russia, China, Kazakhstan, Kyrgyzstan, and Tajikistan established the ‘Shanghai Five’ in order to resolve border disputes and to reduce the armed forces along their borders. The process started in 1996, and at a meeting in Shanghai on 15 June 2001, these countries founded the SCO. Also Uzbekistan joined the organisation. During the meeting, the presidents signed a declaration establishing the SCO and the Shanghai Convention to Combat Terrorism, Separatism, and Extremism. It is clear that the SCO is mainly supported by China. For Central Asian countries, the interest in the organi-
sation is to build an alliance with Russia and with China and other countries in the struggle against militant Islamists, and to maintain stability in Central Asia. At a summit in St. Petersburg in June 2002, SCO leaders decided to create a secretariat in Beijing and an anti-terrorism centre in Bishkek, but in 2002, at the Moscow summit, it was decided to move the counter-terrorism centre to Tashkent. During the summit in Tashkent in June 2004, a counter-terrorism centre was officially opened in Tashkent and nine documents were signed (Narodnoe Slovo, 9 June 2004). Expansion of the SCO’s activities in economic and other spheres was announced. In 2005, Iran, India, Pakistan, Mongolia and Afghanistan received observer status at the SCO. In the future, the organisation could broaden its activities in economy, transport, humanitarian, and other fields (see Cutler 2007; Ch.4; Bromley 2007; Ch.3; Amineh 2007 Ch.14; see also Thomas Jandl, Chapter 4 of this book.) The Collective Security Treaty Organisation brings together Russia, Armenia and the five Central Asian states. At the Moscow Summit of 4 February 2009, participants agreed to create a rapid deployment force of 10,000 troops under a central command authority.

How will US-Chinese relations evolve due to the involvement of both in the region of the greater Middle East? To create hypothetical answers to that question a new concept is required: core statehood. Unlike European colonial empires, the Pax Americana is not based on direct territorial control over host societies. Instead, its hegemonic order is built on regional powers. Regional pillars are supports for a global hegemonic order. These states are called core states. Leaders of core states tie their fate to the hegemon. In the Cold War order, the United Kingdom in Europe, Turkey, the Shah of Iran, and Japan in East Asia, transformed their countries into core states of the Pax Americana. Leaders of core states have the capacity to untie the knot binding them to the hegemonic order and thereby change the global geopolitical order. The motive to do so is revealed when a hegemonic order declines, the cost of core statehood increases relative to its benefits and alternative interaction opportunities begin to emerge. In the post-Cold War emerging order, core states are re-aligning. Friendship and Cooperation treaties are one expression of that process, even though formal alliances endure. Turkey and Iran could both be considered as the core states in the Middle East and Central Eurasia. Turkey seeks access to the European Union. Russia is its second-largest trading partner, and an important EU energy supplier. Turkey gets involved in Caucasus regional politics. That used to be the domain of Russian-American post-Cold War rivalry. In the run-up to the American attack on Iraq, Turkey compelled the US to take the southern invasion route to access its target. Turkey is not happy with the de facto autonomous Kurdish state created by the US in Northern Iraq. Leaders of today’s democratic Turkey feel displeased by Ameri-
ca’s financing of the continued ethnic cleansing process by the state of Israel. In the recent Gaza war, the destructiveness of US-provided arms was displayed worldwide in a repeat of the 2006 Lebanon War. Iran is an observer in the Shanghai Cooperation Organisation. Iran is also key actor in the larger Middle East, having significant influence on regional (in-)stability and (in-)security. The sanction system imposed by the US has proven fallible, even for some of America’s allies in Europe and in the Gulf. For the European Union, Iran may turn into an alternative source of energy, and may be a more reliable supplier than Russia. Rising China, re-asserting Russia and fast-growing India offer interaction opportunities for energy-rich Iran beyond US control. Iran has expanded its influence in Iraq,\textsuperscript{101} Afghanistan,\textsuperscript{102} Lebanon, and among the Palestinians,\textsuperscript{103} as well as in some of the Persian Gulf countries,\textsuperscript{104} and in Pakistan. To some extent, Iran is the patron of Syria. Iran is in control of the second largest oil and gas reserves in the world even without nuclear weapons.\textsuperscript{105}

**China in its region**

In the previous section, we referred to evolution of the foreign policy role-concept of China during the Cold War period. In the post-Cold War era, we see a further evolution in the way in which policymakers construct a linkage between rising China and the global world order. At the global level, China positions itself as a development-oriented, peaceful

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**Figure 12.5 Sources of Foreign Investment in China**

![Source of Foreign Investment in China](chart.png)

major power. ‘Multi-polarity’, in which China is one of the poles, ‘peaceful rise’, respectively ‘peaceful development’, ‘multilateral cooperation for mutual advantage’, and ‘non-interference in internal affairs’, are the core foreign policy role-concepts at the global level. However, non-interference is incompatible with participating in UN-sanctioned peacekeeping operations. Currently, China has about 8000 of its military in the field under the UN flag. Whereas the US began to distance itself from the United Nations since the adoption of the Kassebaum-Amendment in late 1985, China moved in. Deng’s ‘Five Principles of Peaceful Coexistence’ from 1953 shifted emphasis in 1985 to peaceful development, China’s need for a peaceful environment to achieve its development objectives and the stabilizing impact of rising China on the global system. This further evolution in self-awareness is expressed in the numerous cooperation and friendship treaties between China and countries around the world. China’s political class portrays the ascendance of the country as peaceful ‘rising’ to be followed by ‘development’. In this section we study the role of China in its own region. This further evolution in the foreign policy role-concept puts emphasis on the country’s own neighbourhood. We discuss two aspects. Firstly, the evolution of thought on China’s role in East Asia, and secondly the de facto economic integration between China and Southeast Asian economies.

The turn in foreign policy thinking towards regional integration was prompted by serious conflicts in the Taiwan Strait in 1996, the failure to ‘end Cold War alliances’ of 1997, and the bombing by NATO planes of the Chinese embassy during the operation Allied Force in May 1999. As a response, China’s political elite changed its approach to Southeast Asian Integration. Commenting that the US was in decline, and building upon Deng Xiaoping’s notion that Chinese development needed a peaceful environment, Chinese leaders decided to engage the country in its neighbourhood. Leaders of ASEAN countries agreed to engage China in their multilateral networks. At the first ASEAN+1 [China] summit, held 16 December 1997 in Kuala Lumpur, leaders agreed in the Joint Declaration of the People’s Republic of China and ASEAN Summit upon ‘guidelines for their relationship and common policies of good neighbourly partnership of mutual trust oriented to the 21st century.’ In 1997-98, leaders in the ASEAN countries had to swallow the bitter pill of seeing their currencies collapse after Western and Japanese investors withdrew funds. Leaders of America’s financial sector in politics, some of whom earned a great fortune in the financial sector, welcomed the distress as a golden opportunity for their domestic financial sector friends to get access to the financial sector of East Asian economies. Garten, Clinton’s Undersecretary for Commerce and former Dean of the Yale School of Management, saw light at the end of the tunnel, viz. ‘a much deeper penetration of American firms.’
vestors from Europe and the US went on a buying spree at devalued currency rates. When General Motors bought most of DAEWOO, it caused a nationalist outrage in allied Korea. China was praised for not devaluing the Yuan and thus suffering in trade. On 4 November 2002, China and ASEAN agreed to establish a free trade area in 2010. Japan and India concluded a free trade agreement with ASEAN at the same time. For the first time in its post-war history, Japan negotiated a trade agreement outside the GATT/WTO, thus beyond US supervision. On 9 October 2003, China acceded to the 1976 Treaty of Amity and Cooperation in Southeast Asia.

The de facto economic integration in East and Southeast Asia is the regional complement to the export-orientation of the Chinese economy. China’s main buyers are the high-income economies of, firstly, the European Union and secondly the US. Regional integration is turning China into a linkage between East Asia and the globalisation of production and trade at the level of the global system as a whole. As discussed above, China has a considerable trade surplus with the high-income countries. However, between 2002 and 2007, China ran into a considerable trade deficit with East Asian traders (Aziz, J. & Li 2008: 8) The latter have accumulated large stocks of foreign direct investment capital in China, Japan being the largest among East Asian economies. As illustrated in Figure 12.5, stocks of direct investment capital originate in Asia, and due to round-tripping via Hong Kong, for a considerable portion in China itself.

A rising proportion of ‘trade’ consists of transporting goods between different locations of one enterprise system. The role of trade has therefore changed from competitive arms-length transactions between importers and exporters towards firm-internal operations, thus bypassing markets. Chinese industrialisation, and its role in the region, has become a connecting element in the economic restructuring in East Asia, Europe and America. In the spate of ten years, America’s treaty-allies in East and Southeast Asia have tripled the share of total exports going to China from 5% to 15%.

In November 2004, Japan announced that its trade with China had surpassed its trade with the United States. Japan had been China’s largest trade partner between 1992 and 2003. In 2004 Japan fell to China’s third largest trading partner. Japan thus became more dependent on China’s markets and China less dependent on Japan. An editorial in the Taiwan Journal of 7 October 2005 commented that ‘Taiwan is the largest foreign investor in China, accounting for up to half of total foreign direct investment.’ The author claimed that ‘between 60% and 70% of China’s high-tech exports are manufactured by Taiwanese-operated factories.’112 In 2002 China became the largest export market of South Korea, ten years after both countries re-established diplomatic re-
lations. In Japan, South Korea and Taiwan, business and politics often are in dispute about ‘hollowing-out’ and growing dependence on the China market.

The industrialisation of China thus is instrumental in transforming ASEAN from an anti-Communist gathering of Southeast Asian leaders into a China-centred regional East Asian system. The US is not interested the creation of regional systems anywhere in world, unless it is part of it and able to dominate decisionmaking. The different approach to regional organisation between China and the US is evident in the APEC forum and the ambition of the ASEAN+ Three [Japan, South Korea and China] to build an East Asian Community along the lines of integrating Europe. However, APEC did become important for China in ways its founders had not anticipated: as a segway for regular institutional contacts with Latin America. Between 1999 and 2004, Chinese exports to the region increased from $5.3 billion to $18.3 billion, with Mexico, Brazil, Panama and Argentina as the main destinations. Despite vast changes in even its own neighbourhood, makers of foreign economic policy in the US were seized by their self-created illusion to be the sole reality-maker in the international financial system. In East Asia, the US resisted the Japanese initiative to create an Asian I.M.F. However, the US failed to prevent the first step towards regional monetary integration, the Chiang Mai Initiative in 2004.

The collapse of America’s financial system in the summer of 2008 may be expected to speed up financial integration in East Asia. In the Joint Statement for Tripartite Partnership, agreed upon at the Trilateral Summit [Japan, Korea, and China] in Fukuoka, Japan, of 13 December 2008, the heads of state and government of the three largest economies confirmed their determination ‘to strengthen regional surveillance mechanism.’

How did the US respond to this development? The Administration of G.W. Bush conceptualised China as a ‘strategic competitor.’ In terms of military capability, the US continued to prepare for renewed major power warfare. Rumsfeld saw the military balance in the region at risk. The US developed a new concept of a triadic force. Precision-guided weapons would open the battle, shifting the risk of the first use of nuclear weapons to the opponent, retaliating in kind if he does. The home front would be protected against retaliation by missile defence.

In an earlier publication we studied from a geopolitical perspective how the ‘country of Mahan’ moved on land in South-eastern Europe and greater Middle East (see Amineh & Houweling 2005: Part One). This development has not rendered maritime superiority and militarisation of space less important. Ending conscription made it easier for American policymakers to construct a cult of the military hero fighting the forces of evil, mobilizing the underclass to do the work, while shield-
ing at the same time shoppers at home from what happens in their name.\textsuperscript{121} However, compensating the loss of authority\textsuperscript{122} with military power and its use is not a viable option for any superpower. Unlike Britain, America’s loss of financial hegemony, though less sudden, seems to follow more closely in time than in Britain upon the loss of productive supremacy. In integrating East Asia, American principles for constructing an international order are under stress. Above, we discussed the sequence of industrialisation processes and the impact of the position in that sequence on political regimes and economic institutions. East Asian regimes industrialised under authoritarian regimes with the objective to regain independence from the invading Western world and its imitator, Japan. None of them industrialised under a liberal regime. ASEAN principles for the conduct multilateral diplomacy fit in better with Deng Xiaoping’s principles of peaceful coexistence than with America’s declaratory policy\textsuperscript{123} about liberal democracy, free trade and human rights.

**Challenge for late industrializing China to close the productivity-power gap**

China faces a multitude of challenges during its catch-up industrialisation. On the input side of the industrialisation process, China faces scarcity of non-renewable stocks of mineral and metals. China has become the leading resource consumer of basic commodities such as grain, meat, coal, and steel.

Late-industrializing China (and India) are, in certain respects, comparable to hungry giants standing last in the row of people who have to feed from the same table. At the early stage of industrialisation, consumption of natural resources tends to increase exponentially. Sequential industrialisation implies sequential arrival of stocks of natural resources. Existing stocks are thus not accessed randomly by recipients with equal opportunity for each to get a share. However, assume, for arguments sake, that withdrawals from the stock are matched by new discoveries, including discoveries of substitutes. Under the assumption of equal shares for all, new arrivals imply that the portion each one gets is shrinking. This is demand-induced scarcity. In case withdrawals from the stock are larger than new discoveries, including substitutes, stocks shrink and will eventually run out. This is supply-induced scarcity. Sequential arrival makes mockery of the assumption of equal shares for all. Elites in societies facing lateral pressure (see section 5 above) project power beyond borders to access fields and protect foreign investments required to exploit resources stocks. Competition for a share implies finding partners and getting support of core states (see section 5). With-
in China, the competition for a share is visible between peasants and industrialists, respectively, state planning bodies, for the control of arable land and unpolluted water. On the output side of the industrialisation process, one finds environmental degradation and the accumulation of industrial waste and household garbage. In the post-Kyoto world, countries compete for a share in pollution rights. High reported growth rates do not take into account the environmental cost of land degradation and pollution. Economic losses as a result of (mainly) air pollution accounted for about 7.7% of China’s GDP in 1995. New estimates have determined this figure had reached 10.3% in 2002 (Zahng and Wen 2008: 1255). Although China is blamed for favouring economic growth over the protection of the environment, the environment must also be protected in order to sustain economic growth for the future. Responses from within the population to environmental degradation have proven to be one of the main social forces of instability in China. Problems regarding water and atmospheric pollution have been some of the most troublesome issues China now faces.

China’s expanding industrial sector as well as the increase in household consumption has indeed prompted China to seek energy outside its borders. The country has been a net oil importer since 1993. To secure supplies, the government follows a strategy of diversification. This is part of the goals set by the Sixteenth National Congress for targeted quadruple economic growth between 2000 and 2020. In 1985, China imported less than 800,000 tons of oil and oil products. In 1999, oil and oil product imports had increased to 43.81 million tons. It is projected that in less than ten years China will become the largest oil consumer in Asia, surpassing Japan, and becoming the second largest oil consumer in the world after the US. It is expected that in 2020 China’s aggregate oil consumption may reach 46% of America’s consumption level. Projections are that China’s oil consumption will increase by 4.3 percent annually from 4.3 MMbbl/d in 1999 to 10.5 MMbbl/d in 2020; for Japan, 6.4 MMbbl/d in 2020 (Amineh and Houweling 2003: 398). In 1999, China’s total oil production was 3.213 thousand barrels per day. In 2007 that figure reached 3.743 thousand barrels per day. China’s oil consumption was respectively 4.477 thousand barrels per day and 7.853 barrels per day. China’s known oil reserves decreased from 17.8 trillion barrels to 15.5 trillion barrels in 2007. China’s total gas production increased from 25.2 billion cubic meters in 1999 to 69.3 billion cubic meters in 2007. China’s gas production increased in 1999 from 21.5 billion cubic meters in 1999 to 67.3 billion cubic meters in 2007. China’s total gas production increased from 25.2 billion cubic meters in 1999 to 69.3 billion cubic meters in 2007. China’s gas production increased in 1999 from 21.5 billion cubic meters in 1999 to 67.3 billion cubic meters in 2007. China’s known gas reserves increased from 1.37 trillion cubic meters in 1999 to 1.88 trillion cubic meters in 2007 (British Petroleum 2008).
To protect its oil supplies, China has tightened its hold on the Xinjiang Uighur Autonomous Region (XUAR). Because of the high concentration of ethnic minority populations, the Chinese leadership views the Xinjiang region as particularly susceptible to foreign anti-Chinese influences. It fears that the radical Islamic and separatist forces operating in CEA could stir up aspirations for secession of minority groups in China. Xinjiang is important to China for various reasons. Instability in Xinjiang could attract uninvited outsiders to interfere in domestic affairs for other reasons than supporting minority rights and freedoms. The region has vast open spaces and a relatively small population that makes it suitable for nuclear testing and large-scale conventional military exercises by the People’s Liberation Army. Xinjiang is a significant domestic source of oil and gas. Bordering Mongolia, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Pakistan, and India makes the region an important route for China to strengthen its influence in the former Soviet republics of Central Eurasia. (Amineh 2003: Ch. 5; see also Amineh 1999).

To access energy resources, China has concluded strategic cooperation and partnership agreements with energy exporting countries such as Russia, the Gulf States, Canada, Azerbaijan, Kazakhstan, Venezuela, Sudan, Indonesia, Iraq, and Iran. In 2005, IEA reported that China’s dependency on foreign oil was 40% and it is expected to reach 75% by 2030 (Zhao and Wu: 2007). Despite rapid growth, China will be for a long time at the far lower end of the per capita income rank of countries. Its current position is 100th among 118 developed and developing countries. In 2006 and 2007, China maintained a GDP growth rate of 11.1 and 11.5 percent respectively. However, the International Comparison Program recently reduced the PPP estimate of Chinese GDP by 40%. Sustained growth has strongly reduced the decline in the number of people living below poverty line, as well as the emergence of a middle class. The reduction in the PPP estimate of Chinese GDP has had the effect of pushing up the number of Chinese living below World Bank poverty lines.

As China has been experiencing economic growth, challenges to Chinese food security became more of a concern. As a result of economic growth, more farmland was/is being redirected to China’s industrial sector. In order to respond to the possible threats to Chinese food security, China has been expanding grain imports. Over the last twenty years, supply has been able to meet demand for food. China has also expanded indirect grain consumption due to the shift towards a meat-oriented diet. It is estimated that meat output expanded from 20 million tons in 1985 to 57 million in 2005, increasing the gross available meat per capita from 18 kg to 43 kg. Meanwhile the grain self-sufficiency ratio was sustained at about 95% during the period between 1985 and

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2005, with the exception of 2003, where the ratio dropped to 92%.
Over the past twenty years, China has been able to face both the challenge of providing enough food for the growing population and accommodating agriculture towards an increasing meat-oriented diet (Aubert 2008: 22). However, the Chinese are still very low in per capita food intake relative to diets of high-income countries.

Recent worldwide increases in food prices might threaten China’s ability to cope with changes in food consumption in the future. China’s increased soybean imports to 30 million tons in 2007, from 26 million and 28 million in 2005 and 2006 respectively, did not result in the inflation of worldwide inflation in cereal prices. China’s demand for arable land and its crops is transforming landscapes in parts of Argentina and Brazil. However, China is a net exporter of cereals. In 2007, cereal exports were 5 million tons of corn, 3 million tons of wheat, and one million tons of rice when cereal prices began to inflate (Aubert 2008: 22). Although high prices will provide Chinese farmers with the incentive to produce more grain, rising input costs such as fuel oil, seeds and fertilisers might offset the benefits of higher grain prices. In order to combat the threat to food sustainability in China, the Chinese government has raised the minimum purchase prices for rice and wheat along with increasing direct subsidies for farmers. The price of feed grain is equally affected by the recent inflation of grain prices. Accordingly, meat prices have also risen. The high price of fodder is affecting the profitability of Chinese pig farmers and the Chinese dairy industry (Aubert 2008: 23). The middle and long-term estimates of domestic food consumption levels are plagued by uncertainty due to increased meat consumption and the rising trend in grain prices. The diversion of water towards the urban-industrial areas in northern China might have a negative impact on grain output. Unusual droughts in southwestern China and cold winters and snow in south and central China caused by climate change will further emphasise the threat to food security that the Chinese cropping system might face (Aubert 2008: 23).

Being the world’s largest producer of iron, China doubled its domestic iron production between 2003 and 2008. In order to account for the rapid growth of the Chinese steel industry, China has been forced to intensify its iron imports. Iron imports have grown from 148 million tons in 2003 to 375 million tons in 2007. In order to further sustain China’s rapid growing steel industry, domestic scarcity of both energy and iron ore must be considered.

China has also seen a deepening of its dependency on imports of forest products as a result of both domestic consumption (mainly attributed to the growing demand for housing, construction, furniture and paper products) as well as a growing demand for Chinese exports such as furniture and other manufactured wood products. In 2004, forest pro-
duct imports to China reached US $19.5 billion which signals a near quadrupling from the 1990 level. About half of imported timber to China is processed and re-exported to the world market. As a response to the 1998 flooding of the Yangtze River, the Chinese government initiated an environmental protection program called the NFPC. Logging along the Yangtze river was one of the factors blamed for contributing to or intensifying the damage caused by the flood which resulted in the loss of over 3,000 human lives and a billion US dollars in damage. The implementation of the NFPC since 2002 is likely to contribute to a reduction in Chinese domestic production of forest products. China’s growing reliance on forest product imports, however, has sparked international concern about China’s impact on global forest product markets as well as forest resources conservation in countries which export timber to China, further deepening the global impact of China’s increasing reliance on imports (Zahng and Gan 2007: 2150-2152).

Income inequality has also been on the rise, creating resentment. The distance between the rungs at the top of income ladder has grown beyond what may be considered justified by the marginal contribution to economic growth of high-income earners. Education and social protection reforms of the 1990s have threatened the position of middle-level income households. Social protest movements have sprung up as an internal reaction to rising inequality, the loss of farmland and environmental degradation. In 2004, protest movements (officially labelled as ‘mass incidents’ which include sit-ins, strikes, demonstrations, road-blocks, traffic disruptions, picketing of leaders, confrontations with police, collective protests and riots) totalled 74,000 involving a grand total of 3.76 million people. According to official Chinese figures, the number of participants in mass incidents rose to 87,000 in 2005. Social movements recorded in recent years were a reaction to ill treatment and exploitation of migrant workers, factory closures, illegal expropriation of land, disputes over urban accommodation, local corruption and the environment (Ma and Schmitt 2008: 95-96).

Environmentally related ‘mass incidents’ have increased in China. According to State Environmental Protection Administration (SEPA) director Zhou Shengxian, mass incidents related to the environment have increased 29% annually over the past few years. Zohou reports 51,000 incidents that were related to issues concerning the environment alone. According to estimates conducted by Ma and Schmitt, the percentage of total incidents that have occurred between 2003 and 2005 accounted for 53-60%. The Dongyang riots (triggered by a public reaction to water pollution caused by thirteen factories, which eventually led to their shutdown) in April 2005, have provided a model for other incidents throughout the Zhejiang province (Ma and Schmitt 2008: 97-100).
Impediments to institutional development in state and society have to be considered if China is to achieve sustainable development. SEPA and the EPBs are limited and are subject to institutional flaws hindering the implementation of environmental laws. These institutions have been able to shut down China’s most highly polluting factories in recent years. In 2006, out of 28,000 problem cases reported, SEPA was able to permanently or temporarily shut down 3,176 enterprises. In 2007 SEPA halted 82 industrial projects due exceeding pollution quotas. However, enterprises sometimes succeed in deceiving SEPA officials by polluting less during inspection and then resuming old practices after inspections. EPB officials rely on local governments for their salaries and tend to allow enterprises to continue polluting as long as fines or taxes are paid to the EPBs. Much local government revenue is covered by taxes from local enterprises, so there is less incentive for governments to shut down polluters (Ma and Schmitt 2008: 99).

NGOs have not proved to be particularly effective in dealing with environmental problems. The existence of NGOs became formally known in 1994. In China, private organisations active in society have to register with the Civil Affairs Ministry. The state thus has the right to shut down any organisation that refuses to comply with government policy. NGOs in China do not provide a counterbalance to the existing authority as they tend to do in the West (Ma and Schmitt 2008: 102).

Above, we highlighted the international drive to catch up in wealth and power levels with high-income countries. The domestic motivation to achieve high growth rates is no less important. Sustained economic growth is the recipe for preventing unemployment. It is the requirement to continue shifting rural workers to urban-industrial work. Although China is increasing its institutional capacity to deal with environmental challenges, China has a long way to go before it can have environmentally-friendly industry. Therefore institutional impediments have to be addressed in order for China to attain sustainable economic growth. Chinese environmentally-sound enterprises have an output value that accounts for only 1% of the world’s total. The industry of environmental equipment lacks diversity in products. Technology is also lacking in China’s environmental industrial sector as compared to the advanced countries (Zahng and Wen 2008: 1257).

**Summary of findings and conclusions**

Firstly, one of the most important concluding remarks is that sequential industrialisation has been the cause of the accelerated geopolitical change in the last 200 years. That change is measurable in the redistribution of economic, military and political capabilities between the Euro-
Atlantic world and Asia in these two centuries. In the nineteenth century, Asian empires declined. First, industrializing Britain amassed the largest colonial empire. No Pax Britannica without Britain taking the lead in industrialisation. However, Germany and the US, among others, succeeded in catching up in wealth and power. At the turn of the nineteenth century, Britain was being overtaken by America and Germany. The order of the Pax Britannica, based on British maritime dominance, technological advancement, the management of the gold standard in London and free trade, collapsed in war and depression. In East Asia, industrializing Japan first defeated China and Russia. Both had fallen behind in the creation of industrial-based states and societies. During World War II, three powers, each with its own concept of world order, fought each other across the globe. In this brutish process of domestic-regime selection for global order building, the Nazi and Japanese racist concepts of global order were defeated. Their extinction left two domestic power-wealth structures competing for world order; the first was the American system, based on Wilson’s new world order. In its post-war planning and during the Cold War, the US created in its ‘grand area’ of dominance a more or less institutionalised international system: the Pax Americana. That system bested its contender state, the Soviet Union, or the red empire. It moved into extinction peacefully in 1991 due to the disintegration of the narrow elite that supported the order. In the post-Cold War interregnum, the US lost its disciplining agent: the Soviet contender state for global order. The US elite turned into a self-centred, arrogant, militarizing and lonely superpower, plagued by corruption. Secondly, in the last thirty years, China has been restoring its reputation, dating back to the Tang and late Song dynasties as a growth pole in the global system through trade and investment. Chinese industrialisation is bridging the Cold War separation in East Asia between America’s industrialised allies in Northeast Asia and underdeveloped, anti-Communist countries of Southeast Asia.

Thirdly, trade and foreign investments are no longer evolving between countries sharing a common security structure. During the Cold War era, economic growth, trade, foreign investment, travel, and inter-societal contacts were largely concentrated in the Atlantic area. That is no longer true today. The European Union is the main destination of Chinese exports. President G.W. Bush declared China to be its strategic competitor. Some members of his administration openly declared that Taiwan should be recognised as an independent state. During crisis, change comes fast, as reality catches up with perception. In the current environment, the US looks to its largest creditor for resurrecting the international capitalist system. The European Union considers China as its strategic partner, though it fails to create a unified, autonomous, military and foreign policy. Accordingly, the Chinese may wonder what
sort of partner the EU is. The decline of American hegemony is reflected in the militarisation of its foreign policy, in its industrial decline, in the level of debt and the loss of energy autonomy. The collapse of America’s financial sectors has revealed the hollowness of American principles for managing the world economy.

What comes next is in the realm of speculation. Will the post-American world order evolve into a Chinese-American duopoly? That would require vast changes in the foreign policy role-concepts the leadership in both countries. Until now, China has not originated a Chinese-centred concept of world order. It thrived in the declining phase of the Pax Americana. Will the current collapse induce a transition from a declining hegemonic order to collective leadership between rising China and declining America? If that were to occur, Chinese competitiveness and the complementarity between China and the US would reveal their powers to put the international system into a new, peaceful, trajectory during a hegemonic transition.

The open question for the immediate future is whether or not the stark decline in Chinese exports and its correlate, rapidly increasing unemployment among migrant workers, can be compensated with timely domestic expansion, avoiding the destabilizing consequences of millions of people in search of jobs that are no longer there. It is precisely here that a broadening of the political base of CCP has become more urgent. Leadership that communicates with society mainly through public media under its control, as in Russia, is more vulnerable to shocks in economic hard times, than a political class with a broad basis of support in society. Such a regime creates manoeuvring room in society for improvisation and damage limitation during hard times. The Party has evolved into a multi-faction system, by incorporating the factor of capital into its decisionmaking mechanisms. Stability has been demonstrated by regular shock-free leadership succession. For the mid-long term, the fundamental question is who will win in the race between the aging of Chinese society and increasing the median income of its citizens, as the dependency ratio grows. For the longer term, the question for all is how to industrialise and develop without destroying the ecological nest of human society. A functioning Chinese society and state has existed for thousands of years as a high-culture area in world society. Industrializing societies have existed for roughly 200 years. Whether or not global industrial society will outlive its agrarian predecessor may well depend on how China, India, the EU, the US and other potential powers cooperate in safeguarding the natural environment.
Notes

4 The implication is that peaceful trade relations for profit evolved first between traders of equally powerful groups, before profit for trade penetrated the societies of the traders. In our view, capitalism spread from the outside to the inside. The outside-inside spread has, in the case of China, become a tool of transition from a planned economy to industrial capitalism and integration into the world economy.
5 In that revolution, the King lost his power to tax society for domestic wars. War, being under control of property owners in Parliament, would be fought around the world for commercial purposes.
6 When, in the sequence of industrialization, a society moves from agriculture to industry affects how a late-comer can succeed in closing the productivity-power gap. First-comers change the opportunity set presented to late-industrializing countries. See Jang-Sup-Shin (1996) for differences in industrialization strategy of early and late-adopters: The economics of the latecomers. Catching-up, technology transfer and institutions in Germany, Japan and South Korea. London etc.: Routledge.
7 After two short-lived dynasties – Afshar (1736-1747) and Zand (1747-1779) – Aqa Mohammad Khan established the Qajar Dynasty (1796-1925).
10 Between 1945 and 1973, the average annual compound rate of growth of the Soviet economy was equal to 4.84%, compared with 3.93% for the US In this time period, its share in world GDP decreased from 9.6% to 9.4%, whereas the share of the US decreased from 27.3% to 22.1%, see A. Maddison (2007), Contours of the world economy, 1-2030 AD. Essays in macro-economic history. Oxford: Oxford University Press, Tables A.5 and A.6, 380-81. In the same time period, the per capita income of the Soviet citizens expanded by 3.37%, whereas Americans experienced an annual average rate of per capita income growth of 2.45 %. However, from mid-1970s onward, the Soviet economy entered into economic, political and ideological stagnation. See Maddison 2007, op. cit Table A.8; see also Hanson, P. (2003), The rise and the fall of the Soviet economy. An economic history of the USSR. from 1945. London: Longman, Chapter 4.
11 These countries were, in the first quarter century after World War II, quite successful late-industrializing countries, only to see GDP growth to deteriorate in the 1980s. In the most recent period, these countries are making a comeback.


16 Theories specifying the statistical relationship between rise/decline and conflict posit causation from macro-independent variables to macro-dependent variables, without researching the underlying causal process generating the association. Macro-level regularities are consequent, not governing, and therefore not explanatory. See for differences in explaining phenomenal regularities and the covering-law model of explanation, Little, D. (1993), ‘On the scope and limits of generalizations in the social sciences’, Boston Colloquium for the Philosophy of Science, Synthese Vol. 97, No 2, November 1993), 183-207.

17 Eighteenth-century Britain, struggling with France for European and world hegemony, gave allied Portugal free access to its more developed market.

18 Hegemonic decline can be indexed by a hegemonic state desiring the institutions it did create in its era of blossoming. Institutional desertion is often correlated with the loss of client-state support for the order.

19 For example, Britain frustrated construction of the Berlin to Baghdad railroad that would have given Germany access to oil in Mesopotamia, then part of the Ottoman Empire. The Soviet Union and China were off-limits to trade, which internalized within in the grand area of America’s hegemony.

20 Both International Political Economy (IPE) and critical geopolitics venture beyond IR theoretical frameworks to examine dynamic systemic change. For IPE, inter-state theorizing cannot solely expand such dynamics. As Braudel illustrated in his great work, La Mediterranée, the world economy must be considered in a geo-historical context. The geographical assumptions of contemporary international relations theory are increasingly problematic. While the neo-geopolitical approach addresses the major research questions already raised by IPE, its novelty is to return to a strong geographical dimension for the analysis of complex systemic realities. Critical geopolitics deals not only with the material spatial practices through which the international political economy is constituted, but also the ways in which it is represented and contested. Neo-geopolitics aims to understand why assumptions about national identities and states are the necessary starting point for policy discussion, why scholarly analysis has become taken for granted, and what political possibilities are silenced by this geopolitical imagination. (See Heffernan, M. (1998), The Meaning of Europe: Geography and Geopolitics, (London: Arnold and New York: Oxford University Press).


24 We consider foreign policy role ideas as actor-created objects which may be studied for their causal impact on behavior in strategic interactions.
26 Foreign policy role-concepts exist as ideas and are part of the organizing activities of a political leadership. We disagree with constructivists that foreign policy role-concepts are observer-relative and thus do not have inter-subjective epistemological existence.
29 The material capability data set created by the Correlates of War Project is available at www.correlatesofwar.org/.
34 The ‘Mutiny’ refers back the succession struggle between the Stuarts and the assumption of the Crown by William III in 1689. The purpose of the act changed over time to apply to the quartering of British troops overseas, first in the American colonies, then during the Napoleonic wars in Europe. Discussion leading to the elimination of the provision is available at http: //hansard.millbanksystems.com/commons/1868/mar/30/mutiny-bill-consideration#S3V0191P0-00902.
35 We used the Composite Index of National Capabilities created by the Correlates of War Project. The index measures the share of each country in the world’s demographic, industrial and military capabilities per year.
37 ‘We are in the remarkable position of not wanting to quarrel with anybody because we have got most the world already, or the best parts of it, and we only want to keep what we have got and prevent others from taking it away from us.’ As quoted in Schweller, R.L. (1998), Deadly Imbalances. Tripolarity and Hitler’s strategy of world conquest. New York: Columbia University Press, 36.
38 In 1938, America, the Soviet Union and Germany controlled together about 70% of the material resources available in the major power system (as defined and measured in the Correlates of War Project), with roughly equal shares of each. Schweller, op.cit, Table A.10, 208. Britain had a surplus of interest over power.
39 See for that crisis the now classic work of E.H. Carr: The 20 Years’ Crisis 1919-1939. London: Macmillan 1939; see for a detailed study of the collapse of the world’s financial system caused by wartime borrowing, the imposition of debt on Germany, the refusal of America’s leadership to impose restriction on greed-driven speculation that produced the stock market crisis, to be followed by the collapse of the world trading system, and domestic regime crisis, Harold James. The end of globalization. Lessons from the Great Depression. Cambridge: Harvard University Press 2001.

40 After his tour through the US, Friedrich List properly commented, ‘It is a very common clever device that when anyone has attained the summit of greatness, he kicks away the ladder by which he has climbed up to deprive others of the means of climbing up after him... any nation which by protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away these ladders of her greatness, to preach to other nations the benefits of free grade, and to declare in penitent tones that she has hitherto wandered in the paths of error has now for the first time succeeded in discovering the truth.’ List as quoted in Chang, H.J. (2002), Kicking Away the Ladder. Development strategy in historical perspective. London: Anthem Press, 4-5.

41 Between the Morill Tariff of 1861 and the Underwood Tariff of 1913, US rates varied between 40% and 50%; the Smoot-Hawley Act brought the level to 59%.

42 Roosevelt left in the dark whether or not each policeman would maintain its order in its zone of influence, with the alternative of each policeman maintaining the same order. Profiting from Cold War experience with US-engineered regime change, the US did not, nor does not, respect domestic sovereignty of other countries, democratic or not, from the moment a government limits access to American enterprise.

43 As early as 1920, commentators in the US warned of the peril that either by war or through collusion, Germany and Russia would dominate Eurasia. Cf. Dr. P. W.D.P. Bliss, ‘Red Empire. Prediction of a combination of Germany, Russia and Turkey over which neither military force nor diplomacy can prevail’, New York Times, 9 May 1920. The core of his article is a rather detailed inventory of power resources available in Eurasia compared with those available elsewhere in the world. In 1942, Spykman used the same argument as Bliss about the concentration of power resources available on the Eurasian landmass to warn policymakers not withdraw from the region after the war. Cf. his America’s Strategy in World Politics. The US and the balance of power. New York: Harcourt Brace (1942), 447-48. See for the post-war policy of separating Germany off from Eastern Europe during the Cold War, Leffler, M.P. (1966), The Struggle for Germany and the Origins of the Cold War. Sixth Alois Memorial Lecture 1996. Washington DC: German Historical Institute, Occasional Paper 16.


45 The catching up by the Soviet Union in weapons lethality and retaliatory capacity was recognized in the SALT agreement of 29 May 1972. The SALT-Accords are available in Blacker, C.D, and Duffy, G. (eds.) (1984), International Arms Control. Issues and Agreements. Stanford: Stanford University Press, 2nd ed.: App. C.

46 ‘At the same time, we should take dynamic steps to reduce the power and influence of the Kremlin inside the Soviet Union and other areas under its control.’

47 Exposure of US producers to international competition is reflected in the increase of merchandise exports as % of merchandise production. Merchandise exports increased between 1960 and 1970 from 11% to 16% of merchandise production. However, from 1980-1990, the rate jumped from 29.2% to 31.4%. In 1990, 77% of exports consisted

48 Since 1971, with the exception of 1973 and 1975, the US has imported more than it exported. Since 1984, the trade deficit jumped to levels not seen before; data from US Bureau of Census, available at www.census.gov/foreign-trade/statistics/historical/gands.pdf.

49 ‘The 1980s look the finest years for the would-be nouveaux riches since the forebears of today’s ducal families grew fat on the dissolution of the monasteries. But the extra-ordinary feature of the past dozen years has been the lack of any serious backlash on the part of the world’s underdogs, despite the failure of the First World wealth to trickle to the Third. The Political response to impoverishment has increasingly been to adapt the prevailing ideology of the developed world: the market.’ ‘Seriously Rich’, Financial Times, 29-30 May 1993; ‘On Wall Street, where the size of an executive is of the ultimate measure of success, a new status symbol has emerged: the $500 million cash payout... Stephen Cohen, a reclusive hedge fund magnate in Greenwich, Connecticut, who made more than $500 million last year, rarely gives interviews.’ International Herald Tribune, 3 February 2006.

50 Interactions, including positive feedback loops, between and among these variables are at the root of the so-called financial crisis.


54 Smith A. (1776), The Wealth of Nations. Book II, Chapter V, Of different employments of Capital, on line edition, available at www.classicreader.com/book/770/18./ However, Smith believed that in his time China had realized the full extent of its production possibilities. Therefore, continued population growth was impoverishing the country.


56 Voltaire being of these; however, Rousseau and Montesquieu strongly disagreed.


It is a contradiction in history that [i] liberal theory evolved in societies that colonized ‘other races’ worldwide, exterminating some of these; [ii] that governing elites of non-liberal traditional empires had greater tolerance of ‘minorities.’ Says Bayly, ‘In a rather different way, Chinese, Japanese, and Ottoman expansion on what were to become their inner frontiers displayed an uncompromising character similar to that of the English, though the aim was generally cultural assimilation or subjugation rather than outright extermination.’ Bayly, C.A. (2004). The Birth of the Modern World, 1780-1914. Oxford: Blackwell, 435.


The Wall of Auditorium of Whampoa Military Academy, founded by Sun Yat-sen in 1924, posted three large paintings – 1842: burning of opium; 1900: shooting and bayoneting of Chinese, called ‘Boxers,’ by allied troops; China was fined 67 million pounds for the rebellion; the episode is often considered to be the beginning of Chinese nationalism; 1925 Shanghai massacre, when the British government machine gunned students, suppressing a full-blown anti-British rebellion. See Clifford, N.R. (1979). Shanghai, 1925: Urban Nationalism and the Defense of Foreign Privilege. Ann Arbor: Center for Chinese Studies.


Mao Tse-tung, FAREWELL, LEIGHTON STUART!, available at www.marx2mao.com/Mao/FLS49.html.

The influential theorist of geopolitics Nicholas Spykman commented in 1938 in his ‘Geography and foreign policy-I’, American Political Science Review, Vol. XXXII, No. 3 (1938) , that ‘fifty years from now the quadrumvirate of world powers will be China, India, the United States.’(quoted from Francis P. Sempa, ‘Spykman’s world’, available at www.unc.edu/depts/diplomat/item/2006/0406/semp/sempa_spykman.html) . Anticipating confrontation between the US and the Soviet Union after the war, he dryly commented in his America’s Strategy in World Politics. The US and the balance of power. New York: Harcourt Brace (1942), 460, that ‘a Russian state from the Urals to the North sea is no great improvement over a German state from the North Sea to the Urals. The present war effort is undoubtedly directed against the destruction of Hitler... but this does not necessarily imply that it is directed against the destruction of Germany as a military power.’ About China he commented that ‘a modern, vitalized and militarized China... is going to be threat not only to Japan, but also to the position of the Western powers in the Asiatic Mediterranean.’ (469).

New World crops such as potato and corn entered China after 1600, helping to feed a growing population. After 1850, the land/man ratio further deteriorated. Instead of moving out, to for example to Australasia, farmers started growing on sloping hill-sides, causing erosion, floods, famine and civil war. Cf. Reynolds, L.G. (1986), Economic Growth in the Third World. An introduction. New Haven: Yale University Press: 17 ff.

Humiliation of the Chinese nation permeates the rhetoric of leaders since the formation of the Chinese Republic. From the first opium war until the end of WWII, China has suffered the loss of territory, extra-territorial rights, vast plunder of cultural relics and opium poisoning. These materials help shape the Chinese identity as a re-emerging civilization and powerful actor in the international system. The republican Manifesto of Sun Yat-sen refers to China’s century of humiliation as a means to provide historical context for the foreign policy role of Republican China. According to Sun, a mobilized citizenry and the expansion of state capacity would free China from its subordination. He supported peasant movements in the 1920s and thus brought these people into direct contact with the power of the new state (see Fitzgerald 1990: 335-6).

‘Only when China is industrialized, can China truly stand up, tall and proud in the world.’ Zhou Enlai, as quoted in Qing, S. op. cit., 1. Steel and heavy industry are the secret of the capacity to resist. In 1956: ‘Why should the Jiang Jieshi government be discarded? Because it only produced 50,000 tons of steel during twenty years of its rule, while we produced 5,000,000 tons of steel in eight years.’ Mao as quoted in Qing, S. (1999), ‘Conflicting visions of China’s economic development, the 1950s’. Paper presented at the University of Lund at the Conference China at Fifty, reprinted in 2007 as Chapter 8 of From Allies to Enemies. Visions of modernity, identity and US-China diplomacy, 1945-1960. Cambridge: Harvard University Press.

The new regime, following the Soviet example, was thus ‘breaking the rules prescribed for the normal course of events’ through a willful project in order to ‘bring itself up to the standards of production in the Western world in a short space of time.’ Antonio Gramsci as quoted from Tom Nairn’s review of Patrick Wright, ‘Iron curtain : from stage to Cold War’, London Review of Books, 23 October 2008, 19-20.

The activities of CINCOM pushed Chinese trade away from the capitalist world to an extent unwanted by the leadership itself. In 1950-56, in the mixed economy period of its industrialization drive, China participated in four international conferences. At the Moscow International Trade Conference in April 1952, the Chinese delegation expressed interest in doing business with all countries. In the 1950s, Germany, which did not have diplomatic relations with Taiwan, became China’s preferential trading partner in Europe. See for this development, Eckstein, H. (1966), Communist China’s Economic Growth and Foreign Trade. New York: McGraw-Hill Book Company. Trade with China was the first issue on which US allies distanced themselves from US policy, in particular Japan and Germany. Compare Möller, K. (1996), ‘Germany and China. A continental temptation’, The China Quarterly 147: 706-25. In 1954, Harold Wilson, British prime minister in the 1960s, complained about a ‘lunatic fringe’ in the American Senate who wanted to go to war in East Asia against world communism. In his opinion, ‘Not a man, not a gun, must be sent from this country to defend French colonization in Indo-China. We must not join in any way encourage an anti-communist crusade in Asia under the leadership of the Americans, or any one else.’ Quoted

74 See for the demographic impact of invasion, opium wars, the outflow of silver, the depletion of granaries, El Niño, and peasant rebellions, Davis, M. (2001), Late Victorian Holocaus ts. El Niño famines and the making of the third world. London: Verso, Chapter 3, Table 3.3, 3.4, 3.13-114; Chapter 8, Table 8.8, 271. In March 1917, Japan had a secret agreement with UK, France and Italy. These powers promised give support at the peace conference to Japanese claims to German concessions in Shantung and the Pacific Islands. In the Lansing-Ishii Agreement of November 1917, the US government recognized that due to ‘territorial propinquity,’ Japan had a special interest in China, particularly in the part to which her possessions are contiguous. In the Taft-Katsu agreement, Teddy Roosevelt had bought Japanese consent to US maritime power projection of taking into possession Hawaii, Guam and conquest of the Philippines, in exchange for the US consent to Japanese supremacy in Korea, leading to American de-recognition of Korean statehood.

75 The social forces causing disunity in the leadership are complex. Following Simei Qing (1999), two forms of Chinese nationalism clashed during the civil war and after. One is peasant radicalism; the other one is state-building oriented nationalism. Popular nationalism collided with the gradualism of the mixed economy period. Forms of authority clashed too. The CCP needed Mao’s charisma, which collided with practical organizational routines of the party required for any planned industrialization program, whereas Mao could not govern without the legitimacy of the party.

76 Initiatives on the ground, thus from below, should be mentioned as a force of change. Hungry farmers left the empty communal dining table and resumed household practice which local party functionaries could not prevent as they could not offer anything better. Cf. Kate Xiao Zhou (1996), How the Farmers Changed China. Boulder: Westview Press. The decisive shift from self-reliance to export-orientation was in 1987-1988 under the Secretary Generalship of Zhao Ziyang. His coastal development policy aimed at creating ‘a big international circle’ of processing trade whose revenue could be used to import fertilizer and machinery for farmers, boosting their purchasing power and speeding up the transition to an industrial economy and high-productivity agriculture. Compare Daly Yang, ‘China adjusts to the world economy: The political economy of China’s coastal development strategy,’ Pacific Affairs Vol. 64.1 (1991), 42-65.


79 Data extracted from the Total Economy Data Base of the Groningen Growth and Development Centre, available at www.ggdc.net/dseries/totecons.shtml#1

80 China’s rural population in 2007 was estimated to be at 737 million, or 56% out of more than 1.3 billion. The vast trek to cities renders such estimates highly dependent on classification. When do migrants stop being migrants and turn into urbanites?


We fitted the observations to the quadratic equation of the parabola. America’s reached its maximum share [the first derivative =0] in the early 1960s.


Hao Deqing, chairman of the National Society for the Study of International Relations, declared in Bonn, in September 1978, that the leadership had arrived at the conclusion that only close cooperation with Western powers will enable it to reach national objectives in economic development and security.

Which includes affiliates, subcontractors and retailers under direct or indirect control of an enterprise.


The ‘somewhat’ closer is based on the fact that the global level trade surplus of China is but 8% (in 2004) of America’s global trade deficit, whereas the global level trade surplus of Japan is 15% (2003), of Germany 20% (2003) and of the Euro Zone 28% (2003) of America’s shortfall in the goods sector. In 2004, China’s global trade surplus is but 3% of its GDP. In that year, Germany, the Netherlands and Thailand and Malaysia had higher trade surpluses in their GDP than China. Data from Aldert Kennel, ‘China’s Currency: Not the Problem’, Carnegie Endowment Policy Brief 39, 2005, available at www.carnegieendowment.org/publications/index.cfm?faid=17041.

Unfortunately, CINC does not have a financial strength component in its index of capability.

Die Zeit of 22 August 2008 reports that Yu Yongding, Director of the Institute of World Economy and Politics of the Chinese Academy of Social Sciences, sent the following mail to Bloomberg: ‘Wenn die USA Regierung Fannie und Freddie zusammenbrachen lässt und die internationalen Investoren nicht äquivalent kompensiert werden, wird das katastrophale Konsequenzen haben. Es wird nicht das Ende der Welt sein, aber das Ende des gegenwärtigen internationalen Finanzsystems. Die Folgen einer solcher Pleite können ausserhalb der menschlichen Vorstellungschaft sein.’ On 29 August, the People’s Bank of China reported in its quarterly message that it had reduced Chinese share in Fannie and Freddie Mac by 25%. On 8 September, the US government injected $100 billion in these companies. In December 2007, Chinese investors had put $5.5 billion in Morgan Stanley and in Blackstone. In early summer 2008, Chinese investors put $376 billion in these companies, which is about 20% of China’s reserves.

Federal Reserve Bank of St. Louis, National Economic Trends, October 2007, at www.stlouisfed.org/default.cfm

96 See for the aging of Chinese people the review of the work The Green Book of Population and Labor in China Daily, 6 September 2004, available at www.chinadaily.com.cn/english/doc/2004-06/09/content_337985.htm. In the fast growth period, the youth dependency ratio declined much faster than the old age dependency ratio increased, reducing the overall dependency ratio. That period has now come to an end, pushing up the savings ratio.


98 However, Soviet arms sales to China have dwindled in the last three years as China is building its own arms industry. See for the contribution of military industrialization to the industrialization process since 1815, Sen, G. (1984), The Military Origins of Industrialization and International Trade Rivalry. New York: St Martin’s Press. See recent Chinese efforts to follow on in relating military industry to general industrialization, Cheung, T. (2009). Fortifying China. The struggle to build a modern defense economy. Ithaca: Cornell University Press.


100 Two regional institutions in the same region, and China being a member of only one of these, hides potential Chinese-Russian tension. The S.C.O. is a military alliance between Russia and Central Asian governments. The S.C.O. is not a military alliance and declares its role as not being directed against the US. The C.S.T.O. is a military alliance and directed against US penetration in the region.

101 Iran has great interests at stake in its neighboring Iraq. Not only is the majority of the Iraqi population of Shi’ite faith, but also important senior clerics in Iraq have family ties to Iran (such as Grand Ayatollah Sayyed Ali Hussein al-Sistani (1930-) who was born in Mashhad to a clergy family. He studied in Mashad and Qom. In 1951 Sistani went to Iraq to study in Najaf. He is one of only five living grand ayatollahs and the most senior Shi’ite cleric in Iraq. Sistani rejects the velayat-e faqih system in Iran and promotes a separation of state and religion, but a system in which the marja-e taqlid still plays a prominent role. Since the US invasion in Iraq in 2003 he has played a prominent role criticizing US policy in Iraq.) Iran will therefore always try to have good relations with an Iraqi government that is representative of the composition of the Iraqi population. It seems very improbable that Iran would seek to politically dominate Iraq, as such a step would not only provoke mistrust in Iraq but also among Iran’s neighbors and would, therefore, be counterproductive to Iran’s efforts for political stability in the region (Bulliet, R.W. ‘Iran Between East and West,’ Journal of International Affairs, (Spring/Summer 2007), 1-14. 2007: 13).

102 As Ramazani notes (11 February 2007) when accusing Iran of supporting Shi’ite insurgents, many analysts do not mention Iran’s soft power approach both to Afghanistan and Iraq, such as economic aid and trade: ‘Iran has extended US$500 million in aid for reconstruction in Afghanistan and maintains friendly relations with the government of Afghan President Hamid Karzai. It also has ties with Shi’a groups in western Afghanistan. In Iraq, Iran helps an estimated 1,500 Iranian pilgrims travel to Shi’a shrines every day, a significant source of income for Iraq. Iran exports electricity, refined oil products and Iranian-made cars to Iraq. It has extended a US$1 billion line of credit to help Iraq with its reconstruction. Tehran also has diplomatic relations with the Iraqi government in Baghdad and influential ties with the two most powerful Shi’a parties, al-Dawa and the Supreme Council of Islamic Revolution in Iraq.’
Israel sees no Arab regime – including Saddam Hussein’s Iraq – as a strategic threat to Israel; the threat is Iran because of its full preoccupation with a close enemy (a Hezbollah-Hamas axis) supported by distant enemy, Iran, with its nuclear potential (see Roy 2008: 24).

At the Gas Exporting Countries’ Forum (GECF) in April 2007 in Doha, a representative of Supreme Leader Khamenei, Hassan Rowhani, announced Iran’s interest in establishing a Persian Gulf Security and Cooperation Organization that would consist of the six member countries of the GCC as well as Iran and Iraq. This announcement can be seen as a follow-up to earlier attempts by Iran during Rafsanjani’s presidency to be incorporated into a Persian Gulf security arrangement, which failed at that time under pressure from the US. Even now, the inclusion of Iran and Iraq into a security arrangement of the Persian Gulf countries seems rather unlikely, for the same reasons. But the GCC countries, especially the smaller ones, are not interested in alienating Iran. Therefore, it should also be explored whether the inclusion of Iran into such cooperation would not lead to more stabilization and security in the Persian Gulf region (Eva P. Rakel (2009), Power, Islam and Political Elite in Iran: A Study on the Iranian Political Elite From Khomeini to Ahmadinejad (Leiden, Boston, London: Brill Academic Publishers), 190-191).

Despite different and contradictory approaches represented by Iranian political elites and factions towards foreign policy, political economy of development and cultural issues, there is an elite-consensus on Iran’s ambition to be a major power, and therefore its need to have a nuclear capabilities. For an interesting analysis on the rivalry between the political factions and their state institutions and the impacts of the dynamic of factionalism on domestic (economic and socio-cultural) and foreign policy formulation, see Eva P. Rakel (2009), Power, Islam and Political Elite in Iran: A Study on the Iranian Political Elite From Khomeini to Ahmadinejad (Leiden, Boston, London: Brill Academic Publishers. See also Oliver Roy (2008), The Politics of Chaos in the Middle East. Translation from French by Ros Schwartz. New York: Columbia University Press. For Iran’s role in the Middle East see A. Eltashi and M. Zweiri (2007), Iran and the Rise of Neoconservatives: The Politics of Tehran’s Silence Revolution. London: I. B. Tauris.


Treaty makers at that time feared Chinese dominance. Today, the treaty is turned into a regional integration treaty, creating institutions in which the US is an outsider. In Article 2, leaders agreed upon principles that mirror Deng Xiaoping’s concept of peaceful cooperation, external and internal sovereignty, peaceful conflict settlement and renunciation of the use of force.

Quoted from http: //taiwanauj.nat.gov.tw/ct.asp?xItem=21591&CtNode=122

See for this ambition the Press statement by the chairperson of the 9th ASEAN summit and the 7th ASEAN + 3 summit , available at www.aseansec.org/15259.htm

The US prefers APEC as forum for Trilateral Meetings between itself, Japan and Korea, thus excluding China, see ‘US hopes to hold trilateral summit with Japan, S. Korea in APEC’, Japan Policy & Politics, 20 November 2006, available at http://findarticles.com/p/articles/mi_m0XPQ/is_/ai_n16854289.


Current US military doctrine does not distinguish theatre missile defense from strategic missile defense.

Of all 24-year olds in the military, 6.5% have a college degree; the national average in that age group is 42%.

‘To calculate the price that Iraqis have paid for the U.S misadventure in their country, you have to deal in big round, horrifying numbers. Civilians killed last year: 34,000. Driven from their homes in Iraq: 1.8 million. Fled to other countries: an additional 2 million and growing. The number of Iraqis who have found refuge in the United States is easier to pin down. America has admitted a total of 466 Iraqi refugees since 2003’, quoted from the editorial, International Herald Tribune 1 February 2007.

To quote Douglas North on the topic of authority and power: ‘The cost of maintaining an existing order are inversely related to the perceived legitimacy of the existing system. To the extent that the participants believe the system to be fair, the cost of enforcing the rules and property rights are enormously reduced.’


Bahman Nirumand, reminds us that behavior is quite different. ‘As long as the complicity between the despotic rulers in the poor countries and governments of rich countries equally interested in oppression is not terminated, the freedom the Third World is determined to fight for, will collide with and menace the interests of the rich world.’ Bahman, N. (1969) Iran: The New Imperialism in Action. New York: Monthly Review Press, 15.


(www.eia.doe.gov/oiaf/ieo/).

Uyghur are largest ethnic group; they share the region with Kazakhs, Uzbeks, Kirghiz and a growing number of Han Chinese. In September 1949, Chinese troops took control of the region. At that time Douglas MacKiernan, a CIA agent, tried to ally with Osman Batur, a Muslim tribal chieftain with an army of 15,000. MacKiernan was shot by Chinese border guards in Tibet. The US has throughout Southeast Asia a terrible history of mobilizing ethnic minorities against their government, letting them pay the price for their insurrection. Anti-Han nationalism is now driven by Islam. Following upon the 9/11 attacks, the US showed again its conceptual flexibility by re-categorizing rebelling Uyghurs from freedom fighters into the cell of terrorists.

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