

From Balance of Power to Regional Collectivism
China and Asia-Pacific Economic Cooperation

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Submitted in accordance with the requirements for the degree of Doctor of Philosophy

The University of Leeds

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May 1998

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Abstract

This thesis is an exercise to examine whether the People's Republic of China will work together with the other Asia-Pacific countries in a multilateral framework. The argument that this thesis has made is that, driven mainly by both internal and external factors, there is a tendency for China to do so. The Chinese government and leaders' desire to turn China into an economically developed country has been the most important reasons for the Chinese government to devote more attention to the development of regional economic cooperation in the Asia-Pacific region.

In order to make clear why the Chinese government, since the middle of the 1980s, actively sought to join the process of constructing regional economic cooperation, I have divided the whole thesis into two major parts. The first part is, (A), to define what kind of a region the Asia-Pacific is, and to demonstrate why as geographically and culturally diversified a region as the Asia-Pacific has become a region; (B) to show why the Asia-Pacific Economic Cooperation Ministerial Meeting (APEC), a forum, was chosen by the Asia-Pacific countries to promote economic cooperation in this region. The second part is focused on China itself. In this part, I shall, (A), find out what has happened in the thinking of the Chinese leaders and academics to bring about China's participation in APEC and why; (B), demonstrate that the economic consideration was the most important reason for the Chinese government's decision to join APEC.

In conclusion, I shall demonstrate that important changes in the Chinese foreign policy thinking, caused by the momentum of developing regional economic cooperation and the Chinese government's desire for faster economic development, have led to China's participation in the APEC process. I shall also show that China is strongly motivated to adopt regional collectivism and point out that China's APEC membership will lead to increased cooperation between China and the other Asia-Pacific countries.

Acknowledgement

I have many people to thank for helping me in undertaking the research that has made this thesis possible. Without their guidance, help and support, this thesis could hardly have been completed. The first person to whom I must express my deep gratitude is my kind yet highly demanding supervisor, Dr Penny Francks. It was her guidance, encouragement, and strictness which pushed, some times dragged, me forward. I owe her a lot. As examiners, Professor Michael Yahuda and Mr Brian Hook made invaluable and detailed comments and instructions, which guided me through the revision of this thesis. The scholarship of Dr Francks, Professor Yahuda and Mr Hook set best examples for me. Professor Don Rimmington has also given me a lot of guidance and encouragement. I also owe him a lot. Equally, I am also indebted to Dr Delia Davin. I must also mention my parents, who have to put up with the sadness of missing their son. My deep gratitude also go to my late mother-in-law. She gave me such help in looking my son while I was trying to develop an academic career. Lastly, I owe the most to my wife and son, who have to put up with my constant absence. Without their continuous support, concern, and generosity, this thesis would definitely have not been completed.

Abbreviations

ADB, the Asian Development Bank

ANU, the Australian National University

ANZUS, the Australia-New Zealand-United States Alliance

APEC, Asia-Pacific Economic Cooperation Ministerial Meeting
Asia-Pacific Economic Cooperation

ASEAN, the Association of Southeast Asian Nations

CCP, Chinese Communist Party

CIS, Commonwealth of Independent States

COMECOM, Council for Mutual Economic Assistance

DPP, Democratic Progressive Party (Taiwan)

EAEC, East Asian Economic Caucus

EC, European Community

ECAFE, Economic Commission for Asia and Far East

ESCAP, Economic and Social Commission for Asia and Pacific, (UN)

EU, European Union

FDI, Foreign Direct Investment

IMF, International Monetary Fund

NAFTA, North American Free Trade Area

NIE, Newly Industrialised Economies

NPC, National People's Congress

OAEC, Organisation for Asia Economic Cooperation

OECD, Organisation for Economic Cooperation and Development

OPTAD, Organisation for Pacific Trade and Development

PAFTA, Pacific Free Trade Area

PBEC, Pacific Basin Economic Council

PECC, Pacific Economic Cooperation Conference

PRC, People's Republic of China

RMRB, Renmin Ribao

SEATO, Southeast Asian Treaty Organisation

SEZ, Special Economic Zone

WTO, World Trade Organisation

ZYRB, Zhongyang Ribao

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Introduction

The question to be answered by this study is whether the People's Republic of China (PRC) can work cooperatively with other countries, particularly its Asia-Pacific neighbours in a multilateral framework. This study originates in a high-profile symposium in Beijing for which I worked back in 1986. The symposium was jointly sponsored by China's State Commission of Economy, and the Pacific Forum, a California-based foundation devoted to studies of US relations with Asia-Pacific countries. Its members were well known academics, retired generals of the US military forces and retired senior intelligence officers. Though the symposium was on Sino-US economic relations and China's open policies, cooperation between the two countries under the concept of the Asia-Pacific region was also discussed by some participants. Not long before this symposium, China became in July 1986 a member of the Pacific Economic Cooperation Conference (PECC), the most important forum at that time discussing economic cooperation in this region. Five years later in 1991, China joined the inter-governmental Asia-Pacific Economic Cooperation Ministerial Meeting (APEC). Discussions at the symposium and China's involvement in the APEC process made me realise that a new dimension was in formation in Chinese foreign policy, a dimension that increasingly stresses multilateral cooperation in its foreign affairs.

What has made the PRC readjust its foreign policy? What causes under what circumstances will make it do so? What kind of a player will these changes turn China into? These are questions worth looking into against the background of changes in the much wider international community. As far as China is concerned, to adjust its policies so as to assume an international position suitable for it will be determined by a host of factors. Obviously the priorities of Chinese foreign relations will determine the way that China readjusts its foreign policy. For this reason, a study of how and why China has become a member of a forum, dominated by countries which were regarded by it not long ago as enemies, will help shed light on the way in which China will behave in the international community.

The rapid increase of China's economic power and the forecast of the Chinese economy becoming the world's number one have extended the scope of the study of Chinese foreign policy. This is to a large extent due to a rapidly rising China in both economic and military terms. China's seemingly unbending attitudes towards such Asia-Pacific regional issues as Taiwan and the South China Sea further enlarged in the minds of scholars of Chinese studies the question of how the international community should deal with a China that is seen by some as a growing threat and by others as an opportunity with almost inexhaustible potentials. This issue is made much more complicated by the fact that China is not just seen as a threat or as an opportunity. Those who think China is a threat also believe that China is an important opportunity while those who see China as an opportunity are also concerned about China's capability to cause disruption in the international community. Such paradoxical views' come from the uncertainty whether China is ready to accept and abide by the existing norms of the international community.¹

But the majority of the scholars of Chinese foreign policy accept that China's rise is inevitable. The emphasis of today's study of Chinese foreign policy is therefore highly concerned with how to make China a full member of the international community. This indicates that this branch of China study has entered a new phase. However, the new studies seem to have their roots in the past. It is necessary to look back before to look at the present. Traditionally, studies of Chinese foreign policy were very much dominated by two approaches. One is to try and understand China and China's behaviour in the international community by looking at the country itself. A typical example for this is the research by Lillian Craig Harris on the determinants of Chinese foreign policy. In *China's Foreign Policy Toward the Third World Countries*, Harris argues that China's foreign policy comes from three sources: China's past, China's internal politics and China's relations with the two super powers.² A more recent example is that of David Shambaugh. In his *Beautiful Imperialist: China Perceives America, 1972--1990*,

Shambaugh analyses the role played by the various foreign policy departments, research bodies and researchers.³

The other approach is to study Chinese foreign policy in light of the existing theories of general international studies. These theories include three main schools of thought. They are Realism, which highlights the significance of the international environment, particularly the pursuit and balance of power; Interdependency, which emphasizes the importance of international political economy and the role of domestic politics; and Social-psychology, which put the stress on the role of individual decision makers.⁴ Although scholars of Chinese foreign policy do not necessarily confine themselves to just one school of thought, but they do seem to put more emphasis on one school than the other.

Those who subscribe to the first school of thought, for example, have emphasized the effect of the bipolar, super power dominated international system on the formation of Chinese foreign policy, particularly the constraints of this system to Chinese foreign policy choice. For these scholars, the internal political ups and downs are not so important. For instance, while Jonathan Pollack was so dismissive as to say that domestic determinants are not critical at all, Robert Ross argues that domestic determinants only work within the limit set by tripolarity, i.e. the relations between China, the United States and the Soviet Union.⁵ There are also scholars who hold that Chinese foreign policy has been continuously influenced by the realistic school of thought.⁶ They further explain that the pursuit of power balance in an international environment dominated by the two super powers determined that China must align itself with one super power in order to deter the other. This was even so when the PRC declared an independent foreign policy in the 1980s when its relations with the Soviet Union became more stable. "The declaration of an 'independent foreign policy'... should not be taken at face value. It did not mean that China had placed itself in the middle ground between the super powers. China still tilted strongly towards the United States on the important strategic questions."⁷

As far as the study of Chinese foreign policy goes, those who adhere to the second and third schools of thoughts all start from the domestic situation of China to look for keys to Chinese foreign policy choice and behaviour. The difference lies in their emphasis. The former take domestic developments as the overall determinants while the latter contend that individual leaders had the ultimate say. Those who put the most emphasis on the domestic developments tend to focus on the impact of the major political campaigns since the inception of the PRC in 1949. Kenneth Lieberthal, for example, argues that such events from the Anti-Rightist Movement in 1957 to the Great Leap Forward of 1958 to the Cultural Revolution started in 1966 directly influenced "its posture toward the rest of the world".⁸ Some even argue that domestic factors have more importance than the international system dominated by the super powers.⁹ On the other hand, the school emphasising the importance of individual leaders tend to look at individual leaders' perception, thinking, strategy and tactics and even personal style for fundamental reasons for Chinese foreign policy changes. As China has been by and large under strong personal influence of Mao and Deng, these two figures have been the focus of attention for this group of scholars.¹⁰

As the structure and pattern of global affairs have fundamentally changed since the end of the Cold War, China's post-1949 pattern of domestic situation characterised by the domination of one paramount leader and severe political upheavals has also drawn to a close. But China's influence and importance are seen to be growing quickly. As mentioned earlier, the question of how to involve China in the post-Cold War international community has become a rather urgent one. The whole search for an answer seems to centre on a dilemma whether China is willing to accept and abide by the existing norms of the international community.

The research on this issue, which has just started growing, tends to adopt a rather generalised approach. I divide them up roughly into those that adopt a "macro" view and those that adopt a "micro" view. The "macro" group tend to consider Chinese willingness to accept and observe the existing international norms by looking at the

complete picture of Chinese foreign relations behaviour. They are best represented by such scholars as Michael Yahuda and Gerald Segal.¹¹ They examine this issue by looking basically at determinants two and three, i.e. domestic restraints on China in this respect. These restraints include political system, the role of the state, people's perception of the outside world and nationalism. Their common position is that it is possible for China to do as expected by the international community. But they emphasize that there is a strong possibility that China will not always do so, particularly over such issues as Taiwan and the South China Sea. They therefore maintain that a high level of readiness should be kept to constrain China whenever it is necessary. Their difference lies in the level of vigilance because some believe slightly more strongly that China will be a norm-observing player.¹²

On the other hand, the "micro" group, who seem to be in the minority, tend to consider this issue from two angles. Both paints a positive picture. One explains why China participates in APEC by looking at internal and external reasons. The other focuses on the track records of China's involvement in those multilateral economic organisations that China belongs to. China's APEC membership is considered to be just a minor aspect. They draw on their own as well as the researches of such people as Samuel S Kim and Harold Jacobsen and Michel Oksenberg. A good example is the research by Stuart Harris. He argues that China's track records in these organisations prove that China is more than willing to accept and observe international norms. China already acts within the limits of norms of the international community, albeit China is more likely to do so within those regimes that have less security colours. He contends that the international community, particularly the United States, should encourage China more in this direction. "If the Chinese assumption that trade is mutually beneficial is found wanting, such as through undue US or other politicising of WTO membership, or in other ways, China's cooperative behaviour in the international field could change."¹³

One thing is made clear by the above brief survey. China's motive to participate in APEC and its implication still remains an area that deserves more thorough study. This

is by no means to say that the above mentioned researches are useless. They all make highly convincing arguments on the basis of solid research. However, they are found to be either too broad in scope, as the "macro" group is, to avoid having this issue overshadowed, or too brief, as the "micro" group is, to deserve to be described as thorough.¹⁴ As a phenomenon which reflects significant readjustments in Chinese foreign policy thinking, it is necessary to undertake more thorough study on China's motive to participate in APEC and its implication.

In this study, I intend to adopt an approach which combines elements of both approaches described at the beginning, but highlights domestic elements. I am inclined to view positively China's ability to accept and observe norms of the international community. I believe that China's participation in APEC indicates that there is a strong tendency for China to work together with its neighbours under commonly accepted norms of international behaviour. I argue that in the post-Cold War era, against the background of a fundamentally changed world and China's desire for fast economic development, China is moving away from the concept of balance of power to embrace regional collectivism by entering into cooperation with its Asia-Pacific neighbours.

Regional collectivism is an idea developed on the basis of the reality of Asia-Pacific economic cooperation. It is somewhat different from the existing theories of multilateral cooperation, such as regionalism or the so-called regime theory. Regional collectivism does not insist on such conditions as a region in its geographical and cultural senses for regional cooperation to be undertaken. But regionalism regards a region in its cultural and geographical senses as a key condition for cooperation.¹⁵ Regional collectivism refers to a group of members of the global community forming inter-state association on conditions other than those stressed by regionalism. Regional collectivism also tends to emphasize more the collective process of developing and maintaining commonly beneficial norms, rules and decision-making procedures than regimes made up of "sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations".¹⁶

Regional collectivism therefore describes a situation in which a group of countries that do not belong to the same geographical region work collectively to deal with issues that concern them all.

As indicated above, different perspectives have been followed in ascertaining the fundamental determinants of Chinese foreign policy. But as Michael Yahuda has pointed out, the overriding determinant during the PRC's first forty years was to secure a safe international environment to allow it to concentrate on domestic development. The tactic that was deemed to be most essential was to align with one of the super powers to balance off threats from the other.¹⁷ However, the PRC's APEC membership indicates that it has accepted that there is a strong necessity for it to revise its approach to its relations with its Asia-Pacific neighbours in the post-Cold War era. As rapid economic development has been put at the top of its political agenda, concepts of interdependency and cooperation with its Asia-Pacific neighbours are accorded increasingly more importance. This seems to highlight that the significance of balance of power is declining while that of regional collectivism is increasing in the post-Cold War era.

The Structure of the Thesis

The following study will prove that there is indeed a strong tendency for the PRC to embrace regional collectivism by examining both the process of building regional economic cooperation and the process of China joining the APEC. It is necessary to do so because a better understanding of both processes is important for people to see this point. Therefore, this study consists of two parts. Part one will determine the nature of both the region and the organisation. Part Two, which is the key part of this study, will examine how the PRC joined the APEC and why.

Part one will include chapters one and two. Chapter one will establish how an Asia-Pacific region came into being. The question it will answer is what made the APEC member countries, who in fact belong to different geographical and cultural regions, want to identify themselves as members of the same region. It will start by looking

briefly at the geographical characteristics of the so-called Asia-Pacific region. Then it will move on to illustrate what impact the historical evolution of the political and economic relations between these countries has on the emergence of an Asia-Pacific region. Chapter two will determine APEC's true identity and the reasons why it became the chosen format for regional economic cooperation. The question to be answered in this chapter is what form of economic cooperation the APEC countries want to undertake. It will look at the influence of a host of factors on the emergence of APEC.

Chapters three and four will make up part two. Chapter three will show how the PRC became an APEC member. The question to be answered in this chapter is how the PRC came to accept that it was necessary for China to join the APEC forum. This chapter will be focus on the domestic debate among the academics and support by politicians. It will also touch on the international effort to bring China into APEC. Chapter four will analyse those more fundamental reasons behind the PRC's decision to join APEC. It will examine these reasons that made China to enter into cooperation with a group of countries that were once its main enemies. It will focus on China's domestic economic needs, the change in China's international environment and issue of Taiwan.

In conclusion, I shall argue in chapter five that the PRC's decision to join APEC does signify that it intends to adopt a more cooperative approach to its relations with its Asia-Pacific neighbours. It also signifies that the PRC has recognised the significance of interdependency and cooperation and does consider it necessary to join the other Asia-Pacific countries to deal with issues confronting them through collective measures.

Research Materials

The research for this study was carried out in Britain. Though Asia-Pacific economic cooperation is a highly recent topic of discussion, the number of books written in English on this subject is quite large. The materials used in this particular research are a mixture of English and Chinese materials, and include books, journal articles and newspaper reports and commentaries. But I have paid more attention to

those works discussing the basic ideas, and those which make general and comprehensive studies of this region. These works can fulfil two purposes. One is that they make it possible for me to study the idea of economic cooperation in this region in its original form. The other is that general and comprehensive discussions on the Asia-Pacific region can help put the whole region into perspective. This helps me to gain a better understanding of not only the idea itself, but also the Asia-Pacific area as a region.

As far as researches on the basic ideas are concerned, Kiyoshi Kojima's *Japan and Pacific Free Trade Area*, Peter Drysdale's¹⁸ *US Congressional Research Report, International Economic Pluralism: Economic Policy in East Asia and the Pacific* are treated as primary resources as they are the pioneering works on this subject. As for the political relations in this region, I have come across a large amount of books and journal articles on them. I find some of them, such as Michael Yahuda's *The International Politics of the Asia-Pacific*, Gerald Segal's *Rethinking the Pacific*, and Richard H. Brown and William T. Liu ed. *Modernisation in East Asia, Political, Economic, and Social Perspectives*, extremely useful.

The research on China has been based mainly on Chinese materials, as the study wishes to present the argument for the PRC to participate in the cooperation process from a Chinese perspective. Such a selection of materials make it quite difficult to broaden the scope of materials covered. This is particularly true for the study on China's reactions to the early development of the idea of Asia-Pacific economic cooperation. I rely on *Renmin Ribao* (RMRB., People's Daily) as the main source of material for this period. This is because no books written by Chinese authors (let alone books written by foreign authors) on this topic have been found. Materials covering China's early reactions are also extremely rare. Since the first formal discussion of economic cooperation was in the second half of the 1960s, in China's case the heydays of the Cultural Revolution, academic research was totally stopped. *Renmin Ribao* (RMRB., People's Daily) is therefore the only source of materials to turn to.

As far as research materials are concerned, the situation became much better after economic reform started as academic discussion became less restricted and widespread. In addition to *Renmin Ribao*, other sources, especially academic journals, have become available. The journals that I have relied on include *Zhongguo Waijiao* (Chinese Diplomacy), *Zhongguo Zhengzhi* (Chinese Politics), *Guoji Wenti Yanjiu* (International Studies), *Shijie Zhishi* (World Knowledge), *Guoji Maoyi* (International Trade), *Guomin Jingji Jihuayu Guanli* (Planning and Administration of the National Economy), *Shijie Jingji* (World Economy). These journals, although either run or supported by the government, have their contributors who are either officials, members of government controlled research institutes, or senior members of government think tanks. The views expressed often reflected official positions. Beside, various yearbooks published by different Chinese institutions and books written by Chinese authors on general issues of China's foreign relations and foreign economic relations were extensively referred to. I have also used extensively government statements and official speeches on this issue. The discussion on Taiwan's position in the process was based on articles carried in Taiwan's *Zhongyang Ribao* (ZYRB., Central Daily), Hong Kong's *Tai Kung Pao* and RMRB.

1. See Gerald Segal and David Goodman ed., *China Rising: Nationalism and Interdependence*, London and New York, Routledge, 1997, pp. 1--5.
2. Lillian Craig Harris, *China's Foreign Policy Toward the Third World Countries*, New York, Westport, Connecticut, London, Praeger, 1985, pp. 1--16.
3. David Shambaugh, *Beautiful Imperialist: China Perceives America, 1972--1990*, Princeton, Princeton University Press, 1991.
4. For examples, see respectively Hans Morgenthau & Kenneth Thompson, *Politics Between Nations*, 6th edn., New York, Alfred Knopf, 1985; Alexander George, *Presidential Decision making in Foreign Policy*, Boulder, Colo., Westview Press, 1980; and Herbert C. Kelman, "Social-Psychological Approaches to the Study of International Relations", in H. C. Kelman ed. *International Behaviour: A Social-Psychological Analysis*, New York, Holt, Rinehart and Winston, 1965.
5. See Jonathan Pollack, *The Lessons of Coalitions Politics: Sino-American Security Relations*, Santa Monica, Calif., The Rand Corporation, 1984; and Robert Ross, "International Bargaining and Domestic Politics: US-China Relations Since 1972", *World Politics*, Vol. 38, January 1986, pp. 255--287.
6. See William Tow, *Building Sino-American Relations: An Analysis for the 1990s*, New York, Paragon, 1994.
7. See Michael Yahuda, *The International Politics of the Asia-Pacific, 1945--1995*, Routledge, London, New York, 1996, p. 93
8. Kenneth Lieberthal, "Domestic Politics and Foreign Policy", in Harry Harding ed., *China's Foreign Relations in the 1980s*, New Haven, Conn., Yale University Press, 1984, p. 43.
9. David Bachman, "Domestic Sources of Chinese Foreign Policy", in Samuel Kim ed., *China and the World: New Directions in Chinese Foreign Relations*, Boulder Colo., Westview Press 1989, pp. 29--32.
10. See Michel Oksenberg, "Mao's Policy Commitments", *Problems of Communism*, Nov.--Dec., 1976, pp. 1--26; and Michael Hunt, *The Genesis of Chinese Communist Foreign Policy*, New York, Columbia University Press, 1996.
11. Their angles are far apart. Yahuda argues that China lacks the will to act cooperatively because it does not have the domestic conditions to do so. Segal, on the other hand, argues that exposures to the outside world have not yet made the Chinese understand the necessity and importance of cooperative behaviour. For more details, see Michael Yahuda, "How much has China learned about Interdependence" & Gerald Segal, "Enlightening China?" in Gerald Segal and David Goodman ed., *China Rising: Nationalism and Interdependence*, 1997.
12. Ibid.
13. Stuart Harris, "China's Role in the WTO and APEC", in Gerald Segal and David Goodman ed., *China Rising: Nationalism and Interdependence*, 1997, p. 152. For more details about China's behaviour in the multilateral organisations, see also Samuel S Kim, "China's International Organisational Behaviour", in Thomas Robinson & David Shambaugh ed., *Chinese Foreign Policy: Theory and Practice*, Oxford, Clarendon Press, 1994, and Harold Jacobsen and Michel Oksenberg, *China's Participation in the IMF, the World Bank and GATT: Towards a Global Economic Order*, Ann Arbor, University of Michigan Press, 1990.
14. For instance, Stuart Harris' paper failed to do enough justice to this issue by lining it up with the issue of WTO.
15. Regionalism is defined as "the formation of interstate associations of groupings on the basis of regions". The emphasis is placed on both interstate association as well as a region in its geographical and cultural sense. Essentially, a region is a group of countries which are physically close and culturally identifiable.
16. Stephen Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables", in *International Organisation*, Vol. 36, Spring 1982, p. 186.
17. See Michael Yahuda, "China's Forty Years", *China Quarterly*, Vol. No. 1989, pp. 519--539.
18. Peter Drysdale's writings are perhaps are more useful for this research, since they tend to deal more with the structure of the cooperation mechanism and the political logic of it.

Chapter One. The Asia-Pacific: A Region of Unusual Traits

As East Asia became another centre of rapid growth in the world economy towards the end of the 20th century, people began to talk about a Pacific era, or Pacific century. The intensification of the economic and trade relations between the countries ringing the vast Pacific ocean and efforts to promote economic cooperation among these countries made the idea of an Asia-Pacific region became ever more widely accepted by business people, politicians, academics and journalists. Discussions on this topic therefore tend to look for the origins of the Asia-Pacific region in the development of the political and, especially the economic, relations among the concerned countries during the most recent half century.¹ In fact, the evolution of such relations over the past centuries played a significant part in the emergence of the Asia-Pacific region. On the basis of such evolution, the drastic changes taken place over the past two to three decades solidified the concept of an Asia-Pacific region in world politics and economy.

The idea of an Asia-Pacific region is highly unusual in the fact that it does not carry with the connotation as that attributed to Western Europe. It is founded by and large on the reality of the intra-regional political and economic relations. In order to illustrate this point, I will start this chapter by looking at the geographical characteristics of this region. This will be followed by separate studies of the evolution of the intra-regional political and economic relations. It will therefore include three sections. Firstly, the region's geographic and human characteristics will be outlined. Secondly, the history of the Asia-Pacific region will be reviewed, dwelling mainly on the intra-regional political relations between 1965, the year when economic co-operation was formally discussed for the first time,² and 1993, the year when the first APEC informal summit was held. It will highlight the impact of such major events as the normalisation of the Sino-US relations and the end of the Cold War on the evolution of intra-regional relations. Thirdly, it will look at the intra-regional economic relations in late 20th century.

1. 1. The Asia-Pacific Region--Some Basic Facts

"The politics, economics and strategy of any area are played out in a distinctive environment... The politics of the Pacific basin can be understood only if the geographic realities are appreciated."³ This is undoubtedly also true for the process of constructing regional economic cooperation. But for those who are dismissive of Asia-Pacific regional economic cooperation, one of their main arguments is that it lacks the basic elements that make it a region of nations. "As a concept, 'Asia-Pacific' makes little sense. Unlike East Asia or South Asia or Southeast Asia, it has no shared history or common cultural traits. Asia-Pacific is not even an accepted geographical entity."⁴

The most suitable description of the Asia-Pacific is that it is a region which is vast and abundant yet heterogeneous and rather fragmented. The most commonly accepted definition is that, as a region, the Asia-Pacific include both the Pacific rim countries (whose shores are washed by the Pacific Ocean) and those Southeast Asian nations who are geographically and culturally closer to the Pacific rim East Asian countries than to other regions.⁵ Taken together, the Asia-Pacific region is, therefore, made up of some 30 per cent of the world's land surface and hold some 40% of the world's population.⁶ The other most significant factor is the Pacific Ocean itself. According to the New Encyclopaedia of Britannia, at 165 250 000 square kilometres, it is more than twice the size of the second largest ocean, the Atlantic.⁷

Those who tend to dismiss the feasibility of conducting economic co-operation in this region argue that the Asia-Pacific region is too large and fragmented for that. Separated (though linked as seen by others) by the Pacific Ocean, communication is made more difficult between countries ringing the Pacific Ocean than between some of them and countries not considered as Asia-Pacific countries. For instance, they point to the fact that a person travelling from Beijing to Sydney will need more time than to travel to London. The distance between Hong Kong and Mexico City at 14,122 km is over one and half times of the distance from Hong Kong to Paris, which is 9,601 km .⁸

Another more persuasive theory arguing against conducting economic cooperation in this region is the heterogeneous nature of the Asia-Pacific region. There are 34 countries and a large number of areas under trusteeship. They stress that these countries have more differences than similarities with each other. Sharp difference is said to exist in many aspects. For instance, more than a thousand languages are spoken among the over 2.4 billion people. There are other more significant differences in the sizes of these countries, their populations and their wealth. Here are in terms of area all of the world's five largest countries, Russia, Canada, China, the United States and Australia. The rest of the countries, though much smaller than these countries, still have more differences than similarities in terms of both size and population. In addition, some of the world's richest nations exist side by side with some of the world's poorest ones. Huge historical and cultural differences are also found in this region. Moreover, their stress is put on the huge political and cultural differences among these countries. The countries are said to range from the most democratic to the most authoritarian. Religiously, all the world's main religions are practised in this region. But they tend to figure more prominently in different parts of this region.⁹

Big difference is also found in the possession of resources. The Asia-Pacific region is blessed with a wide range and large quantities of natural and cultivated resources. The vastness of the Asia-Pacific region bestows upon it enormous quantities of mineral resources. The Asia-Pacific region has its fair share of energy resources on a per capita basis as well. Even more importantly, this region is the largest producer of certain resources. For instance, some 60 per cent of the world's nickel and tin are produced here. The Asia-Pacific region contains some 70 per cent of the world's uranium reserves. Asia-Pacific's production of other resources, such as coal, iron ore, natural gas, oil and aluminium are also around 50% of the world's total.¹⁰

Though nature is generous in offering natural resources to the region as a whole, its distribution is by no means fair and even. Here, size plays the crucial part. Except for some smaller countries such as Indonesia and Malaysia which are rich in certain

individual mineral or energy items, the distribution of both mineral and energy resources favours the largest countries, United States, Russia, China, Canada, and Australia. But apart from these countries, the rest of the 20 some Asia-Pacific countries suffer from shortages of both mineral and energy resources. Certain countries even rely on other countries for the supply of some of the key resources. The classical case is that of Japan. Such a pattern of distribution naturally makes those resource-rich countries main resource-producing countries too.¹¹

But nature is much more even-handed in the distribution of another highly significant resource: food. Despite the fact that nature is not very friendly with the Asia-Pacific region as vast tracts of land are useless for food production,¹² food has never been a problem for the Asia-Pacific region. 60 per cent of the world's rice is grown in the Asia-Pacific states, with the United States, China, Indonesia, Thailand, Japan, Vietnam, the Philippines, and Korea as the leading producers. Wheat is important in the region and is also produced in large quantities. This is the case even with the American and Canadian production excluded. It accounts for 20 per cent of the world's wheat production, with China and Australia as the major wheat producers.¹³

In addition to cereals, fish is another staple food for this region. The Pacific Ocean, the world's largest, is an endless supply of seafood for the peoples in this region. Six of the top ten fishing nations are situated around the Pacific. Japan leads, followed by the United States, China, Peru, South Korea, and Thailand. Chile, Indonesia, the Philippines, and Canada are also significant fishers in Pacific waters. Taken together, they share some 50 per cent of the world's fish catch. Not surprisingly, the sea remains a vital source of food for the Asia-Pacific peoples. Fish production in the Pacific region can be substantially bigger than what is actually tapped. This can be proved by the absence from the list of Australia, Malaysia, and the Pacific micro-islands, countries with long coastlines.¹⁴

The vastness of the Asia-Pacific region also means that it covers several climate zones. The differences in climate seem to be a favourable factor. Apart from basic foods, there is a variety of cash crops made possible by such diverse climates. The Asia-Pacific countries are major producers of sugar, coffee, palm oil, cotton, rubber and tobacco. Here the varied climate, especially the tropical climate, carries fundamental importance. Climate has made possible huge production, yet less even distribution of the production, which tends to be concentrated in a much smaller number of countries. For instance, Malaysia accounts for 50 per cent of the world's total production of palm oil. Different cash crops also tend to concentrate in countries whose climates are suitable. For instance, coffee and sugar are the main cash crops for tropical countries in Southeast Asia and Latin America. 80 per cent of rubber is produced in Southeast Asia. China is the only main rubber producer outside this area, yet its production is concentrated in the southern most regions. Tobacco comes mainly from China, Japan and the Korean Peninsula.¹⁵

The above brief description of the Asia-Pacific region shows that the Asia-Pacific is indeed not a region of nations in its usual sense. It is a vast and abundant region with fundamental differences. Physically, it can hardly be regarded as a single and integrated region. Natural as well as political and economic conditions tend to group the Asia-Pacific countries into smaller groups. These smaller groups tend to be culturally closer to each other too. Long distances also exist among these groups. The only physical link is the world's largest ocean - the Pacific. This increases the level of difficulty in communication. The abundant yet unevenly distributed natural and cultivated resources seems to make it possible and necessary for the Asia-Pacific countries to undertake cooperation. But that tends to intensify the economic and trade relations between these countries only. That is not enough to make the Asia-Pacific a region.

1. 2. Intra-Regional Political Relations: The Past

The existence of the Asia-Pacific region, one can safely say, is very short. But the Asia-Pacific region is, to a large extent, shaped by the centuries of evolution of the relations between nations of this region, which started from that between the ancient nations of the Far East. While the relations between these ancient nations left deep influence on the future Asia-Pacific region, it was the attraction of this part of world as a centre for world trade and a source of much coveted goods that had attracted, first, the European colonists, and then, the imperialists to this region. The interactions between the local nations and the western countries, especially the imperialist contention in East Asia and over China particularly started the development of centre of international relations among the countries ringing the Pacific.

1. 2. A. The Oriental World Centred on China

To certain extent, the roots of the Asia-Pacific region can be traced to East Asia. For hundreds of years before European colonisation spread to East Asia, this region had an international system of its own. This system was centred on one huge nation--- China, thanks to her far more advanced civilisation. Due to the fact that China had by far a more advanced economy and a powerful central government keeping the country unified for most of the time, China's position was unrivalled by its much smaller and weaker neighbours. The country to country relations, as a result, was very much under China's influence. As a result, there evolved a relationship between a metropolitan state and tributaries.¹⁶ But China also faced challenges, sometimes serious challenges, from outside its boundaries, particularly from some of the nomadic peoples in the so called Inner Asia.¹⁷ But Chinese civilisation was solid enough to accommodate and assimilate such challenges while enabling China to leave long-lasting influences.

Through many centuries, ancient China was ruled by different dynasties, some lasting longer than others. The biggest concern for the successive Chinese emperors, however, was to maintain and extend the harmonious environment for their rule.¹⁸ As far as international relations were concerned, the idea of harmony was to prevent any

nation from threatening the emperors' rule. Various policies were followed at different times to achieve this. The first was to extend the emperors' rule. For instance, during the Han Dynasty (206 BC to 220 AD) and particularly during the reign of Emperor Han Wu Di, territorial expansion was carried out wherever possible.¹⁹ This was true for China's most powerful dynasty, the Tang Dynasty, as well.

As outward expansion petered out, the second policy, that to maintain an international order centred on China, was put in place. This policy was applied to those areas which were too far and too difficult for the Chinese emperors to sustain effective rule. Under such an order, the nations under Chinese influence were incorporated into the so-called Tributary System. While these nations enjoyed support and various privileges, such as the trading privilege, they were supposed to be equal to each other. Whenever disputes broke out, they would have China as their arbiter, otherwise China would throw her weight behind one against another. In order to exchange for China's support and the various privileges, the rulers of these nations would have to assure the Chinese emperors their allegiance by paying tributes to the Chinese emperors. The tributary system was most successful in what is Southeast Asia today.²⁰ China also used her power to create vassal states. This was most successful in Korea. By throwing her weight behind one kingdom against another, Korea was kept a vassal state until almost the modern age.²¹

The third policy for such an international order was to pacify those nations which China could not subjugate through the above two policies. According to such writers of Chinese history as Morris Rossabi and Wang Gungwu, China applied the tributary system to these nations too. Yet the tributary system was different in the sense that these nations enjoyed more benefits, and tributes were paid to China to exchange for more returns and to maintain favourable trading relations with China.²² As for those nations or tribes refusing to be incorporated into the China-centred international system and constantly harassed China, expeditions were carried out to remove them as threats.²³

The effect of the above policies depended very much on the Chinese emperor who executed them. Whenever China had a powerful emperor, such policies tended to be more successful than otherwise. Nevertheless, ancient China managed to sustain an international order centred on her by applying these policies. Although China failed to incorporate all of the Inner Asian peoples into this order and establish itself as the power arbiter in this region, she was quite successful in East and Southeast Asia. In East Asia, Japan and Korea came under Chinese influence very early in ancient times. Japan became integrated in the evolving pattern of Asian international relations after the eighth century.²⁴ Conscious of Chinese power for centuries, Japan agreed to what China called a tributary relationship in 1404, which benefited Japan greatly. Korea was used as a land bridge for Japan to reach China. As a result, Korea was put under pressure from both China and Japan. But as mentioned above, Korea was not dominated by Japan due to its close relations with China underlined by the tributary system.²⁵

Different writers of Chinese and Southeast Asian histories have advanced different arguments about China's role and influence in Southeast Asia. Some argued that China's influence in Southeast Asia was very marginal because China missed the opportunity to leave permanent influence in this region between the third and sixth centuries after the Han Dynasty was brought down. D J Hall is one of them.²⁶ Others maintain that China was the arbiter in Southeast Asian international relations. C. P. Fitzgerald is one. Wang Gungwu is another. For instance, Wang argues that China succeeded not only in turning most of the nations in Southeast Asia into vassal states, but also maintained such a status quo in this region by exhibiting its power. This Sino-centric international order, however, started to wane before western influence spread to this region.²⁷ But the China-centred order solidified one of the key features of the intra-regional relations, the unbalance between China and the rest of East Asia countries. This feature still affects today's Asia-Pacific region, particularly Southeast Asia.²⁸

1. 2. B. Colonial Dominance and Imperialist Rivalry

A new international system started to emerge as European colonialism spread to this region starting from 16th century. As European colonisation expanded, international relations in this part of world began to move into a completely new phase. It was characterised by the rivalry for spheres of influence between several imperialist powers from outside this region. The rise of such Asia-Pacific powers as Japan, the United States and Russia later made the imperialist rivalry further complicated and added a Pacific dimension to global international relations. More importantly, such rivalry was to draw the contour of the political map for the modern Asia-Pacific region.

Colonial Expansion

"The European impact on the Pacific was slow to develop. ..., it struck out gradually from its initial penetration in South-east Asia in 1509".²⁹ The Europeans came for trade, mostly with China. This was because China was regarded as the developed country of that time.³⁰ When the first Europeans, the Portuguese, came to this region, they did not come into direct contact with China. As mentioned above, China managed to establish a Sinocentric international order in this region to serve her own interests. Yet China's northern borders were vulnerable to threats from the nomadic tribes in Inner Asia. In order to deal with these threats, successive Chinese emperors had to focus on the North. In the Ming Dynasty, the Yong Le Emperor (1402--24) even had to move his capital from Nanjing in the South to Beijing in the North. This heralded the start of the wane of Chinese influence in Southeast Asia. Though China did not abandon Southeast Asia immediately,³¹ yet by the time when the Europeans came, the Sinocentric international order in Southeast Asia was by and large left on its own.

The European imperialists came in different groups. The momentum of the rivalry shifted from the early colonising countries to the latter ones. This was very much the result of the development in both the European politics and in science.³² The early European colonisation was meant to service home demand, and was subjected to the sway of rivalry for supremacy back in Europe.³³ Portugal, Spain and the Netherlands,

which took turns to become the dominant force, were involved in the early rivalry. They mainly competed for the monopoly of trade. Their attention was therefore focused more on those spots with great strategic importance for the spice trade. The Spaniards focused on the Philippines while the Dutch concentrated on Java.³⁴ But the rivalry gradually turned its attention to territorial domination, especially since France and Britain began to be involved. However, territorial rivalry and expansion between these countries in this stage were secondary to the satisfaction of domestic demands.³⁵ But it was only those European colonisers, who intended to establish a permanent presence, left lasting influence on the pattern of the future Asia-Pacific intra-regional international relations.

As the rivalry between western European colonisers expanded in today's Southeast Asia, a new dimension, which was set to usher in a new era in the affairs of this region, was being added to the colonial expansion in East Asia. The new dimension was most distinguishably characterised by the involvement of such colonial powers whose interests, due to geographical reasons, were to make them permanent participants in this region's affairs. They were Russia, the United States and Japan. Similar to the western European colonial powers, the new powers also became active participants at different times.

Among the new powers, Russia was the first to engage in expansion in this region. For much of the 17th century, Russian expansion to the East was most noticeable. The rapid expansion by the Russians through Siberia was given a significant spur by Peter the Great's desire to turn Russia into a naval power.³⁶ But another reason for rapid Russian eastward expansion, which perhaps carried even more short-term importance, was an economic one. Trade with this region came to occupy a highly significant place in the Russian economy. By the late 17th century, up to one-third of total Russian state revenue came from the Far East fur trade.³⁷ In order to support the trade, a military system was quickly set up.

Due to such strongly motivated expansion by the Russians, clash between Russia and China could only be a matter of time. The Chinese managed to keep the expanding Russia out of much of its frontier area, and for over a hundred years did not have to meet any serious Russian challenge.³⁸ But for the first time China had a rival in the Asia-Pacific region that was also large and land-based.

The most extensive colonisation in this region was that of the British. While Russians were consolidating their position in this region, a different and longer-lasting colonial system was practised by Britain in North America and South Pacific. In these lands, where the local population was sparse, the huge influx of European immigrants could spread out virtually unopposed. In North America, Britain overcame France to push her empire westward. In Western Pacific, the British also pushed the Dutch aside by taking over trade routes that would make trade with China possible. British colonisation of North America and the South Pacific greatly broadened people's vision of the Pacific, and the 'South Seas',³⁹ the title used by Chinese and Japanese for the huge waters between the Americas and Asia, was given its true meaning.

The most significant legacy of British colonisation for the international relations of the Asia-Pacific region was the emergence of the United States. Unlike the other three main British colonies in the Pacific region, Canada, Australia and New Zealand, the crown subjects in what was to be the United States revolted in 1776 and pushed to the Pacific coast with their own priorities. Before independence trade between the American east-coast colonies and Asia was limited and largely under British control. Once the United States came onto the scene, the move to the Pacific, like that of Russia, was both on land and at sea. But it was the land base that was eventually to provide the firmer footing for its expanding interest in the Pacific. The American movement was also fast. Within 50 years, the United States came to have a Pacific dimension. In this process, the 1848 gold-rush in California gave the sharpest pull to the American interests in the Pacific, laying the foundation for a broadly based economy in the area.⁴⁰

Thus after almost three and half centuries, western expansion and colonisation in the Far East had put in a new international order dominated by western powers. International politics of Europe and of the Pacific had come into direct contact. Incidentally, the extent of the immense Pacific basin was defined. The busy trading centres in the so-called South Sea had fallen into the hands of the European colonists. The "imperialist expansionists were by and large in position to further plunder their preys".⁴¹ In particular, Russia and America, two of the future most influential powers, were ready to involve deeply in the affairs of this region. The result was not only the increase in the number of actors and the increased complexity in this region's affairs, but also the seed of a agenda of international relations of the Asia-Pacific region.

Imperialist Rivalry

Once colonialist occupation was replaced by imperialist competition, international relations in this part of the world began to assume new features. The most important feature was that competition became increasingly "localised". In other words, the map change in this region would no longer follow the rise and fall of the colonial power. Since the middle of the 19th century, the main feature of the international relations in this part of the world was increasingly characterised by heated competition and rivalry between the imperialist powers. However, the purpose of such competition changed from the seizing of strategic trade bases to the expansion of spheres of influences in this part of the world. Competition was for both land occupation and political domination. The driving force behind this was the development of commercialism and capitalism in Europe and America, which forced the powers to seek reliable, secured source of raw materials and labour on the one hand, and stable markets for their products on the other.⁴² The so-called "localisation" was further confirmed by the rise of Pacific powers, particularly Japan and the United States. These developments were earlier signs of international relations with Pacific characteristics.

The focus of the competition was shifted to what is today's Northeast Asia. China was the main target. Confronted by mighty challenges, Qing China was forced to change, yet change was limited to introduction of western technologies and equipment. Qing China refused to carry out thorough-going reform to its political and economic systems, and paid heavily for it.⁴³ Certainly China was not the only target of the expansionists' "gun boat policy". Japan was forced to open its market as well.⁴⁴ Unlike China, Japan chose to adapt to the new situation by applying western ideas to its development. The result was a rapidly developing Japan. Not surprisingly as Japan grew stronger, it also began to see the political as well as the economic usefulness of expansionist colonisation. The obvious target for Japanese imperialism, as centuries ago, was China. But Japan must take over Korea in order to have a land base to challenge China. So through treaties forced upon China, Japan dominated Korea and, after defeating Russia in the 1904-5 Russia-Japan War, occupied Northeast China, and became the most active imperialist power in this region.⁴⁵

Japan's victory over Russia and its occupation of Northeast China consolidated its position as a big power. Yet long before Japan came onto the scene, the United States, after the Civil War, began to secure a position for itself in the affairs of this region. It conducted the whole matter in a rather considered manner.⁴⁶ "It was not by chance that the United States was the first to force open the Japanese door."⁴⁷ But in the last half of the 19th century the United States seemed more concerned with linking its west coast with Asia with a string of bases, a process which was by and large completed in 1889 when the United States took over Hawaii, the Philippines and Guam. The trans-Pacific cable and the railway link to the Pacific further underlined the focus of the US interests in the Asia-Pacific, setting the stage for new horizons and priorities for foreign policy.⁴⁸

By the turn of the century, the challenge of China ceased as the imperialist expansionists had by and large consolidated their spheres of influence in China. Soon the European imperialists were plunged into World War One and their attention on

China and the Far East was almost totally diverted to that war. The decline of the old European powers' influence was sharply contrasted by the further rise of the "local" powers, particularly Japan. The outbreak of World War One gave Japan the opportunity to further expand and consolidate its sphere of influence in China.⁴⁹ "With the rise of Japan and the United States, and the globalisation of international trade, the Pacific was becoming a much more integrated area... new states, such as Australia and Canada, were emerging as important actors alongside the stronger powers of Russia, the United States, Britain, and Japan."⁵⁰ More importantly, the "local" colour of the ties between these nations grew stronger.

The Inter-War Years

The period between the two world wars saw further development of Asia-Pacific dimension in the world affairs. This was predominantly underlined by further Japanese expansion in East Asia. The end of World War One signalled the start of the wane of the old European imperialist powers. Though their grip on their colonies in East Asia remained temporarily intact, these powers, particularly Britain, were no longer able to prevent their positions from being challenged. The United States, the region's other power with far more potential to influence its affairs, became increasingly focused on affairs in its backyard. Russia, whose ambition met heavy defeat when it was just about to penetrate deeper into the affairs of this region, spent most of the period engrossed in domestic and European affairs. In sharp contrast to this, the militarist Japan managed to secure a new status quo that granted it greater recognition, and to expand further its sphere of influence. China and the colonies of the western powers in this part of the world became ripe targets for Japanese imperialism.⁵¹

But Japan's expansive behaviour also began to cause disruption in the order of this region. This was most challenging for Britain and the United States. In order to deal with it, they recognised Japan's big power status and tried to contain it as well. The 1921 Washington Naval Conference attended by the United States, Britain and Japan

led to the 1922 Naval Treaty. This was the first limited attempt at the idea of multilateral arms control in this region. The treaty was certainly intended to restrict Japan's seemingly unstoppable expansion, but it also enabled Japan to focus on internal development to prepare it for future conflict with the United States.⁵² Such developments Such developments was reflected in the academic world as well. The Institute of Pacific Relations was founded in July 1925 "devoted to consultation and research directed at reducing some of the region's more pressing tensions".⁵³ Japan was not prepared to accept the restrictions either. As its interests spread from China to Southeast Asia, Japan began to set up in western Pacific some kind of regional order under its domination in the 1930s. This was the Greater East Asia Co-prosperity Sphere. That was once again by chance the first conscious initiative to give an identity to this region. But it was an identity with Japanese deep imprints.⁵⁴ Such expansionist activities would naturally make Japan a member of the Axis in World War Two since its interests conflicted with those of the Allies.

As it has been indicated above, the industrial revolution and the development of capitalism in Europe ushered into the Far East a new type of colonialism. It put more emphasis on the expansion of spheres of control in order to satisfy the home demand for cheap labour, raw materials, and stable markets. This made the colonised nations figure more prominently in the metropolitan states' calculation, as their internal stability and external safety were now more closely related to the interests of these states. This made it necessary for imperialist powers to deal with issues of this region locally. The rise of the United States, Russia and Japan, and the rivalry between them in particular, further underlined this development. This led to the first regional collective attempt at dealing with regional issues in the form of the Washington Naval Treaty. Japan tried to organise the region's affairs by the Greater East Asian Co-prosperity Sphere. Such developments was set up in clearly indicated that the affairs between the countries ringing the Pacific assumed more and more regional colours.

1. 3. Intra-Regional Relations: The Present

As far as the evolution of a regional identity was concerned, the outbreak of World War Two brought it to a sudden halt. After the war, there emerged a bipolar world system, which sank the whole world into a Cold War between two ideological camps. The Communist victory in China, and the subsequent Korean War, prompted the United States to adopt the policy of containment. This policy was brought to a new level after the outbreak of the Vietnam War to prevent the rest of East and Southeast Asia falling to communism like domino.⁵⁵ However, since the confrontation between the United States and the Soviet Union was centred in Europe, their control over their Pacific rim partners were not as tight as that in Europe. This made possible changes that were to affect deeply the pattern of the relations between these countries. The most significant effect of the changes was the reduction of tension and animosity in among these countries. This added an important building block to the Asia-Pacific region.

1. 3. A. The Post-War Military Alliances

The Asia-Pacific region was engulfed by both hot and Cold Wars in the first two and half decades after 1945. The ultimate purpose of these wars was to reach some of kind of balance in power along the ideological divide. However, balance of power in this region was different in character from that in Europe. This can be seen in the military alliances set up in this region by the Soviet Union and the United States. They were alliance of defensive nature. Cold War division was, therefore, first broken in this region.

As far as the Sino-Soviet Alliance was concerned, it was meant more to confront the perceived threat from the United States and Japan, than to co-ordinate actions to expand the Communist sphere of influence.⁵⁶ The American-Japanese military alliance and the outbreak of the Korean War made both the war-torn Soviet Union and the newly born People's Republic of China find each other as the natural allies to fall back on. Although concerted efforts were made during the Korean War, it was not done in the form of a multi-lateral alliance. Such concerted efforts was practically non-existent

during the Vietnam War. Besides, Mao's PRC was not prepared to accept Soviet dominance either.⁵⁷

The United States did try to bring in multi-lateral alliance systems. ANZUS, a military alliance between Australia, New Zealand and the United States, and SEATO, the Southeast Asia Treaty Organisation, were set up in the 1950s. However, neither of these alliances played any major role in the conflict with the communist camp. Neither of them lasted until the Cold War formally ended.⁵⁸ This was allowed to happen partly because the alliances themselves were not entirely appropriate for this region, and partly because the Americans focused their attention on bilateral alliances with such key strategic partners as Japan, South Korea, Taiwan, the Philippines and Thailand, and treated these alliances as extension of its policy of containment.⁵⁹

Though efforts were made by the two super powers to dominate and organise international relations in the Asia-Pacific region along ideological lines, such efforts were merely for control, and had distinctively defensive characteristics. China and the Soviet Union did not attempt to project revolution throughout the Asia-Pacific region. The two multi-lateral alliances led by the United States were too loose to be spearheads of attack on communism. What this meant was that balance of power existed in the Asia-Pacific region, yet the region was not divided up into two tightly connected camps despite of the existence of a clear-cut Cold War division.⁶⁰

What is worth noting is that, though neither alliance systems attempted to deal with international trade and economic issues as there were hardly any, the super powers did provided their weaker partners both badly needed development assistance and markets. This enabled the weaker partners to create the basis for future economic take-off. The super powers also guaranteed to a large extent their weak partners' security through maintaining the power balance in this region. This provided the crucial public good for economic development to take place in the weaker countries.⁶¹

1. 3. B. International Relations Since 1965

As far as the process of building economic co-operation in the Asia-Pacific region is concerned, the year 1965 went down into the history of this process as an important milestone. It was in this year that the effort to give the region an identity was restarted. The idea of undertaking such co-operation was for the first time formally discussed. The discussion was initiated by a Japanese economist called Kiyoshi Kojima. But it followed a different direction this time. The idea was to form a free trade area among the Pacific developed countries, Australia, Canada, Japan, New Zealand and the United States. But the Southeast Asian developing countries, which had been a traditional market for Japanese export and source of raw material supply, would be included on the basis of affiliation.⁶²

It was no surprise for the idea to come from Japan. In the middle of the 1960's, Japan's economy was again taking off, yet the initial success of the European Economic Community (EEC) made the Japanese feel they were at the risk of being left in the cold by other developed countries, which would endanger Japan's economic development.⁶³ But the idea was put forward at a rather inappropriate time. In 1965, international relations in the Asia-Pacific region were still in the shadow of the conflict between the two ideological camps. The policy of containment was sinking the US deeper into the quagmire of the Vietnam War. Economically the idea was also found, as Kojima himself admitted, too premature to win instant support from academics of the targeted countries. They were not sure if their countries were going to receive as much benefit from it as Japan would do.⁶⁴ Nevertheless, the discussions indicated that people once again started thinking that special relations existed between the Pacific rim countries.

But these countries were to witness two significant events that were to have strong impact on the characteristics of the evolution of the relations between them. One such development since 1965 was the emergence of the Association of Southeast Asian Nations (ASEAN). The other major event, which helped change the direction of the development of the international relations in the Asia-Pacific region, was the

rapprochement between the People's Republic of China and the United States. These events turned out to have had far-reaching impact on the intra-regional relations.

The Significance of ASEAN & Sino-US Rapprochement

The establishment of the Organisation of the Southeast Asian Nations (ASEAN) in 1967⁶⁵ marked a much more concrete and substantial process for the practice of regional collectivism as striking its roots as the discussion of economic co-operation among the developed Pacific countries continued. The founding ASEAN members, Indonesia, Malaysia, the Philippines, Singapore and Thailand, realised while consolidating their independence that common difficulties of economic backwardness and internal instability required them to work together. ASEAN, therefore, was meant to promote economic prosperity and to strengthen internal stability through cooperation.⁶⁶ The significance of ASEAN as an attempt at cooperation did not lie in the amount of achievement made in promoting social, economic and cultural progress in its member countries. What makes it significant is that it served as an important reference point for future development of regional collective structures.⁶⁷ As for ASEAN itself, its set-up put regional collectivism into practice.

The impact of Sino-US rapprochement on the emergence of an Asia-Pacific focus in the affairs of this region was much quicker to manifest than that of the ASEAN. The impact was mainly reflected in a big reduction of tension. As the Sino-US relations improved, Cold War confrontation in the Asia-Pacific region was turned into US-Soviet confrontation plus Sino-Soviet confrontation. The Asia-Pacific region entered into a period of tripolarity.⁶⁸ Though changes in Sino-US relations only helped to prevent the fundamental power balance between the two super powers from collapsing, they enabled China to be seen in a different light by countries in this region. The political and economic relations between China and a large number of Asia-Pacific countries began to improve. Due to China's position and influence in this region, this was highly significant.

Before contacts were resumed between these two countries, tension in this region stemmed mainly from two sources. The first was the ideological struggle in the Asia-Pacific Region. Countries were roughly divided up into two groups, the Communist countries and the capitalist ones. The second was disputes outside the ideological sphere, i.e. disputes over territorial and ethnic issues. As obstacles to the development of intra-regional political relations, they were watered down once the 1972 Shanghai Communiqué was signed. This was born out by significant changes in the intra-regional relations.

The first major change was that diplomatic relations between the PRC and most of the Asia-Pacific countries began to normalise.⁶⁹ Diplomatic relations between all of the Asia-Pacific developed countries other than the United States and the PRC were normalised as the Taiwan issue did not feature so prominently, albeit Japan had to wait a little longer for a new government to put aside the Taiwan issue. The development of political relations between the PRC and the ASEAN countries was more difficult as it was hampered by both ideological and non-ideological issues.⁷⁰

The relations between the Chinese Communist Party and the Communist Parties in the ASEAN countries was a highly sensitive issue in the relations between China and these countries. Some of these parties were engaged in armed rebellion against the authorities. Like the Vietnamese Communist Party in the 1960s and early 1970s, these Communist Parties were important to the PRC for both ideological and strategic reasons. When state-to-state relations began to improve, the importance of the Southeast Asian Communist Parties declined. Although Chinese moral support continued to be broadcasted to their comrades in Southeast Asia, expressions of revolutionary solidarity and the actual provision of aid in the form of arms and training were cut down.⁷¹

One of the most thorny non-ideological issues that had plagued the relations between the PRC and some ASEAN countries was the 13 to 14 million Chinese in these countries. Their presence and control of the local economies made them the envy of the

local population. Incidentally, these overseas Chinese had strong influence over the Communist Parties in these countries, with some of their top leaders being Chinese.⁷² The overseas Chinese therefore were a thorn in these countries' relations with China. With the improvement in the political relations, however, the efforts by some of the Southeast Asian countries to integrate the Chinese into their societies were assisted by China, who signed treaties with countries like Malaysia and Thailand encouraging the Chinese to become part of the local community.⁷³ In addition, the PRC also became one of the strongest supporters of the idea of ASEAN and neutralisation of the Malacca Straits.⁷⁴ Although there were also other important reasons for the relations between the PRC and some of the ASEAN countries to improve, yet Sino-US thaw provided the basic underpinnings for these relationships to move forward.⁷⁵

Improved Sino-US relations also had positive effects on the reduction of tensions in the wider intra-regional relations. In Northeast Asia, the signing of the Shanghai Communiqué in 1972 introduced the initial signs of relaxation in the tense relations between the two Koreas. Both these countries took important foreign policy initiatives to reduce tension and to co-exist in peace both on the peninsula and in the wider international community.⁷⁶ Significant changes also took place in the relations between North Korea and Japan. "Though they are not yet normalised, the impact of détente (between China and the United States) has been great enough to raise hopes of eventual normalisation."⁷⁷ Though such positive initial signs did not lead to concrete results at this stage, they indicated that the Sino-US thaw did have some positive impact on the Korean issue.⁷⁸

Sino-American normalisation also had indirect, albeit significant, impact on the pattern of political and strategic relations among the countries of ASEAN.⁷⁹ The United States was able to pull out of Indochina without disrupting fundamentally the strategic balance in the whole region. But the success of communism woke the ASEAN countries to the fact that they needed to close ranks. "These dramatic events, particularly the successive fall of Phnom Penh and then Saigon, in April 1975, concentrated

governmental minds. It reinforced a sense of shared predicament;..."⁸⁰ Although the ASEAN countries were more concerned with their own internal security, yet communist success in Indochina made these countries identify in the Declaration of ASEAN Concord the Association as a collective security organisation.⁸¹

The reason that the ASEAN countries put the emphasis on the consolidation of internal security was that they were concerned that a unified Vietnam, strengthened by huge amount of captured US arms, would widen its sphere of influence through support for the Communist Parties in their countries. Vietnam's declaration of support for the "revolutionary struggles of the Southeast Asian peoples" convinced the governments of ASEAN countries that Communist Movements in their countries were "aided by outside powers [a locution meaning the Socialist Republic of Vietnam] whose aims are to change the political development of several countries".⁸² Such perception by the ASEAN countries spurred them "to develop rapidly plans to increase the substance of the Association's cooperation, with major emphasis being placed on promoting economic development"⁸³ ... to prevent internal insurgence.

Generally speaking, the removal of enmity between the PRC and the United States not only put confrontation behind the two former opponents, it seemed also to have two more positive effects on relations within the Asia-Pacific region as well. Tension was reduced in this region as a whole and attention was more focused on Vietnam and the Soviet Union. Relations between the two Koreas and between North Korea and Japan became less tense. The sensitivity of the Korean issue therefore became somewhat dulled. Secondly, state-to-state relations between China and the Southeast Asian nations were improved. This helped reduce their suspicion of China, and also focused their attention on Vietnam as the immediate threat. This focus led to greater unity among them as well. The significance of these developments was that they allowed the Asia-Pacific countries to develop an agenda of relations quite exclusive to this region against the

background of continued confrontation between the super powers. They made the regional focus of relations between the Asia-Pacific countries stronger.

(2). The Demise of the Soviet Union and the Asia-Pacific Region

If the Sino-US normalisation was instrumental in improving the political situation in this region in the 1970s, the end of the Cold War after the demise of the Soviet Union highlighted the need for the Asia-Pacific countries to develop collectively a clear-cut regional agenda to deal with issues that have been in existence all along. This was, of course, closely linked to the intra-regional political relations in the 1980s. The tripolarity appeared in the early 1970s grew further as China adopted a more independent approach to its relations with the super powers in this period. The Cambodian issue kept the ASEAN countries united diplomatically, yet some of them still saw China as a main threat. But China's reform and open policies made possible further improvement in its relations with the Asia-Pacific countries.⁸⁴ But it was the demise of the Soviet Union that gave the final push for these countries to adopt regional cooperative measure to deal with issues affecting them.

The end of the Cold War led to "a phenomena in which one is hard-pressed to find a distinctively defined area of imminent conflict, either ideological or military",⁸⁵ and the successful signing of the nuclear treaty between the United States and North Korea removed the most dangerous flashpoint. But the United States, while remaining the most powerful country in this region, was too exhausted to single-handedly control this region.⁸⁶ Yet regional issues and bilateral issues with strong security colours remain as the dominant issue in this region's international scene.

One of the issues is the re-militarisation of Japan. Though Japan was still under strong US influence, yet as a world economic superpower, it already indicated its wish to become a political power. It found irritating the fact that Japan had to take orders from the United States while the later was becoming increasingly dependent on

Japanese money to carry out its international actions. Japan's demands for a political position commensurate with its economic power were getting louder and louder. Meanwhile Japan continuously increased its defence budget. It had the fourth largest defence budget in the world. The growing Japanese military power appeared to be encouraged by the United States, who found Japan as useful supplement after the Cold War.⁸⁷ This caused concerns in both East and Southeast Asian nations.

Perhaps the most worrying issue is China's position and behaviour in this region. China's rapidly growing military power supported by a booming economy has already caused concerns among its Asia-Pacific neighbours. One of the causes of concern was the disputes over the ownership of the Spratley Islands between China, Taiwan, Vietnam, the Philippines, Brunei and Malaysia, and between China and Japan over the Diaoyu (Senkakus) Island in the East China Sea. As far as the Spratley Islands were concerned, although the dispute has not led to any big-scale military conflict in the region, yet China's tough stance has made it a sour point in the intra-regional relations in western Pacific.⁸⁸

As another development since the end of the Cold War, the normalisation of the relations between China and Vietnam after more than ten years of hostility, also caused concern among the ASEAN countries. For instance, the Indonesian Armed Force Chief, General Try Sutrisno, warned that both Hanoi and Beijing still maintained socialist systems and upheld Marxist ideology that could affect a new rapprochement after the Cambodian issue was completely resolved. A Sino-Vietnamese entente was thought to be capable of posing new threats to Southeast Asian security. But the ASEAN countries are more concerned with China as a possible threat. They have adopted a two-pronged policy: to balance off such threat by incorporating Vietnam as a member while try to engage China in a multi-lateral fashion.⁸⁹

ASEAN itself also faced potential difficulties. The changes in the general situation in the Asia-Pacific removed one of most important unifying factor for ASEAN eroding

the Association's political unity. This was because it was thought that ASEAN countries might turn their attention to their own economic development. This tended to localise these countries' focus of interests. For instance, it was thought that Thailand might see its future more as a centre for Indochinese development than in co-operation with such insular partners as Indonesia and the Philippines. Malaysia and Indonesia could focus on developing a new Malacca Strait regime.⁹⁰

The Asia-Pacific countries recognised the potential danger of these issues. More and more countries felt that what was needed was new measures that were capable of dealing with these issues. They had begun contemplating collective measures. A host of ideas were put forward by senior officials of various countries of this region. Officials from the ASEAN countries proposed a regional forum that would include either the ASEAN countries and the other major countries of this region, or one that would be consisted of all the Asia-Pacific countries. Officials from the Asia-Pacific developed countries also advanced proposals. They want to expand the scope of the Asia-Pacific Economic Cooperation forum (APEC), the multilateral economic forum in this region, to cover security issues.⁹¹ Certain ASEAN countries also expressed similar thoughts. These proposals indicated that political recognition of the necessity for a regional collective structure to deal with security issues was on the rise.⁹²

Concrete actions followed closely the growing recognition of the necessity for regional collective security. In accordance with a decision of the 1992 ASEAN summit, meetings between ASEAN foreign ministers and their dialogue partners devoted to discussions on this region's security issues had followed these foreign ministers' annual meetings. And the number of ASEAN dialogue partners also increased. These meetings could not have been possible in the Cold War years, and undoubtedly made a meaningful contribution to increase understanding between the partners in dialogue. In 1993, the ASEAN Regional Forum (ARF) was set up to provide the Asia-Pacific countries with regularised occasions to discuss some of the region's security issues.

The to devise regional mechanisms to deal with regional issues picked up momentum after the Cold War, and the concrete actions taken by a growing number of Asia-Pacific countries indicated that regional, collective measures would be the first choice to be considered in efforts to deal with issues, particularly security issues in the post-Cold War era. "The Asia-Pacific region is ready for (collective regional) forums precisely because... countries in the region are prone to think more in terms of common security, a common market and common interests in Pacific co-operation..."⁹³ This is very much a reaction to the region's changing political situation, in which the US's influence has declined while the influence of China and Japan needs to be accommodated. The increasing awareness of the necessity for and convergence of opinion on collective thinking became one of the main underlying factors for the emergence of a regional focus among the Asia-Pacific countries.

1. 4. Economic Inter-dependence and A Regional Focus

The previous section has demonstrated that as a result of the major changes in the intra-regional political relationship, Asia-Pacific as a region has evolved a pattern of relations that is increasingly focused on this region's affairs. However, this is not the only reason that a clear focus is emerging in the affairs of this region. Since the 1970s, another dimension has been added to the evolution of the intra-regional relations. That is the ever expanding and deepening intra-regional trade and economic relations. The growing economic importance that these countries have for each other has further strengthened the tendency for them to regard their relations with each other as special.

This growing economic inter-dependence is derived from a unique type of production and trade relations that has developed over the years among these countries. This region is home, not only for major economic powers like the United States, Japan and "high flyers" like the NIEs, but also for such rapidly developing countries like Malaysia, Thailand and China. This has made it the fastest growing region in the world. A key factor for the fast development has been the region's inter-dependent pattern of

production. This has increased the importance that these countries have for each other as trade partners. This section will demonstrate how the economic and trade relations between these countries have affected the emergence of an Asia-Pacific region.

1. 4. A. “Flying Geese” and Asia-Pacific Production Relations

A special type of regional production pattern has made the Asia-Pacific countries depend more on intra-regional forces for economic growth. This pattern, often nicknamed the “flying-geese” pattern which is especially salient among the Pacific Asian countries, is based on the comparative advantages enjoyed by these countries. The so-called “flying geese” pattern was first used by Japanese economists to underline the leading position of Japan in the economies of this region. What it describes is a process through which a production cycle starts and finishes.⁹⁴ In its original form, it studies the changes that takes place in specific industries in specific countries. However, the “flying geese” pattern has since been extended to study the dynamic changes in the industrial structure, that is, the rise and fall of different industries, in specific countries, and further to the shift of industries from more advanced countries to less advanced countries.⁹⁵ As explained by Ippei Yamazawa, the principal determinants of a country’s comparative advantage, which determines the stage of its development, include factor endowment and the stage of industrialisation it has reached. Foreign direct investment (FDI), is regarded as capable of helping increase the level of industrialisation through the transfer of more advanced technologies.⁹⁶

In the Asia-Pacific region, a “flying geese” pattern in the third sense, that is the transfer of industrial activities in the form FDI, has come into being. The different stages of economic development in the Asia-Pacific region can best be visualised in the following flying geese pattern: the United States and Japan are in the lead followed by the NIEs, Hong Kong, Singapore, South Korea and Taiwan. Chasing the NIEs are Malaysia, Thailand, and Indonesia. China is roughly at the level of the NIEs.⁹⁷ Over the years, the United States, and then Japan, have been the main sources of technology

transfer for the NIEs and other countries. In recent years, the NIEs have also begun transferring manufacturing activities to China and the ASEAN developing countries. Among the ASEAN -4,⁹⁸ Malaysia and Thailand are ahead of Indonesia and the Philippines as a result of their higher per capita income and better economic and political infrastructures for development. That China is on the same level of the NIEs is due to her level of economic and technological development.⁹⁹

Foreign direct investment (FDI) has played a dominant role in the emergence of the Asia-Pacific "flying-geese" pattern of production relations. Through FDI, both the developed and the NIEs in this region played a significant part in its emergence by shifting some of their uncompetitive industries to less developed countries.¹⁰⁰ But Japan and the NIEs have been more active, particularly since the late 1980s.¹⁰¹ The process of shifting comparative advantages started with Japan, the first Asian industrialised country. Rapid economic development drastically reduced Japan's comparative advantages in first labour- and then capital- intensive industries. Plus the shortage of raw materials, particularly fuel, Japan was forced to move away from heavy and capital-intensive industries to high-technology and high value-added products. This was done according to a deliberate plan of the Japanese government.¹⁰²

The transfer of Japanese investment to Asia-Pacific developing countries underwent two main periods. First between 1970 and 1975, Japanese investment in the Asia-Pacific region doubled as a result of capital liberalisation and yen appreciation. In 1991, Japan was the largest investor in this region, with 43% of the region's FDI coming from Japan.¹⁰³ By 1980, Asia-Pacific developing countries had received in total 27.2 per cent of total Japanese FDI.¹⁰⁴ Then in 1985, the yen appreciation and industrial restructuring resulted in greatly increased investment in the Asia-Pacific developing countries. The total Japanese FDI expanded to \$67 billion in 1989. The Asia-Pacific developing countries received a share of 12 per cent, reaching \$8.1 billion.¹⁰⁵ The targets of Japanese FDI in the Asia-Pacific region have been the NIEs, the ASEAN developing countries and China. Investment was concentrated in manufacture. The

NIEs, however, were the chief beneficiaries, whose industrial structure was raised to a new level through the upgraded technological base, but similar effects also occurred in the ASEAN developing countries and China.¹⁰⁶

Through making full utilisation of their low cost and hard-working labour forces, the Asian NIEs carved out for themselves a special place in the world economy as labour-intensive manufacturing centres using capital and technologies transferred from both the United States and Japan. Later, as population growth fell and surplus labour from the agricultural sector reduced, labour-intensive manufacturing industries began to lose their advantages to more capital- and technology-intensive industries. As a result, the process of industrial transfer, happened between Japan and the NIEs in the 1960s and 1970s, started between the NIEs and the Pacific Asian developing nations in a lower stage, with China, the developing ASEAN countries and the Indochinese countries as the main targets of transfer.¹⁰⁷

The increase of FDI from the NIEs to the ASEAN countries began in the mid-1980s. South Korean FDI into ASEAN amounted to over \$250 million in cumulative stock in 1988, with flows of \$177 million between 1986 and 1988 alone, three times of the flows of 1981-5. From Taiwan, FDI into ASEAN was estimated to have reached a cumulative total of \$86 million between 1959 and 1987, yet \$35 million was invested between 1984 and 1987. The speed increased even more, as proved by the \$220 million petrochemical plant joint venture in the Philippines and a \$1 billion 'electronics park' planned for Malaysia.¹⁰⁸ By 1991, the NIEs, had surpassed Japan to become ASEAN's biggest investor.¹⁰⁹

Hong Kong was said to be the largest provider of FDI for the developing countries in this region. China was thought to be the main beneficiary in the 1980s.¹¹⁰ Flows from Singapore into other ASEAN countries was also growing, though not as rapidly as from other NIEs because, in contrast with South Korea and Taiwan, there was little appreciation of the Singapore dollar and Singapore itself went through a recession in

1985-6. But similar to Hong Kong, Singapore's FDI into China steadily increased since the middle of 1980s. This was typically represented by such investment in electronic projects in Suzhou and Tianjin.¹¹¹ Investment from both South Korea and Taiwan into mainland China increased sharply since political relations relaxed.¹¹²

Since the NIEs started to invest in the developing countries in this region around the middle of the 1980s, NIE FDI tended to be concentrated in industries at the mature end of the product cycle, that is, the labour intensive industries. They included textiles, garments, plastics, wood--processing and labour-intensive electronics. Besides, NIE FDI into ASEAN was especially strong in manufacturing. For instance, Taiwan's FDI was concentrated mainly in chemical products and textiles. It was the same with Hong Kong. Since China, and later Vietnam, began economic reform, they became main destinations of NIE labour-intensive investment. This trend was also promoted by the end of the Cold War, the socialist countries' economic reform and the open-door policy, and growing complementarity in the economic structures between them and the market economies.¹¹³

While FDI from the NIEs to the region's developing countries went up enormously in both absolute and relative terms and importance, NIEs' FDI, especially that of Taiwan and South Korea, in developed countries, particularly the United States, also increased. The developed countries' share of FDI from Taiwan and South Korea surpassed that of the developing countries. For Taiwan, up to 1979, over half of outward FDI went to ASEAN countries, and 15 per cent went to the United States. Between 1980 and 1987, the situation was reversed with the share for the United States rising and that for ASEAN declining. This was also true for South Korea. Between 1968 and 1974, 82 per cent of Korean FDI went to Asia and Oceania and 10 per cent to the United States. Yet by 1987, 34 per cent went to the former area and 45 per cent to the latter. Although the percentage changed drastically, the increase in the absolute amount of outward NIE FDI still made them significant FDI providers for the lower tier countries in this region.¹¹⁴

The increased flow of FDI in this region led to a network of production linking the Asia-Pacific countries closely together. This is because shifting comparative advantages increased the importance of the investing countries for the recipient countries and vice versa, since “relocating their industries in neighbouring countries helps reduce costs and enhance export competitiveness. For developing countries, the incoming FDI provides them with employment opportunities, and the funds, technology and infrastructure needed for economic development.”¹¹⁵ This prompted the countries in this region to put more stress on co-operation since intra-regional inter-dependence deepened. This trend continues to grow since the beginning of the 1990s, though world-wide economic slow-down saw FDI flows decrease in 1991.¹¹⁶

1. 3. B. Intra-regional Trade Relations

The deepening of the Asia-Pacific intra-regional trade relations is another aspect of the ever clearer focus in intra-regional economic relations. This is characterised by the increase in the amount of intra-regional trade. From 1988 to 1993, trade among APEC members saw an average annual growth of 8.7% for export and 9.0% for import. More importantly, by the fact that trade is more evenly distributed among the Asia-Pacific countries today rather than dependent on one developed country as it used to be. Trade has therefore become an important engine driving the Asia-Pacific economies since more countries are involved.¹¹⁷

What has led to such a situation is the rise in importance of most of the Pacific Asian countries as markets. For years after World War Two, Pacific Asian countries relied on the United States as the market for their exports. This was true for Japan and then for the NIEs and the next group of countries including China and the ASEAN developing countries. This situation began to change since the mid-1980s. While the US market remained significant, Asia-Pacific countries diversified their export markets, especially among the Pacific Asian countries. Hence, the growth of trade among the Pacific Asian countries accelerated.¹¹⁸ The result was that trade among these countries

grew from just under 35 per cent in 1985 to just under 45 per cent in 1992, while cross-Pacific trade came down from 33 per cent to just below 25 per cent. In the meantime, the Pacific Asian region became a most important export market for the United States. The value of US exports to Japan, the Asian NIEs, ASEAN and China surpassed that to the EC in 1986. The increase in NIE-bound exports was most impressive: by 1992, the value of US exports to the Asian NIEs surpassed the US exports to Japan.¹¹⁹

As for Japan, a similar situation appeared in its trade relations both across the Pacific and with Pacific Asia.¹²⁰ Japanese export to the NIEs, the ASEAN countries and China grew significantly between the middle of 1980s to the early 1990s. Japanese export to Asia reached \$112.2 billion in 1992, accounting for 33 per cent of total Japanese exports. Of this total, exports to the NIEs accounted for 21.4 per cent, exports to the ASEAN countries 8.1 per cent, and exports to China 3.5 per cent. For Japan, exports to Pacific Asia have now surpassed those to the United States, which amounted to \$96.7 billion in 1992, accounting for 28.5 per cent of Japan's total exports.¹²¹ Japan also maintained large trade surplus with these Pacific Asian countries.¹²²

But this does not mean that the Pacific Asian countries had a rough deal. While Japan increased its export to these countries, its importance as a market for Pacific Asian exports also grew. The NIEs did particularly well, gaining the most from the yen appreciation. During the first half of the 1980s, there was single-digit growth of exports from the NIEs to Japan, but following the 1985-7 Yen appreciation, such exports accelerated, rising from \$11 billion in 1985 to \$25 billion in 1988. In 1987 alone, the total dollar value of Japan's imports from the NIEs rose by 50 per cent over the previous year, followed by another 9 per cent growth in 1989. Moreover, the composition of imports has also been changing from labour-intensive finished goods to technology-intensive parts and more sophisticated consumer and even capital goods. The proportion of manufactured goods in Japanese imports from the NIEs increased from 58 per cent in 1980 to 66 per cent in 1987. Japan replaced the United States as their most important market, since exports to the United States declined.¹²³

In addition to all these changes, trade also expanded among other Pacific Asian countries. The NIEs became markets with growing importance for the developing countries in the region. "It is interesting to observe that the NIEs have been importing more from the region than Japan since 1988."¹²⁴ Pressure from the United States led to the revaluation of the South Korean Won and the New Taiwan dollar. The US pressure also led to Taiwan's liberalisation of its imports, while the South Koreans followed suit to some extent. As a result, export to these countries from Pacific developing countries increased sharply. Hong Kong was always the most important market for China.¹²⁵

While increasing imports from the developing countries in the Pacific Asian region, the shift of export destinations from the United States to the Pacific Asian region was particularly marked for the Asian NIEs. Intra-regional trade's share of total NIEs export rose from 31.9 per cent to 43.5 per cent, while that with the United States slipped from 37.2 per cent to 24.2 per cent between 1986 and 1992.¹²⁶ China and the ASEAN developing countries emerged as more important trading partners for all the NIEs. Hong Kong saw the biggest growth in trade with China among the NIEs. As a share of Hong Kong's total exports, trade with China increased from 6 per cent in 1980 to 29 per cent in 1988, before falling back to 26 per cent in 1989.

For South Korea, the most important regional export market is Hong Kong, in part en route to China. The share of Hong Kong's trade with the ASEAN countries actually decreased during the 1980s. The ASEAN five remained important for South Korea on the import side, especially raw materials from Indonesia and Malaysia. For Singapore, trade with both China and Thailand grew, but trade with Malaysia remained highest. For Taiwan, the most important aspects of regional trade was imports from the other NIEs and growing trade with China, especially exports, although mostly through Hong Kong. Taiwan's trade with China grew by about \$2 billion from \$1.5 to \$3.5 billion between 1987--1989.

As a result of the adoption of the policy of economic development and attracting labour-intensive industries from both Japan and the NIEs, developing countries of this region, along with Japan and NIEs, have become not only ever more important manufacturing countries but also expanding markets for both industrial and consuming goods. This has obviously also helped change the pattern of trade and economic relations in the Asia-Pacific region, and has been extremely important in turning this region into another economic centre of the world.¹²⁷

The other important development was the rise in the level of intra-industry trade, which also made significant contribution to the deepening of the intra-regional trade relations. As intra-industry trade refers to the exchange of products belonging to the same industry, the rise in such trade demonstrates that there exist complementary levels of development and income between countries maintaining close trade relations.¹²⁸ Intra-industry trade between Japan and the Pacific Asian developing countries grew in importance since the mid-1980s with rapid industrialisation in the latter. An orderly structure seemed to exist in this area. As income level of the Asian NIEs were close to both Japan and the Asia-Pacific developing countries, the level of intra-industry trade exhibited high levels between Japan and NIEs on one hand, and between the NIEs and other developing countries, especially China and the ASEAN countries on the other.¹²⁹

The initial trend was the development of intra-industry trade between the Asian NIEs and Japan in metals, notably iron and steel, miscellaneous manufactured goods and textiles. This was followed by trade in machinery. Later, intra-industry trade also started between Japan and the developing countries in this region. For instance, the degree of trade in electrical machinery and precision instruments between Japan and the ASEAN countries surpassed that between Japan and the NIEs. A similar situation was found in the trade between mainland China and Taiwan, which increasingly consisted of industrial materials for manufacturing, machinery and transport equipment, and miscellaneous manufactures.¹³⁰ The surplus that more advanced countries in the Pacific region maintained against the less advanced ones was also due to the increase in intra-

industry trade. As domestic conditions got increasingly difficult for some of the production activities, multinationals would choose to relocate such activities to their off-shore production bases in countries on a lower level of development. This had increased the export from countries on the higher level to those on the lower level.

A further outcome of the changes in the relative economic strength of the Asia-Pacific countries is the talk of a bloc based on the Japanese yen. The yen bloc was first of all underlined by the sharp increase in Japanese investment in other Pacific Asian countries. This enabled Japan to replace the United States as the key partner for Pacific Asian countries in aid, trade and direct investment. This to some extent gave rise to a situation in which the Pacific Asian countries would feel strongly the impact if there was a drastic economic change in Japan. For instance, following a global reduction in Japanese FDI which powered much of the economic growth in the ASEAN countries during the 1980s, some of them would see moderate economic growth.¹³¹

Yen's appreciation in 1985 had another important impact on trade relations across the Pacific. This is largely reflected in the movements in the trade between the triangle of the United States, Japan and the NIEs. As the NIEs were on a lower development level, they depended to some extent on the import of Japanese intermediate and capital goods and the export of finished products to the United States, and increasingly to the other Pacific Asian countries. The changes in yen's exchange rates affected the performance of such trade. The rise of the Japanese yen tended to raise the price of both Japanese export to the NIEs and NIEs' export to the United States and other areas.¹³² This obviously affected the NIEs' competitiveness.

As far as intra-regional trade relations are concerned, the most important factor that links the countries in the Asia-Pacific together is the substantial expansion of the intra-regional trade as new markets emerged in Pacific Asia. These markets are important for the whole region. The increase in importance of these markets has not come at the expenses of the developed countries whose importance as markets declined only

relatively. Trade expansion has been mainly due to the economic growth of the Pacific Asian countries. Meanwhile, growth in intra-industry trade and the influence of the Japanese yen have further strengthened yet complicated the economic links across the region as a whole.

As the above has indicated, production and economic relations in the Asia-Pacific region have also experienced significant development over the last decade. Despite a prolonged recession in the world economy since 1990, the Pacific Asian economies have maintained steady growth as a result of such development. The Asian NIEs and the ASEAN countries as a group grew 5.3 per cent in 1992, while China achieved double-digit growth. This reflects not only Pacific Asian countries' higher potential growth rates compared with the world's average, but also the growing ability of these countries to generate demand from within the region. Such ability has affected these countries' position vis a vis the United States. While the US remains an important market, its importance has increasingly matched by the Pacific Asian countries. These countries have also become more important for the US as markets. "Reflecting the changing pattern of trade and investment, the traditional economic relations in the Asia-Pacific region characterised by unilateral dependence of (Pacific) Asian countries on the United States is giving way to relations characterised by Pan-Pacific interdependence."¹³³

Conclusion

What this chapter has shown is that the concept of an Asia-Pacific region is a product of the significant changes that have taken place in the political and economic relations between those countries ringing the Pacific ocean in the second half of the 20th century. The Asia-Pacific region does not carry with it the usual geographical and cultural meanings. It is underlined by the convergence of the political and economic interests of these countries. But it has its roots deep in the history of the international relations between these countries spanning several centuries. The contact between the

East Asian nations and the imperialist powers and the further intensification of such contacts laid the foundation for the emergence of the Asia-Pacific region.

From the Washington Naval Treaty to the end of the Cold War, the countries in this region were involved in a pattern of international relations which were increasingly centred on issues particular to this region. However, until the end of the Cold War towards the end of the 20th century, intra-regional relations were overshadowed by global rivalry from the World Wars to the Cold War. Yet the development in the relations between these countries, particularly following the Sino-US normalisation, further blurred the divide between these countries. The end of the Cold War sharply increased the awareness of the countries in this region that they needed to deal with the issues among them through cooperation and collective actions.

The pattern of trade and economic relations and exchanges have changed from one of heavy reliance on the developed countries of the west, the United States in particular, to one of growing dependence on economic growth generated by all Asia-Pacific countries. With East Asian economies and other developing economies gaining more importance in this region, intra-regional trade and economic exchanges will bring further development to all the countries of this Asia-Pacific region. Such development in the intra-regional relationship in the Asia-Pacific region has greatly aided the emergence of a sense of community among the countries of this region. "Both cooperation and conflict are forms of interaction,... both in recent decades have thrust (Asia-Pacific) leaders toward unprecedented contact and interdependence with each other".¹³⁴ Hence, despite being huge and fragmented in geographical, political and cultural terms, the convergence of interests among the Asia-Pacific countries has grown strong enough to push them towards region-thinking.

1. See Bruce Cumings, "What Is a Pacific Century--and How Will We Know When It Begins?" *Current History*, Vol. 93, No. 587, Dec. 1994, pp. 401--406.
2. It is now widely accepted that the process of constructing economic cooperation in this region was started by a Japanese academic Kiyoshi Kojima's pioneering discussion on this issue in 1965. See Hans Christoph Rieger, "Regional Economic Cooperation in the Asia-Pacific Region", in *Asian-Pacific Economic Literature*, Vol. 3, No. 2, Sept. 1989, p. 5.
3. Gerald Segal, *Rethinking the Pacific*, Oxford, Oxford University Press, 1990, p. 6.
4. Chandra Muzaffar, "APEC Serves Interests of US More Than Others", in *New Straits Times*, 29 July 1993, p. 13. Quoted in Richard Higgott, "APEC - A Skeptical View", in Andrew Mack and John Ravenhill ed., *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region*, Boulder, Colo., Westview Press, 1995, p. 91.
5. Generally speaking, there are two kinds of definitions, the narrow one and the wide-ranging one. The narrow definition usually restricts the region to those countries in West Pacific. The wide-ranging one is the one used in this thesis. It is perhaps due to the strong momentum of the economic cooperation process that the latter one is gaining acceptance. See also Herman Friis: *Pacific Basin*, American Geographical Society, New York, 1967.
6. This is based on figures in UNDP, *Human development Report*, Oxford University Press, 1996.
7. Encyclopaedia Britannica, Inc., *The New Encyclopaedia Britannica*, Chicago, Aukland, London, Madrid, Manila, Paris, Rome, Seoul, Sydney, Tokyo, Toronto, 1995, p. 302.
8. See Serco Aviation Services, *Air Distance Manual*, Serco-IAL Ltd., Middlesex, 1997.
9. For more details, see Gerald Segal, *Rethinking the Pacific*, 1990, pp. 11--13.
10. See *The New Encyclopaedia Britannica*, 1995, & Shankar Sharma ed., *Energy, the Environment and the Oil Market: An Asia-Pacific Perspective*, Singapore, Institute of Southeast Asian Studies, 1994, pp. 1--6.
11. Alan Brunet, *The Western Pacific: Challenges of Sustainable Growth*, Hants., England & Vermont, US, Edward Elgar Publishing Ltd., 1992, chapter five.
12. See Herman Friis ed., *The Pacific Basin*, 1967.
13. See Chris Edwards, "Current Economic Trends in Asia and the Pacific", in Union of International Associations ed., *Yearbook of International Organisations: 1996/1997*, London, Paris, K G Saur, 1997, p. 32.
14. See *The New Encyclopaedia Britannica*, 1995, pp. 308--314.
15. See Chris Edwards, "Current Economic Trends in Asia and the Pacific", 1997, p. 32.
16. John K. Fairbank ed., *The Chinese World Order*, Cambridge, Mass.: Harvard University Press, 1968, p. 29.
17. See Lien-sheng Yang, "Historical Notes on the Chinese World Order", in J K Fairbank ed., *The Chinese World Order*, pp. 20--22.
18. See Wang Gungwu, *Community and Nations: China, Southeast Asia and Australia* Asia Studies Association in Australia in association with Allen & Unwin, Australia, 1992, pp. 115--117.
19. See Denis Twitchett & Michael Lowe ed., *Cambridge History of China*, Cambridge, London, New York, New Rochelle, Melbourne, Sydney, 1986, Vol. 2, pp. 377--462.
20. See C. P. Fitzgerald, *A Concise History of East Asia*, London: Heineman, 1966, pp. 27--30; and Wang Gungwu, *Community and Nations: China, Southeast Asia and Australia*, Chapter 7, pp. 109--130.
21. See Mark Borthwick & others, *Pacific Century--The Emergence of Modern Pacific Asia*, Westview Press, Boulder, San Francisco, Oxford and Allen & Unwin, 1992, pp. 38--40.
22. See Morris Rossabi, Chapter 3, pp. 70--83. Also see Roland L. Higgins, "The Tributary System", in Mark Borthwick & others, *Pacific Century*, 1992, p. 30.
23. For instance, the Yong Le Emperor of the Ming Dynasty himself led five campaigns against the Mongol nomadic tribes during his reign between 1402 and 1424. See Wang Gungwu, *Community and Nations*, 1992, p. 115.
24. See Gerald Segal, *Rethinking the Pacific*, 1990, pp. 25--26.

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25. Ibid., p. 32.
26. See D. G. E. Hall, "International Conflicts in Southeast Asia: An historical Survey", *The Journal of the Oriental Society of Australia*, Vol. 3, No. 2, 1965.
27. See Wang Gungwu, *Community and Nations*, 1992, Chapter 7, pp. 109--130.
28. See Guy J Pauker, "Southeast Asia Looks at China", in Harrison Brown ed., *China Among the Nations of the Pacific*, Westview Press, Colorado, Boulder, 1982, p. 116--117.
29. Gerald Segal, *Rethinking the Pacific*, 1990, p. 35.
30. See Fernand Braudel, *The Perspective of the World*, London, Fontana, 1985, pp. 54--56.
31. After the Ming Chinese Emperor Yong Le moved his capital from Nanjing to Beijing in Northern China, Zheng He, the leader of the well-known Ming expeditions to Southeast Asia and further west, led three more expeditions to these regions. See Wang Gungwu, *Community and Nations*, Chapter 7, pp. 109--130.
32. For instance, one of the reasons that the Dutch won the domination of the spice trade from the Spaniards was that they mastered the skills to take advantage of the so-called 'roaring forties', the Indian Ocean's westerly winds, which greatly facilitated links with their homeland. The British became the dominant power in this region largely due to the development of British science and industry. See Arthur Cotterell, *East Asia: From Chinese Predominance to the Rise of The Pacific Rim*, London, John Murray, 1993, chapter 10.
33. See D. G. E. Hall, "International Conflicts in Southeast Asia: An historical Survey", 1965, pp. 27-28.
34. L. S. Stavrianos, *The World Since 1500*, NJ: Printice Hall, Englewood Cliff, 1982, p. 94. Nevertheless, The Spaniards, through a firm stronghold in the Philippines, managed to control a commercial network that criss-crossed the populated parts of the Asia-Pacific region for most of the 16th century. See Gerald Segal, *Rethinking the Pacific*, 1990, pp. 38-40.
35. According to Gerald Segal, this was very much the result of the strategies adopted by these countries. See *ibid.*
36. See John P. LeDonne, *The Russian Empire and the World, 1700--1917*, New York, Oxford, Oxford University Press, 1977, pp. 17--18.
37. See L. Vernadsky, *The Tsardom of Moscow, 1547-1682*, New Haven, Yale University Press, 1969, pp. 547-548.
38. The Russians had to sign the Treaty of Nerchinsk in 1689, and had to step back from the initial confrontation with China, because the Russian challenge was not powerful enough for a Qing China, which was in the prime of its power, and determined to defend their home base. See Sung-Hwan Chang, "Russian Design on the Far East", in Taras Hunczak ed. *Russian Imperialism From Ivan the Great to the Revolution*, New Brunswick, N.J., Rutgers University Press, 1974, pp. 209--300; and John P. LeDonne, *The Russian Empire and the World, 1700-1917*, 1997, p. 18.
39. This was the name used by the Chinese and Japanese who referred to the area to the South of their territories. See Arthur Cotterell, *East Asia*, 1993, chapters p.178.
40. See Frank Gibney, *The Pacific Century: America and Asia in a Changing World*, New York, Oxford, Singapore, Sydney, Maxwell Macmillan International, 1992, pp. 2--3.
41. Gerald Segal, *Rethinking the Pacific*, p 53.
42. For a clear and inspiring explanation of this, see Vera Simone and Anne Thompson Feraru, *The Asia Pacific: Political and Economic Development in a Global Context*, Longman Publishers, U.S.A., 1995, pp. 31--38.
43. See Arthur Cotterell, *East Asia*, 1993, chapters 10 & 11.
44. For a vivid description of the way that Japan was forced to open its doors, see Janet Hunter, *The Emergence of Modern Japan*, London, New York, Longman, 1989, pp. 17--18.
45. See Mark Borthwick & others, *Pacific Century*, 1992, pp. 140--152.
46. Alfred Mahan, a naval officer, wrote a thesis in 1890 claiming that the United States was a power with naval priorities. This thesis had widespread influence on American strategic thinking about the Asia-Pacific. See details in J. Arthur Lower, *Ocean of Destiny*, Vancouver, University of Columbia Press, 1978, pp. 82--126.
47. Japan was seen as one of the strategic links for American connection with Asia Pacific. See Vera Simone and Anne Thompson Feraru, *The Asia Pacific*, 1995.

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48. See Frank Gibney, *The Pacific Century*, 1992, pp. 2--3.
49. See Arthur Cotterell, *East Asia*, 1993, p. 201.
50. Gerald, *Rethinking the Pacific*, p. 65.
51. See Janet Hunter, *The Emergence of Modern Japan*, 1989, pp. 50--60.
52. See Akira Iriye, *Japan and the Wider World: From the Mid-nineteenth Century to the Present*, London and New York, Longman, 1997. pp. 50--55.
53. See Paul F Hooper, "The Institute of Pacific Relations and the Origins of Asian and Pacific Studies", *Pacific Affairs*, Vol. 61, No. 1, Spring 1988, pp. 98--121.
54. Japan's expansion was perhaps even more intended to secure the supply of raw materials and markets than that of its imperialist masters. On top of this, harshness and brutalities due to wartime exigencies made this first effort nothing but Japanese domination in disguise. See Janet Hunter, *The Emergence of Modern Japan*, 1989, pp. 58--60.
55. See Michael Yahuda, *The International Politics of the Asia-Pacific*, 1996, pp. 46--51.
56. See Gerald Segal, *Rethinking the Pacific*, Chapter 12; and John F. Fairbank, *The United States and China*, Cambridge, Massachusetts, London, Harvard University Press, 1983, pp. 422--423..
57. See Gerald, *Rethinking the Pacific* 1990, p. 236.
58. Ibid, pp. 239--253.
59. See Michael Yahuda, *The International Politics of the Asia-Pacific*, 1996, pp. 46--53
60. See ibid , pp. 21--29.
61. See ibid., pp. 11--13 & pp. 166--167.
62. See Kiyoshi Kojima, "A Pacific Community and Asian Developing Countries", *Hitotsubashi Journal of Economics*, June 1996, pp. 17--37. Kojima's idea formed the nucleus for the development of the idea of economic cooperation in this region. It will be discussed in greater details in the following chapter. It is mentioned here to underline the fact that countries in this region had began to discuss the possibility of regional economic collectivism.
63. When the idea was first put forward by Kiyoshi Kojima, he was reflecting more of the widespread mood in Japan to be again excluded by the developed countries than to be incorporated into the Asia-Pacific region. See ibid.
64. See Kiyoshi Kojima, *Japan and a Pacific Free Trade Area*, London, Macmillan, 1971, p. 166.
65. See A. Broinowski, *Understanding ASEAN*, London, Macmillan, 1982, p. 57.
66. See Michael Leifer, "The Role and Paradox of ASEAN", in M Leifer ed., *The Balance of Power in East Asia*, Basingstoke and London, Macmillan, 1986, p. 121.
67. See Hans Christoph Rieger, "Regional Economic Cooperation in the Asian-Pacific Region", 1989, pp. 15--22.
68. According to Michael Yahuda, tripolarity appeared after the Sino-Soviet split led to the Sino-US rapprochement, which actually made the intra-regional relations more complicated. See his *The International Politics of the Asia-Pacific*, 1995, pp. 77--79.
69. See ibid., p. 202.
70. Ibid, pp. 203--204.
71. Wayne Bert, "China and Southeast Asian Communist Parties", *Asian Survey*, No. 8, 1982, pp. 779--781.
72. For instance, one of the former vice presidents of the Chinese People's Association for Friendship with Foreign Countries, Lin Lin, was a politburo member of the Philippine Communist Party.
73. See Jusuf Wanandi, "Political-Security Dimensions of Southeast Asia", *Asian Survey*, No. 8, Vol. XVII, 1977.
74. Wayne Bert, "China and Southeast Asian Communist Parties", *Asian Survey*, 1982, pp. 779--781.
75. See Leo Suryadinate, *China and the ASEAN States*, Singapore, Singapore University Press, 1985, pp. 137--139.
76. See Robert A. Scalapino, "China and the Balance of Power: The Decline of Dual Track Diplomacy", *Foreign Affairs*, Vol. 52, No. 2, 1974, pp. 368--370.

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77. Seung K. Ko, "North Korea's Relations with Japan Since Détente", *Foreign Affairs*, No. 1, Vol. 56, 1977, p. 31.
78. See Shibusawa Masahide, *Japan and the Asian Pacific Region: Profile of Change*, London and Sydney, Groom Helm for The Royal Institute of International Affairs, 1984, pp. 46--50.
79. Strategic relations between the ASEAN countries were of great importance to them. This was determined by the nature and aim of this regional structure. For a concrete discussion of the nature of ASEAN, see Shee Poon-Kim, "A Decade of ASEAN, 1967-1977", *Asian Survey*, No. 8, Vol. XVII, 1977, pp. 753--770.
80. Michael Leifer, "The Role and Paradox of ASEAN", 1986, p. 123.
81. Ibid.
82. Donald E. Weatherbee, "U.S. Policy and the Two Southeast Asias", *Asian Survey*, No. 4, Vol. XVIII, April 1978, p. 418.
83. Frank Frost, "Introduction: ASEAN since 1967 - Origins, Evolution and Recent Developments", in Alison Broinowski ed., *ASEAN Into the 1990s*, Basingstoke & London, The Macmillan Press Ltd., 1990, pp. 8--10.
84. See Michael Yahuda, *The International Politics of the Asia-Pacific*, pp. 91--101.
85. See Byung-joon Ahn, "Strategic Trends in East Asia", *The Pacific Review*, Vol. 4, No. 2, 1991, pp. .
86. See Michael Yahuda, pp. 255 & 260--263.
87. See William J Crowe, Jr. & Alan D Romber, "Rethinking Security in the Pacific", *Foreign Affairs*, Vol. 7, No. 2, 1991, pp. 135--137.
88. See Kenneth Lieberthal, "A New China Strategy", *Foreign Affairs*, Vol. 74, No. 6, 1995, p. 36.
89. See William J Crowe, Jr. & Alan D Romber, "Rethinking Security in the Pacific", 1991, pp. 136--140.
90. Gary Klintworth, "Asia-Pacific: More Security, Less Uncertainty, New Opportunities", *The Pacific Review*, Vol. 5, No. 3, 1992, pp. 221--231.
91. For a more detailed discussion of these proposals, see Ibid.
92. See Hee Kwon Park, "Multi Security Cooperation", *The Pacific Review*, No. 3, Vol. 6, 1993, pp. 251--265.
93. Gary Klintworth, "Asia-Pacific: More Security, Less Uncertainty, New Opportunities", 1992, p. 229.
94. See C.H. Kwan, *Economic Interdependence in the Asia-Pacific Region*, Routledge, London and New York, 1994, Chapter Five, pp. 81--98.
95. See Ipeei Yamazawa, *Economic Development and International Trade: The Japanese Model*, East-West Centre, Resource Systems Institute, Honolulu, Hawaii, 1990. As for the actual operation of the "flying geese" pattern, see also Kwan, *Economic Interdependence in the Asia-Pacific Region*, Chapter Five.
96. See Ipeei Yamazawa and others, "The Evolving Patterns of Comparative Advantage in the Pacific Economies", in Mohammed Ariff ed., *The Pacific Economy: Growth and External Stability*, 1991, pp. 213--232.
97. See C.H. Kwan, *Economic Interdependence in the Asia-Pacific Region*, 1994, Chapter Five.
98. Purely for the sake of convenience, the ASEAN countries are divided into two groups due to their different levels of development. Singapore is regarded as one of the NIEs, while the rest of them are described as the ASEAN developing countries. This pattern is followed throughout this study.
99. See Edward K. Y. Chen, "Asian and Pacific Economic Cooperation in Trade and Investment in A Changing International Economic Environment", in Economic and Social Commission for Asia and the Pacific, United Nations, *Foreign Investment, Trade and Economic Cooperation in the Asian and Pacific Region*, Development Papers No. 10, 1992 p. 16.
100. See Tables 2.5 and 2.6 in Ibid., pp. 15--16.
101. See APEC Secretariat, *APEC Economies: Recent Development and Outlook*, Singapore, APEC Secretariat, Nov. 1994, p. 13.

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102. See C.H. Kwan, *Economic Interdependence in the Asia-Pacific Region*, 1994, Chapter Seven.
103. See APEC Secretariat, *APEC Economies*, 1994, p. 14.
104. See Masahide Shibusawa, Zakaria Haji Ahmed and Brian Bridges, *Pacific Asia in the 1990s*, London and New York, Routledge, for the Royal Institute of International Affairs, 1992, Chapter One.
105. Ibid.
106. Ibid.
107. See Staffan B. Linder, *The Pacific Century: Economic and Political Consequences of Asia-Pacific Dynamism*, Stanford, Stanford University Press, 1986, pp. 36--39.
108. See *Far Eastern Economic Review*, 2 February 1989; *BBC Summary of World Broadcasts*, FE/W0103, 15 November 1989.
109. See APEC Secretariat, *APEC Economies*, 1994, p. 14.
110. See Masahide Shibusawa, Zakaria Haji Ahmed and Brian Bridges, *Pacific Asia in the 1990s*, 1992, Chapter One.
111. Ibid, and Renmin Ribao (RMRB), 18 Nov., 1994, p. 7.
112. See also Robert Ash and Y.Y. Kueh, "Economic Integration Within Greater China: Trade and Investment Flows between China, Hong Kong and Taiwan", in *The China Quarterly*, No. 136, December 1993, pp. 711--745.
113. See APEC Secretariat, *APEC Economies*, 1994, pp. 13--15.
114. For these figures, see Masahide Shibusawa, Zakaria Haji Ahmed and Brian Bridges, *Pacific Asia in the 1990s*, 1992, Chapter One.
115. C.H. Kwan, *Economic Interdependence in the Asia-Pacific Region*, 1994, p. 125.
116. See APEC Secretariat, *APEC Economies*, 1994, p. 15.
117. Ibid., pp. 7--11.
118. See "Year-end Special", *Far Eastern Economic Review*, No. 51-52, Vol. 155, December 1992, pp. 28--31.
119. For these and other amounts, see tables and charts in C.H. Kwan, *Economic Interdependence in the Asia-Pacific Region*, 1994., Chapter 6, pp. 100--118.
120. See "Asia Above Gloom", *Far Eastern Economic Review*, No. 51-52, Vol. 155, December 1992, pp. 52--53.
121. See Ibid., p. 14.
122. See Masahide Shibusawa, Zakaria Haji Ahmed and Brian Bridges, *Pacific Asia in the 1990s*, 1992, Chapter One, pp. 4--34; and C.H. Kwan, *Economic Interdependence in the Asia-Pacific Region*, 1994, Chapter 6, pp. 100--118.
123. See *ibid.*
124. Mohammed Ariff, "Introduction", in Mohammed Ariff ed., *The Pacific Economy: Growth and External Stability*, 1991, pp. 1--10.
125. See Robert Ash and Y.Y. Kueh, "Economic Integration Within Greater China: Trade and Investment Flows between China, Hong Kong and Taiwan", in *The China Quarterly*, No. 136, December 1993, pp. 711--745.
126. It should be pointed out here that these figures represent only the NIEs' export to Pacific Asian region.
127. See Robert Gilpin, *The Political Economy of International Relations*, Princeton University Press, Princeton, 1987, Chapter Ten.
128. See C.H. Kwan, *Economic Interdependence in the Asia-Pacific Region*, 1994, Chapter Two, pp. 18--36 and Chapter Five, pp. 81--98.
129. See Edward K. Y. Chen, "Asian and Pacific Economic Cooperation in Trade and Investment in A Changing International Economic Environment", in Economic and Social Commission for Asia and the Pacific, United Nations, *Foreign Investment, Trade and Economic Cooperation in the Asian and Pacific Region*, Development Papers No. 10, 1992, pp. 11--40.
130. See Robert Ash and Y.Y. Kueh, "Economic Integration Within Greater China", 1993, pp. 711--745.
131. See "Asia Above Gloom", *Far Eastern Economic Review*, 1992, pp. 52--53.

132. See C.H. Kwan, *Economic Interdependence in the Asia-Pacific Region*, 1994, Chapter Three, pp. 41--60.

133. *Ibid.*, p. 5,

134. Richard H. Brown, "East Asia as a Region for Economic, Political, and Social analysis" in Richard H. Brown and William T. Liu ed. *Modernization in East Asia, Political, Economic, and Social Perspectives*, Westport, Connecticut and London, Praeger, 1992, p. 4.

Chapter Two. Construction of Economic Co-operation and APEC

The purpose of this chapter is to find out what form of economic cooperation the Asia-Pacific countries want to undertake. This is going to be done by looking at how an inter-governmental forum, the Asia-Pacific Economic Co-operation Ministerial Meeting (APEC), was set up for conducting regional economic co-operation. APEC was the culmination of a process searching for a structure for cooperation which lasted for nearly thirty years.¹ This chapter will focus on those factors that had crucial impact on that process. These factors included academic discussions, political actions and interactions between the Asia-Pacific countries and the various forums organised for this end before APEC. It is argued here that the attributes of APEC indicate that the Asia-Pacific countries want economic cooperation to be effective enough for them to preserve the region's favourable environment for economic development but weak enough for them to avoid being restricted by it.

APEC epitomised Asia-Pacific countries' desire for collective actions to achieve this target. Ostensibly, its origin can be traced to a proposal made by the former Australian Prime Minister Bob Hawke in 1989. As a result of this proposal, an international conference attended by the foreign and economic ministers of twelve Asia-Pacific countries was held in Australia in November that year. The Asia-Pacific Economic Co-operation Ministerial Meeting (APEC) was christened at that conference. It was also decided at this conference that an annual ministerial meeting would be held in future to continue the discussion.²

At the conference, the twelve countries' ministers agreed that the new forum's purpose would be multi-dimensional. In addition to the promotion of global free trade, it was also going to unite these countries in the then GATT Uruguay-Round talk, promote intra-regional trade, and facilitate communication on trade policy and economic data. The establishment of the inter-governmental APEC in 1989 turned out to be a forward step with profound significance in the process of constructing economic co-

operation in this region. APEC has since pushed forward the process of building co-operation. After five meetings at the ministerial level and two meetings of economic leaders, APEC brought this discussion into a new era. It was decided at the second APEC economic leaders' meeting held in Indonesia in 1994 that an "open free trade area" would be set up among the APEC member countries respectively in 2010 and 2020.³

2. 1. Key Academic Contributions

One of the main factors behind APEC was the promotive roles of academics. It was among economists that the search for a suitable co-operation framework first started. Among them, Japanese and Australian researchers played highly significant parts. Back in the 1960s, Japanese academics started the discourse on bringing about regional economic cooperation among the Asia-Pacific countries against the background of ever more intensively inward-looking development of the EEC and the development of regional economic integration in other parts of the world. Among them, Kiyoshi Kojima, an economist, made the contribution of a pioneer. Then in the 1970s, Peter Drysdale from Australia joined the discussion. Based on Kojima's efforts, he brought the academic discussion on to new grounds.⁴ Although both Kojima and Drysdale made important contributions to the discussion, their ideas were far from identical. This section will find out what proposals and ideas Kojima and Drysdale advanced, and why these proposals and ideas were significant for APEC.

2. 1. A. Kiyoshi Kojima and His PAFTA

Discussions on Asia-Pacific economic cooperation must start by referring to Kiyoshi Kojima's ground-breaking contribution. He was the first to make an economic case for cooperation in the Asia-Pacific region. His first paper on this was published in the 1960s, when he was a lecturer at Hitotsubashi University in Japan. According to Pekka Korhonen, Kojima conducted his study on this idea from an economic point of view. He did not know much about the works of those political scientists, such as

Mitrany or Haas who explored integration, particularly European integration as an area of political science. Kojima was inspired by "economic theoreticians, above all by the German Wilhelm Ropke and the Swede Gunnar Myrdal".⁵ Kojima was also an enthusiast for global free trade. His idea has been influential on later development.

Kojima presented his idea and argument for Asia-Pacific economic cooperation in a paper which "was originally presented at 'The International Conference on Measures for Trade Expansion of Developing Countries'" held in Tokyo in November 1965 by Japan Economic Research Centre (JERC). Kojima was a member of JERC.⁶ It was written with the assistance of Hiroshi Kurimoto, an official of Japan Association of the UN Economic Commission for Asia and Far East (ECAFE). The paper was published in the *Hitotsubashi Journal of Economics* in June 1966. The English version of the paper was later distributed widely in many Asia-Pacific countries.⁷ He went on to refine his ideas, which culminated in a book entitled *Japan and a Pacific Free Trade Area..* "It must be emphasised, however, that the difference between the versions was not great, but rather a matter of emphasis."⁸

Kojima argued in his paper that economic integration in the Pacific was both necessary and important. He was inspired by the European Economic Community. Throughout the paper, Kojima dwelled on the free trade area's logic, scale, character and benefits for the intended members, and how member countries could help the Asian developing countries develop their economies. The title that Kojima gave to this paper, *A Pacific Economic Community and Asian Developing Countries* meant that he wanted to set up a "Pacific Free Trade Area... among the United States of America, Canada, Japan, Australia and New Zealand in the foreseeable future",⁹ a structure which would maintain special relations with the Southeast Asian developing countries. It clearly indicates his concept of an Asia-Pacific region. He did not touch upon deeper forms of integration.¹⁰ The reason that he used the term "community" was because it was fashionable after the EEC was established. But, he did base some of his important arguments on the EEC's attributes.¹¹

Kojima argued, first of all, that the Pacific developed countries, i.e. the United States, Canada, Japan, Australia and New Zealand, enjoyed those basic conditions that made the EEC possible. Some of them were even better. He showed, for instance, that the Asia-Pacific region enjoyed better conditions for cooperation in terms of both population and the region's gross produce. As for the weight of the "Pacific community" in world trade and the level of intra-regional trade, he argued, these countries were in similar or even better positions to the EEC countries. Moreover, "(the level of intra-community trade) could increase if PAFTA was established."¹² Kojima did regard the difference in the size of these economies as a problem because. But he held that, in spite of the much larger US economy, the economies of Australia, Canada, New Zealand and Japan were similarly small. Japan's much larger population made it equal to the other three.¹³ However, Kojima was quite frank about the difference in the degree of importance that these countries had for each other. Nevertheless, he argued that this importance was substantial and growing.¹⁴

Kojima's next argument concerned the industrial structures of the participating countries, and the effects of tariff elimination. Kojima used the concept of trade intensity, that is the level of two countries' trade compared to their trade with other countries.¹⁵ He found that trade intensity was above normal among the Pacific developed countries. As for trade with other Pacific countries, their export would surpass their import. He explained that trade intensity came from industrial complementarity. "The greater the intensity of both Japan's export and import trade with a particular country, the more complementary their industrial structures are likely to be,... Five Pacific countries trade with each other intensively."¹⁶

While Kojima presented the intra-regional trade relations as favourable for the establishment of a free trade area among the Pacific five, he also argued that it would be in these developed countries' interests to include the Asian developing countries as associated members of the community. He was referring to the developing members of ECAFE in Asia, His analysis also started with the trade relations between these two

groups of countries, which he argued was close. According to Kojima, 11 per cent of the five Pacific community countries' total export went to the Asian developing countries. This region was most important for Japan, one third of whose export went to this region, but it was also important for the United States and Australia.

Meanwhile, according to Kojima, the importance of the Pacific five as export markets for the Asian developing countries was even more obvious. 34 per cent of the exports from these countries went to the "Pacific Community" countries.¹⁷ "These close trade relations between the Pacific Economic Community and Asian developing countries require special measures for trade growth and mutual economic development, and may suggest the possibility of associated membership for the latter in the Pacific Free Trade Area." He even suggested in a footnote that such associated membership could also be extended to Latin American countries.¹⁸

Kojima also argued that to open markets to the Asian developing countries through tariff reduction and shift of production would be far more efficient and beneficial for the Pacific Community countries. He based his argument on an ECAFE forecast. According to this forecast, the Asian developing countries would suffer a trade deficit of \$5,000 million in 1970. Such a trade deficit would eventually become the five countries' responsibility. "It should be remembered that the trade gap of some \$5,000 million forecasted by ECAFE is a burden for the advanced countries, mainly in the Pacific Economic Community, which should be filled up anyhow through economic assistance and other measures."¹⁹ Yet market opening would substantially reduce this burden.

There were also extra-regional reasons for Kojima to make the above proposal. What concerned him most seemed to be the effect of the EEC'S inward looking development. First, further development within the EEC was quite important as far as the change in his thinking was concerned. Kojima believed in global free trade, and strongly supported the post-war world trading system based on GATT. He was initially

quite excited about the establishment of the EEC. When Britain started negotiating its entry into the EEC, he thought that the EEC system was going to be substantially extended as a result of the inclusion of the Commonwealth countries.²⁰ However, his mind was changed by the ever stronger discriminatory nature of the EEC when it refused to admit Britain on the ground that the British Commonwealth would be too big a burden for the EEC, and the prospect of the members of the European Free Trade Area joining the EEC. Should this happen, the increasingly discriminatory EEC would cover almost all of Western Europe. This, Kojima argued, should be dealt with in the same way, with PAFTA being his solution.²¹

The other reason was the direction of Japan's trade, That is to say, the concern about Japan's position in world trade against a background of emerging regional communities around the world. Within the Asia-Pacific region, Japan was thought to be the only odd one among the five developed countries. According to Kojima, the United States and Canada on the one hand, and Australia and New Zealand on the other, formed specially close trading relations. In 1965 the latter two countries had already signed an agreement to create a free trade area between themselves, which was coming into effect on 1 January 1966. Japan traded extensively with the United States and Australia. Should trade relations in North America and the South Pacific develop further, Japan would suffer by being left out of either arrangements.²²

Further, were the European Economic Community to become a discriminatory trade bloc covering the whole of the Western Europe, Japan would have to further strengthen its trade relations with both the Pacific Community countries and the Asian developing countries. In the 1960s, Japan's export could be divided into three parts of roughly equal size, with 33 per cent to the Pacific five with the United States taking 27 per cent, and 32 per cent to Southeast Asia, and the rest (35 per cent) to the rest of the world. For this reason, the Asia-Pacific countries, both the developed and the developing, carried most and equal importance for Japan. It meant that Japan could not afford to treat lightly the region as a whole, or either groups of countries. He emphasised that, in terms of

trade, Japan depended on both Asia and the Pacific, and warned that Japan should not be too preoccupied with one region at the expense of the other. Therefore, if the tendency to form economic blocs continued, Japan would have to stabilise its trade relations with both groups of countries through some kind of organisational structure.²³

In addition to Kojima's own observation and judgement of the intra-regional trade and economic relations and the changes taking place in Western Europe, the widespread discussion on regional economic integration going on inside Japan at that time must also have influenced his perceptions. Perhaps these discussions further convinced him that a free trade area among the Pacific developed countries, with the Asian developing countries included as associated members, would be the best way out for Japan to avoid being left on its own.

Beginning in 1963, discussion about regional integration picked up momentum in Japan. It shifted from the question of whether Japan should engage in regional integration to the question of whom should Japan integrate with. This was because the further development of the EEC and the widespread copying of it in other parts of the world created "feelings of loneliness" for the Japanese. The 'feelings of loneliness' led to a search for suitable partners in case they were needed. Only two groups of countries appeared practical, one being the Pacific countries, the other the Asian countries.²⁴

Japanese discussion could be crystallised into three types of opinion. The first type was advocated by the semi official Japan Economic Investigating Committee in a report published in 1963. The report, dividing the world excluding the socialist countries into developed and developing countries, claimed that Japan was a developed country. As far as the Asia-Pacific region was concerned, Japan should integrate with the other four developed countries, because Japan's interests could be better served by being part of this group according to the GATT principles. The second and third views were that the target of Japan's external integration was Asia. Their difference was in Japan's position in such integration. The former held that Japan, the region's only developed country,

should be the leader in promoting the establishment of the Organisation for Asian Economic Co-operation (OAEC). The latter thought that Japan was not really so far ahead, and the other East Asian countries were worthy co-operation partners or strong competitors. It was vital for Japan to stabilise its market share in these countries, since, for a long time to come, their importance as markets for Japanese exports would grow.

It can be seen from the above that Kojima's idea of a free trade area in the Asia-Pacific region was put forward in response to the EEC's rising level of discrimination, and concern within Japan about being left on its own. As a nation, Japan was highly concerned with the widespread development towards regional integration in many parts of the world. As has been shown, the widespread apprehension of "loneliness" and prevalent views about whom Japan should co-operate with influenced Kojima's views on the potential co-operation partners. Obviously, Kojima was also thinking as a true patriot, keeping Japan's needs at the top of his agenda. This was fully shown by his criteria in choosing co-operative partners.

Nevertheless, the key point of the PAFTA idea was that the Asia-Pacific constituted a clear region, and the five Pacific countries constituted the core. Kojima did show that economic cooperation was possible and beneficial by demonstrating that intra-regional trade relations were becoming more important for these countries. He highlighted not only the importance that these countries had for each other as markets, but also other economic benefits that cooperation could bring. They included better allocation of resources as a result of wider competition, etc. What was exceptional was his idea of helping developing countries by opening material markets to these countries. He believed this would enable them to develop their economies in a more dynamic way through utilising their comparative advantages.²⁵

Kojima made a strong case for this theory, but his proposal did not lead to any immediate reaction from the wider Pacific academic world, or any immediate actions by the governments of the intended five member countries. In this sense, Kojima's effort

failed, because he did say that actions should be taken by these countries as soon as possible before the organisational structure was in place.²⁶ Why did the idea fail? According to later commentators on Kojima's proposal, there were three main reasons.²⁷ The uneven distribution of the benefits from trade expansion as a result of integration was quite heavy in the considerations of Australia, Canada and New Zealand.²⁸ People from these countries, who were involved in the discussion, believed that a free trade area would benefit Japan, and such benefits would be achieved at the expense of their countries.²⁹ Inside Japan, there were also voices against the proposal. They regarded PAFTA as analogous to the infamous Greater East Asia Co-prosperity Sphere Scheme.³⁰ Another reason was the United States' attitude. As the leader of the post-war western world, the United States' attention was focused more on global free trade rather than regional. Even if the United States would consider regional integration, it seems that it regarded Western Europe, rather than the Asia-Pacific, as the target.³¹

For these reasons, Kojima's proposal did not gain an enthusiastic response from the targeted countries. However, Kojima's effort was not made in vain. It proved to be a good starting point. His method of study of this issue, his criteria, and his scale of co-operation were to have deep and wide-ranging influence on later discussions carried out in the wider Asia-Pacific region. When the discussion on Asia-Pacific regional economic co-operation first started in Japan, "it had proceeded in vague terms, based more on feelings than actual knowledge of the situation between the countries. With this study, Kojima moves discussion on to the firmer ground of scientific study on the economic strengths and weaknesses of the countries in question. The strength of Kojima's argument is that he lays bare, from an economic point of view, the basic relationship between the Pacific countries. This laid firm foundation on which subsequent discussion could be based".³²

The significance of Kojima's paper lies also in the fact that it provided a map for later discussions on economic co-operation in this region. Until Kojima made his proposal for a Pacific Economic Community, there had been no concrete proposals at

all. As will be shown later, his idea and argument were the starting and reference points for later discussions in the process. The Kojima proposal and its failure to be turned into action were used as the reference point for the direction and scope of proposals made by other people. It is in this sense that Kojima's proposal was important.

2. 1. B. Peter Drysdale and A Confident and Open Trade Regime

Peter Drysdale, professorial fellow and executive director of the Australia-Japan Research Centre in the School of Pacific Studies at the Australian National University (ANU), was the other person who put forward some basic ideas and arguments about Asia-Pacific economic cooperation. Trained as an economist specialised in Australia-Japan economic relations, he believed that region-wide economic cooperation was capable of offering the Asia-Pacific countries the conditions needed to maintain the momentum of rapid economic development in the post-war era. He drew his inspiration from both Kojima, and his academic experiences at Oxford and Harvard.³³

Drysdale represented a new thrust in the academic discussions different from that of Kojima. The difference was mainly in their approaches to economic cooperation.³⁴ While Kojima advocated a free trade area, Drysdale believed that it was most important for the Asia-Pacific countries to preserve and consolidate the favourable international environment, both global and regional, that made it possible for Japan and other East Asian countries to achieve rapid economic development. What was most essential for this, he held, was to maintain open, non-discriminatory and mutually beneficial international trade relations among these countries, and to unite them in promoting global free trade through GATT. The mechanism prescribed for this was an organisation "which should be function-oriented, non-exclusive, non-bureaucratic." It was supposed to be able to unite these countries through better mutual understanding. The other main feature of Drysdale's ideas was "open regionalism". He argued that it was highly necessary for the Asia-Pacific countries to rule out any inward looking,

discriminatory institutions for economic cooperation.³⁵ This subsection will show why Drysdale believed that Asia-Pacific economic cooperation be non-exclusive.

Deteriorating Intra-regional Trade Environment

Drysdale argued that the Asia-Pacific regional organisation must have clear-cut functions. As far as he was concerned, one such function was to deal with issues that started to plague the trade and economic relations in this region since the late 1970s. According to him, the issues confronting the countries of this region were brought about partly by their success. Such success was owed largely to the GATT based world trade system, which enabled the Asia-Pacific region to develop close and rewarding economic and trade relations. As a result of such relations, countries in East Asia, beginning with Japan and then onto the others, became powerful forces in the world economy. The rapid growth in East Asia, which outpaced that of both the United States and Western Europe, forced those countries to consider restricting trade with East Asian countries.

The direct consequence of this was various types of departure from the GATT principles. As for the Asia-Pacific region, the most damaging departure was that made by the United States. According to Drysdale, the United States played a vital role in the rapid emergence of East Asia in the world economy. It provided the political as well as economic support for these countries. Such support was highly instrumental in the formation of the contemporary intra-regional trade relations, because, as a superpower, it provided the political underpinning and a safe and favourable environment that made it possible for the Asia-Pacific countries to develop strong economic and trade relations.³⁶ The United States was also the most important market for East Asian exports.³⁷

However this situation, which was favourable to the export-oriented strategy of economic development followed by the countries in this region, began to change after the Pacific Asian region became an important force in the world economy. The rapid

economic growth achieved by the East Asian countries including Japan, which, to a large extent, depended on the United States as a market, led to trade disputes between the United States and these East Asian nations, particularly Japan, due to the trade deficit sustained by the former. This forced the United States to resort to a series of bilateral, anti-GATT-spirit measures to redress this.

First, a series of trade-restriction measures, such as 'voluntary export restrictions (VERs)', 'orderly marketing agreements' (OMAs) and 'the Multi-Fibre Arrangement' (MFA), were implemented to reduce the US deficit with Japan. These bilateral deals were thought to be damaging not only to Japan but also to other Pacific Asian countries. This was because they were also exposed to trade restrictions by such deals since "their very success (would) generate United States reaction and extension of specific bilateral import restrictions to them as well". For instance, South Korea, Hong Kong and Taiwan were subjected to restrictions by the "orderly marketing agreement" by the United States once they replaced Japan as the main exporters of electronic appliances.³⁸

The second issue was the American demand for larger shares of the markets for agricultural and mineral products in the Pacific Asian countries and the way this was done. The United States used its huge trade deficit with Japan to pressure it to devote a larger share of its commodity market to US products. Drysdale pointed to the disruptive effects on the trade between Japan and other countries. For instance, under US pressure for greater access to its beef market, Japan altered its beef import restrictions in order to import more US beef. Also, the United States coal mining companies lobbied Japanese utilities to buy more US coal. All this was done at the expenses other countries, but mostly Australia. Drysdale claimed that, while the United States might be benefited in the short-term, the long-term consequence would be distortion of the most efficient allocation of resources and damage to the interest in non-discriminatory principles.³⁹

Another development, which Drysdale believed was highly undesirable to most countries in the Asia-Pacific region, was the US initiative to form so-called free trade

areas within this region. The most obvious example was the North American Free Trade Area (NAFTA). The United States also considered other similar attempts, for instance a free trade area with the ASEAN countries. These realised or attempted arrangements were explained by Drysdale as American intentions to correct its problems of huge trade deficits through restrictive means. He argued this could be highly damaging to those countries that were not included in such arrangements, because narrow and exclusive arrangements like those attempted by the Americans would restrict trade in the region as a whole by putting those excluded countries at a disadvantageous position.⁴⁰

Drysdale believed that departures by US from the GATT principles could lead to deterioration in intra-regional trade relations. This could become an obstacle for maintaining the momentum of rapid economic development in the Asia-Pacific region. The rapid economic rise of the Pacific Asian countries made this region a centre of world economic activities. A crucial reason for this was the possibility for these countries to maintain their export momentum. The departure from GATT principles was highly damaging for these countries since their strategy for development dictated that they must be able to export to other countries. Should the access to these markets be cut off, the East Asian countries, whose economic future had crucial importance for the rest of the Asia-Pacific countries,⁴¹ would be deprived of a condition that was of fundamental significance.

The most effective way out of this situation, according to Drysdale, was economic cooperation, which would curb and eventually eradicate the restrictive arrangements. This should enable the Asia-Pacific countries to understand better the consequence of their policy actions for other countries so as to co-ordinate their actions for the benefit of all countries. This was why, according to Drysdale, economic cooperation in the Asia-Pacific region should have a broader sense and relate to international cooperation on, or co-ordination of approaches towards, various economic policy matters. But policy co-ordination in the Asia-Pacific region should be different from that practised among the industrial countries, which was focused on such macroeconomic issues as monetary

policies. Policy co-ordination in the Asia-Pacific region needed to cover a much wider terrain to suit the co-existence of developed and developing countries. The areas covered should include such matters as trade policy, foreign investment policy, aid policy, structural adjustment policy and general commercial policy. It was to these areas that priority should be given while developing common Asia-Pacific policy approaches.⁴²

As Drysdale indicated, cooperation as policy communication and co-ordination was needed in this region for the following reasons. First, the developing countries could no longer enjoy those favourable conditions for foreign trade as they used to do. Their own success in developing their economies made those countries, particularly the United States, who used to open their markets to them, highly reluctant to do so. Yet the ability to continue to benefit from the US market remained crucial for their economic development.⁴³ In the meantime, policy communication and co-ordination could also help curb the tendency of protectionism among the developing countries in this region, and thereby promote trade liberalisation among these countries as well.

Second, high level of heterogeneity meant greater need for communication and understanding. The Asia-Pacific countries were a group of countries with more differences than similarities. A mechanism that could accommodate such differences and enable them to adjust their policies for mutual benefits was required. "A necessary condition for collective agreement and action on cooperative exchange is the establishment of a common basis of understanding of the issues and options and the pursuit of common policy goals."⁴⁴

Third, policy communication was believed to be able to reduce and limit the adverse effects of bilateral deals. They included such negative ones as those between US and Japan as well as such innocent ones as the investment deals between Japan and China, which could divert investment from the ASEAN countries to China. Since the countries of this region shared a close economic link, bilateral deals tended to affect third

countries. A mechanism for policy communication would increase the awareness of all countries involved of the implications of these deals, and therefore reduce and limit their adverse effects.⁴⁵

Drysdale advocated policy communication and co-ordination as the main feature of Asia-Pacific economic co-operation assuming the maintenance of free trade as a precondition. He argued that easy access to foreign markets, especially the US market, was crucial for the rapid economic development achieved by East Asian countries, including Japan. Such easy access was not protected by any formal trade regimes in this region. Therefore it was vulnerable to disruption. To maintain the momentum of rapid economic growth, free trade must be kept as a main feature of the intra-regional trade relations.

Open Regionalism

Drysdale argued that Asia-Pacific economic co-operation should not be policy communication and co-ordination only. It should also champion free trade. What he had in mind, however, was not mechanical free trade through a free trade area. The free trade that he advocated was open to all countries both in and outside this region, and even to the socialist countries. This was necessary, as Drysdale argued, because discriminatory arrangements would damage the economic growth performance of the Asia-Pacific region since it was not consistent with the development policies of the countries in this region.⁴⁶ Globally, Asia-Pacific countries should form an alliance through cooperation to promote global free trade. This was what he called regionalism without discrimination or "open regionalism".⁴⁷

As Drysdale saw it, open regionalism was needed in this region because the export-oriented development strategies followed by many countries in this region gave rise to protectionism, which was practised by both developed and developing countries in this region. He argued that open regionalism would be practical because the Asia-Pacific countries were interested in creating a new climate in their own approach to commercial

policy, and because protection would damage trade partner's interests and limit the scope for growth.⁴⁸

Open regionalism was also meant to allow a certain degree of flexibility for the member countries in opening their markets. It would be able to draw those countries who found restrictive free trade inhibiting to participate in regional cooperation. A free trade area, which would require uniform reduction of tariffs by all participating countries, was not in their best interests. Both the ASEAN developing countries and China were in a stage of development in which the total opening of their markets would adversely affect their economic development. However, if these countries were allowed to follow a slower track, it would invite the proliferation of commitments short of free trade by other participants. Therefore, open regionalism would suit this region best.⁴⁹ Open regionalism would also make it easy for the Asia-Pacific countries to conduct positive and rewarding cooperation with the socialist countries and those in Latin America.⁵⁰ The way to conduct free trade following the principle of open regionalism was for the Asia-Pacific countries to swap market access concessions basically between the developing countries and the United States.⁵¹

On the other hand, if Asia-Pacific free trade was not intended to involve trade discrimination within the Pacific, according to Drysdale, it might also provide a potentially valuable starting point for accelerating movement towards the negotiation on broader trade liberalisation on a most-favoured-nation basis.⁵² The Asia-Pacific countries should make effort to avoid any acceptance of discrimination against non-Pacific countries implied by the term 'free trade area', and to work towards finding areas of reciprocal concessions that could be offered on a most-favoured-nation basis.⁵³

As Drysdale saw it, the Asia-Pacific region could use its growing economic might to promote global free trade guided by the GATT principles. "Pacific co-operation can be directed towards building a stronger global trade regime and binding protection to promote regional industrialisation... The interest here is in the scope for Pacific

collective action to strengthen the most-favoured-nation rules and the global trading system."⁵⁴ He argued that this was needed because the development interests of the Asia-Pacific countries dictated so. Global most-favoured-nation based liberalisation was therefore the best option for the Asia-Pacific countries. Open regionalism was also these countries' weapon to fight protectionism practised by other regions, particularly the EEC.⁵⁵ Drysdale also held that to practise open regionalism would require the Asia-Pacific countries to undertake co-operation in order to unite these countries in playing a "leadership role" to promote global free trade based on GATT principles.⁵⁶

It can be seen from the above that Drysdale held that Asia-Pacific economic cooperation should be free trade, yet the focus of its effort should be on policy communication and understanding. He advocated that the cooperation mechanism should enable these countries to have more mutual influence so as to adopt policies that were in favour of maintaining the momentum of rapid economic development in this region.⁵⁷ This was due to the nature of the problems plaguing intra-regional economic relations, which linked all these countries one way or another. "A wide, flexible and non-bureaucratic institutional association" was believed to be able to help the Asia-Pacific countries to tackle such problems. In the meantime, the Asia-Pacific countries should not practise protectionism against countries both in and outside this region. In fact, open regionalism would give these countries the opportunity to act as leaders in promoting global free trade, which was consistent with their development interests.

An Organisation for Policy Communication & Coordination

While demonstrating that cooperation was beneficial to the sustenance of positive intra-regional economic relations, Drysdale went to great length to explore what kind of a cooperative institution was appropriate for the Asia-Pacific countries. His effort was divided into two phases. The first was represented by his consideration about an inter-governmental organisation. He proposed the establishment of an "Organisation for Pacific Trade and Development (OPTAD)" in a paper entitled: *An Asian-Pacific*

Regional Economic Organisation: An Exploratory Concept Paper (Concept Paper).⁵⁸

The key point made in this paper was that cooperation should be an inter-governmental process, and the area of cooperation should be policy communication and cooperation should be co-ordination rather than integration.⁵⁹

What Drysdale was exploring in the Concept Paper was a structure suited to the economic and trade relations within the Asia-Pacific region, instead of responding to extra-regional changes. "By 1979 the focus was very much on the internal dynamics of the East Asian and Pacific economies and the challenges and opportunities which East Asian trade and industrial growth presented for the formation of foreign economic policy."⁶⁰ He argued that, as the Asia-Pacific region emerged as a centre of the world economy, a regional organisation facilitating the pursuit of common trade and development objectives and overcoming contradictory ones became necessary.⁶¹

He further argued that the "Organisation for Pacific Trade and Development" should reflect the heterogeneous reality of the Asia-Pacific region and serve the interests of all the countries. The proposed OPTAD should therefore fulfil four functions: an organisation for effective discussions on issues facing this region; a mechanism to stimulate investment and to improve aid flows to the developing countries, a forum for working out long term strategies of development in the region through consultation and discussion, and a structure which was able to accommodate the socialist countries of the Asia-Pacific region in regional economic co-operation.⁶² Such an organisation would take into consideration interests of all, instead of just a few countries. The momentum of rapid economic growth could be maintained as well, since regional interdependence was much heightened following rapid economic growth in East Asian countries.

The Concept Paper also spelled out the style and working details of the OPTAD. The organisation should be fairly loose and avoid unnecessary bureaucratic structures. Its working style should be consultative, informal and communicative.⁶³ It even put forward a detailed working plan for OPTAD. The organisation should be a process of

high level political consultation launched by a meeting of heads of government. Its daily functions should be handled by a small permanent secretariat made up of senior professionals directed by a steering committee of senior government officials of the member countries. The steering committee would meet annually or more frequently. The areas on OPTAD's agenda would be specific policy issues, which would be handled by ad hoc task forces involving well-known academics. The issues should include free and fair trade; trade restructuring, financing of regional development; foreign direct investment; resource and energy security; and trade with the socialist countries.⁶⁴

Drysdale believed that an organisation like the OPTAD was necessary because none of the existing regional institutions served the purposes that OPTAD was supposed to fulfil.⁶⁵ Though there were a number of regional institutions, such as the UN Economic and Social Commission for Asia and the Pacific (ESCAP) and the Asian Development Bank, or even ASEAN, with which a new regional organisation might seem to compete, yet "the function and target of a wide, flexible and non-bureaucratic institutional association for East Asian and Pacific economies committed to outward looking trade and development was considered much beyond all the above institutions".⁶⁶

What Drysdale proposed in the 1979 Concept Paper prepared for the US Senate was an organisation that was quite unique in its kind. It should be inter-governmental and involving high government officials, yet it was to be flexible, slim and function-oriented. It should be capable of dealing with this region diversified issues. It should also be an organisation in which both developed and developing countries, and the socialist countries, could be brought together to study and deal with the trade and economic issues existed in both bilateral relations and intra-regional relations. OPTAD, once set up, would enable the member countries to reach agreement of understanding on various issues, and decision that took the interests of all member countries into account.

The importance of the Drysdale proposal is that it managed to take the discussion in a new direction. Like Kojima's free trade area proposal, "...the OPTAD idea is probably the most comprehensive and concrete plan proposed (so far) and has served as a useful frame of reference in all subsequent discussion of the desirability and feasibility of Pacific regional co-operation".⁶⁷ Deliberations on Kojima's proposal since 1968 among scholars proved that the idea was politically and economically unfeasible. There were objections to the idea both inside and outside Japan, especially in the "smaller" countries such as Australia, Canada and New Zealand.⁶⁸ As a result, the discussion failed to move further. Drysdale's proposal actually restarted the discussion, in certain sense, after a decade in 1979.

2. 1. C. Kojima and Drysdale: A Comparison

The previous two subsections indicate that there are important differences between the thoughts of Kojima and Drysdale for conducting economic co-operation in the Asia-Pacific region. This is obviously due to the fact that they worked against highly different backgrounds. When Kojima published his first article on this issue, the concept of an Asia-Pacific region was only appearing on the distant horizon. He was writing largely in response to the initial development of the EEC, and the concern about the EEC expressed in Japan. Drysdale, who was writing almost two decades later, drew his inspiration from the reality that the Asia-Pacific region was already a centre in the world economic activities. Certainly Drysdale's OPTAD proposal grew out of the discussions on PAFTA. He did think that the focus of foreign economic policy interests underlying the PAFTA proposal was valid and that it contained the seeds of a useful approach to major problems that were emerging in the growing intra-regional economic and other relations. But their proposals differed not only in their characteristics, objective and function, scope of participation, and structures but also in the rationale for strengthening Asia-Pacific economic co-operation.⁶⁹

The first major difference between the two is their main arguments for co-operation. Kojima argued from the perspective of the harmful effect of the establishment and further discriminatory development of the EEC. He maintained that the interests of the Asia-Pacific countries would be better protected if co-operation was introduced in their economic affairs. Yet Drysdale argued from the perspective of the consequences of rapid economic development within the Asia-Pacific region. He wanted to have a kind of cooperation which was able to sustain the international conditions for the Asia-Pacific region that had helped make Japan an economic power.

The second difference lies in the format of co-operation. Kojima wanted to follow the example of the EEC and the development of exclusive regional structures elsewhere in the world to introduce discriminatory economic co-operation to this region. Though he named the structure an economic community, it was actually intended to be a free trade area, the lowest form of economic integration according to Balassa's classification.⁷⁰ Nevertheless, this was meant, to certain extent, to separate the Asia-Pacific region from the rest of the world. Drysdale emphasised "non-discriminatory economic cooperation" for the Asia-Pacific countries in order to let it to expand to cover the whole world eventually. In addition, Drysdale put his emphasis on both policy communication and co-ordination. But he also emphasised the role that free trade could play in the development of the economies of this region. Yet free trade was to be used in a different sense, that is, countries should start from exchanging market access concessions for those products that they had comparative advantages. Protection should only be used to exchange mutual reduction of protection between the Asia-Pacific region and other parts of the world, such as the EEC.

The third difference is in the membership scope. Kojima proposed limited membership while Drysdale proposed open membership. Kojima believed that co-operation was only possible among the developed countries in the Asia-Pacific region. The developing countries, due to their undeveloped economies, should be included only as associate members in order to offer them co-ordinated economic aid. Drysdale

wanted to include not only all the countries with market economies of the Asia-Pacific region, but also wanted to see that regional economic co-operation expanded to include the socialist countries of this region, and planned a global mission for it as well. Drysdale did not make any difference between the developed countries and the developing countries in this region. This was because he saw that the developing countries were rapidly becoming important economic forces in their own right. The membership was open to both the socialist countries in this region, and the countries of the rest of the world so long as they were prepared to exchange concessions with the Asia-Pacific region. However, as far as ideas were concerned, the process of constructing certain kind of economic co-operation in the Asia-Pacific region started by Kojima in 1965 was brought forward by Drysdale's ideas of co-operation as co-ordination and "open regionalism" and his proposal for OPTAD.

2. 2. Political Interactions

Discussion on economic co-operation in the Asia-Pacific region, started first among academics, was under political influence right from the beginning. Kojima's proposal got firm support from the Japanese government. Later the Australian government also joined the Japanese government to support these discussions. Political support was also actively sought by the academics. Drysdale's proposal for OPTAD was made to directly involve the governments of the Asia-Pacific countries in this process. "OPTAD focused quite properly on the need for inter-governmental organisation and activity,..."⁷¹ This section will illustrate why the governments of these countries would be interested in such a venture, and what they did to influence the direction and outcome of the discussion, which had direct impact on the emergence of APEC.

2. 2. A. The Interests of the Key Countries

It was for different reasons that the Asia-Pacific countries joined the process to construct regional economic cooperation. Though these countries responded differently to the idea at the beginning, the process kept growing. This can be seen in the ever

larger number of countries represented in both the discussions in PECC and APEC, the two forums that have involved the political circle, albeit in different forms. The most fundamental reason for more and more countries to participate in the process was obviously the potential economic interests involved in it.⁷² Yet my research indicates that there were also political motives to be involved. Since the process was always under political influence, it is worth while to examine why the Asia-Pacific countries became interested in it.

As far as the United States was concerned, cooperation was thought to offer it the means to exercise its leadership role in this region under changed conditions, particularly after the Cold War. The Asia-Pacific region's economic importance for the United States increased rapidly since the late 1970s. The American trade with the rest of this region exceeded that with all of Europe. Yet the US did not have a regular policy-co-ordinating or information-sharing mechanism such as the OECD with the Asian countries.⁷³ By joining this process, the United States would find it much easier to strengthen its economic position in the area vis-a-vis Japan. Left alone or only to bilateral arrangements, Japan's share of the Pacific Asian market was likely to grow, and the formation of a de facto Japanese economic sphere would be inevitable.⁷⁴

An organisation for economic co-operation was thought to suit the US. quite well. A straightforward political or security-oriented regional arrangement would be neither feasible nor desirable from the US. point of view. Most Asian countries, as well as American domestic opinion, would be opposed to political or security arrangements either for fear of domination or further overseas commitments. Even if such arrangements proved to be feasible, it would only result in creating dissension, and complicating the security situation in the region. Thus, a multilateral organisational framework that concentrated on economic co-operation would be the most feasible and effective mechanism by which the US. could strengthen its presence in the region.⁷⁵

In addition, it would be in the interests of the US. if it could, through such a mechanism, assist the region's developing countries to continue their economic progress and to retain their market economies. Another motivating factor on the part of the American advocates of an Asia-Pacific community appeared to be the desire to bring into balance the traditionally Europe-centred economic policy of the US. and to respond to the rising tide of protectionism in many sectors of their economy. The United States found itself discriminated against by the European Community, the formation of which it encouraged and assisted. It would not wish to repeat its experience with Europe by being locked out of a regional grouping that might emerge in western Pacific. Closer ties with the Asia-Pacific countries might serve as a counterweight to the exclusiveness of the European nations.⁷⁶

Japan was thought to have similar interests in the Asia-Pacific co-operation to those of the United States. Through a co-operative organisation, Japan would be able to secure a position in this region, or even might be able to assume a leadership role that might not be possible on a bilateral basis or without arousing resistance from countries with smaller economies. Japan even considered using the APEC process to bolster its bid to become a global power.⁷⁷ There were more practical reasons for Japan to be interested in such a structure as well. The Asia-Pacific region was not only Japan's most important sources of raw materials, but also its most important export market. An organisation would assist to stabilise these. Japan could also use it to co-ordinate economic assistance for the developing countries and reduce the pressure on it to open its market for import.⁷⁸ Also, such an organisation would have the positive effect of creating a greater and more realistic awareness within Japan of the impacts of its own domestic economic decisions on other countries.⁷⁹

For the other developed countries in this region, Australia, Canada and New Zealand, a cooperation organisation would institutionalise their places in the fast developing Asia-Pacific region. Both Canada and Australia were over dependent on their largest economic partners, the United States and Japan, as markets and sources of

investment. A regional organisation involving both Japan and the United States would make it possible for them to balance off the dependence on just one partner.⁸⁰ The development within the EEC was also an important incentive for these countries to be more interested in the wider Asia-Pacific region than the United States and Japan only.⁸¹

But Australia had much stronger interest in such cooperation than either Canada or New Zealand. This was because the Asia-Pacific region as a whole, and the Pacific Asian countries in particular, carried the most importance for this country. As a main producer of raw materials and commodity products, Australia conducted the majority of its trade with the Asia-Pacific countries. Australia came to believe that its economic destiny was tied with East Asia. The proposed cooperative structure would bring the benefit of expanding its markets, with the resource-poor NIEs growing rapidly as increasingly industrialised countries. This is one of the key reasons for the successive Australian governments to advocate the Asianisation of Australia.⁸²

Since Britain joined the EEC in the early 1970s, Australia found its traditional relations, particularly economic relations, with the old world gradually weakened. Australia "loss" of Britain was more than handsomely compensated by its economic relations with Japan and other rapidly rising East Asian countries. But the new development in the intra-regional economic relations, particularly the American way of dealing with Japan and other East Asian countries to cut trade imbalance, made Australia wonder if it was going to be made friendless in this region. Hence, it would serve Australia's interests well if economic and trade relations were stable and smooth.⁸³ It was also due to Australia's desire to integrate with Asia that it played an active role in promoting regional economic cooperation. There was also a kind of technical convenience that only Australia enjoyed. As an industrial country, Australia was not perceived to harbour the sort of dominating intentions that the smaller and weaker countries suspected of both the United States and Japan.⁸⁴

The ASEAN countries, who were regarded with great importance by many,⁸⁵ had strong interests in preserving and expanding market opportunities in the advanced industrial countries. Yet ASEAN's slow progress as an entity made these countries have strong reservations about the idea at first. They were concerned that ASEAN would be submerged in a much larger structure involving some of the most powerful countries. However, as the process picked up momentum, ASEAN was persuaded that such an organisation would help consolidate it, since the ASEAN countries would develop a strong voice through policy co-ordination and information sharing, and interest representation. With both the United States and Japan in the structure, it was thought that ASEAN would also be able to overcome the problem of dealing with one giant at a time.⁸⁶

To the Newly Industrialised Economies, the question of economic co-operation and co-ordination in the Asia-Pacific region was of crucial importance for their continued economic growth and viability. It would probably be in the interests of the NIEs whether a common market, a free trade area, or a non-exclusive regional GATT were established in the region including as many countries as possible. The NIEs would expect that a new regional arrangement would contribute to bringing about a more stable and open environment for trade and finance, expanded trade with the other countries in this region, a more favourable position in multilateral trade negotiations with the advanced countries, and a more stable source of natural resources.⁸⁷

2. 2. B. Political Actions and Interactions

In the process that led to APEC, political involvement and interactions also influenced the process deeply. What was interesting was that interactions at the political level over this process was not always positive. It took quite a clash for the process to preserve its pan-Asia-Pacific characteristics. Such political activities started within the Japanese political circle, then it gradually expanded to involve all the member countries of APEC. Early political involvement was positive and supportive since the Japanese

government, and then the Australian government, were in total agreement with what was proposed. But as the momentum picked up, particularly after the ASEAN countries joined in this process, it became increasingly complicated. Various political considerations started to influence this process.

But it was to the support by the Japanese government that this process owed its rapid development in the 1980s. As was shown in the first section of this chapter, discussion on how to deal with Japan's economic relations with the nations in the Asia-Pacific region was widespread among Japanese government officials and politicians back in the 1960s. For instance, Japanese Diet members repeatedly raised questions about such development soon after the establishment of the EEC and its further development in the direction of a discriminatory bloc.⁸⁸ In the mid-1960s, the concept of an Asia-Pacific community was widely embraced by Japanese politicians, business men and academics.⁸⁹ It is therefore not surprising that the idea of a formal Pacific association was first articulated by such people in Japan.

Out of concerns about Japan's position in this region, the idea of a formal Pacific association received strong support from the Japanese government. The first movement at senior official level came in 1967, when Foreign Minister Takeo Miki outlined his ideas for an "Asian Pacific policy" based on an "awareness of common principles", regional cooperation in Asia, cooperation among the advanced nations in the Pacific region, and more extensive aid programmes for the developing countries in this region.⁹⁰ The most important action taken was the launch of the Pacific Trade and Development Conference (PAFTAD) series, with the support of the Japanese foreign ministry, to consider Kiyoshi Kojima's Pacific Free Trade Area proposal. Yet the less than enthusiastic response to Kojima's proposal by people from other countries prevented the Japanese government from taking a more active role.⁹¹ However, the PAFTAD series was important in keeping the discussion going. When Masayoshi Ohira became Prime Minister in 1978, he brought the process further through joining forces with the Australian government. Ohira was a firm supporter of this process. He

discussed economic co-operation in both his election campaign, and later in discussions with both Australian and American political leaders.⁹²

However, in the 1980s, the Japanese government became less prominent as the chief advocate for regional economic co-operation. An important reason for this was that Japan came to realise that its effort to be widely accepted as a member of this region would be enhanced by maintaining a lower profile in this process.⁹³ But this was also explained as the result of the consolidation of Japan's position in both the regional and global economies. Japan's official interest in the concept during the 1970s coincided with its desire to improve and strengthen ties with the ASEAN countries and to secure steady supplies of natural resources, including oil. By the middle of 1980s, Japan's relations with the various ASEAN countries stabilised and there were no serious commodities crises on the horizon.⁹⁴ Furthermore, Japan realised the responsibility that would come with the benefits from a multilateral structure.⁹⁵ All these reduced Japan's incentives to play a leading role in establishing a regional co-operative mechanism. Certainly Japan continued to exercise significant influence on this process.

As it has been shown above, economic cooperation was regarded to be of special importance for Australia, whose government also played a highly active role in promoting this process. Like the Japanese government, the Australian government provided support to the academics before taking the lead itself. For instance, together with the Japanese government, the Australian government commissioned Australian and Japanese researchers to conduct research on the feasibility of co-operation in 1970s. A report was produced from this research project.⁹⁶ The first widely influential action taken by the Australian government was to sponsor a seminar in 1980 to "survey interests in the idea of a Pacific Community".⁹⁷ This seminar turned out to be the starting point of the Pacific Economic Co-operation Conference (PECC) series. Since this was the first forum which involved government officials, it further underlined the significance of the Australian role. Yet the most significant contribution made by the Australian government was the proposal which led to APEC. Frustrated by the lack of

progress in the PECC discussions after nearly ten years, Australian Prime Minister Bob Hawke proposed in early 1989 the convening of a ministerial meeting between the Asia-Pacific countries to push forward the process of constructing economic cooperation.⁹⁸

The other important contribution made by the Australian government was the consultations that its officials or representatives conducted with the various countries in this region. Before the 1980 seminar was convened by Prime Minister Malcolm Fraser, John Crawford, the co-author of the previously mentioned report to the Australian and Japanese government, was sent to capitals of the ASEAN countries to for consultations and explanation. After Hawke made his proposal, Australian officials were once again sent on consultation missions to the various capitals in this region. Such consultations prepared the ground for multilateral discussions by "... defining more concretely the objectives of regional economic cooperation and the nature of a process which would suit the needs of the extremely diverse Asia-Pacific... Moreover, the consultations gave shape to the guiding principles of the proposed new process".⁹⁹

The active promotion by the Japanese and Australian governments was highly crucial in the early stage of this process. However, once the idea of regional economic cooperation was widely accepted as worth exploring, countries in this region began exerting influence on the process. While the Australian government replaced the Japanese government as the leading force behind this process, politicians in other countries started to make inputs to the construction of a regional cooperation structure.

What must be mentioned here is the interest shown by Senator John Glenn, Chairman of the United States Senate Foreign Relations Committee's Subcommittee on Asia and the Pacific. When Ohira joined forces with Australia's Fraser in promoting the process, Glenn's interests in it increased. The idea was not strange to him. Due to his position in the US Senate, Glenn was involved in the exploration of solutions to the issues in US-Japan relations. It was in this context that he came into contact with the discussions on conducting economic co-operation in the Asia-Pacific region. Against

the background of widening interests in the process in the United States, Glenn commissioned Drysdale and Patrick to evaluate the process of promoting economic cooperation in this region and make suggestions as to the actions that should be taken by American politicians.¹⁰⁰

The ASEAN countries were the first ones to inject rather negative influence into this process. These countries were highly sceptical about the process actively promoted by the Japanese and the Australian governments. They were not so convinced as to the final purpose of economic cooperation in this region, when representatives from the Australian government consulted them on the establishment of an Asia-Pacific inter-governmental organisation. For instance, they were not so sure that security issues should be included. They were not in favour of a formal organisation either.¹⁰¹ They made clear that they would consider participating in the discussion only if it focused on economic issues in a less than formally official manner.¹⁰² The ASEAN countries' narrow interests were explained as a result of their concerns about the effect of such a region-wide structure on the fate of ASEAN itself. As an organisation, ASEAN was aware of its limited success in promoting social and economic progress in these countries. They were also worried about the big countries' intention to dominate it.¹⁰³

But ASEAN countries' mind changed, as the momentum for economic cooperation gathered. As these countries' economies achieved high rate of growth, they became more confident in themselves, and also came to realise that they should not limit themselves to ASEAN as they tried to sustain their economic growth. They also wanted to cut down competition from other Asia-Pacific countries. Beside, they wanted to prevent domination by big powers through directly exercising influence on it. That is why they opposed Bob Hawke's idea of excluding the United States and Canada from the later APEC, when he first put forward the APEC idea. Hawke was mainly concerned with the development of NAFTA.¹⁰⁴

It was also due to the further development of NAFTA that some ASEAN leaders took offense by promoting pure Asian cooperation structures. Singapore's former Prime Minister Lee Kuan Yew commented that Asia should have its own integration structure since major trading countries were moving away from the multilateral trading system towards more restrictive regional blocs. Malaysian Prime Minister Mahathir Mohammed adopted an even more radical approach. In December 1990, in a marked departure from his previous stance of "no trade blocs", Mahathir proposed an East Asian trade bloc in talks with the visiting Chinese Premier Li Peng. Mahathir's plan was to form an East Asian Economic Caucus (EAEC), which envisaged consultation among the Asian members of APEC, with the United States, Canada, Australia and New Zealand excluded.¹⁰⁵ What prompted the change in the attitude of the ASEAN countries was the EEC's Final Unification Act and connections to Eastern Europe, and the agreed free trade area, NAFTA, between Canada and the United States and the negotiation to include Mexico. Mahathir's proposal caused the fiercest dispute among these countries.

Though Li Peng did not respond to Mahathir's proposal enthusiastically, this proposal caught the attention of Japan and South Korea. South Korea was interested in the EAEC concept because it saw it as a counterweight against a Japan-led Asian economic grouping, and as a means to balance the weakening US interests in this region symbolised by the repeated cancellation of visits to this region by US President George Bush. As for Japan, there was initially deliberate ambivalence in Tokyo on the issue whether to join EAEC. Since the Mahathir plan explicitly called for the set-up of a discriminatory East Asian bloc, which was not consistent with Japan's desire for an Asia-Pacific structure, Tokyo's initial response was quite unsympathetic. Later, however, Japan's attitude became more ambivalent with senior government officials expressing flexibility. Japan therefore indicated its interests in the EAEC proposal by deliberately adopting an open position on it.¹⁰⁶

With two of its most important East Asian allies showing interests in Mahathir's proposal, the United States became concerned about the prospect of being excluded

from this region. Secretary of State, James Baker, fiercely criticised Mahathir's proposal. He was reported to say that any proposal for economic co-operation which did not include the United States would be unacceptable.¹⁰⁷ In a letter to Japanese Foreign Minister Michio Watanabe, Baker was reported to warn that the EAEC concept, by excluding the non-Asian members of APEC, would divide the Asia-Pacific region in half. Japan, as result, retreated over this. South Korea also backed down under US pressure. According to press reports, Baker told South Korean Foreign Minister Lee Sang Ock in a private meeting during the second APEC conference in Bangkok in November 1990, "Malaysia didn't spill blood for this country, but we did."¹⁰⁸ Other countries also voiced opposition to Mahathir's proposal.

As a result, the EAEC concept was soon left on its own. Nevertheless, such Asian initiatives had important impact on the American attitude towards Asia-Pacific economic co-operation, and was instrumental in stimulating a review of the United States' relations with the rest of the Asia-Pacific region. In an article published in "*Foreign Affairs*" in 1992, James Baker, the US Secretary of State, discussed comprehensively US policy towards the Asia-Pacific. Baker recognised the ever closer intra-regional relations in the Asia-Pacific region, and stressed the importance of this region for the United States, and endorsed economic cooperation in this region. "...a viable architecture for a stable and prosperous Pacific community needs to be founded (on three pillars). First, we need a framework for economic integration that will support an open global trading system in order to sustain the region's economic dynamism and avoid regional economic fragmentation...." "In today's world a shared focus and the development of an active partnership among the nations of the Pacific Rim are essential to the success of the emerging global system..."¹⁰⁹

As the above indicates, political support and interactions between the countries of the Asia-Pacific region influenced the process of constructing regional economic co-operation significantly. The direct involvement of Japanese and Australian government officials ensured that the early discussions expanded and caught the attention of the

politicians of other countries. These disputes focused on the scope, the membership, the nature and the format of the economic co-operation structure. The process was not spared of disputes though. Political disputes mainly occurred between the key countries discussed above. The activities and concerns of the ASEAN countries further heightened the interests of the countries involved in regional economic co-operation. The result of such interaction was that the discussion on Asia-Pacific economic co-operation retained its pan Asia-Pacific, forum based characteristics.

2. 3. Institutional Evolution

Another significant aspect of the process of constructing Asia-Pacific economic co-operation was the institutional evolution. A number of forums were proposed and set up. These forums included: the Pacific Trade and Development Conference (PAFTAD), the Pacific Basin Economic Council (PBEC), Organisation for Pacific Trade and Development (OPTAD), the Pacific Economic Co-operation Conference (PECC) and the Asia-Pacific Economic Co-operation Ministerial Meeting (APEC). (See Table One) This section will show that the forums before APEC, especially the way they were organised and conducted their businesses, influenced the way that APEC was organised and the way it functioned. This section will also show that these forums were also the reason that an intergovernmental APEC forum was believed to be necessary.¹¹⁰

The Pacific Trade and Development Conference (PAFTAD) was the first forum to be set up for the discussion on undertaking regional economic cooperation. As it was mentioned earlier, after Kojima put forward his free trade area proposal, Japan's Foreign Minister Takeo Miki sponsored in Tokyo the first of what was to become a series of Pacific Trade and Development (PAFTAD) conference to promote discussions on regional economic cooperation. Since then around twenty further conferences have been held in the PAFTAD series. These conferences bring together academics from the various countries of the Asia-Pacific region. One of its early research projects was the

above-mentioned report to the governments of Australia and Japan, which convinced the two governments that co-operation was viable.

Table II. One

| Forum | Year Established | Status & Nature |
|---|------------------|--------------------------------|
| Pacific Trade and Development Conference (PAFTAD) | 1968 | Academic Operational |
| Pacific Basin Economic Council (PBEC) | 1967 | Business Operational |
| Organisation for Pacific Trade and Development (OPTAD) | 1979 (Proposed) | Official Never Materialised |
| Pacific Economic Co-operation Conference (PECC) | 1980 | Tripartite Operational |
| Asia-Pacific Economic Co-operation Ministerial Meeting (APEC) | 1989 | Official Operational |

As a forum of the academics, the importance of this conference series was the role it played in mapping out the intra-regional trade and economic relations, and in providing ideas and arguments for cooperation.¹¹¹ It was initially limited to economists from the major market-economy countries of this region. Later participants from almost all APEC countries attended this conference. It continued to involve a wider and wider group of policy-interested economists in the discussion of regional foreign economic policy issues. The development of thinking about Asia-Pacific economic co-operation within this forum was also a critical element in heightening official-level interest in the idea at the end of the 1970s. The conference has since become an annual event, with each one focusing on a particular sector of Asia-Pacific regional economic activity. It has been held in different countries, and each conference produces a collection of papers.

The Asia-Pacific business community was the first group of people to feel the need for regional economic cooperation. This was in response to the increase in intra-regional trade after the War. In 1967, businessmen, bankers, and industrialists from Japan, Australia and New Zealand formed the Pacific Basin Economic Council (PBEC), a body designed to promote the study and discussion of issues related to regional trade and investment and greater co-operation between public and private sectors. Business groups of Canada and United States were invited to the first PBEC general meeting in Sydney in 1968, yet they turned down the invitation. But a year later PBEC's first steering committee meeting was held in Honolulu. PBEC grew out of the bilateral Australia-Japan Business Cooperation Committee, and now has a membership of more than several hundred major companies from the five industrially advanced Asia-Pacific nations and from many developing countries throughout the Asia-Pacific region.¹¹²

PBEC was a story of success and failure. It succeeded in diluting its image of a "rich man's club" by accommodating developing countries in special sub-regional committees. Its national committees regularly provided advice to governments and international agencies on economic and business matters affecting the Asia-Pacific area. Its annual meetings made useful contributions in promoting the idea of regional co-operation. But it never managed to set a clear aim or to chart a definitive course for itself. The dispute between its participants on where its energy should be devoted and its reluctance to keep up with the changes prevented it from playing an important role.¹¹³

Being unofficial forums, PAFTAD and PBEC provided the early opportunities for exchange of views on regional economic co-operation between academics and business people from the Asia-Pacific countries. The importance was also their capability of allowing the exchange of views to happen under relatively free conditions because participants did not represent governments, and therefore could conduct discussions in a more relaxed atmosphere. PAFTAD's unofficial characteristics also enabled academics from both side of the ideological divide to participate, and it also overcame the hurdle of

sovereignty, for instance in the case of China and Taiwan. Yet their strength was paradoxically their very weakness. This was due to the fact that their concerns were frequently in policy areas where government action was required. For this reason, it was widely felt that the attention of governments and an official structure were needed, though these non-official ones did have a role to play.¹¹⁴

As mentioned in sub-section B of Section One, Drysdale proposed OPTAD as an inter-governmental organisation, to involve directly the Asia-Pacific governments in the process of promoting regional economic cooperation.¹¹⁵ The idea of raising the discussion to the official level was also endorsed by the governments of Australia and Japan. But such efforts seemed to have been suspected and turned down by the ASEAN governments who, as explained earlier, were highly concerned about the impact of a much larger organisation on the future of ASEAN itself. As a result, the OPTAD idea was not acted upon. Yet the rapid economic development in the Asia-Pacific region, which helped shift economic power from the Atlantic to the Asia-Pacific, made many of the region's political leaders increasingly aware of the necessity for government involvement. It was against such a historical background that the first Pacific Economic Cooperation Conferences (PECC) meeting was held in 1980 in Canberra.¹¹⁶

The Pacific Economic Cooperation Conferences, begun on the initiative of the Australia government in 1980, contained significant elements required for systematic discussions of closer regional economic ties.¹¹⁷ PECC brought the process a big step further because, for the first time, government representatives, albeit in their private capacities, participated in the discussions on Asia-Pacific economic co-operation. Yet the concern about being over formal and the existence of PAFTAD and PBEC made PECC assume the format of involving tripartite delegations representing the government, businesses, and academics of each member country. But the stress was on the direct involvement of the Asia-Pacific governments. In this respect, PECC should be regarded as an ingenious success.¹¹⁸ Another difference between PECC and the previous two forums was its insistence on opening its door to all countries right from

the beginning, and to focus on issues of trade and economic policies. Representatives from any country, region or organisation were welcome to participate "as long as they demonstrate a commitment to the co-operation theme".¹¹⁹

PECC also had more substance as it managed to make clear what it wanted to achieve, and how it was to realise its purposes. As a forum, PECC wanted first to bring together eventually all the Asia-Pacific countries in the discussion of regional economic cooperation. This was made possible through its less than official posture. The second function it set for itself was to facilitate the circulation of information between all these countries. Its third function was to facilitate negotiations between states, something beyond the capacity of PAFTAD or PBEC. Fourth, PECC provided a forum for participating countries to debate trade policy issues at a more substantial level. For instance, PECC enabled member countries to come up with an Asia-Pacific perspective on the Uruguay Round of multilateral trade negotiations under the GATT.¹²⁰

PECC was also much more certain about how to go about its business. It had a clear structure, which was modelled on that of the United Nations, with a multilateral front and a national front. On the national front, each member country had a national committee, made up of prominent scholars, government officials, and businessmen. The committees' secretariat was in charge of co-ordinating activities such as fund-raising, publications and seminars. Financial backing was sought from a variety of private and public sources by each committee for its own domestic and international activities. On the multilateral front, a General Meeting, attended by the national committees, observers from other organisations such as Asian Development Bank (ADB), PAFTAD and PBEC and guests from non-member countries, was held roughly once every 18 months. There was also an International Standing Committee (ISC) handling activities other than the general meeting. At the conclusion of each PECC general meeting, the chairman of the member committee hosting the next general meeting took over as ISC chairman. ISC consists of one representative of each national committee and one each from PAFTAD and PBEC.¹²¹

The PECC ISC combined the functions of administration and discussion by being responsible for making rules for its own operation and for all other PECC activities and bodies; arranging international events; and deliberating new initiatives. Proposals could be from a member committee or by the members of the Standing Committee. The ISC would meet every several months and its activities were supported by the secretariat of the new chairman's national committee. A Co-ordinating Group (CG) consisting of Task-force leaders and other experts acted as advisers for the ISC and co-ordinated implementation of ISC directives. The study activities of the PECC, developed through periodically scheduled meetings and conferences, were carried out by task forces and study groups commissioned by the ISC.¹²²

With PECC, which involved for the first time governments, and had much more clearly defined and formal organisational structure, the process itself entered a new stage. Governments were more exposed to, and therefore, more influenced by the thinking of both business and the academics. However, Asia-Pacific governments were still not directly involved since government representatives acted in unofficial capacities. This meant that the resolutions adopted by PECC could not be turned into government policies.¹²³ It was felt that effective movement towards cooperation required officials to be directly involved in such a venture to give substances to the process of developing cooperation. The set-up of PECC and its activities and component bodies (the international standing committee, the member co-operation committee, the international Co-ordinating group, and the task force co-ordinators and secretariats) were therefore only a large step forward in terms of Asia-Pacific institution-building.¹²⁴

The lack of decision-making capability and the increase in problems in the intra-regional trade relations prompted Australia's Prime Minister, Bob Hawke, to propose in early 1989 a scheme, less substantive than OPTAD but more formal than PECC, for inter-governmental consultation on economic issues of common interests.¹²⁵ The primary purpose of the Hawke scheme was to enable the Asia-Pacific countries to

exchange views about trade policy issues in the hope that this would help clear the way for further trade liberalisation; to unite these countries in wider economic forums and discussions, and to exercise the influence of these countries in a collective manner, as the Cairns group¹²⁶ did on agricultural issues in the GATT Uruguay Round; and to stabilise intra-regional trade and economic relations. The Hawke proposal was endorsed in principle by a conference attended by foreign and economic ministers from Japan, South Korea, the six ASEAN countries, the United States, Canada, Australia and New Zealand between 5 and 7 November 1989.¹²⁷

Dubbed "a milestone in Pacific Basin Co-operation" by Richard Solomon, US Assistant Secretary of State for East Asian and Pacific Affairs, the meeting of the 12 nations agreed "unanimously to the principle of liberalising the world trade."¹²⁸ They also agreed that they would:

- Try to present a united voice at the Uruguay Round of GATT negotiations through consultations.
- Set up working parties' (task forces) to find ways of increasing regional trade, investment and technology transfer between rich and poor countries. Committees would study specific infrastructure needs, including telecommunications and transport, and also look at conserving Pacific fishing resources.
- Set up data systems on trade, investment flows and commercial opportunities in the region--which some officials saw eventually turning into a policy clearing-house like the Paris-based OECD.¹²⁹

With APEC, the countries of the Asia-Pacific region finally raised the discussion on co-operation to the official level. As far as the whole process was concerned, this was a giant step forward, since it was always difficult to involve the governments in this process. However, APEC was also confronted with the issue in its relations with ASEAN. ASEAN, which was always sensitive about losing its identity in the APEC process, changed its attitude once it realised that it was not able to prevent this process from going further.¹³⁰ It changed its tactic and attempted to dominate the process by

having the APEC meetings centred on the annual ASEAN Post-Ministerial Council, when the ASEAN members talked with their Asia-Pacific partners.

The Indonesian Foreign Minister Ali Alatas argued, "What we are saying is ASEAN has had experience for several years now in developing consultative processes and inter-governmental cooperative processes in this region... Isn't it reasonable and logical to start from what you have. Base it on your experience, develop it from there..." The Alatas idea was given strong support by the other ASEAN nations, but other countries including the United States and Japan had from the outset expressed preference for a loose process in which senior officials from all member countries could work informally to prepare for ministerial meetings.¹³¹

Another issue was the membership of China, Taiwan and Hong Kong. The early member countries found themselves divided on this issue. Both Japan and the United States wanted to include Hong Kong as a full member. Japan argued to leave the China-Taiwan question until later while the United States proposed admitting China as an official observer and Taiwan as an unofficial observer. This issue was resolved at the third meeting of the Asia-Pacific Economic Co-operation forum in Seoul in November 1991. Under the Olympic formula,¹³² both Taiwan and China were accepted as full members at the same time. A fact that the countries of the Asia-Pacific region took the APEC process seriously was that they had been highly active in hosting its annual conference. This was explained as that APEC was a "supra-regional organisation."¹³³

As it has been shown above, the five forums set up for the purpose of promoting economic co-operation were closely linked. Such links were found in both the similarities of the organisational structure, modes of function, areas of main interests for discussions, and the thrust of their efforts. This would become especially apparent if PAFTAD, PECC and APEC are compared. APEC even took over the principles followed by those earlier forums, especially those of PECC. For instance, APEC also stressed that its doors were open to any regional country that wished to be part of it, and

its ultimate goal was global free trade, etc. APEC also highlighted the contributions made by the academics and the businesses by having the representatives of PAFTAD, PBEC and PECC attending its conferences.

Conclusion

By studying the protracted process that led to the set-up of APEC, it can be seen that the economic cooperation in Asia-Pacific region is rather unique. Since it has been pursued in a heterogeneous region built on the convergence of political as well as economic interests of the involved countries, its stress is on how to preserve the favourable conditions for sustained economic growth. It therefore highlights multilateral communication, persuasion and policy coordination. It will end up in a free trade area, but it will not be a closed free trade area, as its door is not only open to new member countries but also to other regions for exchange of mutual concessions in trade. Its ultimate goal is to strengthen the global trade system based on the principle of most favoured nations.

Such economic cooperation encapsulated in APEC has its roots deep in the long process that led to APEC. This process started Kiyoshi Kojima's well-known and frequently cited article about an economic community in the Asia-Pacific region published in 1965. Since then, a great deal has changed. Such changes are found in the evolution of the basic ideas with regard to the organisational structure, areas of co-operation and scope of co-operation, and the successive forums that were set up for this purpose. They were like road signs that led the Asia-Pacific countries to set up APEC. It seems that the process of search, which started in a proposal for free trade among the region's developed countries will end in a massive yet open free trade area potentially covering the whole region. APEC, which has finally given the countries in this region the ability to take this decision, certainly has elevated the process into a substantially higher stage.

The various governments' responses to this process and the interactions between them have also left their marks on the characteristics of APEC. The most important effect of government involvement was that the process continued to evolve until APEC was set up. The political considerations of the various countries and their interchange over this issue also prevented the process from either ending in fragmentation, which would have led to more regional blocs, or in a tight, pan-regional bloc. Another crucial factor that made APEC a consultative body was that economic dynamism and interdependence in this region was all along business led instead of any formal multilateral governmental pact. Countries in this region did not want to spoil this.

1. See Richard A Higgott, Andrew Fenton Cooper & Jenelle Bonner, "Asia-Pacific Economic Cooperation: An Evolving Case-Study in Leadership and Cooperation Building", *International Journal*, XLV, Autumn, 1990, p. 823.
2. See *Far Eastern Economic Review*, 16 Nov. 1989, pp. 10--11; and also Andrew Elek, "Asia-Pacific Economic Cooperation (APEC)", in *Southeast Asian Affairs*, Vol. 4, 1991, pp. 38--39.
3. See *Financial Times*, 18 November 1994, p.1.
4. See Hans Christoph Rieger, "Regional Economic Cooperation in the Asian-Pacific Region", *Asia-Pacific Economic Literature*, 1989, pp. 25--29.
5. Pekka Korhonen, *Japan and the Pacific Free Trade Area*, London and New York, Routledge, 1994, p. 94.
6. See note one in Kiyoshi Kojima, "A Pacific Economic Community and Asian Developing Countries", 1966, p. 17.
7. See Pekka Korhonen, *Japan and the Pacific Free Trade Area*, 1994, pp. 134.
8. *Ibid.*, p. 133.
9. Kiyoshi Kojima, "A Pacific Economic Community and Asian Developing Countries", 1966, p. 17.
10. Bela Balassa divided regional economic integration in to five types according to the degree of integration. Among them, free trade area is of the lowest degree. See his *The Theory of Economic Integration*, Homewood, Ill., R.D. Irwin, 1961.
11. See Pekka Korhonen, *Japan and the Pacific Free Trade Area*, 1994, Chapter Three, pp. 72--166.
12. See Kiyoshi Kojima, "A Pacific Economic Community and Asian Developing Countries", 1966, p. 18.
13. See *ibid.*, pp. 18--19.
14. *Ibid.*, p. 19.
15. *Ibid.*, pp. 19--20.
16. *Ibid.*, p. 20.
17. See Table 1 in *Ibid.*, p. 19.
18. *Ibid.*, p. 19.
19. *Ibid.*, p. 32.
20. See Pekka Korhonen, *Japan and the Pacific Free Trade Area*, 1994, pp. 94--103.
21. See *ibid.*, pp. 106--113.
22. Kiyoshi Kojima, "A Pacific Economic Community and Asian Developing Countries", 1966, p. 16.
23. See Pekka Korhonen, *Japan and the Pacific Free Trade Area*, 1994, pp. 139.
24. *Ibid.*, pp. 115--125.
25. Kiyoshi Kojima, "A Pacific Economic Community and Asian Developing Countries", 1966, pp. 25--26.
26. See *Ibid.*, p. 1.
27. A number of writers have analysed the reasons for the failure of Kojima's free trade area proposal. Among them, Peter Drysdale, Hadi Soesastro, Andrew Elek are the most widely read. Pekka Korhonen's *Japan and the Pacific Free Trade Area* is also worth reading as analysis of the failure of Kojima's proposal.
28. See both Pekka Korhonen, *Japan and the Pacific Free Trade Area*, 1994, pp. 153--166; and Peter Drysdale, *International Economic Pluralism, Economic Policy in East Asia and the Pacific* Allen & Unwin Sydney, Wellington, London, Boston, in association with the Australia-Japan Research Centre, Australian National University, 1988, pp. 207--209.
29. Peter Drysdale, *International Economic Pluralism*, 1988, pp. 207--209.
30. See *ibid.*; and Hadi Soesastro, "Institutional Aspects of Pacific Economic Cooperation", in Hadi Soesastro and Sung-joo Han ed., *Pacific Economic Cooperation: The Next Phase*, Centre for Strategic and International Studies, Jakarta, 1983, pp. 16--17.
31. See both Pekka Korhonen, *Japan and the Pacific Free Trade Area*, 1994, pp. 153--166; and Peter Drysdale, *International Economic Pluralism*, 1988, pp. 207--209.

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32. Pekka Korhonen, *Japan and the Pacific Free Trade Area*, 1994, p. 134.
 33. Peter Drysdale, "Introduction", *International Economic Pluralism*, 1988.
 34. Peter Drysdale, "The Proposal for An Organisation for Pacific Trade and Development Revisited", *Asian Survey*, Vol. XXIII, No. 12 December 1983, p.1300.
 35. Peter Drysdale, "Open Regionalism: A Key To East Asia's Economic Future", *Pacific Economic Papers*, No. 197, Australia-Japan Research Centre, Australian National University, Canberra, Australia, 1991, pp. 5--7.
 36. Peter Drysdale, *International Economic Pluralism*, 1988., pp. 204--205.
 37. *Ibid.*, pp. 237--238.
 38. See more details of this in *ibid.*, pp. 232--236.
 39. See *ibid.*, pp. 240--241.
 40. See Peter Drysdale and Richard Garnaut, "A Pacific Free Trade Area?", *Pacific Economic Research Paper*, No. 171, Australia-Japan Research Centre, Australian National University, Canberra, Australia, 1989, p. 42.
 41. Peter Drysdale, *International Economic Pluralism*, 1988, p. 241--242.
 42. *Ibid.*, p. 236.
 43. Peter Drysdale, "The Proposal for An Organisation for Pacific Trade and Development Revisited", 1983, p.1300.
 44. See Peter Drysdale, *International Economic Pluralism*, 1988, p. 219.
 45. *Ibid.*, p. 211.
 46. *Ibid.*, p. 239.
 47. *Ibid.*, pp. 237--241.
 48. Peter Drysdale, "The Proposal for An Organisation for Pacific Trade and Development Revisited", p. 1301.
 49. See Peter Drysdale and Richard Garnaut, "A Pacific Free Trade Area?", 1989, pp. 41--42.
 50. *Ibid.*, p. 44.
 51. *Ibid.*, pp. 40--45.
 52. See Peter Drysdale, *International Economic Pluralism*, 1988, p. 236.
 53. *Ibid.*, p. 238.
 54. See p. 222.
 55. See Peter Drysdale and Richard Garnaut, "A Pacific Free Trade Area?", 1989, p. 43.
 56. *Ibid.*, pp. 51--55.
 57. Hans Christoph Rieger, "Regional Economic Cooperation in the Asia-Pacific Region", 1989, p. 22.
 58. The paper was jointly written with Hugh Patrick of Yale University for the US Senate in 1979, see Peter Drysdale, "The Proposal for An Organisation for Pacific Trade and Development Revisited", 1983. In the year 1979, the idea attracted interests from senior American politicians for the first time as Senator John Glenn, Chairman of the United States Senate Foreign Relations Committee's Subcommittee on Asia and the Pacific commissioned Drysdale and Patrick to evaluate the process of promoting economic cooperation in this region and to make suggestions as to the actions that the American Senate should take.
 59. See Hans Christoph Rieger, "Regional Economic Cooperation in the Asia-Pacific Region", p. 23.
 60. Peter Drysdale and Hugh Patrick, *An Asian-Pacific Regional Economic Organisation: An Exploratory Concept Paper*, US Government Printing Office, Washington, DC July 1979, p. 53.
 61. *Ibid.*, p. 56.
 62. See Hans Christoph Rieger, "Regional Economic Cooperation in the Asia-Pacific Region", p. 31.
 63. See Hadi Soesastro, "Institutional Aspects of Pacific Economic Cooperation", in Hadi Soesastro and Sung-joo Han ed., *Pacific Economic Cooperation: The Next Phase*, Centre for Strategic and International Studies, Jakarta, 1983, p. 36.

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64. See Hans Christoph Rieger, "Regional Economic Cooperation in the Asia-Pacific Region", p. 41.
65. See appendix 4 in Peter Drysdale and Hugh Patrick, *An Asian-Pacific Regional Economic Organisation*, 1979.
66. Peter Drysdale, *International Economic Pluralism*, pp. 210--212.
67. Hadi Soesastro, "ASEAN and the Political Economy of Pacific Cooperation", *Asian Survey*, Vol. XXIII, No. 12, December 1983, p. 1256.
68. See Peter Drysdale, "An Organisation for Pacific Trade, Aid and Development: Regional Arrangements and the Resource Trade," in Lawrence B. Krause and Hugh Patrick (ed.), *National Resources in the Pacific Area*, Federal Reserve Bank of San Francisco, San Francisco, 1978.
69. Peter Drysdale, "The Proposal for An Organisation for Pacific Trade and Development Revisited", 1983, pp. 1294--1295.
70. See Bela Balassa, *The Theory of Economic Integration*, 1961.
71. Peter Drysdale, "The Proposal for An Organisation for Pacific Trade and Development Revisited", 1983, p. 1297.
72. Han Sung-joo, "The Politics of Pacific Cooperation", *Asian Survey*, Vol. XXIII, No. 12 December 1983, p. 1281.
73. See Peter A Petri, "Trading with the Dynamos: East Asian Interdependence and American Interests", *Current History*, Dec. 1994, pp. 407--412.
74. See Han Sung-joo, "The Politics of Pacific Cooperation", 1983, p. 1282--1284.
75. Ibid.
76. See Bernard K Gordon, *New Directions for American Policy in Asia*, London and New York, Routledge, 1992, 26--29.
77. See Yoichi Funadashi, *Asia-Pacific Fusion: Japan's Role in APEC*, Washington DC, Institute of International Economics, 1995, pp. 195--201.
78. See discussions on these points in both the last section of Chapter One and in the first section of this chapter.
79. See Yoichi Funadashi, *Asia-Pacific Fusion: Japan's Role in APEC*, 1995, pp. 227--230.
80. Han Sung-joo, "The Politics of Pacific Cooperation", 1983, pp. 1286; and the various arguments scattered in the various chapters of Peter Drysdale's *International Economic Pluralism*, 1988; for a more detailed discussion on Canada's perception of APEC's usefulness, see Frank Langdon, "Canada's Goal in the Asia Pacific", *The Pacific Review*, Vol. 8, No. 2 1995, pp. 383--400.
81. See Han Sung-joo, "The Politics of Pacific Cooperation", 1983, pp. 1284--1286.
82. See Neville Meaney, "The End of "White Australia" and Australia's Changing Perceptions of Asia, 1945--99", *Australian Journal of International Affairs*, Vol. 49, No. 2, Nov. 1995, pp. 171--189, particularly pp. 181--182.
83. See Donald Crone, "The Politics of Emerging Pacific Cooperation", *Pacific Affairs*, Vol. 65, No. 1, Spring 1992, pp. 69--75.
84. See Neville Meaney, "The End of "White Australia" and Australia's Changing Perceptions of Asia, 1945--99", Nov. 1995, pp. 185--189.
85. Drysdale and Hadi Soesastro were two of the best examples. Both of them attributed much importance of the involvement of the ASEAN countries in the cooperation schemes.
86. See both Hadi Soesastro, "ASEAN and the Political Economy of Pacific Cooperation", 1983, pp. 1255--1270; and Jusuf Wauandi, "Pacific Economic Cooperation: An Indonesian View", 1983, pp. 1271--1280.
87. See Han Sung-joo, "The Politics of Pacific Cooperation", 1983, pp. 1288--1290.
88. Pekka Korhonen, *Japan and the Pacific Free Trade Area*, 1994, pp. 126--127.
89. Peter Drysdale, "The Proposal for An Organisation for Pacific Trade and Development Revisited", 1983, pp. 1294--1295.
90. Pekka Korhonen, *Japan and the Pacific Free Trade Area*, 1994, p. 129.
91. See Hans Christoph Rieger, "Regional Economic Cooperation in the Asia-Pacific Region", pp. 21--23.

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92. Peter Drysdale, "The Proposal for An Organisation for Pacific Trade and Development Revisited", 1983, p. 1294.
93. See Jusuf Wanandi, "Pacific Economic Cooperation: An Indonesian View", 1983, pp. 1271--1280.
94. See report on Japanese Prime Minister Nakasone's visit to ASEAN in *Far Eastern Economic Review*, May 26, 1983.
95. See Han Sung-joo, "The Politics of Pacific Cooperation", 1983, pp. 1288--1290.
96. This refers to the *Report to the Governments of Australia and Japan* by John Crawford and Sabaru Okita in 1976 for the governments of Japan and Australia. This report was commissioned to study the feasibility of Kojima's ideas.
97. See Peter Drysdale, "The Proposal for An Organisation for Pacific Trade and Development Revisited", 1983, p. 1305.
98. Bob Hawke made this proposal in a speech he delivered in South Korea in January 1989. See Andrew Elek, "Asia-Pacific Economic Cooperation", 1991, p. 38.
99. Ibid., and Drysdale, "The Proposal for An Organisation for Pacific Trade and Development Revisited", 1983, p. 1303.
100. See Hadi Soesastro, "Institutional Aspects of Pacific Economic Cooperation", 1983, pp. 16--17; and Peter Drysdale, *International Economic Pluralism*, 1989, pp. 209--210.
101. See Hadi Soesastro, "ASEAN and the Political Economy of Pacific Cooperation", 1983, pp. 1255--1259.
102. See *ibid.*, and Drysdale, "The Proposal for An Organisation for Pacific Trade and Development Revisited", 1983.
103. See Jin Okamoto, "ASEAN's New Role in the Asia-Pacific Region: Can it be a Driving Force of Wider Regional Economic Cooperation", *Pacific Economic Papers*, No. 245, July 1995, pp. 12--16..
104. Ibid.
105. *Far Eastern Economic Review*, Vol. 150, No. 52, December 1990, p. 10..
106. Ibid.
107. See *Far Eastern Economic Review*, Vol. 146, No. 46, November 1989, p. 12.
108. *Far Eastern Economic Review*, Vol. 161, No. 49, November 1991, p. 26.
109. James Baker, "America In Asia: Emerging Architecture for A Pacific Community", *Foreign Affairs*, Vol. 70, No. 5, Winter 1991/92 pp. 3, 5.
110. These are the most relevant forums set up for Asia-Pacific economic cooperation. There are also other forums and proposals, such as the ASEAN PMC and ADB, which did not leave any direct impact on APEC. See Il Yung Chung ed., *The Asia-Pacific Community in the Year 2000: Challenges and Prospects*, Seoul, Sejong Institute, 1992, Appendix One.
111. Drysdale, "The Proposal for An Organisation for Pacific Trade and Development Revisited", 1983, p. 1294.
112. See Lawrence T Wood, "A House Divided: The Pacific Basin Economic Council and Regional Diplomacy", *Australia Journal of International Affairs*, Vol. 45, No. 2, Nov. 1991, pp. 264--266.
113. Ibid., pp. 272--275.
114. See Lawrence T. Wood, "Non-Governmental Organisations and Pacific Cooperation", *The Pacific Review*, Vol. 3, No. 3, 1991, p. 314.
115. For more details, see sub-section B of Section One of this chapter.
116. Peter Drysdale, *International Economic Pluralism*, 1988, p. 215. This seminar was actually called at first "Pacific Cooperation Conference". It was at the third meeting that the conference series began to be called PECC.
117. Peter Drysdale, "The Proposal for An Organisation for Pacific Trade and Development Revisited", 1983, p. 1297--1298.
118. Peter Drysdale, *International Economic Pluralism*, 1988, p. 218, and Lawrence T. Wood, "Non-Governmental Organisations and Pacific Cooperation", 1991, p. 316.
119. Lawrence T. Wood, "Non-Governmental Organisations and Pacific Cooperation", 1991, p. 316.

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120. See *ibid.*, pp. 315-317.
121. See David Arase, "Pacific Economic Cooperation: Problems and Prospects", *The Pacific Review*, No. 2, Vol. 1, 1988, p. 134.
122. *Ibid.*
123. *Ibid.*, pp. 136--138.
124. See Andrew Elek, "Asia-Pacific Economic Cooperation (APEC)", 1991, pp. 39.
125. For further details on this point, see *ibid.*, pp. 33--36.
126. Formed by 14 mainly commodity export countries, which includes Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay, the Cairns Group's purpose is to coordinate policies among these countries in the Uruguay Round of the GATT negotiation. Under its plan, export subsidies, crop-support mechanisms and measures used to protect markets against import will be frozen and subsequently phased out. However, the group agrees to offer its developing country members to enjoy certain exemptions from the above plans.
127. See Andrew Elek, "The Challenge of Asian-Pacific Economic Cooperation", *The Pacific Review*, No. 4, Vol. 4, 1991, p. 325.
128. *Far Eastern Economic Review*, Vol. 146, No. 46, November 1989, p 10.
129. *Ibid.*
130. The ASEAN decision was also based on assurances given by the United States and Japan to respect the views of ASEAN and the region's diversity. See Il Yung Chung ed., *The Asia-Pacific Community in the Year 2000*, 1992, Appendix One.
131. *Far Eastern Economic Review*, Vol. 146, No. 46, November 1989, p 10.
132. This was the formula with which the issue of sovereignty was by passed. This was done basically by deliberately going ambiguous over Taiwan's status. Taiwan was called Chinese Taipei instead of either Republic of China or Taiwan. And China simply pretended that the word "Chinese" means "that belonging to China", while Taiwan insisted that "Chinese" carries the same meaning as overseas "Chinese".
133. *Far Eastern Economic Review*, Vol. 161, No. 49, November 1991, p. 26.

Chapter Three: China Participating In the APEC Process

The People's Republic of China's (PRC) membership of APEC represents a major modification of its foreign policy thinking because participation in multilateral economic cooperation carries with it strong implications for a country's sovereignty. The PRC always maintains that it is not prepared to compromise over the issue of sovereignty.¹ In order to understand better why the PRC decided in 1991 to join the APEC process, it is highly necessary to review the process that led China into APEC. This process was long and complex, but that was for very different reasons from some early APEC members.² This chapter will show that this process was underlined by both academic debate and leadership support, and picked up speed once the efforts to construct regional economic cooperation were raised to the official level.

The almost two-decade long process which saw China become a member of both PECC and APEC respectively in 1986 and 1991 broke down roughly into three stages. The first was from 1968, when the Japanese government sponsored the first discussion on the proposals for Asia-Pacific economic co-operation, to 1979, when the open policy was initiated. In this stage China was first deeply engrossed in grave internal chaos and then was busy normalising relations with major western countries for strategic purposes. Hence little attention was paid to discussions on economic co-operation largely by academics in some Asia-Pacific countries. Yet the Sino-US thaw, and China's return to the international community proved significant in providing the international environment for China to participate in the drive for constructing economic co-operation. The second stage, between 1980 and 1989, was a key stage for China's participation. After several long years of deliberation within the political and academic circles, China joined PECC, the then most important forum for the discussion.

The Tian An Men incident of June 1989, and the ensuing international sanctions, led to a short period of difficulties for China. In the meantime, the process of building regional economic cooperation was raised to the inter-governmental level. These two

developments seemed to have assisted the Chinese government in making up its mind on China participation. In 1991, the PRC was accepted along with Taiwan and Hong Kong as a full member of the inter-governmental organisation, the Ministerial Meeting on Asia-Pacific Economic Co-operation (APEC). This period, between 1989 and 1991, was the third stage. It was different from the previous two because, this time, it was the Chinese government which actively sought to join APEC.

Following the above-mentioned three stages, this chapter will trace the landmarks on the PRC's journey to become an APEC member by looking at how Chinese academics and government officials adapted their views to the changing situation in the Asia-Pacific region. This will be done through analysing academic discussions, statements made by Chinese leaders and government officials, and comments carried in the Chinese press, especially Renmin Ribao (People's Daily). Studies by foreign researchers will also be referred to in the course of discussion to illustrate the actions by other countries to involve China in the process.

3. 1. Stage I: Pre 1979: Emerging from Isolation

As far as China's participation in regional economic cooperation is concerned, the stage between 1968 and 1979 was underlined by the absence of China. Though the Chinese government's attitude to regional cooperation changed along with the change of China's international position, it never attempted to join any other countries for that purposes. However, the improvement in China's political relations with the non-communist countries, particularly those in Asia-Pacific, enabled China to modify its perception of multilateral economic cooperation, which facilitated China's participation in the process of building economic cooperation. The following will show how this happened.

When Japanese Foreign Minister Takeo Miki sponsored the first academic conference to discuss Kiyoshi Kojima's proposal for a Pacific Regional Free Trade Area in 1968,³ the PRC was going through the worst years of its twenty-year history.

The “Cultural Revolution” started by Mao Zedong in the summer of 1966 was at its peak. Internal turmoil and strife characterised China’s politics. In foreign affairs, the Chinese government adopted and implemented a policy of opposing both US imperialism and Soviet revisionism.⁴ In the early 1960s when China and the Soviet Union first fell out, military threat from the American imperialists and its 'stooges' was thought to be more dangerous than Soviet revisionism. But this belief was reversed as border clashes broke out between the two former "socialist brothers" in 1968.

The military confrontation between the two former communist allies confirmed in the minds of both the Chinese and the Americans that strategic alignment was possible between them in their confrontation with the Soviets. The improvement in Sino-US relations helped China break out of its isolation. But Asia-Pacific economic co-operation was never included in China’s efforts to expand its relations with the countries in this region. Yet this did not mean that efforts made to organise regional economic co-operation throughout the world were totally ignored by China. China's attitude towards such efforts was in fact determined by its political relations with the countries involved.

3. 1. A. Pre-1972: Asia-Pacific Cooperation = Anti-China Campaigns

Around the beginning of the 1970s, China continued to view the imperialist camp led by the United States as a main threat to its national security. The key feature of this concern was China's support for the communist North Vietnam in the Vietnam War. China's attention was focused on this war. Kojima's proposal for a Pacific Economic Community among a group of enemies, and the initial academic discussions on it sponsored by the Japanese government failed to be treated by the Chinese government as important. But this did not mean that the Chinese government was oblivious to any collective actions taken by Asian and Pacific countries. However, since Japan and the United States were regarded as dangerous threats, attempts at regional collective actions were explained as conspiracies of these two countries oppose China and to dominate this region.

The Asia and Pacific Council, which was set up in June 1966, was heavily attacked by the Chinese official press. The council consisted of Japan, South Korea, Taiwan, the Philippines, Malaysia, Thailand, South Vietnam, Australia and New Zealand. The Council's ministerial meeting was held annually. In February 1970, the fifth ministerial meeting of the Asia and Pacific Council was held in New Zealand's capital, Wellington. The meeting was attended by the foreign ministers of these countries. According to the meeting's communiqué, it was recognised by the meeting that "at a time of swift change and rapid development, it is necessary to cooperate on the widest possible basis.... The purpose of such co-operation is to construct a new community. As a result of the escalation of the Indochinese War and a few Asian countries' internal difficulties, it is ever more urgent to take regional collective actions in the Asia-Pacific region."⁵

The council was viewed as part of the United States' scheme of invasion and expansion in Asia, and Japan's attempt to restore its position as the dominant military power in Asia. "According to the communiqué of, and the speeches delivered at the meeting, and the activities before and after the meeting, it is an integral part of the attempt of the United States and its 'stooges' to expand in Asia and to put down the flames of the Asian people's revolution."⁶ Japan's activities at the meeting also caused concern of the Chinese government. It was observed by the Chinese Communist Party paper Renmin Ribao (RMRB) that the Japanese delegate stressed time and again that Japan was to play a far more "positive" part in the Indochinese issue. It quoted that delegate as saying that he would "convey to the United States the call by the Asian and Pacific countries made at the meeting". "All of this indicates that the revived Japanese militarism is actively carrying out its duty as Asia's gendarme that Japan had committed itself to in the Joint Japan-US Declaration.... It also indicates that Japan attempts to become Asia's dominant power."⁷

China also regarded the Asia and Pacific Council as an ideologically hostile organisation. In a brief description of this council carried in RMRB, the council was named as an anti-Communist and anti-China organisation set up by South Korea and

Thailand with US support. The same report also gave as evidence that, led by Japan, the fifth council meeting placed unrestricted slander on China and the People's Republic of Korea, and attacked the "proletarian foreign policies" implemented by China as a dangerous signal for the stability in Asia. "All of this fully exposes the American intention to set up in the Asia-Pacific region a new anti-communist alliance which has Japan as its main force and the United States as its main source of support."⁸

China reacted strongly not only to such political organisations as the Asia and Pacific Council but also to the economic cooperation schemes between countries off its coasts. Towards the end of 1970, a Liaison Committee was set up in Seoul, South Korea. The Committee was made up of politicians and business people from Japan, Taiwan and South Korea. The purpose of this Committee was to undertake research on ways to jointly develop Taiwan and the off-shore oil resources in the Taiwan Strait and the Korean Sea. The Liaison Committee included the "Special Committee of Marine Development" and the "Special Committee of Economic Cooperation". It was decided at the first session of the liaison committee that an equity company for marine development would be set up, and that in December that year the "Special Committee for Marine Development" would convene to decide the share of investment by the three members.⁹

RMRB again criticised the set-up of such a committee as part of the Japanese plot to exploit other countries. It referred to this joint development scheme between Japan, Taiwan and South Korea as a means of extortion habitually used by Japanese militarists. The programme of joint development was but only a "dirty deal between (Japanese) invaders and national traitors of China and Korea". RMRB also condemned the way in which the three parties went around the issue of sovereignty. It was agreed by them that they would go ahead with the joint development programme and the issue of sovereignty would be set aside to be resolved afterwards. RMRB charged that this was to make the peoples of China and Korea abandon their sovereignty and let Japanese militarists rob them of their resources.¹⁰

Moreover, China regarded the cooperation plan for the three countries as a part of the American plot to perpetuate its domination of East Asia. "The American imperialists have been urging Japanese reactionaries to organise the Northeast Asian anti-revolutionary alliance. The Liaison Committee is in fact the core body of that anti-revolutionary alliance." Renmin Ribao claimed that it was an American plot because the Liaison Committee was part of the changed American strategy after the Nixon Doctrine was published. RMRB explained that, recognising that it was hard for the United States alone to fight back the expansion of communism, the Nixon Doctrine wanted these countries to play a much bigger role in the containment of communism. "Since the Nixon Doctrine was put forward, the American imperialists have used many a measure to turn Japan into the Asian gendarme, and have urged Japan to join other American 'stooges' in opposing the Chinese and Korean peoples.... (The Committee) declared that they would oppose communism in Asia and exchange information on China. They will also strengthen the links between them on issues like joint security in Asia. This has exposed the naked anti-revolutionary nature of this committee...."¹¹

Influenced by her ideological and anti-American stance, China was critical of cooperation schemes and actions by countries in the Asia-Pacific region. Any moves taken by these countries for cooperation were seen to be the American attempt to consolidate its domination of East Asia. This fully shows that anti-Americanism was a dominant feature of China's foreign policy around the beginning of the 1970s. But China attacked only the cooperative moves and plans between the governments of the Asia-Pacific countries. PAFTAD, the only academic conference series discussing Kojima's plan, was not noted in the Chinese press. But it should be believed that the Chinese government was aware of them, since Japanese politicians began to talk about regional economic cooperation since the middle of 1960s.¹² The Chinese press was also conspicuously quiet about PBEC and its activities. This also indicates that the reason behind the Chinese government's hostile reaction to regional collective actions was that they were seen as part of the US containment policy.

3. 1. B. The 1970s: Entry into the World Community

The first half of the 1970s saw a tremendous change in China's position in the world community and in the pattern of China's foreign relations. Up to the year 1970, China was almost completely cut off from the world community, except for relations with some Third World Asian and African countries. France was the only major western country that had diplomatically recognised China, who established diplomatic relations with China in 1964. China's relations with the Eastern European countries were semi paralysed as those countries stood on the side of the Soviet Union. In Asia, Indonesia and India, who were regarded as China's best Asian friends in the 1950s, had by now drastically scaled down their relations with China. The first years of the "Cultural Revolution", when China had no energy to take care of its foreign affairs, witnessed further strain in China's external relations.¹³

However, beginning in 1970, this picture began to change. In that year, diplomatic relations between China and an important western country, Canada, was established. But the most important catalyst in changing China's position in the international community was the restoration of the People's Republic's membership in the United Nations and the establishment of a unique kind of diplomatic relations between China and the United States following Henry Kissinger's secret visit China in July 1971.¹⁴

The significance of the resumption of contacts and exchanges between China and the United States went far beyond the relations between the two countries themselves. For China, it helped remove the constraints that the United States imposed since 1949 on other countries in developing relations with China.¹⁵ At once, RMRB carried declarations of establishment of diplomatic relations between China and another country almost on a monthly basis. By 1974, China was diplomatically recognised by 97 countries. 50 of these countries resumed or established diplomatic relations with China in or after the year 1970.

Among these 50 countries, eight were Asian countries, twenty were African, nine were Latin American, ten were European, one was North American, and two were Oceania. None of them were communist countries.¹⁶ The more important fact was that, out of these 50 countries, most of them, except for a number of African countries, were once condemned in the Chinese press as American "stooges". This was particularly true for the East and Southeast Asian countries and Oceanic countries. The normalisation of China's political relations with these countries also enhanced China's trade relations with them, particularly with Japan and other so-called second world countries. Trade expansion was one of the key reasons for China to strengthen its relations with these second world countries.¹⁷

Nevertheless, the PRC attached more strategic importance than economic significance to the expansion of contacts with both its neighbours in Asia and other countries further afield. This was because it was more concerned with threats from the North, a euphemism for the Soviet Union. Into the 1970s, the Soviet Union was perceived to be the most imminent threat. The improvement in China's relations with the above mentioned countries reversed the situation of confronting threats from both the North and the South on one hand, and won China friends in opposition to Soviet threat in Europe on the other.¹⁸ The improvement in relations with most of the Asia-Pacific countries was seen as important in counter-balancing the Soviet threat. As a result, the idea and discussion of economic co-operation in the Asia-Pacific region remained outside the consideration of Chinese foreign policy.

3. 1. C. Changed Views on Multilateral Economic Co-operation

Into the 1970s, the PRC's position on international economic co-operation, be it among Third World countries¹⁹ or China's former enemies, began to change, as its international position improved. Its attitude towards such cooperation became more positive. As a result, economic cooperation, particularly among developing countries in Africa and Latin America, received extensive and positive coverage in China's press. In

Asia, the PRC stopped opposing Japan's economic involvement in Southeast Asia as it did in the 1960s when such involvement was seen as Japan's efforts to restore its domination over this region. China became more positive about the development in the economic relations between Japan and Southeast Asia as shown by the tone of the Chinese press. "In the past, Japan's diplomatic failures in Asia were brought about by the negligence of the nationalist sentiments in the Asian countries. In light of this historical experience, the main form of economic co-operation should be that between governments. Beside, a relationship of disbelief and dependence should be turned through various forms of wide ranging exchanges into a relationship of mutual benefit and mutual dependence".²⁰

China was also highly interested in the development of the European Economic Community and adopted an equally positive attitude towards the efforts made by its member countries to enhance that organisation. Extensive coverage of such efforts appeared in the most important newspapers like RMRB, particularly between 1974 and 1975. Such coverage highlighted the actions of French and German governments to strengthen the EEC. For instance, RMRB reported on the front page the first meeting between French President Giscard d'Estaing and German Chancellor Helmut Schmidt after they became leaders of their respective countries. The report highlighted the two men's positive attitudes towards the EEC by quoting them saying that "talks have proved that Federal Germany and France hold identical views on a wide range of issues on Europe. What is extremely important is that both France and Germany maintain the common wish to defend the European Economic Community and push it forward".²¹

The PRC was also strongly in favour of the economic cooperation between the Second World and the Third World countries. This was evident in its response to the Lome Convention between the European Economic Community and forty-six African, Caribbean and Pacific countries signed in Togo's capital Lome on 28 February, 1975. The Chinese press highlighted the economic benefit that this Convention would bring to the developing countries. According to a RMRB report, following the Convention, the

EEC countries would not only offer duty-free and unlimited access to its market to the developing countries, but also provide financial help and aid to these countries as well. Words like exploitation of the developing countries by the developed countries disappeared from such reports. Chinese officials and press also emphasised the economic benefits for the developed countries as well.²²

China believed that such accords between the Second World developed countries and the Third World developing countries carried a lot of political importance as well. She regarded such co-operation as a means for the countries involved to avoid succumbing to the superpowers. China believed that the Second World developed countries, particularly the Western European countries, had been subjected to pressures from both the superpowers. To resist superpowers' pressures and to deal with their economic crisis, the Western European countries would need urgently to strengthen their economic links with Third World countries. On the other hand, Third World countries also wished to expand economic relations with Western European countries on the basis of equality and mutual benefit to fight against the two superpowers and to develop their national economies.

Over the past four years, the Second World countries have clearly reinforced their struggle to rid themselves of superpowers' control, interference, sabotage and bullying. Many Second World countries want to have dialogues with Third World countries to develop economic co-operation. We welcome this development...Such development in the relations between the Third World countries and the Second World countries is in the interests of the world-wide struggle against superpowers' hegemonism.²³

The PRC gave full support to economic co-operation between third world countries. China believed there was no fundamental conflict of interests preventing them from conducting economic co-operation. They all suffered from imperialist and colonialist domination, exploitation and oppression. Their economic foundation was

weak, and the conditions for development were poor. It was therefore a highly positive development that these countries had realised that, while developing their national economies by relying on their own strength, they must make joint efforts to help and support each other. Such efforts were thought to be capable of bringing about good progress in economic development.²⁴

But China attached more political and strategic importance to such co-operation while paying attention to their economic functions. That is to say, China saw such co-operation among both the second and third world countries as important for the small and weak countries to shake off the control of the superpowers. For instance, the EEC was seen as a significant force in opposing both the superpowers, especially the Soviet Union. Regional cooperation was also seen as important in efforts to remove the old international economic order and replacing it with a new order.²⁵ However, China seemed to put more emphasis on cooperation between third world countries. "In the struggle to develop national economies and to oppose international exploitation and domination, it is highly necessary to reinforce and develop the mutual support and economic cooperation between developing countries. Such cooperation will help push forward economic development and trade, increase developing countries' economic strength, and shatter the economic dominance of the imperialists and, in particular, of the superpowers".²⁶

As for the Asia-Pacific region, the Chinese government's attitude towards co-operation seemed to be consistent with its attitude towards cooperation activities in general. That is to say, it changed from hostile to supportive. Consistent with her opposition to the superpowers, China emphasised the significance of such cooperation in weakening superpowers' domination. In addition to supporting Japan's actions in enhancing its economic aid for and cooperation with Southeast Asian countries, China was also in favour of efforts made by the member countries of the Association of Southeast Asian Nations (ASEAN). China regarded ASEAN as an important force in fighting against the super powers and hegemonism. "By reinforcing the cooperation

between the five ASEAN member countries, (these countries) dealt a powerful blow at the economic hegemony of the superpowers. Such cooperation also created good conditions for changing the backward situation in this region and developing these nations' economies."²⁷

China also attached a great deal of importance to the fact that the ASEAN countries were speeding up the process of turning ASEAN into a political and economic organisation with more substance, and the cooperative measures adopted by these countries, particularly ASEAN's decision to form a free trade zone as the first step towards the establishment of an ASEAN common market. ASEAN's decision to move towards a free trade zone was thought to be a new achievement of the continuous efforts by the ASEAN countries towards developing regional economic co-operation.²⁸

China was also happy to see that more and more Southeast Asian nations assume anti-hegemony and anti-superpower positions in their foreign policies. China regarded this as "visionary and consistent with the interests of the peoples of the world". The Chinese government praised highly the intention of these countries to strengthen their solidarity and turn Southeast Asia into an area of neutrality and peace. Chinese Premier Hua Guofeng spoke warmly of such developments within the ASEAN. "We believe that, as long as the peoples of Southeast Asian countries adhere to the principles of independence and self-reliance while strengthening their solidarity, they will continue to win new victories in their struggles against imperialism and hegemonism".²⁹

One other development that China viewed with great interests was the changes that Australia and New Zealand made in their attitudes towards Asia, particularly Southeast Asia. It welcomed those two countries to be part of, and to play active parts, in East Asian affairs as members of that region rather than as outsiders. China was happy to see that direct relations had been established between these two countries and Asian, particularly Southeast Asian countries. "Both China and New Zealand are situated in the Asia-Pacific region. It is therefore natural for both countries to be concerned with the

development in this region's affairs.... Countries and peoples in Oceania have raised their guard against and condemned the attempt of the "other superpower" (the Soviet Union)³⁰ to expand its sphere of influence in this region. We are resolute in our support of their position of justice."³¹

China also took notice of the ever closer economic relations between Japan, Australia and New Zealand and the five ASEAN nations. Renmin Ribao devoted large amount of space to cover the exchanges between those countries, and, in particular, the first summit meeting that the heads of government of the five ASEAN countries held jointly with the heads of government of Japan, Australia and New Zealand in August 1977. When it comes to such coverage, the tone of the People's Daily, in contrast to the later 1960s, was nothing but positive and supportive.³²

In contrast to her support for economic co-operation elsewhere, China remained, throughout the 1970s, highly sensitive to any Soviet scheme for collective action either for political and strategic purposes or economic ends. In contrast to its open support for either the European Economic Community, Asia-Pacific countries', or other Third World countries' cooperative activities, China was highly critical of the Soviet Union who was painted as an exploiter and extortionist. China attacked the Russians for taking advantage of the other members of the Council for Mutual Economic Assistance (COMECON) as they were either short of raw materials and fuel or capabilities for manufacturing industrial goods. China was also strongly critical of COMECON. It was depicted as an international trust formed to enable the "Soviet social imperialists" to control the small and weak members. The Soviet Union was accused of using COMECON to extort huge profits and to transplant economic difficulties to other members.³³

In Asia, the Soviet Union was depicted as the biggest threat. The PRC believed that the Russians were trying to expand its sphere of influence by gaining all the ground that the Americans had lost after the Vietnam War. The Russians were also said to harbour

dangerous intentions for the whole of the Asia-Pacific region, including the South Pacific. The main Russian thrust into Asia and the Pacific was said to be the so called "Asian Collective Security System", put forward by Brezhnev in 1975. This system was said to be "a conspiracy of (the Soviet Union) to realise its hegemonic ambitions. It is a means for it to rival with the other super power (the United States) for hegemony as well as a dangerous and biting trap laid down for the Asian and Pacific nations".³⁴

Throughout the 1970s, China's position on multilateral economic cooperation was dictated by its security perceptions. Determined by the policy of opposing the most dangerous enemies while trying to befriend the less dangerous ones, this concern had two dimensions. Since the Soviet Union was perceived to be the most imminent and the biggest threat, all those activities that were directly or indirectly against the Soviet Union were welcome and supported by China. Therefore, economic cooperation in Western Europe and other parts of the world were thought to be useful and helpful not only for the economies of the countries involved, but more for containing the Russian sphere of influence. But the PRC did recognise that multilateral economic cooperation also had important economic benefits. But only cooperation between those anti-Soviet countries were seen to be beneficial. This is shown by its criticism of COMECON which was depicted as an instrument for the Russians to exploit and extort the other members.

Though the PRC supported the efforts of economic cooperation among its friends because it saw them as anti-Soviet moves, its positive attitude did not make it join any multilateral economic cooperation during the 1970s. China considered itself as a Third World country, but it was not a member of the Group of Seventy-Seven Nations within the United Nations, nor connected with such organisations as the ASEAN, which was geographically close to it and shared its position in regard to Vietnam and the Soviet Union. The PRC paid hardly any attention to economic cooperation in the Asia-Pacific region which remained at this point an interest of mostly Japanese and Australian academics. This was shown by the fact that it was never mentioned by Renmin Ribao until the end of the decade.

3. 2. Stage II: 1979--1989: Attitude Change and Joining PECC

The first half of the 1980s was an important period for the PRC's relations with the process of constructing Asia-Pacific economic cooperation. This was the period when China increased its attention to this region, and to the process itself. There were two factors in China's increased attention to the Asia-Pacific region: the academics and the politicians. The change in the perceptions of the academics and politicians was highly significant. As it is the case in many other countries, Chinese academics do involve themselves in policy formulation. As far as China's foreign relations are concerned, these academics are eyes and ears for the Chinese leadership. They have to provide the Chinese leaders with information, analysis and evidence for certain conclusions, but their involvement goes no further than that. They are not supposed to question or dispute the government's views and position on an issue. Nevertheless, the academics do have certain influence, through politicians, over the policy choices of the Chinese government.³⁵ China's process of participating in the discussion on Asia-Pacific economic co-operation is perhaps the best proof for this.

3. 2. A. Academic Discussions

(1). Initial Academic Discussions and Changes of Perception

It was towards the end of the 1970s when Chinese academics began to refer openly to the discussion on Asia-Pacific economic co-operation. According to evidences available, the Social Science Academy of the North-eastern coastal city Tianjin was the first to set up a research institute to study this phenomenon.³⁶ In 1980, Chinese academics' interests in the idea of Asia-Pacific economic co-operation appeared to have increased. This happened following Japanese Prime Minister Ohira's visit to Australia, during which Asia-Pacific economic co-operation was one of the main topics on the agenda. A plan was announced to set up within the Chinese Academy of Social Sciences a research institute devoted to studies about the intra-regional economic relationship in the Asia-Pacific.³⁷ In March the following year, a conference on the

world economy was held in Hangzhou, in Southeast China. A paper titled: "Some Thoughts Concerning the Proposal to Establish A Pacific Community" discussed the on-going discussion abroad. The author Wu Jixian, a fellow of the Academy of Social Science, argued that China, being an Asia-Pacific country, ought to treat seriously proposals for regional economic cooperation, because that could speed up the coming of the Pacific era. Wu also argued that regional economic cooperation should be mutually beneficial, respectful, unrestrictive and consistent with the heterogeneous state of this region.³⁸

But there were also those who retained the old way of looking at such cooperation. They continued to suspect that cooperation was only a disguise for American or Japanese intention to dominate and exploit the weaker and smaller countries in this region. This can be seen in the way that the motivation for establishing a regional economic community was analysed. In this analysis, Mao's "three worlds theory" was still used. The basic relationship in the Asia-Pacific region was stated to be that of exploitation and oppression. As a result, the Asia-Pacific cooperation schemes were explained to be nothing more than a euphemism for US or Japanese domination. Luo Yuansheng, also a fellow of the Academy of Social Sciences, was quite representative of such views. He held that, while the United States strove to protect its vested economic interests in the region, Japan aspired to reduce its vulnerability resulting from the scarcity of domestic natural resources, and that this had led to rivalry between the two nations. Jin Fuyao observed that there were Japanese 'monopoly capitalists' behind the scene. "In conformity with the rule of uneven development of capitalist state economies, the Japanese monopoly capitalists, as latecomers, pursued the establishment of a Pacific economic sphere with Japan at its centre."³⁹

Yet such analysis soon began to disappear as changes took place in the academic perception of world affairs. This was the result of the so-called "campaign to emancipate people's thinking" started by Communist Party General Secretary Hu Yaobang in the same period. The most important slogan was "to seek truth from

practice".⁴⁰ The immediate effect of this campaign was a sharp reduction of Mao's influence on people, especially the intellectuals' thinking. They began to look at the outside world from a more pragmatic angle. The changes in the Chinese perception of economic co-operation in the Asia-Pacific region followed a change in Chinese perception of the global situation and of China's position.

Huan Xiang, a diplomat turned academic, who was later appointed head of the foreign affairs section of the State Council's think-tank, was one of the first people to call for changes to China's perception of the world, and his views were quite unusual at the time. He wrote an article and published it on 9 July 1984 in *Shijie Jingji Daobao* (World Economic Herald). In this article, he argued that it was necessary for China to form a new outlook on world affairs taking into account developments that had taken place in the capitalist economies. He maintained that the world should not be divided into two unconnected parts. He criticised the traditional theory of two world markets (the socialist market and the capitalist market) and held this theory responsible for China's isolation. Huan further stated that in reality there was only one world market, which was dominated by the capitalist countries. This was going to remain so for at least another fifty years. China had no choice but to become part of it.⁴¹

Though Huan Xiang's article was the first to discuss the need for China to integrate into the world market, his opinion reflected the prevalent mood in China's political situation. First, Deng's official visit and endorsement of the Special Economic Zones (SEZs) further reduced restriction on economic cooperation between socialist China and the capitalist world. Second, in spite of the endorsement, the actual economic performance of the SEZs was not as good as it had been expected, and foreign reserves were dwindling fast. Third, the United States and ASEAN countries changed their attitude towards Pacific co-operation. Such realities forced the Chinese to speak more positively about Asia-Pacific co-operation.⁴²

The situation also affected the thinking of other economists and researchers on international affairs who cautiously joined the debate. They also began to look at the positive side of Asia-Pacific economic cooperation. For instance, in an interview with the *Liao Wang* (Outlook) magazine, Qian Junrui, President of the Chinese Society of World Economy (Zhongguo Shijie Jingji Xuehui) said that the Asia-Pacific region might rise to become a new centre of the world economy in the twenty-first century. He believed that the situation of the Asia-Pacific was both an opportunity and a challenge for China. According to Qian, it was an opportunity because, by participating in cooperation with the other Asia-Pacific countries, economic reform could enjoy much better international conditions, so that China would be able to benefit from the rise of the Asia-Pacific economy. Though economic cooperation might be a challenge, it was needed to maintain peace, security and stability in this region.⁴³

There were also those who argued along Huan's line. They believed that the countries of this region were parts of the same unity. Ye Qixiang argued in his article in *Guoji Maoyi* (International Trade) that there were three parties to the intra-regional relationship of the Asia-Pacific region: "the developing countries, the socialist countries, and the 'developed capitalist nations such as the United States'".⁴⁴ This was a departure from the rigid Maoist formula of three worlds. Ye also used the argument that there was only one world market as put forward by Huan Xiang to explain the intra-regional economic relations in the Asia-Pacific region. He also pointed out that China belonged to this region because China and the rest of the Asia-Pacific nations existed in the same geographical area.

As indicated above, Deng Xiaoping's open policy and Hu Yaobang's campaign of ideological emancipation provided the political background for Chinese academics to argue for stronger external economic relations, particularly with the Asia-Pacific countries. They began to see that the rapidly rising Asia-Pacific region could offer China the badly needed opportunity to develop its economy by taking advantage of the favourable international factors.

(2). Government Endorsement

In addition to such personal views, some important academic meetings were held on Asia-Pacific economic cooperation and China's position in it around the middle of the 1980s. In December 1984, a four-day academic symposium on the relations between the economic development of the Asia-Pacific region and China's four modernisation was held in Shanghai. This was the first conference ever held on the implications of Asia-Pacific economic development and cooperation for China's modernisation.⁴⁵ Huan Xiang, who had by now become the main voice for China's participation in Asia-Pacific economic cooperation, delivered the key-note speech. In his speech, he stressed the importance for China to participate in the discussion on economic cooperation between countries ringing the Pacific ocean. He said, "Today, as we implement the open door policy, we must actively make our points and participate in this gigantic debate which is in progress. If we don't take part in it, we might eventually lose our voice in it".⁴⁶

At the end of conference, the participants came to the conclusion that China must earnestly study, from the standpoint of South-South and North-South dialogue, the question of economic cooperation among the Asia-Pacific nations. Possibilities of intense competition in the international market were noted, but at the same time it was hoped that the vigorous economic activities in the region would provide a favourable international environment to quicken China's modernisation. Some participants went even further and argued that China must by no means lose another good opportunity, mentioning the experience of intervention from the 'left' that held back economic development for twenty years.⁴⁷ Nearly a year after this in 1985, another academic symposium on the trend of development in the Asia-Pacific region was convened in Beijing, where dozens of scholars expressed optimism about the future of the region.⁴⁸

In December that year, the China International Economic Cooperation Society with a membership of over a hundred was founded and held its first meeting in Wuhan, an

industrial city in central China. To this meeting, State Councillor Chen Muhua⁴⁹ sent a congratulatory telegraph. Chen's telegraph represented the government's first public endorsement of the discussions on international economic cooperation. The meeting's agenda was to decide the trends of development of economic co-operation in the Asia-Pacific region and China's appropriate response. The participants suggested that China should study and implement a long-term strategy concerning participation in Asia-Pacific economic cooperation. They made certain proposals concerning the way that China should conduct its open-door economic policies. These proposals envisaged that China should integrate with this region through introducing those technologies that would enable it to capitalise on her comparative advantages.⁵⁰ This was the first seminar that had a clear mission to make suggestions to the government.

Early into the winter of 1986, the 'Beijing Conference on the Asia-Pacific Economy towards the year 2000' was convened with strong support from the government. The conference was sponsored by the Research Centre for Asia-Pacific Development, the Chinese Academy of Social Sciences, and the State Council's Research Centre for the Development of Economy, Technology and Society. Premier Zhao Ziyang made the opening speech at the conference. This conference was an important milestone in the process of China's participation in the discussion on regional economic cooperation. Zhao's attendance and speech at the conference symbolised the acceptance, at the highest level of the Chinese government, of the argument that China should regard itself as a member of the Asia-Pacific region and develop an Asia-Pacific dimension in its external policies.⁵¹

It can be clearly seen that the Chinese academic perception of the process of constructing economic co-operation in the Asia-Pacific region during this stage underwent some fundamental changes along with the changes in their perception of global affairs. At first, they were still not sure how to judge the nature and purpose of regional economic cooperation that was discussed in many other Asia-Pacific countries.

With political restrictions on people's thinking relaxed, these academics began to express their views according to the realities of the region as well as that of the world. Undoubtedly, Huan Xiang's call to look at the world as an economic whole was highly important for the change in people's views. Obviously the common perception among the academics that it was necessary for China to be part of the process exploring regional economic co-operation was also influential on the shift of the government's view on this process.

(3). Divergent Views

Once the Chinese government accepted the academic argument that an Asia-Pacific dimension was needed in its foreign policy with regard to economic cooperation in this region, the Chinese academics pushed their discussion to a new height. This can be seen from the multitude of ideas which appeared from the mid-1980s. Unlike the cautious attitude at government level to movements towards undertaking cooperation among the Asia-Pacific countries, Chinese academics treated the idea with much more enthusiasm, and their views also became highly diversified, sometimes even conflicting. The differences in opinions appeared to be more in the geographical scope of economic co-operation than in the values of cooperation.

Since the academics were also searching for ways which would lead to better economic results for China's enterprises, it seemed that they argued, in terms of the values of cooperation, along the lines of such western writers on international co-operation as R. Lipsey and K. Lancaster, who argued that economic cooperation could lead to better economic results. They tended to explain that trans-national economic co-operation would have positive effects, such as trade creation, better allocation of resources and the attainment of economies of scale through removal of trade barriers and other economic exchanges between nations within a region. They also emphasised the positive effect of competition among the enterprises in countries in cooperation, which would lead to increase in capital investment and faster steps in readjusting the

structures of manufacturing. The survival of the fittest in heightened competition would further rationalise the systems of production, which would raise productivity and reduce production costs and therefore prices. In addition, economic cooperation would help improve relations between member countries by watering down disputes and differences and co-ordinating policies between them .

The Chinese academics also argued that regional economic cooperation would make the economies of the member countries grow faster. In the meantime, faster economic growth in the member countries would create the effect of market expansion for non-member countries as a result of the increase in demands for products and materials from outside the region. This would benefit growth in the world economy and strengthen global stability. This was possible because they maintained that regional cooperation was to achieve faster development rather than for protection. Countries participating in cooperation had no reason to put up tariff barriers against goods from outside the region. As economies grew, trade with other regions was actually set to increase as demand for products and materials from outside the region was bound to grow.⁵²

However, the Chinese academics differed over the geographic scale of economic cooperation. In other words, they held different views about whom China should integrate its economy with. One type of argument was to maintain that economic cooperation was going to be conducted at the global level. A second was that international economic cooperation would develop along a dual track: regional and global. A third group held that China should work hard to bring about cooperation among the Western Pacific countries. The fourth saw cooperation based on all the countries ringing the Pacific ocean as the only appropriate arena. Despite these differences, all of them believed that China should quicken its steps to link its economy with the outside world.

The Global View

Those who believed that economic integration should be at the global level argued that this was one of the dominant trends in the world economy and international

economic relations. "In today's world, national economies are ever more deeply involved in the integrated world market. Mutual dependence is on the rise not only among the developed countries, the developing countries, and between the developed and the developing countries, but also between countries with different social systems."⁵³ Those who held this view claimed that such a trend of mutual penetration and dependence and therefore globalisation could be found not only in trade, but also in manufacturing and financial activities.

Specifically, these people pointed, first of all, to the faster growth in the volume of international trade than manufacturing. They claimed that the proportion of international trade in goods and services in GNP rose continuously. The exchanges in services, including finance, insurance, tourism, transport and technical services grew even faster than the exchanges in goods. They were increasingly important sources of foreign exchange revenue for many countries. Secondly, they argued that western trans-national corporations adopted "global strategies" in order to reduce competition. This expanded the internationalisation of manufacturing and investment. Thirdly, financial activities were ever more global, and financial markets were increasingly integrated at the global level. Fourthly, scientific research and development of new technologies were jointly undertaken by many countries. This was because they involved high risks which no country could afford to bear on its own. Such international collaboration in developing new technologies were popular among most of the developed countries, including the EEC countries, Japan and the United States. Fifthly, socialist and third world countries were also increasingly involved in the process of economic globalisation. The argument was, therefore, that globalisation of economic activities would be the dominant feature of the world economy.⁵⁴

The Mixed View

Those holding the mixed view argued that regionalisation and globalisation were happening at the same time, and were part and parcel of the same ultimate process of

integration. However, there were differences within this school of views. They were focused on which would be the dominant feature of international economic integration. Some maintained that regional integration would enhance and eventually end up in global integration. Others placed emphasis on regional integration by saying that global integration would be overshadowed by regionalisation for quite some time into the future. These differences were best represented by He Fang, Deputy Chief Executive of the China Centre of International Studies, who held the first view, and Li Cong, Director of the Research Institute of World Economy and Politics, who put regionalisation ahead of globalisation.⁵⁵

According to the first group, the world economy was increasingly integrated and unified. In spite of the protectionist tendencies in different parts of the world, all of the regional blocs, as a matter of fact, continuously extended economic links with other blocs instead of reducing them. Trans-bloc trade and investment were on the rise. Beside, member countries of these blocs were not prepared to limit their activities to their blocs. They would rather push into other blocs to take up and consolidate favourable positions. Transnational corporations were even more so. Their activities were not only trans-national but also trans-regional. This was deepening the mutual penetration between these blocs. "Though regionalisation will hinder globalisation on one hand, it will, in the long run, consolidate global integration and become a stage in the process leading to global integration on the other."⁵⁶

Disputing such perceptions, Li Cong pointed to the new developments in regional integration throughout the world. Li used as his evidence the expansion of the North American Free Trade Area (NAFTA) to include Mexico, and the expansion and consolidation of the EEC after the EEC and the European Free Trade Area agreed to bring their relations into a new stage. Li Cong also discussed the development in the Asia-Pacific region, particularly China's participation in the Ministerial Meeting of Asia-Pacific Economic Co-operation. He argued that this signified that economic cooperation in this region would expand further. "The emergence of three major economic blocs

centred on the developed countries is becoming inevitable." Yet he did not rule out the possibility that these regional blocs would eventually become stages in the process of global integration.⁵⁷

Co-operation without North America

Another group of academics held the view that regionalisation was quietly taking place among countries situated on the western side of the Pacific. It seemed that they had no definitive concept of the region under discussion. Some called it the East Asian bloc, which appeared similar to Malaysian Prime Minister Mahathir's proposal for an East Asian Economic Caucus.⁵⁸ But few referred to Mahathir's idea. Some called it the Western Pacific bloc, including Russia, Australia and New Zealand. Both groups agreed that economic links and cooperation in "their regions" were highly influenced by Japan from within the region and the EEC and NAFTA from without.

Their arguments ran like this: though no formal agreements between, nor specific actions were made by, the governments of this region on forming an economic bloc, the regional economic relations indicated clearly that a bloc, in which Japan played the key role, was emerging. The evidence they gave for this argument included the increasing mutual dependence among these countries, the reduction of reliance on the American market, the growth in Japanese investment in this region, the new pattern of mutual investment between Japan and other countries, and the strengthening the position of the Japanese Yen. Some also stressed the opening of the Japanese market to products manufactured in this region. They also argued that the strength for co-operation in this region was found right in the heterogeneous nature of the region's economies, which was seen as complementary to each other.⁵⁹

The Asia-Pacific View

The view, that regional economic co-operation should include both North American and South American countries facing the Pacific ocean, was the most popular one

among Chinese academics. Those holding this view tended to base their arguments on either extra-regional or intra-regional developments. Those holding the former view pointed to the regionalisation of the world economy as the reason for Asia-Pacific cooperation. They argued that the EEC's further development towards economic union and the emergence and expansion of NAFTA,⁶⁰ two discriminatory economic blocs, would inevitably push the Asia-Pacific countries towards forming cooperative structures of their own. But they argued that the American countries, particularly the United States, would find it too much to give up their trade and economic relations with the rest of the Asia-Pacific countries, simply because of the amount of trans-Pacific trade and investments.⁶¹

The later group tended to judge by the attempts of the Asia-Pacific countries at undertaking cooperation, and believed that these schemes and actions would prepare the ground for region-wide cooperation. They pointed to the favourable conditions for cooperation in this region. First, they argued that the economies of these countries had a long history of exchanges and link. Second, the region was thought to be full of economic dynamism as reflected in the rise of Japan, the rapid economic growth of the NIEs, the ASEAN countries and China. Third, Asia-Pacific had all the significant elements for economic cooperation, such as the natural resources for economic growth, capital, labour and market. "Today, Pacific countries are increasingly aware of their common economic interests and the importance of developing regional economic cooperation..., which indicates that economic cooperation in the Pacific region is moving ahead continuously."⁶²

The set-up of APEC was treated with great importance by Chinese academics as well. The official colour of this organisation "indicates that economic cooperation has entered the stage of inter-governmental co-ordination".⁶³ These academics also recognised the diversity and the competitive nature in the Asia-Pacific relationship. They therefore proposed that economic cooperation should not follow the EEC model, but stress consultation and policy co-ordination, and should be selective in cooperation

areas. Countries participating in cooperation should be free to develop economic relations, either bilateral or multilateral, with other countries and regions. Besides, cooperation should start from the bilateral level, and gradually expand to include more countries.⁶⁴

As the Chinese government increased its attention to the developments in the process of constructing economic cooperation in the Asia-Pacific region, Chinese academics began to conduct their research on this topic in a much wider and deeper fashion. They put forward different views with regard to the centre of the international economic integration and the form and emphasis of such cooperation. Some of their thinking was obviously influenced by studies and views of foreign academics. But they also put forward Chinese ideas. For example, Chinese scholars stressed that the developed countries should not neglect the interests of the developing countries in economic cooperation. "The developing countries can only strengthen their cooperation with the developed countries on the basis of rapid economic growth and dynamism."⁶⁵ As China became more deeply involved in the discussion on Asia-Pacific economic cooperation, the Chinese academics also focused their attentions on this region.

3. 2. B. Early Official Involvement

Although the Chinese academics made quick yet diverse responses to the process of constructing regional economic cooperation in the early 1980s, the Chinese government did not seem to have any clear policy on this development. No clear official statement concerning this issue appeared in the official press in this period. It seems that the Chinese government still looked at China's relations with the Asia-Pacific countries in bilateral terms. For instance, when a New Zealand parliamentary delegation visited Beijing in 1981, the head of the delegation gave a banquet speech stressing the importance of the Asia-Pacific region, while his host, Vice President Ulanfu, talked only about bilateral relations.⁶⁶

It was only after more exchanges between Chinese leaders and the leaders of other countries, particularly the Asia-Pacific countries, that the Chinese government began to present a clearer position. However, the emphasis was placed on economic cooperation between developing countries, rather than between developed and developing countries. At a meeting with a delegation of the UN Economic and Social Council of Asia and Pacific (ESCAP) in January 1982, Chinese Premier Zhao Ziyang said that economic cooperation could play a significant role in promoting world trade negotiations. But China's attention was focused on cooperation between developing countries.⁶⁷

Chinese leaders also continued to view cooperation between developed countries and developing countries in the Asia-Pacific region as important for the international effort to oppose hegemonism. During the visit of Australian Prime Minister Malcolm Fraser to China in December 1982 and Zhao Ziyang's return visit in April 1983, the two leaders did talk about the situation in the Asia-Pacific region. But according to Renmin Ribao, their talks were centred on the security situation. Zhao only expressed support for the economic cooperation between Australia and the ASEAN countries, although Bob Hawke, who succeeded Fraser as prime minister, discussed with him the importance of Asia-Pacific economic cooperation for the world economy. Even until November 1983, Zhao Ziyang was still emphasising the importance of South-South economic co-operation.⁶⁸ Neither did other leaders, not even Deng Xiaoping himself, were reported to have made any remarks about Asia-Pacific economic co-operation.

However, such lack of enthusiasm among the Chinese leaders was soon to disappear. In January 1984, Premier Zhao Ziyang visited the United States. During this visit, Zhao talked about Asia-Pacific economic cooperation when he answered a question raised at a banquet in San Francisco. While expressing his general recognition of the importance of this region, he stated that given the huge amount of trade and technology transfer in the region, there were good opportunities and tremendous potential for cooperation. He further stated that cooperation could be enlarged if "we seek various methods and ways".⁶⁹ This seemed to be the first public statement

endorsing the idea of Asia-Pacific economic cooperation made by a Chinese leader. This statement also indicated that the Chinese government had begun to consider its position on this issue.

In the following month, during talks in Beijing with Bob Hawke, the Australian Prime Minister, Zhao showed much more enthusiasm than a year ago, and endorsed Asia-Pacific economic cooperation in the context of the North-South dialogue.⁷⁰ A series of articles followed in the *Renmin Ribao*, stressing the importance of the region by way of introducing foreign press coverage. Other Chinese leaders also joined Zhao. When US President, Ronald Reagan, visited China in April 1984, Chinese President Li Xiannian told Reagan that he noticed Reagan's remarks about the political and economic importance of the Asia-Pacific region, and said he supported Reagan's opinion.⁷¹

The Chinese government officials also began to stress that China was an Asia-Pacific country, indicating increased interests in Asia-Pacific economic co-operation. At the 41st General Assembly of the UN Economic and Social Council of Asia and Pacific (ESCAP), deputy Foreign Minister Qian Qichen gave a speech that pledged China as a member of the Asia-Pacific region, and that China would make sincere efforts to support actively and participate in economic co-operation in the region.⁷²

It is rather curious that neither Deng Xiaoping nor General Secretary Hu Yaobang ever mentioned the rise of Asia-Pacific co-operation. When Bob Hawke visited China in 1985 and delivered a speech on Asia-Pacific cooperation, Hu simply made some remarks on bilateral issues in reply.⁷³ He was no more responsive to the visiting New Zealand Prime Minister, David Lange, who at a banquet heralded the spirit of Pacific unity.⁷⁴ It does seem that not all top Chinese leaders openly endorsed the idea of co-operation, yet they did not openly criticise it either. It could be seen that the Chinese government had by now incorporated it on its foreign policy agenda. The proof of this was the public support given by both Li Xiannian and Zhao Ziyang, the two top Chinese leaders in charge of China's foreign relations. The busy academic discussions

were also evidence that the Chinese government had accepted by now that it was necessary to treat this issue as an important one.

In 1986, China's relations with the Asia-Pacific region moved one big step further. In March that year, China regained its membership of the Asian Development Bank. The identity of Taiwan was the biggest issue of all, and the format of Chinese Taipei, a clever invention by the International Olympic Committee, enabled both Taiwan and the PRC to become members of the Bank simultaneously. Chen Muhua, State Councillor and Director of China's central bank, the People's Bank, expressed China's intention to strive for the economic, financial and social development of the Asia-Pacific region.⁷⁵

The ambiguity that Chinese leaders, including Zhao Ziyang, displayed in the first half of the 1980s should be explained as China's lack of certainty about the process and about the Pacific Economic Cooperation Conference (PECC) discussions, and its difficulty in accepting that Taiwan was to participate alongside China. According to Lawrence T. Wood, the countries that attended the first four PECC meetings agreed that both Taiwan and China should be included in the discussions. After the first meeting in Canberra in 1980, Australian officials briefed Chinese embassy officials in Canberra about the meeting.⁷⁶ Into 1986, the effort to involve China seemed to be stepped up by the Canadian PECC Committee. Several meetings were held between Chinese Ambassador to Canada Yu Zhan and representatives of the Canadian PECC Committee. The Chinese ambassador seemed at first having difficulties in accepting the tripartite nature of PECC, and particularly the position of government officials in it. The biggest issue was however still Taiwan. After repeated explanations about the nature and purpose of PECC, the Chinese were eventually convinced and accepted the invitation to attend the fifth meeting of PECC.⁷⁷

In retrospect, it appeared that the above mentioned Beijing Conference, at which Premier Zhao gave a speech, was held to prepare China for joining the multi-lateral discussion about Asia-Pacific economic cooperation. Shortly after that conference,

China joined the Pacific Economic Cooperation Conference (PECC) as a full member in July 1986. The issue of Taiwan was once again resolved in the Olympic formula, which enabled Taiwan to gain full membership as well. Huan Xiang, the strongest voice behind China's movement towards this process, headed the Chinese delegation to the fifth PECC meeting in Vancouver, Canada. In his speech, Huan Xiang demonstrated his considerable inclination towards Asia-Pacific co-operation. He stated that China's global open door policy was oriented to the Asia-Pacific region more than anywhere else. He also emphasised that the Chinese economy could not do without the Asia-Pacific region.⁷⁸

3. 2. C. Personal Contributions

Up to the time when China became a PECC member, personal perceptions and advocacy seemed to have been significant as well. Two political figures played highly important roles in shifting China's attention to the Asia-Pacific region. One was Premier Zhao Ziyang, who later lost his job due to his sympathy towards the pro-democracy students in 1989. As Premier, Zhao was directly in charge of China's economic development. His experiences as the governor of Sichuan Province in Central China, where he first started the agricultural reform, prepared him for new and pragmatic ideas. Zhao seemed to be the first top leader to state clearly that China should link up with the Asia-Pacific region. At the 1985 Beijing Conference, he made a powerful speech, stating clearly that China's opening to the outside world determined that China must develop strong relations with the countries of the Asia-Pacific region. He said:

How to preserve the fine force of economic development in the Asian and Pacific nations, how to turn the glamorous prospects of economic development of the Asia-Pacific region in the year 2000 into reality: these are challenges that the Asian and Pacific nations face. The Chinese government's basic position on Asia-Pacific economic cooperation is: mutual respect, intensification of interaction, equality and mutual benefit, and joint development. Our fourteen Economic Development Zones, four

Special Economic Zones and three Open Areas are all located in the Pacific coastal area. This location is favourable for intensifying our relationship with the Pacific states.⁷⁹

Being the top Chinese leader in charge of China's economic development, Zhao's attitude was certainly a boost to the opinion that China should be part of the Asia-Pacific region.⁸⁰

Huan Xiang was the other key figure in this process. Huan was a bit different. He was at the same time a senior official and an academic. He was an intellectual and started his career as a simple government employee. But he worked his way up. At one time, he was said to have nearly been made China's Foreign Minister. As the head of the State Council's Centre of International Studies, he played a key role in shifting China's attention towards the Asia-Pacific region and the discussion on economic cooperation. He was always in the picture whenever China showed interests in Asia-Pacific co-operation.

Huan Xiang was by no means a one-area man. He was one of the most influential international economists in China. His speciality included world economy, diplomatic theory, and international affairs in general. Huan Xiang was educated in China and later in Waseda University in Japan. He also spent a short period of time at LSE in London. He started his career as a customs officer, but soon switched to the foreign service, with which he stayed for a quarter of century. After attending the 1954 Geneva Conference as Zhou Enlai's aide, he was posted to the UK as China's first charge d'affairs. His career was highlighted by his ambassadorship to Belgium in 1976.⁸¹ As a theoretician, he was known to employ a macro-approach, focusing on global, rather than regional, issues. Considering his influence in China, his active advocacy of participation in Asia-Pacific economic co-operation should be regarded as crucial in increasing the importance of China's diplomatic and economic policies towards this region.⁸²

After China joined PECC, Huan continued to devote his energy to Asia-Pacific cooperation. He seemed to be more focused on this region. In March 1987, the Research Centre for Pacific Economy was set up at the Chinese People's University. Huan Xiang was invited to deliver a speech at the opening ceremony. He said, "From now on, when our country considers external trade strategies, introduction of foreign capital, and industrial policies, we must carry out study in the context of the vast Pacific region".⁸³

In June 1987, the Chinese National Committee for Pacific Economic Cooperation was set up in accordance with the rules of PECC. Huan Xiang was appointed its Chairman. In August, another symposium on Asia-Pacific regional economic cooperation and China was held in Shanghai. Huan Xiang delivered a speech entitled: 'The Pacific towards the 21st Century'. He said in this speech that intra-regional economic cooperation would benefit the entire region. He stressed that China could play an important part in maintaining peace and rapid development through closer cooperation with other countries in this region.⁸⁴ Huan's arguments provided most of the basic reasons for the necessity for China to participate in the discussions on Asia-Pacific economic cooperation. Due to his position in the Chinese government and Chinese policy making process, Huan Xiang's arguments for Asia-Pacific economic cooperation should be regarded as the basis of Chinese government's attitude and position on the whole issue of economic cooperation in the Asia-Pacific region.

It can be seen from the above that China's participation in the discussion on Asia-Pacific economic cooperation in PECC was the result of several influences. The personal support and advocacy by people like Zhao Ziyang and Huan Xiang were obviously important. The academics' perception of the changes in world politics and economy, and the rise of the importance of the Asia-Pacific region provided the rationale for the Chinese leadership to participate in the discussions, even though they had to accept the fact that they had to sit at the same table with their opponents from Taiwan. The change in the general political atmosphere, particularly the campaign to emancipate people's minds, and China's urgent need to develop stronger external trade

relations provided the favourable background. The non-governmental nature of PECC was also important, because it enabled China to get around the issue of sovereignty.⁸⁵

3. 3. Stage Three-Post 1986: Emergence of An Asia-Pacific Dimension

In terms of both the development of an Asia-Pacific dimension in China's external policy, and the participation in the discussion on economic cooperation in the Asia-Pacific region, the year 1986 went down in history as a milestone. On the basis of changing perceptions of the regional and global situations, and the confidence that participation in the discussion would not have any implications for China's sovereignty over Taiwan, China joined the Pacific Economic Co-operation Conference (PECC) as a full member, the then most influential and most widely represented forum. China's membership indicated that more importance was attached to this region in its foreign policy considerations. But it was only the beginning of the development of an Asia-Pacific dimension in China's foreign policy. The following section will demonstrate, through examining government policy statements, officials' talks and comments and press articles, how the development of this dimension was finally completed when China became a member of APEC.

3. 3. A. Treating PECC Lightly

It was almost like an anti-climax that PECC did not feature prominently in China's foreign policy after China became its member. PECC was treated by the Chinese government as just another organisation which deserved some of its attention. Hence, China's membership did not entail any major and immediate re-orientation in its diplomatic and economic policies towards the building-up of a working structure for economic cooperation. It seemed that the attempt to bring into being such a structure did not even become a key feature in China's general policies towards the Asia-Pacific region. China went on to emphasise the importance of peace and the halting of the armament race in this region. As far as economic cooperation was concerned, China maintained its usual position, which was to bring about such cooperation among third

world countries, who were thought to share many similarities, such as common experiences under colonialism and identical level of economic development.⁸⁶

The Chinese government's initial cool attitude towards the efforts to turn economic cooperation into a reality in the Asia-Pacific region was first highlighted by the organisation of the PECC China Committee and the appointment of its leaders. On 4 June, 1987, PECC China Committee held its first session in Beijing. China's most important newspaper, Renmin Ribao, reported the meeting in a brief piece on the fourth page the following day. Renmin Ribao explained the nature of PECC and said, "The organisation requires its member countries to set up national committees as its counterparts in these countries."⁸⁷ The way it was treated by RMRB indicated that it was not of the top importance.⁸⁸ The report itself only mentioned customarily that PECC was important for China's modernisation drive.

The appointment of Rong Yiren as the committee's honorary president and Huan Xiang its president seemed to be consistent with the choice of leaders of such committees in other PECC member countries. These choices were also an indication of the importance that it had. Rong, who later became China's vice president, was China's most acclaimed businessman. Coming from the largest nationalist capitalist family, he was a long-standing collaborator with the Chinese Communist Party after 1949. His friendship with them made him a successful survivor of a series of political movements. After the "cultural revolution", he became the president of China's first private international trust, China International Trust and Investment Corporation (CITIC) founded with the support of Deng Xiaoping after the introduction of the new policies. Though he was respected and consulted on certain policy issues, he was not a Communist Party member and was never a member of the decision-making circle.⁸⁹

The choice of Huan Xiang as President of PECC China was a convenient one since he was able to fulfil two requirements of PECC: a government official in their private capacities and prominent academic. But like Rong, Huan was not a member of the inner

circle of the process of Chinese foreign policy making. Though Huan Xiang was a key adviser to the Chinese leadership on foreign policy issues, his position as the head of the State Council's Centre of International Studies was not high enough either in the government or the party apparatus to enable him to have a say in the government's final decisions on foreign policies.⁹⁰

A year and half later, the second session of the PECC China National Committee was held in Beijing. Honorary President Rong Yiren addressed the meeting, which was attended by over 60 academics, business people and government officials. Like the first session, the second session again was treated lightly. This time Renmin Ribao only said that the delegates discussed procedural matters and other related issues concerning economic cooperation in the Pacific region.⁹¹

The fact that Asia-Pacific economic cooperation failed in the first two to three years of China joining PECC to register as an important foreign policy feature was also underlined by the absence of this topic in the policy statements made by Chinese leaders in their talks on issues of foreign affairs. At the end of each year, Chinese leaders, normally either the Vice Premier responsible for foreign relations or the Chinese Foreign Minister, would write or talk about China's diplomatic achievements and forecast developments in the international situation in the new year. This would be a highly important foreign policy statement, which would mention China's achievements in foreign affairs and spell out China's views on the global situation and problems as well as the direction and emphasis of its foreign policy in the coming year.

On New Year's day 1987, Renmin Ribao published State Councillor and Foreign Minister Wu Xueqian's answers to questions on the international situation and China's foreign policy by journalists of the Xinhua News Agency. Wu's answers covered all major areas of Chinese foreign policy and China's diplomatic achievements of 1986, highlighting the expansion of China's economic and trade relations with the rest of the world. Yet Wu did not say anything about Asia-Pacific economic cooperation and

China's participation and role in PECC. He only vaguely mentioned that international cooperation among small and weak nations was strengthened. Such cooperation was becoming a significant trend in the global situation.⁹²

In March 1988, China's Seventh National People's Congress, China's supreme legislature, was held in Beijing. During the course of the congress, State Councillor and Foreign Minister Wu Xueqian and his successor as foreign minister Qian Qichen told journalists at a press conference that China's foreign policy had experienced changes and adjustments along with its domestic policies. Wu said that a key starting point of Chinese foreign policies was to strengthen China's unity and cooperation with the Third World countries. He and Qian also talked in great details about the changes in China's relations with the Soviet Union, disputes with Vietnam over the Spratleys, and even a train accident in which 26 Japanese students and a teacher were killed. Qian said that China was considering how to compensate the dead. When it came to external economic relations, they only repeated past policy statements. Once again Asia-Pacific economic cooperation failed to be a topic on the agenda.⁹³

There could be two explanations for the low position of PECC in Chinese government's foreign policy considerations. First of all, the Chinese government's interests were concentrated on those proper inter-governmental organisations. This is shown by the fact that the relations with every UN body and all other intergovernmental financial and economic bodies, such as ADB, IMF and World Bank, are handled by a department with either the Foreign Ministry or the Ministry of Finance, or some other ministries. PECC was only an unofficial body which involved official representation. Beside, its future was still not very clear. Secondly, the stress of Chinese foreign policy was still on China's relations with the super powers, particularly that with the Soviet Union since China started to follow an independent foreign policy.⁹⁴ PECC by nature did not qualify to be put high on the Chinese government's foreign policy agenda.

3. 3. B. Increased Government Attention

However, the Asia-Pacific region was to feature increasingly bigger in China's external relations, both politically and economically. While the Chinese government kept PECC at arm's length, China's media and academics were full of enthusiasm for economic cooperation with other Pacific countries. After China's new premier Li Peng visited Thailand, Australia and New Zealand in April 1988, a Renmin Ribao editorial said that Li's visit was the first by a top Chinese leader after the significant Third Plenum of the 13th Party Congress, which decided that China's economy was to enter a period of readjustment. "It shows once again that China attaches a great deal of importance to the improvements in its relations with countries in the Asia-Pacific region... In future, the world will be a multi-polar one. The international organisations which have appeared in recent years will play important roles in the changing international situations."⁹⁵

The same editorial also said that economic cooperation in the Asia-Pacific region should observe the principle of "mutual respect, mutual benefit, wide-ranging exchanges and common prosperity".⁹⁶ On the basis on this principle, the editorial argued, economic cooperation among the Asia-Pacific countries was set to grow further. China was ready to join these countries in making efforts to turn the Pacific ocean into an ocean of peace, friendship and co-operation, because China realised that she could draw on the experiences of many Asia-Pacific countries in developing their economies. This editorial seemed to signal that China had accepted the concept of regional economic cooperation in this region.

The government was also catching up. The most clear-cut statement on China's policy towards the Asia-Pacific as a region and its economic cooperation was made by Foreign Minister Qian Qichen in a year-end article reviewing international situations published on 16 December, 1988. Qian wrote:

The Asia-Pacific region is of great importance in world affairs and has attracted more and more of the attention of the international community.

Situated in the Asia-Pacific region, China is naturally concerned with the region's peace and development. Asia-Pacific countries are highly diversified, which should become the sources of dynamism for mutually beneficial cooperation rather than causes of troubles. China does not seek hegemony in this region and oppose any country to do so...

The five principles of peaceful co-existence was the product of mankind's wisdom... We hope that these principles can be applied to the Asia-Pacific region, which will set an example for peaceful co-existence, South-South cooperation and North-South Cooperation.⁹⁷

Another quiet change took place in the mentality of the Chinese leaders, which also indicated increased attention to the Asia-Pacific region. This was best demonstrated by the terms used by Chinese leaders in their talks with foreign visitors. In the past, Chinese leaders would normally use Asia when discussing issues concerning Asian countries. By now, "Asia-Pacific" had become the standard term, which referred by and large to the same number of countries as when it was used by other countries. This was the same in all the main leaders' talks with foreign visitors.

The increased interest of Chinese leaders in the development in the Asia-Pacific region gradually turned Beijing into one of the busiest venues for conferences on Asia-Pacific issues. These conferences discussed a wide range of issues including regional security and disputes, scientific exchanges and cooperation and the halting of the arms race in this region, investment and technologies transfer. Such conferences included those held by international academic institutions, international organisations and Chinese government's departments. Some senior Chinese leaders addressed them.

One interesting fact during this period was that, although China had become a PECC member, it still seemed to treat with more importance economic cooperation in the Asia-Pacific region under the concept of the UN Asia and Pacific Council of Economic and Social Affairs. "The UN's Asia and Pacific Council of Economic and

Social Affairs is the region's most important inter-governmental organisation. It has for a long time played a positive role in promoting Asia-Pacific cooperation. We hope that the UN's Asia and Pacific Council of Economic and Social Affairs will face up to the challenges of the 90s and fulfil a bigger role in advancing regional cooperation in Asia and the Pacific."⁹⁸

At the Bangkok conference celebrating the 40th anniversary of the UN ESCAP in April 1987, State Councillor and Foreign Minister Wu Xueqian, further underlined China's position on economic cooperation within this framework. He said that "the Chinese government is concerned with and firmly supports economic cooperation in the Asia-Pacific region". Wu also emphasised the principles for cooperation as had been put forward for Asia-Pacific regional economic cooperation. These principles, which were: mutual respect, mutual benefit, extensive exchanges and common prosperity, stressed that cooperation should be beneficial for all members. Wu also discussed in great details what these principles meant.⁹⁹

As far as China's participation in discussions on Asia-Pacific economic cooperation was concerned, the 1989 Tian An Men incident, and the subsequent economic sanctions imposed on China by western countries, did not have much effect on the Chinese government's enthusiasm for regional economic cooperation. In fact, the Chinese government showed more interest in the discussions, including the PECC discussion. Chinese officials used such occasions as opportunities to recover China's international position, which was seriously damaged by the Tian An Men incident. On 28 October 1989, a conference on Asia-Pacific economic cooperation, the Symposium on China & Asia-Pacific Economic and Trade Cooperation, was held in Beijing. Vice Premier Tian Jiyun made a speech. Tian's presence at the symposium indicated that the Chinese government treated seriously the value of economic cooperation, because such a conference would normally have the foreign or trade minister as its guest of honour.

In his speech, Vice Premier Tian repeated the Chinese government's position on the purpose of economic cooperation in Asia-Pacific region, which should be the common prosperity and development of the region's countries. The main force of the organisation of economic cooperation should be the developing countries of this region, where most of the region's population lived. Economic cooperation should be founded on the basis of equality, mutual benefit as well as peaceful co-existence, which meant that countries should not interfere with others' sovereignty and internal affairs. "Co-operation should be characterised by being open to all countries both in and outside the region, who are committed to international cooperation... China will continue to make contributions towards the development of economic cooperation in this region."¹⁰⁰

Premier Li Peng also called on Chinese diplomats to step up their efforts in promoting China's economic and trade cooperation with other countries when meeting China's science and technology councillors to different countries.¹⁰¹ Foreign Minister Qian Qichen expressed similar purpose of China's participation in multilateral economic cooperation from a more general perspective. In an article reviewing China's diplomacy, Qian wrote that, for decades, the Chinese government and its leaders had emphasised the importance for developing stronger external economic and trade relations. Against the background of economic sanctions by western countries, Qian stressed that China was already a part of the global community. He wrote, in today's world, China needed the world and the world needed China. "It is necessary to point out that the expansion of international economic cooperation is not only in the interests of China, but also in the interests of its partners. Should such economic exchanges be harmed in any way, both China and those countries who have imposed sanctions upon China will suffer too."¹⁰² All such remarks indicated that, while Chinese leaders were worried about the effect of sanctions and wanted to break out of it, they also accepted the fact that China must be part of the world community and cooperate with other countries in economic matters.

3. 3. C. Participation in APEC

Unlike PECC and the other forums on Asia-Pacific economic co-operation, the Chinese government reacted immediately to the first APEC Ministerial Meeting. The establishment of this forum made the headlines in China's main newspapers. Renmin Ribao stressed in its report that the meeting, attended by foreign and trade ministers from twelve Pacific rim countries, hoped that China could take part in the conference in the near future. Renmin Ribao even quoted Bob Hawke as saying at the banquet in honour of the attending ministers that he believed that China should be invited to join this organisation. "The maintenance of a trade environment in which the People's Republic of China is effectively involved is to the benefit of all of us.' The US delegate also supported China's membership in the new Asia-Pacific economic organisation under consideration."¹⁰³

The reason that China regarded the APEC Ministerial Meeting seriously seemed to be that it was an inter-governmental organisation. The set-up of APEC further reduced the importance of PECC. For the first time, Renmin Ribao did not report at length the speech made by the Chinese delegation attending the seventh PECC conference. The set-up of APEC was also treated as a positive development in the intra-regional relations. An article by Xi Shuguang carried in Renmin Ribao a month later regarded the ministerial meeting as the important prelude to the establishment of an Asia-Pacific economic cooperation organisation. But Xi assured his readers that the new organisation under consideration would take time to be set up. He wrote that it was going to be a difficult process because there existed sharply different views. He pointed to the fact that the ASEAN countries expressed caution about it while Australia, Japan, South Korea and the United States wanted to set up the organisation soon. Large amount of work needed to be done too before the principles and specific rules could be established. He therefore concluded that many difficulties still existed in the process of turning the idea of economic cooperation into reality.¹⁰⁴ This seemed to mean that China still had time to catch up with this new development.

But Chinese leaders did not seem to be as relaxed as Xi was, though they also stressed that APEC was only the beginning of a long process. In answer to questions put to him by a journalist of *Liao Wang*, Foreign Minister Qian Qichen said, “Although Asia-Pacific economic cooperation enjoys good prospect, yet there is still a long way ahead”. But Qian also emphasised, “It is generally held that any form of economic co-operation or any organisation for such cooperation in Asia-Pacific region will be open-ended. It is hardly possible to form an organisation like the European Economic Community. Nevertheless, we regard any regional political or economic organisation without China as a member as incomplete, because China’s importance for this region has already been recognised by the countries of this region”. Qian's remarks were also carried in *Renmin Ribao*, highlighting their importance.¹⁰⁵

Into the year 1990, Chinese leaders continued to use every opportunity to highlight the necessity of China's participation in the Asia-Pacific economic co-operation process. Meanwhile, China also started the diplomatic process of joining the Ministerial Conference. By this time China’s political situation was not the main hurdle. China was actually invited to attend the second APEC Ministerial Meeting hosted by Singapore in 1990. But China did not accept the invitation. What stood in the way was the issue of simultaneous admission of China, Hong Kong and Taiwan. This time, however, it was not only China that was held up by this issue. Disagreement also existed between the first twelve member countries. At the second APEC Ministerial Conference held on 29 July 1990 in Singapore, the membership of China, Hong Kong and Taiwan was high on the agenda. The United States and Japan insisted that Hong Kong must be admitted as a member, while the US. curiously proposed that China be admitted as an official observer and Taiwan as an unofficial observer. The ASEAN members, three of which, Indonesia, Singapore and Brunei, did not have diplomatic relations with China at that time, were initially opposed to membership for any of the three Chinese economies.¹⁰⁶

The Chinese also made an active response. *Renmin Ribao* of 3 August 1990 said that the second ministerial meeting also indicated that China’s participation in future

ministerial conferences on Asia-Pacific economic cooperation was what people were looking forward to. Another report on the same day's Renmin Ribao said that the second ministerial conference believed that China's participation was only a matter of time. Renmin Ribao also highlighted that the conference also indicated that a decision on this issue would be made at the third conference or even before. For the first time, Foreign Minister Qian expressed in clear terms that China was ready to join APEC. Qian even volunteered to suggest in clear terms how the membership issue should be resolved. He told journalists that China was willing to participate in the ministerial conference as a sovereign state. Taiwan and Hong Kong could participate as long as they were not treated as sovereign states. He said that there should be other solutions, hinting China's flexible stand on this issue.¹⁰⁷

When addressing the US Asia Society in New York in October 1990, Qian further clarified China's position on the membership issue. Qian said, "Under the precondition of 'one China', China as a sovereign state should become the official (Chinese) party to attend the conference while Hong Kong and Taiwan should attend in appropriate identities as economic regions".¹⁰⁸ While China's APEC membership hung in the balance, the eighth PECC meeting was prominently covered in Chinese press highlighting that Singapore's premier and US Vice President Dan Quayle attended and addressed that year's PECC conference to imply its importance. This was in sharp contrast to the coverage of the previous two meetings. The Chinese delegates were also said to be active and popular during the meeting.¹⁰⁹

Eventually, the issue of membership was resolved in the Olympic manner before the third APEC Ministerial Meeting held on 13 November 1991 in Seoul, that is, Taiwan was to join as "Chinese Taipei" alongside mainland China and Hong Kong. No Taiwanese flag was to be displayed or anthem be played at the conference.¹¹⁰ Hong Kong was going to take part in the meeting only as an economic region. As a result, the foreign ministry spokesman declared on 4 November in Beijing that the People's Republic of China was to send a delegation headed by Foreign Minister Qian Qichen

and Minister of Foreign Trade and Economic Cooperation Li Lanqing to attend the third Asia-Pacific Economic Cooperation Ministerial Meeting. He also said that China Taipei and Hong Kong were also going to attend this meeting following the principles of 'one China' and 'distinction between sovereign state and economic regions'.¹¹¹

China's participation in APEC indicates that an Asia-Pacific dimension was finally added to its foreign policy. This is underlined by the speed with which China became an APEC member. Clearly the process for China to join APEC was very much shorter than that for China's participation in PECC. It took China only two years to join APEC while it took six years for it to become a PECC member. As it has been indicated above, this was the result of changes in China's attitudes given rise to by APEC'S inter-governmental nature, which led to China's more rapid participation. The changed attitude of the APEC members were also important. That China ignored Taiwan's membership in such an inter-governmental forum was even more indicative of the amount of importance China attached to APEC.

The other important reason for China to join APEC quickly was the connection the Chinese leaders made between APEC and GATT. China regarded its membership as a great achievement in its diplomacy and as an important step towards the restoration of its membership in the General Agreement of Trade and Tariff (GATT). Li Lanqing said at the third ministerial meeting that regional free trade was in consistence with the GATT principles. Since the principle of most-favoured-nation (MFN) was a fundamental GATT principle, it should be universally observed, suggesting that China would be able to enjoy within the future cooperation structure MFN status in its trade with the rest of the APEC member countries since APEC was meant to abide by GATT rules.¹¹²

An equally important condition for China joined APEC much more quickly was the intention of those early members of APEC to see China involved in the process of constructing economic cooperation. This tendency became further entrenched in the post-Cold War era. As it was shown in the previous chapter, Drysdale developed his

idea of cooperation as communication and coordination partly with his mind on the position of the socialist countries in this region. China is not only a socialist country, but also one of the most important Asia-Pacific countries. The policy of economic reform and opening to the outside world, which led to rapid economic development, indicated to the other Asia-Pacific countries that it would be highly significant to include China in the cooperation process. This was determined by China's potential as a market and production base in this region.¹¹³ However, China's reform was also seen to have potentially negative effect on the intra-regional economic relations. China's economic development could cause disruption as well. It was thought therefore that it was highly necessary to include China in economic cooperation to maintain stability in the intra-regional economic relations.¹¹⁴

The wish of the Asia-Pacific countries wish to engage China should also be examined against the new developments in the post-Cold War era. As it was shown in Chapter One, the strategic situation in the Asia-Pacific region experienced significant changes after the Soviet Union collapsed. Against such a background, China's rapid economic development made it an important factor in the strategic and political considerations of the Asia-Pacific countries. However, the common wisdom was not to isolate China but to engage China. This was so even after the bloody Tian An Men incident in 1989.¹¹⁵ This was because isolating China would not serve the interests of these countries in preserving stability and rapid economic development.¹¹⁶ Into the 90s, China's drive for military modernisation supported by rapidly growing economic strength and its harsh attitudes towards the territorial issues in its relations with its neighbours have propelled the Asia-Pacific countries to speed up the process to bring China into the international community as a responsible member governed by existing rules.¹¹⁷ Though APEC is only concerned with economic issues, yet China's membership is thought to be useful in changing China's attitude towards cooperation in general.¹¹⁸

Conclusion

What does the above description of the process which led to China's participation in APEC tell us? It tells us the following four things: first: the Chinese government's attitude towards regional cooperation was very much affected by its relations with the outside world, particularly the capitalist countries; second: academics played a crucial role in changing the government's attitude; third: changes in the domestic political environment and senior officials' support were essential; fourth: China treated the inter-governmental APEC with most importance. All these factors combined prepared the ground for China to become a member of the inter-governmental process of constructing economic cooperation in the Asia-Pacific region.

China's participation in the process to bring about economic cooperation in the Asia-Pacific region was clearly the result of a process which combined the efforts of academics and politicians. Under the much relaxed political and academic situation after the "cultural revolution", Chinese academics were able to look at the world economic and political situations with less restraints. Led by Huan Xiang, they argued that China could only link its economy with those of the capitalist countries because they were the dominant forces in the world economy. They also made strong cases for China's participation in such discussions as APEC. Since those who made their views known were members of either government think tanks or the Chinese Academy of Social Sciences, their views were undoubtedly significant in raising the importance of the Asia-Pacific region in the thinking of the top leaders.

Beside, individuals were also highly instrumental to push China to participate in this process. Though China did not have people like Kojima or Drysdale who produced original ideas for cooperation, there were people like Huan Xiang, who was a senior official and an academic, and politicians like Zhao Ziyang and Li Xiannian, who were ready to accept new ideas. These individuals made their contribution from different angles, yet they were highly effective. The most important contribution of the academics was to produce the arguments from the perspectives of international relations and

international economic relations for China to join this process. As for the politicians, their favourable attitudes obviously guaranteed that new ideas were included in government thinking.

Like most of the Pacific Asian countries involved in the APEC process, the Chinese government was very serious about the governmental content of PECC and APEC.¹¹⁹ This can be seen from the way that Chinese diplomats responded to invitations for China to participate. When the Canadian PECC National Committee tried to include China in the fifth PECC meeting, it took much time and effort to convince the Chinese ambassador that PECC was not an inter-governmental organisation. By getting around the issue of sovereignty, conditions were made for China to participate in PECC. Once China joined PECC, it was duly treated as a non-governmental body.

Paradoxically, it seems that it was, to a very large extent, precisely because of the inter-governmental nature of APEC that the pace of China's participation had quickened. This could be seen from the speed and level of response that China made to both PECC and APEC. When PECC was first launched in 1980, the PRC ignored it, as shown by the lack of coverage of it in the press. This lack of enthusiasm was totally reversed when APEC was set up. The Chinese press not only gave quite extensive coverage, but also highlighted the wishes of other countries, such as Australia and the United States, to see China become an APEC member soon. The way Chinese officials commented on the absence of China in this forum was also interesting. Chinese Foreign Minister Qian Qichen used every appropriate occasion to underline China's wish to join by saying that APEC would not be complete without China. The emergence of the inter-governmental APEC even made the Chinese government willing to overlook the fact that Taiwan and Hong Kong were included in APEC. The effort of the APEC member countries to engage with China and to include it in the process was also highly important. Their efforts ensured that the door was kept open to China.

1. One of the fundamental principles of Chinese foreign policy was non-interference in a country's internal affairs. The amount of importance that the Chinese government attaches to this principle can be seen by China's insistence that any country must declare that Taiwan is a part of China when it diplomatically recognises China. Otherwise, China will not accept such recognition. Though APEC was not yet a formal cooperation structure, yet its intention was not lost to the Chinese government when it decided to join.
2. See the previous chapter for more details on this.
3. See *Ibid.* for more details on this.
4. Through out the 1960's, China saw itself engaged in a continuous campaign against imperialism represented by the United States and revisionism represented by the Soviet Union. Strategically, the United States was perceived to be the most dangerous enemy as a result of the Vietnam War. Ideologically, the Soviet Union became China's target of attack because of Khrushchev policy of peaceful coexistence and peaceful competition with the imperialists. Yet direct military clashes between China and the Soviet Union in 1968--69 pushed China's policy of anti-revisionism and anti-imperialism to the extreme. See Michael Yahuda, *The International Politics of the Asia-Pacific*, p. 201.
5. *Renmin Ribao (RMRB)*, 24 April, 1970, p. 6.
6. *Ibid.*
7. *Ibid.*
8. *Ibid.*
9. See *Far Eastern Economic Review*, No. 47, November, 1970, p. 13.
10. *Renmin Ribao*, 4 December, 1970, p. 6.
11. *Ibid.*
12. See Chapter Two for more details on Japanese discussion.
13. See Han Nianlong ed., *Diplomacy of Contemporary China*, Hong Kong, New Horizon Press, 1990, pp. 258--262.
14. *Ibid.*, pp. 273--274.
15. See Robert Carson, *The United States and China Since 1949: A Troubled Affair*, London, Pinter Publishers, 1994, Chapter 2.
16. See *Renmin Ribao*, 28 Sept., 1974, p. 1.
17. See John Wong, "China in the Dynamic Asia-Pacific Region", *The Pacific Review*, Vol. 8, No. 4, 1995, pp. 617--36.
18. See Han Nianlong, *Diplomacy of Contemporary China*, 1990, pp. 370--377.
19. Beginning in the early 1970s, China came to view the world divided into three worlds following Mao Zedong's "theory of three worlds". Mao classified all the countries around the world into three groups in accordance with their economic status and military power. The two super powers, the United States and the Soviet Union, made up the first world. The rest of the developed industrial countries belonged to the second world. The developing poor countries were regarded to be the third world.
20. *Renmin Ribao*, 8 June, 1975, p. 4.
21. *Renmin Ribao*, 3 June, 1976, p. 4.
22. *Renmin Ribao*, 4 March 1975, p. 4.
23. Zhou Huamin, Vice-Minister of Foreign Trade, "Speech at the Fourth UN Trade and Development Congress, May 1975", *Renmin Ribao*, 12 May 1975, p. 2.
24. See Han Nianlong, *Diplomacy of Contemporary China*, 1990, pp. 370--377.
25. "Commentary", *Renmin Ribao*, 7 May 1976, p. 5.
26. Zhou Huamin, "Speech at the Fourth UN Trade and Development Congress, 1975, p. 2.
27. *Renmin Ribao*, 30 December 1975, p. 5.
28. See John Wong, "China in the Dynamic Asia-Pacific Region", 1995, pp. 617--36.
29. Hua Guofeng, "Speech at the Banquet in Honour of the Prime Minister of Singapore, Lee Kwan Yew", *Renmin Ribao*, 12 May 1976, p. 2.
30. This way of referring to the Soviet Union became quite widely used in China's diplomatic statements since the middle of the 1970s.

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31. Hua Guofeng, "Speech at the Banquet in Honour of the Prime Minister of New Zealand", *Renmin Ribao*, 30 April 1976, p. 2.
 32. For instance, see a report in *Renmin Ribao*, 18 August 1977, p. 4.
 33. See "Commentary", *Renmin Ribao*, 25 July, 1976, p. 4. *Renmin Ribao* between 1971 and 1976 was also full of sharp criticisms of the Soviet led cooperation.
 34. Chai Zemin, "Speech at the Asia-Pacific Social and Economic Council", *Renmin Ribao*, 27 March 1976, p. 5.
 35. David Shambaugh conducted an interesting and informative discussion on the role that Chinese intellectuals play in China's foreign policy decision making. See David Shambaugh, *Beautiful Imperialists*, 1991, pp. 11--16. See also, Merle Goldman, "Hu Yaobang's Intellectual Network and the Theory Conference of 1979", *The China Quarterly*, No. 126, June 1991, pp. 219--242.
 36. A small note appeared in the Sept. 1979 issue of *International Trade* announcing the set-up of this research institute. *International Trade*, Beijing, Sept. 1979, p. 27.
 37. *Guangming Ribao* (Everbright Daily), 12 March 1980, p. 3.
 38. See Wu Jixian, "Some Thoughts Concerning the Proposal to Establish a Pacific Community", *International Studies* (Beijing), No. 5, May 1982, pp. 9-16.
 39. See Luo Yuansheng, "Japan and Pacific Economic Cooperation", *Guangming Ribao*, 14 May 1983, p. 3.
 40. The "Campaign to Emancipate People's Thinking" was a highly important movement early in the era of economic reform. Championed by Hu Yaobang, who by then had replaced Hua Guofeng as the leader of the Chinese Communist Party, the movement greatly relaxed the Maoist restrictions on the intellectuals, which made possible for more pragmatic and realistic perceptions about both China's internal situation and the world situation to emerge.
 41. See Huan Xiang, "Today's' World", *Zheng Ming* (Contention, Hong Kong), September 1984, pp. 47--48.
 42. See "Commentary", *ibid.*, p. 49.
 43. *Liao Wang* (Beijing), 23 July, 1984, pp. 26--27.
 44. Ye Qixiang, "Taipingyang Diqu Hezuo Wenti de Youlai he Fazhan Qushi" (The Origin and Trends of Pacific Regional Economic Cooperation), *International Trade* (Beijing), September 1984, pp. 22--27.
 45. *Renmin Ribao*, 12 December 1984, p. 6.
 46. *Ibid.*
 47. See Organising Committee for the Academic Conference on the Prospects of the Development of the Pacific Region and China's Modernisation ed., *Taipingyang Diqu Fazhan Qianjing he Zhongguo Xiandaihua* (Development Prospects of the Pacific Region and China's Modernisation), Beijing, China Finance and Economic Publishing House, 1985, p. 7.
 48. *Shijie Jingji Daobao* (World Economic Herald, Shanghai), 28 October 1985, p. 6.
 49. Chen was also the minister responsible for China's foreign economic relations and trade.
 50. *Renmin Ribao*, 30 December 1985, p. 4.
 51. *Renmin Ribao*, 12 November 1986, p. 1.
 52. Wang Juyi's "Sanda Jingji quan Paoxi (Analysis of the Three Major Economic Blocs), and Quyuhua Dui Shijie de Yingxiang (The Impact of Regionalisation on the World) were quite typical of such views, See *Renmin Ribao*, 22 February 1989, p. 7.
 53. Liu Shan, "Shijie Jingji de Quanqiuhua Qushi (The Trend of the Globalisation of the World's Economic Activities)", *Renmin Ribao*, 18 June, 1990, p. 7.
 54. Ni Shixiong and others, "Zhuanjia Xuezhe Lun Jiushi Niandai de Zhongwai Guanxi" (Experts and Scholars on China's Relations with the Outside World), *Zhongguo Waijiao* (China's Diplomacy), Publication Materials Centre, People's University, Beijing, July 1993, pp. 19--23.
 55. He Fang, Li Cong etc., "Guoji Jingji Nianzhong Bitan", (Written Exchanges on the International Economic Situation), *Renmin Ribao*, 20 December 1991, p. 7.
 56. He Fang, *ibid.*

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57. Li Cong, *ibid.*
58. See the previous chapter for more details on Mahathir's proposal.
59. See Wang Juyi, "Sanda Jingjiqian Paoxi", 1989, p. 7, and Lu Linshu, "Xi Taipingyang Diqu Jingji Hezuo Xianzhuang yu Qushi" (The Present State and Future Trend of Economic Cooperation in Western Pacific), *Renmin Ribao*, 7 August 1991, p. 7.
60. Sun Yi, "Shijie Jingji Quyu Jituanhuade Xinfazhan", (New Development in the Regionalisation of the World Economy), *Renmin Ribao*, 27 December 1990, p. 7.
61. Wu Dakun, "Taipingyang Diqu Jingji Hezuo Zhanwang" (Forecast on Pacific Economic Cooperation), *Renmin Ribao*, 3 May 1989, p. 7.
62. *Ibid.*
63. Sun Yi, "Shijie Jingji Quyu Jituanhua de Xinfazhan".
64. See Wu Dakun, "Taipingyang Diqu Jingji Hezuo Zhanwang", 1989.
65. *Ibid.*
66. *Renmin Ribao*, 4 April 1981, p. 1.
67. *Renmin Ribao*, 6 January, 1982, p. 1.
68. *Renmin Ribao*, 4 August 1982, pp. 1, 6; and 15 April 1983, p. 1, 6.
69. *Renmin Ribao*, 15 January 1984, p. 6.
70. *Renmin Ribao*, 10 February 1984, p. 1.
71. *Renmin Ribao*, 27 April 1984, p. 1.
72. *Renmin Ribao*, 20 March 1985, p. 6.
73. *Renmin Ribao*, 16 April 1985, p. 1.
74. *Renmin Ribao*, 27 May 1985, p. 1.
75. *Renmin Ribao*, 26 April 1986, p. 1.
76. Lawrence T. Woods, "Delicate Diplomatic Debut: Chinese and Soviet Participation in the Pacific Economic Cooperation Conference", *Pacific Affairs*, Vol. 59, No. 4, Winter 1986--97, pp. 571--605.
77. *Ibid.*, p. 575.
78. *Renmin Ribao*, 19 November 1986, p. 6.
79. *Renmin Ribao*, 13 November 1986, p. 1.
80. Zhao's effort to open up further 14 coastal Chinese cities to foreign investments was explained to be part of his plan to integrate Chinese economy with that of the Asia-Pacific region. For further details, see Wang Jian, "Guanyu 'Guoji Daxuhuan' Jingji Fazhan Zhanluede Gouxiang" (Some Thoughts on Economic Development Strategy Based on International Circulation), in World Economic Editorial Board, *The Export Oriented Economic Development Strategy for China's Coastal Regions*, Beijing, China Social Science Press, 1989, pp. 63--74.
81. See K. G. Saur, *Who's Who in the People's Republic of China*, New York, London, Oxford, Paris, Munchen, 1987, pp. 162--163.
82. See Jin Xiao, "Huan Xiang: The Scholar", *Du Shu* (Reading), No. 3, 1992, pp. 16--20.
83. *Shijie Jingji Daobao*, 23 March 1987, p. 7.
84. *Shijie Jingji Daobao*, 17 August 1987, p. 6.
85. Although China was regarded as a significant member of the Asia-Pacific region, its political and economic systems stood in the way of its membership in PECC when it was first set up. This was because membership was initially limited to countries with market economies, which was a quite important precondition for membership. See Peter Drysdale's *International Economic Pluralism*, 1988.
86. See Han Nianlong ed., *Diplomacy of Contemporary China*, 1990., pp. 237--239.
87. *Renmin Ribao*, 5 June 1987, p. 4.
88. It is a customary treatment by the *Renmin Ribao* of events which was not of the most importance. If it was a top leader's meeting with a foreign visitor, it would appear on the front page of *Renmin Ribao*.
89. For more details on Rong, see Kevin Rafferty, "Asia's Billionaires: Stories of the Region's Richest People", *Asia-Pacific Review*, No. 10, 1989, pp. 21--26.

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90. Huan Xiang died three years after China became a PECC member in 1989.
91. Renmin Ribao, 21 December 1988, p. 2.
92. Renmin Ribao, 1 January 1987, p. 1, 4.
93. Renmin Ribao, 7 April 1988, p. 1.
94. See the following chapter for more discussions on this point.
95. Renmin Ribao, 5 November 1988, p. 1.
96. This principle did not include any major difference to that put forward by Zhao Ziyang two years earlier when China first joined PECC.
97. Qian Qichen, "1988: Marked Improvement in the International Situation", Renmin Ribao, 16 December 1988, p. 6.
98. Li Daoyu, "Speech at the Annual Conference of UN's Asia-Pacific Council of Economic and Social Affairs", *International studies*, Beijing, Institute of International Studies, No. 3, 1991, p. 28.
99. Renmin Ribao, 23 April 1987, p. 6.
100. Tian Jiyun, "Speech at the Symposium on Asia-Pacific Economic and Trade Cooperation", Renmin Ribao, 29 October 1989, p. 1.
101. Ibid.
102. Qian Qichen, "Glorious Forty Years of China's Diplomacy", Renmin Ribao, 15 October 1989, p. 7.
103. Renmin Ribao, 7 November 1989, p. 3.
104. Renmin Ribao, 6 December 1989, p. 7.
105. Qian Qichen, "Changes in the International Situation and the Prospect", Renmin Ribao, 30 December 1989, p. 7.
106. See Donald Crone, "The Politics of Emerging Pacific Cooperation", 1992, pp. 69--75.
107. Renmin Ribao, 1 August 1990, p. 4.
108. Renmin Ribao, 1 August 1990, p. 2.
- The precondition of 'one China' has been one of the fundamental principles guiding China's diplomatic activities. Diplomatic relations with any country should be founded on this and other principles. This was even the case when Sino-US diplomatic relations were resumed.
109. Renmin Ribao, 23 May 1991, p. 4.
110. Stuart Harris, "China's Role in the WTO and APEC", in Gerald Segal and David Goodman ed., *China Rising: Nationalism and Interdependence*, 1997, pp. 152--
111. Renmin Ribao, 5 November 1991, p. 4.
112. Renmin Ribao, 14 November 1991, p. 7.
113. See Peter Drysdale, *International Economic Pluralism*, 1988, pp. 196--197; 256--260.
114. Ibid.
115. See James Baker, "A New Pacific Partnership: Framework for the Future", in Il Yung Chung ed., *The Asia-Pacific Community in the Year 2000*, 1992, pp. 475--480.
116. See Toshiaki Kaifu, "Japan's Vision", *Foreign Policy*, NO, 80, Fall 1990, pp. 28--39.
117. See John Wong, "China in the Dynamic Asia-Pacific Region", 1995, pp. 617--36.
118. See James Baker, "A New Pacific Partnership: Framework for the Future", 1992, pp. 475--480.
119. As Lawrence T. Woods has shown, it was not just the Chinese government who were very careful about the involvement of the governments of their member countries. Even Japan, the ASEAN countries and South Korea attached a great deal of importance to the official colour of these forums. See Woods, "Delicate Diplomatic Debut", 1987.

Chapter Four: APEC and China's Modernisation and Reunification

As shown in the previous chapter, China joined the process of developing Asia-Pacific economic cooperation following significant modifications in the perception of the academics and policy-makers of the world, and the elevation of the process itself to the official level. In the meantime, China's APEC membership also reflected significant modifications in its foreign policy.¹ It clearly shows that the Asia-Pacific region will feature more prominently in its foreign policy. Another major development was the *de facto* acceptance of the expansion of Taiwan's contact with the international community. China has always maintained that no inter-governmental organisations should accept at the same time both China and Taiwan. Although Taiwan takes part in the name of Chinese Taipei, the implication of Taiwan's membership was not lost on the Chinese government. Neither was the implication of the other member countries' insistence to include Taiwan.² Why did the Chinese government decide to become part of it despite of all such odds?

This chapter will answer this question by looking at the PRC's motive to join APEC. It will seek the answer by analysing the following areas: the economic and trade significance of the Asia-Pacific region as perceived by Chinese leaders and their foreign policy advisors; the impact of China's desire for a long-lasting favourable international environment and the evaluation of its international position; Taiwan's membership as a motive for China to depart from its usual policy stand to join APEC. Since the purpose is to illustrate China's motive, this study will be based on Chinese materials including comments by Chinese officials, and articles by Chinese researchers. Such comments and articles are carried in both Chinese and foreign newspapers and journals. It will also refer to discussions by foreign analysts where necessary.

These three areas have been the key concerns of Chinese foreign policy since Deng Xiaoping started his programme of reform and opening to the outside world. Back in 1982, Deng Xiaoping laid down three major tasks for China's diplomacy: the

obtainment of a long-lasting peaceful international environment, stronger and wider link with the world economy and the reunification of the country.³ These tasks became the top priorities on the agenda of, and led to significant changes in, Chinese foreign policy. The obtainment of a long-lasting peaceful international environment, in which stronger external economic and trade relations figured prominently, was the priority of priorities. Hence, my argument is that participation in the process of constructing economic cooperation in the Asia-Pacific region was a key part of the PRC's consideration to create a long-lasting peaceful international environment.

4. 1. APEC and Faster Economic Development

Chinese President Jiang Zemin stressed in his speech at the first informal APEC summit that the PRC's policy of opening to the outside world meant that China was oriented to the Asia-Pacific region more than any other region.⁴ The occasion at which this statement was made showed the amount of importance the PRC attached to the Asia-Pacific region as well as APEC itself. Why should China attach so much importance to a forum which had yet acquired the power to make bounding decisions? This section will illustrate the reasons why China found it important to be part of this process by looking at the importance of the member countries of APEC for China's strategy of faster economic development.

As it has been shown by different writers on China's reform and opening to the outside world, the Chinese government under Deng Xiaoping went through a twisted process in working out a strategy for China's economic development which highlighted the function of China's foreign economic relations and trade. Participation in the co-operation process was believed to be able to help ensure success of such a strategy. This was because, in addition to geographic reasons, this strategy dictated that China must link its economy with countries that were able and ready to meet its needs. Chinese researchers on the development and trend of the global as well as the Asia-Pacific regional economic relations conducted extensive research on China's position in

the Asia-Pacific and world economic pattern, particularly since 1986, when China was accepted as a full member by the Pacific Economic Co-operation Conference (PECC). The results of such research pointed to the Asia-Pacific region with which China should consider to link its economy.⁵

4. 1. A. Evolution of China's Open Economic Policy

Chinese leaders and foreign policy makers of the Deng era inherited from the Mao era the desire to turn China into a strong country capable of avoiding being controlled or bullied by the super powers. What makes the Deng era's leadership different from that of the Mao era was the approach to turn this desire into reality. Back in the Mao era, the stress was put on development of certain areas such as heavy industry and the military capability. In the Deng era, the emphasis has been shifted to the rapid increase in China's comprehensive national strength.⁶ This has carried the most weight in the policy considerations of the Chinese leadership, with Deng Xiaoping himself calling for rapid increase in China's comprehensive national strength.

Back in the early 1980s, Deng and other Chinese leaders, who visited developed countries including Japan and the United States, were deeply impressed with the economic achievements and material wealth that these countries enjoyed. They also realised soon after they launched the economic reform programme that China would run into daunting difficulties to achieve the economic targets laid down if China was to keep its door shut to extensive economic contacts with the outside world.⁷ Meanwhile, the successful experiences of Japan and the Four Tigers (Asian NIEs) in utilising external economic elements to speed up their economic development also inspired the Chinese leadership that China's economic development could be greatly benefited if it were open to exchanges with other countries. "(The) economic success elsewhere in East Asia showed China that if it opened up to foreign economic relations, it could prosper".⁸ As a result, the Chinese government decided to "establish special economic zones and open

areas to open up to the outside world on a wide scale to attract foreign investment, technology and modern management".⁹

The nature of China's economy also experienced drastic changes since the reform programme was started. The most obvious difference caused by the new policies was the gradual reduction of the function that state planning played in China's economy, which had subjected the economy to tight control by the central government, and the advocacy of building a "socialist market economy with Chinese characteristics". The increased emphasis on the function of the market also had impact on China's external economic relations. This impact extended from the guiding principles to actual international economic exchanges. The origin for such changes was the recognition by the Chinese leaders that foreign trade only was not enough. What China needed was deeper and more extensive economic link with the outside world.

However, when China started off again on its so called "Long March" to modernisation back in late 1970s, Chinese leaders had different ideas about the way to modernisation. For instance, the vice premier in charge of China's economy at that time, Li Xiannian, who later became China's President until 1989, wished to repeat what Mao Zedong did at the beginning of the 1950s. Mao went to Moscow and secured from Stalin loans for 500 major projects, which were regarded as crucial in building up China's industrial foundation.¹⁰ Li Xiannian adopted a similar policy approach, that was to bring about modernisation through overhauling China's obsolete means of production with advanced equipment and technology purchased from developed countries. The foreign exchange needed for this would be obtained through exporting China's mineral resources, especially oil and coal. "In keeping with the changed world political and economic pattern at the end of 1970s, (the Chinese leaders) planned to export natural resources in exchange for western technology and capital so that, within the unified planning system, they could lay a foundation in one step for modernisation by the end of century."¹¹

Once the decision was made to rely on China's resources for foreign exchange, export of such resources, with oil and oil products in particular, grew dramatically in both volume and value terms.¹² This occurred despite significant domestic challenges to its economic rationality, and the fact that domestic oil production grew less rapidly than originally anticipated, with the search for off-shore deposits by multinational oil companies falling far short of the initial "optimistic expectations of an oil bonanza which would finance China's foreign purchases".¹³ Moreover, despite evidence that a growing shortage of energy was crippling the pace of domestic economic growth, exports of crude oil and oil products continued to absorb a very large share of these products. Between 1977 and 1985, incremental exports of crude oil absorbed 98 per cent of all additional output.¹⁴ China's exports of crude oil and refined oil products grew from 12 to 36 million metric tons and the value of petroleum export rose by almost \$6 billion. Thus a single product category accounted for one-third of China's incremental export earnings.¹⁵ And in the first half of the 1980s, primary products, which were essentially commodity exports (including agricultural products and minerals) regularly accounted from 45 to 50 per cent of China's exports. This was little changed from the period from the mid-1960s to 1980 when they accounted for just over half.¹⁶

Yet this policy was quickly reversed once Deng Xiaoping assumed the *de facto* paramount leadership in China. The argument put forward by Deng and his supporters was that, despite of the fact that China was a resource-rich country, China's endowment of natural resources could not sustain a policy of massive export of such resources. This was mainly due to two reasons. First of all, China had a population of well over 1 billion. The average per capita resource endowment was dwarfed by that enjoyed by the developing ASEAN countries, and was a far cry from that of the United States, Australia and the Middle Eastern oil-exporting countries.

The second reason was the sharp increase in demand for such resources caused by China's own programme of economic modernisation. In fact, the shortage of both basic

raw materials and energy was deemed as the major obstacle for China's economic growth. The over-heated economic growth that China achieved during the first years of the reform forced a huge reduction in the export of such natural resources, which were shifted from export to meeting domestic demands.¹⁷ The rapid growth of China's economy resulted in continuous decrease in the export of natural resources. It was after 1985 when the export pattern of relying heavily on resources began to change. Oil and a small number of other resource-based products under tight control of the central state planning and trade apparatus ceased to be significant sources of export growth. The commodity composition of China's exports began to change in ways that suggested that the composition of exports entered a period of transition. For instance, the export of fossil fuels dropped from 26% of China's total export to 11.5% between 1985 and 1987.¹⁸ By 1992, the export of oil and related products dropped to 21.51 million tons from the all time high of 36.24 million tons in 1985.¹⁹

Though the strategy to exchange advanced foreign technologies and badly needed foreign exchange with natural resources was abandoned, Deng Xiaoping and his supporters did not stop pursuing an export-oriented strategy for China's economic development. They gradually came to realise that China's huge population could be turned from a burden into an asset. The abundant cheap labour resource and China's industrial foundation could help increase the level of economic cooperation between China and both the advanced nations and the NIEs in the Asia-Pacific region. This was because, as the Chinese leadership believed, there existed a high level of complementarity between China and its Asia-Pacific neighbours.²⁰

The Chinese leadership's policy advisors and other scholars argued that, as a new industrial revolution characterised by a new round of technological revolution unfolded, developed countries would shift at least some of their productive activities, particularly labour-intensive manufacture, to developing countries. They further argued that there existed in the Asia-Pacific region such an economic relation of cross-nation transfer of manufacturing activities between not only developed and developing countries, but also

between the NIEs and countries like China and the ASEAN developing countries. This could be highly useful to China.²¹

China's cheap labour and level of industrialisation were believed by the Chinese leadership to be capable of making China an attractive destination of manufacturing activities shifted from both the developed and the NIE countries, and also turning China into a competitive exporter of labour-intensive manufactures with low technology content, in which neither the Asia-Pacific developed countries nor the NIEs enjoyed much comparative advantage any longer. To develop closer economic relations with its Asia-Pacific neighbours was therefore the natural development of the above perception of the Chinese leadership about China's economic position in the Asia-Pacific region and about the direction of China's opening to the outside world. Due to the above changes in the policy perception of Chinese leaders, the strategy to bring about economic modernisation in China shifted from simply transplanting advanced foreign means of production to China through selling resources to ever wider economic cooperation with the outside world.

Beginning in the middle of 1980s, Chinese leaders repeatedly and highly emphasised the importance to expand China's external economic relations. The then Communist Party General Secretary, Hu Yaobang, urged party and government officials to take advantage of the existing domestic and external resources as well as of the two markets, domestic and external. Hu also told these officials to learn to master two abilities, the ability to administrate the domestic economic work and the ability to administrate the external economic work.²² At the same time, Premier Zhao Ziyang also made his contribution towards the process of linking the Chinese economy with the world economy. Back in 1985, Zhao made the statement that "the only rational choice of our times is to maintain lasting peace, to develop international cooperation and promote co-prosperity."²³ Zhao further elaborated his idea of co-prosperity in his Government Work Report to the Fourth Plenary Session of the National People's Congress in 1986.

There were two reasons for Zhao's statement of co-prosperity. First of all, China was forced to accept the fact that no socialist country around the world had managed to surpass the capitalist countries in the development of productive forces. This made them realise that socialist countries should not and could not cut themselves off from the rest of the world economy, which happened to be dominated by the developed capitalist countries. "This fact made people consider and accept the necessity to develop mutually relying economic relations between countries of different social systems, in order to explore better methods to develop each others' economies."²⁴ Second, the Chinese government realised that the success of its modernisation programme would be severely delayed if China remained an isolated country, with the outside world kept at an arm's length. China needed to start urgently cultivating better economic relations with many countries in order to turn the international market into one of the key driving forces for the development of China's economy.

The significance of such statements made by top Chinese leaders lay in the fact that they not only removed political obstacles on China's way to open up to the outside world, concepts and values were also modified, and restrictions on methods of exchange with foreign countries, especially developed capitalist countries, were cut down. For instance, the purpose and value of foreign trade and foreign economic relations changed. During the thirty years between 1949 and 1979, the emphasis of foreign trade was placed on the satisfaction of the trading countries' shortage or needs, that is, China would only sell to a country what it did not have or did not have enough of. At the same time, China would only import what it did not have or did not have enough of. Such a principle not only restricted the scope of China's foreign trade but also shielded Chinese industries from foreign competition. This was gradually replaced by the principles of importing what China could not produce, or could not produce most efficiently and the realisation of better and bigger values for products exported. International trade became the means to increase the value of Chinese manufactures. "As a result, foreign trade and economic relations have been turned into methods to take full

advantage of China's abundant labour resources and to improve the positive function of the economy."²⁵

Similar changes occurred also in other aspects of China's foreign economic relations. The most significant area was the various approaches of introduction of foreign capital, technologies and management. Loans were obtained from foreign governments, International Monetary Fund (IMF) and the World Bank, and Asian Development Bank (ADB), UN, and foreign commercial banks and other financial institutions. Compensatory trade and processing industries were developed to diversify the ways that foreign capital and technologies were brought into China. The changed attitudes towards the outside world knocked down the barriers that the Chinese had put up themselves in the development of its external economic relations. The emphasis of the value and function of foreign trade and other forms of exchange with other countries increased the importance and significance of those countries which were able and willing to cooperate with China through either making investments in China or transferring technologies to China.

Clearly China received benefits from the expansion of trade and other economic exchanges with its main economic partners. Foreign trade had indeed become one of the most important forces driving forward China's economy. According to figures given in the *1991-1992 Chinese Economic White Paper* edited by Ma Hong and Sun Shangqing, external demands generated through export accounted for around 15.9% of the total social demand²⁶ of that year.²⁷ The growth in export took up an even larger share of the growth in the gross social demand. "The significant changes in the position of both import and export in the national economy indicates that the operation of our country's economy has undergone historic transformations. Our economic system is rapidly becoming an open system. External factors are playing roles of fundamental importance in the economic development... The function of foreign trade is strengthening in the balance of gross value of the economy and in the balance of the economic structure. Furthermore, it now constitutes one of the highly important variables in macro

economic decisions."²⁸ Table One illustrates the importance of export for the growth of the production of China's key industrial manufactures. It shows that those products with higher technological contents enjoys a higher export percentage.

Table One Key Industrial Products' Rate of Dependence on Export = \$ million

| Products | Export Value | Export Per Centage in Gross Production |
|---------------------|--------------|--|
| Cotton Yarn | 460 | 4.16 |
| Cotton Cloth | 1739 | 13.55 |
| Cement | 443 | 4.33 |
| Rolled Steel | 875 | 4.68 |
| Television | 560 | 24.30 |
| Coloured Television | 415 | 21.80 |
| Bicycles | 358 | 20.11 |
| Washing Machine | -- | 4.80 |
| Refrigerator | -- | 6.64 |
| Sodium Carbonate | -- | 3.51 |
| Motor Vehicle | -- | 1.63 |

Source: Ma Hong and Sun Shangqing, ed. *Jingji Baiji Shu* (Economic White Paper), Beijing, China Development Press, June 1992. Figures for washing machine and refrigerator are those of January to November 1991. The rest are for the whole year of 1991.

Changes in the Chinese government's approach to economic modernisation indicates that Chinese leaders and their policy advisors accepted the fact that the level of China's comprehensive national strength could not be rapidly raised by simply transplanting advanced foreign technology and equipment from developed countries "bartered" with China's natural resources. Only more extensive economic cooperation with other countries, particularly with those that could provide China with investments and technologies that would help increase China's export of industrial manufactures with ever higher technology content, could put China on the right track to modernisation. Such changes in the perceptions of the Chinese leadership increased the importance of those countries that fitted into this category.

4. 1. B. China's Trade Relations with Its Main Asia-Pacific Neighbours

Since China's export-oriented strategy for economic development shifted its emphasis onto export of manufactured products produced with technologies and capital introduced from other countries, two types of countries became, naturally, highly important in the development of China's external economic relations. One group were those that could transfer the much needed capital and those technologies that would be helpful in utilising China's abundant, relatively low-skilled labour force and China's own industrial capacity. The other group were those in which Chinese industrial manufactures would find a ready market, from which China would be able to obtain foreign exchange to finance further industrialisation. The following will analyse, in accordance with the above two criteria, China's motive to join the other Asia-Pacific countries in the process of building economic cooperation by looking at the development of China's economic relations with the Asia-Pacific region and the Chinese analysis of its position in the intra-regional pattern of labour division.

First of all, the importance of the Asia-Pacific region as China's trade partner and source of investment and technology transfer will be examined. Tables two, three and four compare in terms of trade percentage the importance of China's ten most important trade partners over a period of ten years. As these tables show, the Asia-Pacific region and EU were China's most important trade destinations ever since the beginning of 1980s. But it was the former that had been the most important. This is shown by both the number of key trade partners and the volume and quality of trade.

These tables also show that Asia-Pacific region's importance grew even further after China adopted a strategy based on the export of manufactures to drive its economic growth. Back in 1970s, Asia-Pacific region was already China's most important trading region. Japan was in the dominant position. The volume of China's trade with Japan alone was higher than that with the EEC.²⁹ Into the 1990s, the economic importance of the Asia-Pacific region increased steadily. In 1992 when China became the world's 11th largest trading nation, its volume of foreign trade reached \$165,600 million. China's trade with the Asia-Pacific countries accounted for over 70% of the total.³⁰ While Japan

retained its importance, China's foreign trade was no longer dominated by that with Japan. The importance of such countries as the United States, Hong Kong and the other NIEs grew further. What these tables also show is that China's trade with the western European countries remained at roughly the same level. The only difference is that different countries were among China's top ten trade partners at different times.

China' Key Exports and Their Destinations between 1981--1989

Table Two: China's Top Ten Trade Partners in 1981

| Countries | Position | Share of Total Im. & Ex. (%) | Share of Import (%) | Share of Export (%) |
|------------|----------|---------------------------------|------------------------|------------------------|
| Japan | 1 | 25.4 | 22.1 | 28.6 |
| HK & Macao | 2 | 15.8 | 25.8 | 5.8 |
| US | 3 | 14.3 | 7.0 | 21.6 |
| F. Germany | 4 | 5.0 | 3.9 | 6.2 |
| Canada | 5 | 3.1 | 0.8 | 5.4 |
| Australia | 6 | 2.3 | 1.1 | 3.4 |
| Romania | 7 | 2.0 | 1.7 | 2.3 |
| Singapore | 8 | 1.8 | 3.1 | 0.5 |
| France | 9 | 1.6 | 1.3 | 1.8 |
| G Britain | 10 | 1.5 | 1.9 | 1.1 |

Table Three: China's Top Ten Trade Partners in 1985

| Countries | Position | Share of Total Im. & Ex. (%) | Share of Import (%) | Share of Export (%) |
|--------------|----------|---------------------------------|------------------------|------------------------|
| Japan | 1 | 30.4 | 22.3 | 35.6 |
| HK & Macao | 2 | 17.2 | 26.3 | 11.4 |
| US | 3 | 10.7 | 8.6 | 12.0 |
| F. Germany | 4 | 4.5 | 2.7 | 5.7 |
| Singapore | 5 | 3.3 | 7.6 | 0.6 |
| Soviet Union | 6 | 2.8 | 3.6 | 2.3 |
| Brazil | 7 | 2.0 | 1.6 | 2.3 |
| Canada | 8 | 2.0 | 0.9 | 2.7 |
| Australia | 9 | 1.9 | 0.7 | 2.7 |
| G Britain | 10 | 1.6 | 1.3 | 1.8 |

Table Four: China's Top Ten Trade Partners in 1989

| Countries | Position | Share of Total Im. & Ex. (%) | Share of Import (%) | Share of Export (%) |
|--------------|----------|---------------------------------|------------------------|------------------------|
| HK & Macao | 1 | 30.8 | 41.7 | 21.2 |
| Japan | 2 | 16.9 | 15.9 | 17.8 |
| US | 3 | 11.0 | 8.4 | 13.3 |
| F. Germany | 4 | 4.5 | 3.1 | 5.7 |
| Soviet Union | 5 | 3.6 | 3.5 | 3.6 |
| Singapore | 6 | 2.9 | 3.2 | 2.5 |
| Italy | 7 | 2.3 | 1.4 | 3.1 |
| France | 8 | 1.7 | 1.0 | 2.4 |
| Australia | 9 | 1.7 | 0.8 | 2.5 |
| G Britain | 10 | 1.5 | 1.2 | 1.8 |

Sources: Yang Deming etc., ed. *Guoji Jingji yu Zhongguo Duiwai Jingji Guanxi 1991---1992* (International Economy and China's External Economic Relations 1991--1992)

The Asia-Pacific's importance was also growing along with the general trend of economic development in this region. In addition to such developed countries as Japan and the United States, the rest of East Asian was in fact also looked upon as important export markets by China. In Chinese terms, East Asia included both the NIEs and ASEAN developing countries, which are Indonesia, Malaysia, the Philippines and Thailand. These countries were regarded as trading partners with historical and traditional importance. "Judging from the present trend of development, the position of the four East Asian 'small tigers' in China's external economic relations are rising continuously. The importance of the four ASEAN developing countries for China's foreign trade is also on the increase. Economic cooperation between these countries and regions and China is set to grow further."³¹

What is also made clear by Tables Two, Three and Four is that it was the member countries of APEC that were China's most important trade partners, if a closer look is taken at the significance of the individual countries as China's trade partners. First, let us have a look at the NIEs. Hong Kong was traditionally the most important trade window for China. "Among the Asian Tigers, Hong Kong's position in China's

external economic and trade relations is extremely important.”³² During the first ten years of China’s opening to the outside world between 1979 and 1989, the volume of trade between China and Hong Kong grew uninterruptedly from 17,050 million Hong Kong dollars to HK\$ 343,440 million.³³ The annual rate of increase was continuously as high as 35%. By 1990, China and Hong Kong were the largest trading partners for each other. Trade between them were by and large balanced.

Hong Kong was an important trade partner not only in quantity terms. The content of trade also changed rapidly. Among China’s exports to Hong Kong, processed products, industrial products and machinery became the main exports replacing food and primary products. By 1989, the export of such products from China to Hong Kong accounted for around 80% of the total export from China to Hong Kong. Such a trade pattern between China and Hong Kong was obviously in line with China's intention to increase value-added exports, as explained earlier in this section.³⁴

Hong Kong was also an extremely important entreport for China's external trade, especially with Taiwan. This reduced the gap in trade across the Taiwan Strait. And such reduction accelerated beginning in 1979, when both sides took steps to facilitate contacts.³⁵ This pushed forward the economic and trade relations between the Mainland and Taiwan. As it is indicated by Table Five, trade volume went up by almost 50 times between 1979 and 1989 from \$70 million to \$3,483 million. The Mainland became Taiwan’s fifth largest trade partner while Taiwan was the Mainland’s sixth. In 1992, trade between Mainland China and Taiwan grew further to reach \$6,570 million. Trade between China and both South Korea and Singapore also witnessed strong growth. The volume of trade had reached \$3,000 million even before diplomatic relations were set up. The normalisation of the political relations between China and South Korea greatly aided trade between these two countries. Sino-South Korean trade reached \$5,070 million in 1992. With Singapore, China maintained a favourable balance of trade. In

1989, trade between the two countries reached \$3,200 million. China's export to Singapore was \$1,700 million while import was \$1,500 million.³⁶

The developing ASEAN countries were another significant group of trade partners for China. Beginning in the second half of the 1980s, trade between China and these countries increased by large volumes year by year. Between 1986 and 1987, trade increased by 30.3%, followed by 26.7% in 1988 and 11.5% in 1989. The three years' total trade reached \$6,450 million. China sustained an unfavourable balance of trade with the ASEAN developing countries. During the three years between 1986 and 1989, China exported \$2,910 million worth of goods to these countries and imported \$3,540 million worth of goods from them.³⁷ China found in these countries an important market for its industrial goods. Demands for China's electronic and machinery products and light industrial products had grown dramatically. China's imports from these countries were composed mainly of raw materials such as rubber, timber, plywood, coconut oil and palm oil.

Table Five: Entrepot Trade With Taiwan Through Hong Kong = \$100 m

| Year | Total | Export | Import |
|------|-------|--------|--------|
| 1979 | 0.77 | 0.56 | 0.21 |
| 1980 | 3.11 | 0.76 | 2.35 |
| 1981 | 4.59 | 0.75 | 3.84 |
| 1982 | 2.78 | 0.84 | 1.94 |
| 1983 | 2.48 | 0.90 | 1.58 |
| 1984 | 5.53 | 1.28 | 4.25 |
| 1985 | 11.01 | 1.16 | 8.11 |
| 1986 | 9.35 | 1.44 | 8.11 |
| 1987 | 15.16 | 2.89 | 12.27 |
| 1988 | 27.21 | 4.79 | 22.42 |
| 1989 | 34.84 | 5.87 | 28.87 |
| 1990 | 40.43 | 7.65 | 32.78 |

Sources: Yang Deming etc., ed. *Guoji Jingji yu Zhongguo Duiwai Jingji Guanxi 1991---1992*

Among the developed countries both in and outside the Asia-Pacific region, China found in Japan and the United States, two of the most important members of APEC, its most important trade partners. According to figures published in *China's Foreign Trade Yearbook 1992*, Japan and the United States ranked as China's second and third largest trade partners. In 1989, China's total volume of trade with Japan was \$19,660 million. Trade between China and the United States reached \$11,770 million in 1990. The volumes of China's trade with these two countries reached \$25,380 million and \$17,490 million respectively in 1992. Should the volume of indirect trade between China and these two countries through Hong Kong be taken into consideration, the respective volumes should be much bigger.³⁸

Trade between China and Japan was of great significance in China's relations with Japan. The improvement in the two countries' political relationship since 1980 greatly eased trade and other economic exchanges. It was back in 1981 when the volume of trade between the two countries exceeded \$10,000 million. In 1984, China became Japan's fourth largest trade partner, and in the following year China rose to the second place. Japan was one of the important sources for China's import. It can be seen from Table Eight that, since 1979, Japan's export to China consistently accounted for over 20% of China's import, some times even as high as over 30%.

Table Six China's Import Dependence on Japan = \$/m

| Year | China's Total Import | Import from Japan | Dependence Rate % |
|------|----------------------|-------------------|-------------------|
| 1979 | 15,675 | 3,699 | 24 |
| 1989 | 19,550 | 5,078 | 26 |
| 1981 | 19,482 | 5,095 | 26 |
| 1982 | 17,478 | 3,511 | 20 |
| 1983 | 18,530 | 4,912 | 27 |
| 1984 | 25,356 | 7,374 | 29 |
| 1985 | 34,331 | 10,830 | 32 |
| 1986 | 33,083 | 9,400 | 29 |
| 1987 | 33,399 | 7,244 | 22 |
| 1988 | 39,850 | 7,339 | 18 |
| 1989 | 39,134 | 6,516 | 17 |

Source: Yang Deming etc., ed. *Guoji Jingji yu Zhongguo Duiwai Jingji Guanxi 1991--1992*.

Similar to the pattern of trade between Japan and other developing countries, trade between China and Japan was composed by and large with export of raw materials and low value-added products from China to Japan and high value-added industrial products from Japan to China.³⁹ China exported roughly 2,000 items to Japan with 11 items' valued at over \$100 million, which included oil, oil products, marine products, garments, non-ferrous metals, cotton, cloth, coal, corn, vegetables and villus. In some years between 1988 and 1992, China enjoyed a favourable balance of trade. But this happened largely due to reduction of imports from Japan and Japanese restriction of export of certain high-tech equipment.⁴⁰

China's trade with the United States carried far more significance and importance for China than that with Japan. Though the United States was only China's third largest trade partner after Hong Kong and Japan, yet China had managed to maintain a substantially favourable balance of trade with the US for a long time. According to *China's Foreign Trade Yearbook 1992*, China came to enjoy the second largest surplus in trade with the United States after Japan in 1991. Such favourable balance of trade helped maintain and increase China's foreign currency reserve, which was considered to be of fundamental importance by the Chinese government. Trade between China and US was relatively small before the establishment of diplomatic relations between the two countries. In 1978, one year before the establishment of diplomatic relations, Sino-US trade was only \$1,000 million. The establishment of diplomatic relations in 1979 helped increase the volume of trade over two times to \$2,450 million. According to figures released by China's Customs, Sino-American trade reached \$11,770 m in 1990. But according to US Customs' statistics which took into account re-export from Hong Kong, Sino-American trade in 1990 was \$20,031 million, seven times higher than that in 1979.⁴¹

As shown by the following figures, China's share of the US market for certain labour-intensive products was also quite substantial. China supplied half of the toys and 1/4 of the cloth sold on the US market. About 14% of US garment import came from China. The content of China's export to the US had also been shifting towards high value-added products. The percentage of coloured television and machinery had been increasing. China's import from the US had been mainly agricultural products and chemical raw materials.⁴²

In addition to trade, the Asia-Pacific region was equally important for China as a significant source of technology and capital. Foreign direct investment (FDI) occupied one of the most significant places in China's export-oriented strategy for economic development. The year 1992 was also important in terms of the amount of foreign investment that China contracted in that year. Until the end of June 1992, the total contracted foreign direct investment that China had obtained during the 14 year period between 1979 and 1992 was \$169,216 million. Yet for six months until the end of June 1992 alone, the total amount of contracted foreign investment stood at \$58,100 million, out of which \$54,200 million, 93%, was invested or committed by APEC member countries.⁴³

Similar to the order of China's trade partners, Hong Kong, Japan and the United States had been the most important sources of foreign investment in China. Direct investment from Hong Kong accounted for over 60% of the total foreign investment that China had introduced by the end of the 1980s. Between 1984 and 1990, in only one year did Hong Kong's share in China's total realised FDI fall below 50 per cent, and during 1987 - 89, the figure was close to two-thirds. More remarkable still, virtually all the open economic zones shared in the pre-eminent role of Hong Kong. Second in importance was Japan. Its share of China's overall FDI intake had, however, never been as substantial as that from Hong Kong (in 1989 and 1990, it reached 11 and 13 per cent); nor had that of the United States, which ranked third, closely behind Japan. However, large amount of Japanese and US capital had come into China through

Hong Kong. And such capital was calculated as investment made by Hong Kong. Despite of this, Hong Kong was undoubtedly China's largest FDI source. Investment from Hong Kong were concentrated in labour-intensive processing industries.⁴⁴

This pattern goes for investment from Taiwan as well. Taiwan perhaps learnt the most important lesson from Hong Kong's involvement in making investments inside the Chinese mainland. Admittedly, Taiwan does not enjoy Hong Kong's benefit of a direct rail link with China. But the distance across the Taiwan Strait to Fujian, China's province directly cross from Taiwan, is hardly any longer than that between Hong Kong and Guangzhou, Guangdong provincial capital. Investment from Taiwan experienced rapid expansion since 1987, the year when the Taiwan authorities removed the restriction for Taiwan people to visit the Mainland. The year 1988 saw the amount of investment increase by over \$3,300 million. It increased again in the following year by another \$600 million, although because of strict bans on direct commercial, navigational and postal links with the Mainland, such progress had only been possible through cumbersome connections in third countries (above all, Hong Kong). Though the *Chinese Statistical Yearbook* did not contain a separate entry for investment from Taiwan, but quasi-official accounting in 1992 showed that Taiwan was the fourth largest investor in China.⁴⁵ In the 1990s, South Korea and Singapore also became significant countries making investment in China.⁴⁶

Japan and the United States were also important sources of foreign capital and technology transfer for China. As far as Japan was concerned, the most important was governmental loans lent to China. Among the 18 foreign governments which had lent loans to China, Japanese governmental loans were the most important. This was in terms of both the contracted quantity and the amount actually used. The other most important characteristic of Japanese governmental loans favourable to China was the lack of preconditions. For example, the Japanese government started lending another 100,000 million Yen loan to China in 1987. The use of this loan was left to be decided by the Chinese government. Among the 18 foreign governments that had offered loans

to China, Japan's and Kuwait's were the only governments which did not impose the condition that loans must be used to purchase goods from the lending country.⁴⁷

Compared with China's share of the US import market, American investment and technology transfer in China were much dwarfed. But they were highly important. Back in 1979, the United States made no investment in China. By 1990, American investment was involved in 1,185 projects, with a contracted value of \$4,315 million. Large number of agreements for technology transfer had been signed as well. In the ten years between 1979 and 1989, 814 contracts and agreements were signed, with a total value of \$3,250 million. Sino-US technical cooperation covered such areas as aerospace, aviation, electronics and off-shore oil exploration. Such high-tech cooperation was certainly significant in raising China's own level of technology. Sino-American co-operation in these fields was even taken by the Chinese government as evidences of China's capability to cooperate with the NIEs in high-tech fields.⁴⁸

Obviously, the Asia-Pacific countries, especially the APEC member countries, carry the most weight in China's foreign economic relations. Their importance is found in them being both China's most important trade partners and largest sources of foreign direct investment. What is more, their importance is growing. In order to secure the success of their strategy of using foreign trade and foreign investments as one of the engines pulling Chinese economic growth, the Chinese government will certainly continue to attach great importance to China's economic relations with these countries. Therefore, any form of trade and economic cooperation and integration in this region will be taken seriously in China, as it can have serious implications for China.

4. 1. C. A Favourable Pattern of Division of Labour

It is certainly true that, as markets and sources of investment and technology, China's Asia-Pacific neighbours figured prominently in its foreign economic relations. But It seems that the Chinese government's intention to expand China economic relations with these countries did not stop at trade with and the introduction of

investments and technology from them. What the Chinese government wanted was close link of China's economy with that of the Asia-Pacific region, and through this region with that of the rest of the world.⁴⁹ They believed the pattern of the emerging intra-regional division of labour in this region was favourable to their intention. The Chinese analysis of China's position in the pattern of division of labour in the Asia-Pacific region was even more revealing as far as China's economic motive for participating in the APEC process is concerned.

Chinese economists argued and convinced the Chinese leadership that China's opening to the outside world should not be limited to increased foreign trade and foreign investment. China should turn its economy into a harmonious part of the world economy. The so-called "Coastal Development Strategy" was the most important part of the programme adopted under Zhao Ziyang's premiership to strengthen China's economy with those of the Asia-Pacific region.⁵⁰ The idea of this programme was to gradually tie China's economy with that of the Asia-Pacific region so that the Chinese economy would not only be a part of the world economy but also benefit from the opportunities offered by the rest of the world. The way to achieve this was to let China become a part of the production process supported by trans-national investment and shift of productive activities. Chinese economists argued that the Asia-Pacific region offered the best chance to do so.⁵¹

The reason that the Chinese government adopted this approach to develop China's economy was that they were convinced by the Chinese economists that, in the Asia-Pacific region, countries were at different stages of development. Such differences had given rise to different advantages that these countries enjoyed in certain manufactures. And their different advantages helped these countries settle into a pattern of intra-regional division of labour, into which, the Chinese believed, China could easily fit. The Chinese analysis of the existing pattern of regional division of labour was quite similar to that made by other analysts in this region.⁵² According to their analysis which was based on the stages of development and the export content of the Asia-Pacific

countries, at the top of this strata were the United States and Japan, who, back in the 1980s, had entered the stage in which economic development was led by the satisfaction of their domestic markets. Their industrial composition was mainly featured by their high value-added and technology- and capital-intensive manufactures such as electronic products, machinery and services. Their exports were made up mainly with both finished high-tech products, technology and capital. Their importance was also found in their ability to absorb exports from developing countries, while transferring capital and technology and capital goods to these countries, including China.

The second tier economies were the NIEs, namely the four small East Asian Tigers. These were export-oriented economies. Their industrial composition included mainly labour- and capital-intensive industries. But they already started shifting towards technology- and capital-intensive industries. They were also becoming sources of investments.⁵³ The Asia-Pacific developing countries, with the ASEAN developing countries in particular, formed another tier. Their economies were in the transitional period to become export-oriented. Their comparative advantages were found in their resources and the supply of relatively cheap labour. China regarded itself as a third tier country between the NIEs and the ASEAN developing countries. "Its level of development is slightly lower than the NIEs but higher than the ASEAN and other developing countries in this region."⁵⁴ Tables Seven and Eight illustrate the levels of comparative advantage of these countries as perceived by Chinese analysts.

Table Seven: Asia-Pacific Countries' Comparative Advantages: Country-wise

| | Market | Resources | Capital | Capital Goods | Technology | Labour |
|-------|--------|-----------|---------|---------------|------------|--------|
| US | 4 | 3 | 4 | 3 | 4 | 1 |
| Japan | 3 | 1 | 4 | 4 | 4 | 1 |
| NIEs | 2 | 1 | 1 | 2 | 2 | 2 |
| ASEAN | 2 | 3 | 1 | 1 | 1 | 3 |
| China | 2 | 2 | 1 | 1 | 1 | 4 |

Such a pattern of division of labour was, as perceived by Chinese leaders and their policy advisers, favourable for China. It made China's opening to the outside world easier.⁵⁵ They argued that China was in a strong position to conduct co-operation with practically all of the Asia-Pacific countries. This was because China had the kind of labour resources and level of technology that these countries would find attractive. China could be the labour-intensive production base for the developed countries, whose level of development would force them to turn their attention to countries like China for cheap labour. The NIEs who had started shifting towards a higher technological level would find in China the kind technologies that were useful for them. Even the ASEAN countries were not seen as eternal competitors.⁵⁶

Table Eight: Asia-Pacific Countries' Comparative Advantages: Industry-wise

| | agriculture | Resource | Textile | Intermediate Goods (Iron & Steel, etc.) | | Machine | Electronics | Services |
|-------|-------------|----------|---------|--|---|---------|-------------|----------|
| US | 4 | 4 | 1 | 4 | 1 | 3 | 4 | 4 |
| Japan | 1 | 1 | 1 | 1 | 4 | 4 | 4 | 3 |
| NIEs | 1 | 1 | 3 | 2 | 2 | 2 | 2 | 2 |
| ASEAN | 2 | 3 | 4 | 2 | 1 | 1 | 1 | 1 |
| China | 2 | 3 | 4 | 1 | 1 | 2 | 1 | 1 |

Note: Degree of importance: 1 to 4 upwards, that is if the importance of a country's market is 4, then this country's comparative advantage lies in it being an important export market for developing countries. China's importance lies in its inexhaustible source of labour.

Source: Fang Sheng, ed. *Zouxiang Kaifang de Zhongguo Jingji--Lilun, Moshi, Luxian* (An Opening Chinese Economy---Theory, Model and Line)

This is because they saw the comparative advantages of the Asia-Pacific countries as dynamic, they were all moving in the direction of higher level of comparative advantages. "In the process of development of the international economy, a structure of international division of labour with clearly delineated levels and strong compatibility has gradually emerged among the countries and regions of the Asia-Pacific region. There also is a situation in which nations in this region are transferring some of their industries to other countries."⁵⁷ "Such a pattern of division of labour with different tiers generates its inherent dynamics. Such dynamics will continuously raise the level of

industrialisation of the countries which take part in this division. This will help push forward the economic development in this region and sustain the strong momentum long into the future.”⁵⁸

Chinese analysts believed that the strategy to turn at least China's coastal areas into a huge processing plant was highly compatible with the dynamic trend of industrial development in the Asia-Pacific region. This is because they saw that the industrial composition in China's Asia-Pacific neighbours, especially in the NIEs, had started and would continue to upgrade beyond the end of this century.⁵⁹ In time, a new pattern of division of labour would emerge.⁶⁰ By the year 2000, Chinese analysts argued, Japan and the United States would remain as the main exporters of technology- and capital-intensive manufactures. But over the whole decade of the 1990s, Japan would reduce substantially the export of labour-intensive products with low technology content. The US would continue to open its market to labour-intensive products with high technological contents. Such a trend would benefit China's need for technologies and investment. In the meantime, the NIEs, especially South Korea and Taiwan, would move further in the direction of technology and capital-intensive manufactures while phasing out their labour-intensive manufactures.⁶¹

As a result, Chinese analysts held that trade in technology- and capital-intensive manufactures among Japan, US, South Korea and Taiwan would see rapid expansion in the 90s. They predicted that the United States would maintain its advantageous position as an exporter of natural resources and technology-intensive manufactures. Japan would become a major economic power focused on manufacturing technology- and capital-intensive products. South Korea would become an important exporter of heavy and chemical industrial products. Taiwan would keep its emphasis on the development of both machinery and transport equipment as well as textile and light industries. Hong Kong and Singapore would continue to develop their traditional light and electronic industries.⁶²

As for China, the overall trend of its export throughout the decade of 1990s was to rely heavily on its low-technology, labour-intensive industries, while speeding up the expansion of the export of labour-intensive manufactures with higher technological contents. Following the direction of change in the pattern of world trade, the Chinese economists argued, the market of primary products would go down further as the market of finished industrial products would go up. Among such manufactures, the export of miscellaneous products, such as garments, shoes, special instruments, clocks, etc., and basic manufactures, such as yarns, textile products, rubber products and paper, steel and other non ferrous metals would continue to grow. As its competitiveness in these manufactures rose on the international market, China would export more of both miscellaneous and basic industrial products to the Asian NIEs and more basic industrial products to Japan.⁶³

Yet China needed to introduce more investment and technologies to expand its capability as a main exporter of such products. The Chinese believed that their needs for investment and technologies could be satisfied by developing stronger economic relations with the Asia-Pacific countries.⁶⁴ This is largely because they believed that the inefficient industries in both the developed and NIE countries were in fact anxiously looking for cheaper labour to maintain their competitive edge. The NIEs, who were considered to be the most anxious to downgrade their old industries, were situated strategically along China's coast-lines. They were thought to be considering China as the natural destination for the shift of their investments in labour-intensive industries.

For instance, the South Korean government's plan to develop the western part of South Korea attracted the attention of Chinese academics and government officials. They held that this plan had two main purposes. One was to develop South Korea's western region, which were neglected as a result of strategic considerations of the Cold War Era. The other was South Korea's intention to take advantage of China's Strategy of Coastal Development. Chinese academics claimed that "major South Korean corporations' eyes are on China's coastal economic areas while committing themselves

to the development of the western coastal regions of South Korea. They have all made strategic arrangements to get into the Chinese market".⁶⁵

Chinese academics also indicated that they believed South Korea's technologies were compatible with China's level of development. South Korea was also ready to phase out a lot of its existing technologies to other countries to make room for its own technological upgrading. The technologies that Chinese academics regarded as useful for China included those for garment processing, shoe making, toy making, leather processing and other light industrial technologies. They argued that China should adopt such a foreign economic policy towards South Korea to allow it to focus on the introduction of these South Korean technologies.⁶⁶

As Chinese discussions showed, Taiwan was also considered as a source of investments and transfer of suitable manufacturing activities for Mainland China. Although Taiwanese investments started only a few years ago and tend to be different from investments by other countries,⁶⁷ Taiwanese investments played a significant role in promoting China's export. "As most Taiwanese firms in the PRC have very high export ratios, they play an important part in boosting PRC export."⁶⁸ As a result of such investments from Taiwan, China had even become a main rival for Taiwan in international trade. For example, in 1991, Taiwan's market share in the United States rose by only 0.1 per cent from 1990's 4.6 per cent. Mainland China, on the other hand, closed the gap by increasing its share markedly from 3.1 to 4.0 per cent. In 1992, China's overall export rose to an all time high of \$165,600 million, outstripping Taiwan's \$153,480 million.⁶⁹

Looking ahead, Chinese economists maintained that political détente between Taiwan and the Chinese mainland was likely to be reflected soon in the establishment of more convenient links. This would pave the way for further massive transfer of Taiwanese capital and production activities, on a scale similar to the expansion of Hong Kong manufacturing investment in China during the 1980s.⁷⁰ Obviously, China's high

speed of growth in foreign trade could not be attributed to investment from Taiwan alone or any other single country, yet it does underline the significance that foreign investments, which looked for and found cheap labour in China, had for China's economic development.

The above has shown that it is the Chinese government's decision to follow an export-oriented development strategy, the only viable strategy allowed by China's economic reality, that had focused China's attention on the Asia-Pacific region. The most important reason was that the countries of this region were found to be the most appropriate cooperation partners for China. Since China had to utilise its huge labour resources to support its export-oriented strategy, it must look for and secure the necessary capital and technologies to allow it to take advantage of its labour resources. China also needed to find the market for its exports. This determined that China must develop close and functional relations with those countries that were able and happy to meet these requirements. The Asia-Pacific countries, particularly the members of APEC, were found to be such countries, and therefore its most important partners in pursuing the export-oriented development strategy. China therefore had every economic reason to hope to stabilise and strengthen its economic relations with the Asia-Pacific countries through joining APEC.

4. 2. APEC and A Peaceful International Environment

As Michael Yahuda has argued, the Chinese leadership have always been after a peaceful international environment, which will allow China to concentrate on internal economic construction.⁷¹ Hostile international environment was partly blamed for China's backwardness.⁷² Since the beginning of 1980s, the pragmatic Chinese leadership headed by Deng Xiaoping began to re-evaluate China's international environment. Such re-evaluation led to such a conclusion with regard to China's security situation, that is, China was no longer confronted with any direct military threat to its security from the outside world. Nevertheless, substantially reduced military threat

from other countries did not mean that the Chinese leadership believed that China had nothing to worry about its international environment. The international sanctions following the Tian An Men incident convinced them that much was to be done to consolidate China's improved international environment. To be part of the Asia-Pacific economic cooperation process was part of that effort.

4. 2. A. Better International Environment

The second-generation Chinese leadership centred on Deng Xiaoping believed that, after forty-odd years, China's international environment improved substantially. This judgement was based on two analysis. The first was that on the issue of war and peace. The second was on China's relations with its neighbours, particularly since the 1980s. The issue of war and peace had always occupied an important place in China's foreign policy thinking. Ever since the founding of the PRC, Mao and other Chinese leaders maintained that the next world war was inevitable, following Lenin's theory that imperialism meant war. The escalating arms race between the two super powers since the late 1960s further strengthened this belief of the Chinese leadership of the Mao era. The then Chinese leadership's analysis was focused on the relationship between the United States and the Soviet Union. They believed that rivalry was the essence of this relationship. Such rivalry would sooner or later lead to war. They believed that war would come sooner rather than later. In the middle of 1970s, Chinese leaders insisted that the Soviet Union was more likely to start the next world war, because it was on the offensive while the United States was on the defensive.⁷³ Prior to the third plenary session of 11th Party Congress held in winter 1979, all important foreign policy statements by the party and the government emphatically pointed out that the danger of a new world war continued to exist and the Chinese people should always maintain their vigilance and be prepared for war.⁷⁴

Influenced by such a perception, plus the hostile international environment between 50s and 70s, the PRC adopted self-reliance as the guiding principle for development.

The government's attention and resources were concentrated on developing powerful national defence. What was more, there were also forces in the leadership who were opposed to developing strong economic and trade relations with the capitalist countries. When China first opened to the outside world in the early 1980s, opposition against the new policies from the conservatives remained strong. A series of questions were raised about the plausibility of mixing China's economy with those of the capitalist, and even worse, the imperialist countries.⁷⁵

The pragmatic policies initiated by Deng Xiaoping focused China's attention on internal development. Economic construction was regarded as the most important aspect of such development. In his speech at the opening session of the 12th Party Congress, Deng Xiaoping declared that the decade of 1980s would be an important one in the history of the Chinese Communist Party and the Chinese nation. During this decade, "(E)conomic construction is at the core of ... tasks; it is the basis for the solution of our external and internal problems."⁷⁶ Yet Deng and other Chinese leaders argued that it was not possible to accomplish rapid economic development if China were to continue to shut its door to the outside world.

When the policy of opening to outside world began to be implemented, Deng and his supporters were not sure if the international conditions were appropriate for such a policy. Since the policy meant to open China's door to a world market dominated by the capitalist countries,⁷⁷ they were concerned whether this would harm China's prospect to achieve rapid economic development. What they were most worried about was whether China would be involved in another world war between the super powers.⁷⁸

Assessment was carried out about the prospect of a new world war. The conclusion was that war was possible, but only remotely possible. For instance, Deng himself argued that the possibility for the outbreak of another world war had receded. He wrote in December 1977, "International situation is good. We are likely to be able to win more time before the next (world) war starts". Again in March 1980, Deng said, "A calm

observation of the international situation tells us that it is possible for the next (world) war to be put off for longer"⁷⁹ Deng also said, "Over many years, we stressed the danger of wars. But our stand on this issue is now somewhat modified", "It now seems that the Third World War will not start in the near future. Although the danger of another world war still exists, a long period of peace can be obtained".⁸⁰ Certainly Deng made these statements to support his idea of opening to the outside world. But they indicated that the assessment of China's international environment changed.

With the confirmation of Deng's view on the dim prospect of another world war, the Chinese gave up their traditional conception of the international situation and started to evaluate from a new angle the contemporary world and the general structure of relations between the east and the west, particularly the correlation of forces between the super powers, and between the super powers and the other countries. Their views changed. The old perception was that the imperialists' armament race would eventually lead to a war that would engulf the whole world. Their weaponry was also powerful enough to bring disasters to the people around the world.⁸¹ But the new perception tended to highlight the restrictiveness of the super powers' military might. The conclusion drawn from the reassessment was that the two super powers would remain locked in fierce arms race. War would not break out in the near future since neither could defeat its opponent and assume a dominant position.⁸²

After the well-known Third Plenary Session of the 11th Party Congress and following the adoption of the new perspectives in evaluating the state of the world situation, the Chinese leadership went on to modify their stand on the issue of war and peace. They changed to stress more and more the continuous growth of the forces of peace around the world. As Deng Xiaoping said in one of his rare interviews with foreign journalists, the growth of the forces of peace throughout the world and the weakening of the two super powers had greatly reduced the danger of another world war. Though it was impossible to rule out completely another world war, the present situation was more favourable for peace.⁸³ As the process of opening to the outside

world progressed, the emphasis was further shifted to the possibility to avoid another world war. This was proved by what Foreign Minister Qian Qichen said in an interview with *Liaowang* [Outlook Weekly] in 1988, "after the third plenary session of the 11th Party Central Committee, China's view of war and peace was changed according to analysis of the actual state of the international situation. A world war can be prevented, a long-standing peaceful international environment can be attained."⁸⁴

The further modification of their views on the issue of war and peace was based on the following premise. Though the super powers were the only two countries around the world to have the capacity to wage a world war, they would not do so. This argument was first of all built on the conclusion that nuclear power could no longer guarantee either side the ultimate victory in a world war. Instead, nuclear weaponry constituted a restraint on the super powers. This is because, despite of the fact that they both had the capacity to destroy each other dozens of times, should a world war be started, it would definitely escalate to a nuclear war, which would destroy both them. This was why, according to the explanations of Deng Xiaoping and other Chinese leaders, war did not break out between the super powers for over forty years.⁸⁵

Another explanation given by the Chinese leaders about the avoidability of a new world war was that the world had become more multipolarised and interdependent. Other powers, like Western Europe, Japan and China, were playing increasingly crucial roles in the contemporary international affairs.⁸⁶ Multipolarisation and interdependence had forced all countries, including the super powers themselves, to adjust their policies. The capitalist countries did not necessarily want to start a world war to attain their aims, because the destructiveness of world wars, especially nuclear wars, would deprive the original meaning of war, which was, the Chinese believed, to extend the economic interests of the warring countries. "Hegemonist countries wish to use force to develop their economy and expand their sphere of influence. Should military actions bring about burdens too heavy for their economies to bear or damages too severe for both parties to a war, then they would have second thoughts about world wars."⁸⁷

Yet Deng Xiaoping and his followers never ruled out completely the likelihood of another world war. Their argument continued to be that forces for world peace had increased substantially, and peace could be preserved for much longer, but the eradication of the possibility of another world war had to wait until the third world countries became strong enough to balance off the influences of the super powers. "The further increase of the forces for world peace has made it possible to avoid the outbreak of another world war for a long time, and it is likely that world peace can be protected." "World Wars can be prevented if the forces for peace and the third world countries grow much stronger."⁸⁸ Deng Xiaoping also stressed the point that the purpose to concentrate all resources on China's economic development was to modernise more speedily China's defence system.⁸⁹ It can be seen that Deng Xiaoping and other Chinese leaders maintained that the likelihood of another world war was much reduced, yet their view remained that it was impossible to avoid totally another world war.

As far as China's economic development was concerned, this new view point on the likelihood of a new world war had two meanings. Since the next world war could be postponed as a result of the growth of the forces for peace, China did not have to maintain its vigilance by keeping a large army, neither did it have to make sure that its economic achievements would not be wasted in such a war. Instead, it had a much more stable and favourable international environment to devote more attention and resources to economic development. This was the first meaning. The second meaning was that the possibility to avoid another world war for a long time meant a break for China. It must take this opportunity to develop its economy much faster in order to be ready for the next war, since it was not ultimately avoidable. History convinced the Chinese leadership that it was China's backward and weak economy that had made it the target of attack by foreign countries. The only way to prevent such attacks was to rapidly raise the level of China's comprehensive national strength. Therefore, China must, and could, seize this favourable opportunity offered by history to speed up its economic development.⁹⁰

4. 2. B. More Room to Manoeuvre between the Super Powers

The second element, which made the Chinese leadership feel that China's international environment had improved enough to allow it to join the APEC process, was China's increased ability to manoeuvre between the super powers. As history shows, China was never able to maintain working relations with both the Soviet Union and the United States at the same time. This was said to have made China always over dependent on either one of them, and restricted China's ability to enjoy more initiatives vis-a-vis either of them.⁹¹ In order to avoid the situation in which China had to deal with both super powers from disadvantageous positions, China tried to extricate itself from the super power rivalry, and assume a more independent position from which she could reduce pressure from them.⁹²

In his political report to the 12th Party Congress, Hu Yaobang, the then General Secretary of the Chinese Communist Party, introduced for first time the concept of an independent foreign policy. "In the 33 years since the founding of our People's Republic, we have shown the world by actions that China never attaches itself to any big powers or group of powers, and never yields to pressure from any big power."⁹³ Deng Xiaoping also discussed the meaning of this policy in his opening speech at the 12th Party Congress: "Independence and self-reliance have always been and will always be our basic stand... No foreign countries can expect China to be its vassal, nor can it expect China to accept anything harmful to China's interests."⁹⁴ The basic characteristics of such a policy were: (1) not to rely on any big power or any group of big powers; never succumb to pressures from any big powers, neither to form alliance with any of them; (2) independently form China's policies in accordance with the Chinese government's perception of the state of the international affairs.⁹⁵

Zhao Ziyang further elaborated the meaning of the independent foreign policy in his Report on Government Work to the 2nd Plenary of the 6th National People's Congress in 1984.

We adhere to certain principles in managing our relations with both the United States and the Soviet Union. Neither should we ignore the improvement of our relations with them because we are opposed to their hegemonism, nor should we give up our anti-hegemonist stand just because we want to better our relations with them, nor harm the interests of one of them simply because we want to develop our relations with the other.⁹⁶

Hu Yaobang clearly pointed out the intention of this policy in one of his speeches.

He said:

So far as we ourselves are concerned, there are two disadvantages in developing a relation of alliance with the super powers: first, China wishes to develop relations and friendly exchanges with all countries of the world. To enter into alliance with the super powers would hinder, or at least affect, our effort to make more friends; second, such a relation will prevent us to sanction their transgressions.⁹⁷

This development in China's foreign policy made it possible for China to normalise its relations with the Soviet Union. After almost a decade's effort, China and the Soviet Union finally normalised their relations with the symbolic meeting between Deng and Gorbachev in Beijing in May 1989. The normalisation of Sino-Soviet relations did not occur at the expenses of Sino-US relations. In fact, one of the reasons that Sino-US relations were not fundamentally disrupted after the Tian An Men incident was that the US did not want to push China to the Soviet Union.⁹⁸

As a result, China could for the first time enjoy stable relations with both super powers. This was obviously the best situation that China could wished for. Though China's leaning to either the Soviet Union or the United States was the outcome of perceived threat from one or the other. Yet leaning to one side did not change the fact of being under threat. The independent foreign policy enabled China to be less threatened since both super powers would be reluctant to push China to the other side. This certainly increased China's ability to pursue a foreign policy with more initiative. Such changes in China's position in the international affairs enabled it to be more relaxed in

developing relations with both individual countries and international organisations. This is because the Chinese government did not have to worry about being seen as over-leaning to either of the super powers, and face more threat from the other.⁹⁹

4. 2. C. The Best Ever International Conditions

If Beijing felt that its international environment in the 1980s was much less hostile and dangerous due to the remoteness of another world war and its enhanced ability to deal with the super powers, then the collapse of the Soviet Union and the end of the Cold War offered China, in the minds of Chinese leaders, "the best ever international environment since the founding of PRC." The collapse of the Soviet Union was not perceived as a threat by the Chinese leadership. Rather, it was taken as favourable for China's drive for modernisation because it allowed China to open up further to take advantage of the external opportunities for China's economic development. "For the first time since over one hundred years ago, our country has entered into a situation in which military confrontations with the United States, Russia and Japan have been avoided. Relations with neighbouring countries are also at their best through out modern history. This enables us to focus on reform and opening to the outside world and modernisation construction. This is a good opportunity in a thousand years".¹⁰⁰

Such enthusiasm was based on analysis of the pattern of international relations emerging in the post-Cold War era. Chinese foreign policy makers believed that, in the aftermath of the Cold War, a period of adjustment and realignment in the international relations would follow.¹⁰¹ Forces would split and regroup, and new contradictions would be interwoven with the old, leaving the world still far from stable. Meanwhile, international economic competition, which would happen mainly among the capitalist countries, would get ever more fierce, replacing arms race as the main form of rivalry among the major powers. Contradiction between North and South would also become more pronounced. Though the world would remain to be a troubled one, yet the Chinese leadership were more confident about China's security environment than they

were at any time since the founding of PRC. This was especially true, according to Chinese leaders, when they looked at China's relations with its neighbours and China's geopolitical position.

From the strategic point of view, the end of the Cold War removed the most immediate military threat to China. Since the disappearance of the Soviet Union at the beginning of 1990s, the likelihood of a military conflict between China and its northern neighbour dramatically reduced and set the stage for improvements in Sino-Russian relations. As a result, China did not face any plausible external military threat to its heartland for the first time in its over 40 year history. In the meantime, the United States was also scaling down its regional military presence, and the super-power military confrontation in the Asia-Pacific region was ended. The only possible exception was the unresolved competition in strategic nuclear weapons. Yet it did not constitute any immediate threat.¹⁰²

The situation around China was also seen to be more peaceful since relations with Vietnam normalised and the possibility of conflict on the Korean Peninsular remained low. China's relations with the ASEAN countries also made giant steps forward. Singapore set up diplomatic relations with China after holding up for nearly twenty years following the resumption of diplomatic relations between China and Indonesia. Even Japan was not considered an immediate threat since Chinese policy makers believed that Japan was not yet ready to renounce the well-known Yoshida doctrine emphasising economic development rather than military build-up. Even Japanese remilitarisation was considered just one possibility, not an inevitable development.¹⁰³ China's international environment was substantially improved to allow it to pursue economic modernisation.¹⁰⁴

One other development following the collapse of the Soviet Union, which was for some time deemed as negative by Chinese leaders, was the uncertain situations in the former Soviet Republics in Central Asia. Though immediate military threat to China's

security from its northern neighbour was eliminated, concerns persisted in Beijing about developments in the Commonwealth of Independent States (CIS). Beijing feared that there would be escalating fighting between and within the Central Asian states that could spill over into western China. Ultra-nationalism might also affect the Muslim dominated Xinjiang-Uighur Autonomous Region, neighbouring the newly independent Central Asian countries.

The relations between these former Soviet republics and other Central Asia Muslim states was another area of concern for the Chinese government. They were particularly worried about a possible bloc of Islamic nations united by Islamic fundamentalism and armed with nuclear weapons. Chinese specialists on Central Asia warned that the geographical area occupied by the former Soviet republics in central Asia was the most uncertain and potentially unstable region in the world.¹⁰⁵ However, this fear abated once China established diplomatic relations with the Central Asian states.¹⁰⁶

Further afield, the United States was no longer viewed as a direct threat either. Some people pointed to the United States as the main threat, but more disagreed saying that, although the US. would like to see China peacefully evolve into a capitalist country and that time and again it showed some tendency to intervene in China's internal affairs, the US. was too preoccupied with the issues in other parts of the world to have the capacity or the intention to invade China or subvert its current government. Moreover, they even argued that the United States was reluctant to see internal turmoil develop in China, which would definitely disturb the peace and stability of the Asian-Pacific region and harm the interests of the United States and all of China's neighbouring countries.¹⁰⁷

One interesting question, discussed by many Chinese specialists in recent years, was where the main threat to China would come from in the post-Cold War era. Their research convinced them that none of the former sources of threats, including Russia, the United States and Japan would pose any immediate threat to China, especially

China's security. Some researchers put forth a new idea, that is, in the post-Cold War era, the main threat was not necessarily from a particular country or military invasion. They suggested that the main threat to China at present might come from multi-level economic and scientific challenges.¹⁰⁸

Many Chinese specialists believed that the world's technological revolution would reach new heights by the end of this century or early in the next, resulting in many breakthroughs in science and technology and promoting the world economy to higher levels. Every country must meet the challenge in order to raise its status in the twenty-first century; if China could not meet the challenge by catching up with the new developments, it would be in an awkward and very difficult situation, because not only the gap with developed countries would widen, even those countries on the same economic level would surpass China.

In the meantime, though the Chinese viewed Russia as preoccupied with its own problems and unable to expand abroad, they did not rule out the eventual economic reinvigoration of the former Soviet Union, which, they contended, could pose a threat to Chinese security in several ways.¹⁰⁹ First, greater economic might could underwrite efforts to realise expansionist political and even military ambitions fuelled by a desire to restore Russia's status as a global superpower in the next century. Second, if economic production increased and living standards rose in Russia and the other former Soviet republics, people in China could demand to take a similar path, placing in jeopardy the survival of the Chinese Communist regime. Third, an economically rejuvenated Russia could become a fierce economic competitor in the long run, vying with Beijing for markets and foreign investment. Some Chinese also pointed to the prospect of the revival of Russia's "traditional great-nation-chauvinism" in the next century.¹¹⁰

Chinese leaders, officials and intellectuals shared the view that, as long as China remained economically and technologically backward, it could not fully assume the role of a major world power that it sought to play. Building a powerful, modern economy

was viewed as essential to enhance China's "comprehensive national power" and thus bolster its global and regional standing. Consequently, Beijing's foremost security objective for the foreseeable future would be to create and sustain an international environment conducive to the successful execution of China's economic reforms. This was because increased "comprehensive national strength" was taken as the basis for both the maintenance of China's long-term security and the survival of the socialist system.¹¹¹

Since China's chief foreign policy concern changed from security to rapid economic development, the kind of international environment required also changed to one that was "peaceful" and favourable to economic development. Chinese leaders and academics hoped that this new environment would assist the expansion of foreign trade, and also make it possible for China to adopt a development strategy that would enable it to benefit from a world economy that was entering a new era of technological revolution. Three elements became more important than others in China new international environment: good economic relations with its main trade partners, stable and secured access to overseas markets and a growing source of foreign investment and technology transfer. All of these could be adversely affected by regional economic cooperation schemes.

As it was shown in the previous chapter, both Chinese leaders and academics believed that some kind of a regional structure was going to become the dominant feature in the intra-regional economic and trade relations of the Asia-Pacific region. No matter what type of structure the Asia-Pacific countries would embrace, it would certainly carry unwelcome implications for those countries that were not included as members. As for China, a situation like that would amount to an unfavourable international environment. One of the purposes to construct regional economic cooperation was to improve communication between the Asia-Pacific countries through better information exchanges. Should China be left in the dark, it certainly find itself in a unfavourable position.

On the other hand, by being part of this process, China not only could have more information about its most important trade partners, but also make its opinions and ideas concerning co-operation known, thereby, influencing the process. This was just what China had in mind since it joined APEC. In his speech at the 3rd APEC Ministerial Meeting, Foreign Minister Qian Qichen said that Asia-Pacific economic cooperation should be informal and open-ended.¹¹² Though Qian's words echoed the principles laid down, they carried practical meanings for China. As a developing country, China was obviously not in the position to enter into any form of discriminative structure, as its economic system, level of development and market capacity would not allow it to exchange with its partners the kind of privileges that are involved in a restrictive arrangement. By making its views known, China could at least try to make the co-operation process favourable to it.

An even worse scenario that could be avoided by participating in this process was international isolation. The international sanction imposed on China after the Tian An Men incident in 1989 brought a great deal of pressure on China. This was certainly unfavourable for its efforts to deepen the economic and trade relations with the outside world, particularly the developed countries. To take part in something like APEC could help China avoid being totally cut off from its most important economic partners. This is not to say that China believed that it could escape from such sanctions once it became a member of an international organisation. The importance of APEC was that it allowed Chinese leaders to have direct contacts with foreign leaders, who could not or would not have contacts with Chinese leaders otherwise.

This was fully illustrated by the way that the Chinese government treated the meeting between Chinese President Jiang Zemin and US President Bill Clinton. Despite the fact that this meeting took place as part of a multi-lateral function, the official Chinese press sounded as if it was a bilateral event. Foreign Minister Qian Qichen was also quite explicit about the bilateral meaning of this meeting: "The meeting itself carried a great deal of importance".¹¹³ The meeting did lead to normalisation and expansion of

Sino-US contacts and exchanges. Another illustration was the establishment of diplomatic relations between China and South Korea, which was assisted by direct contacts between senior officials of the two countries at APEC meetings.¹¹⁴

As it has been shown above that China believed that its trade and economic relations with the Asia-Pacific countries were significant elements in the long-lasting favourable international environment that it had been pursuing. What was regarded as highly important during the Cold War era, such as the delay of another world war and the ability to manoeuvre between the super power, were no longer relevant so far as China's international environment was concerned. Instead, international conditions that would help speed up China's economic development became the top priority on the government's foreign policy agenda. In a speech made during his last visit to Southern China in early 1992, Deng Xiaoping urged Chinese officials to use the favourable international situation to step up economic development in order to increase China's comprehensive national strength.¹¹⁵ In his keynote speech at the informal APEC Summit in Seattle in November 1993, Chinese President Jiang Zemin declared that "China is first and foremost open towards the Asia-Pacific region".¹¹⁶ This is because the region carries huge importance for China's externally oriented development strategy. China's decision to join APEC was therefore to ensure that it continued to enjoy a favourable international environment in a dramatically changed post-Cold War world.

4. 3. APEC and China's Reunification

As it was argued in the previous sections, the PRC's involvement in the process to bring about economic cooperation was its natural foreign policy choice as a result of its pursuit of faster economic growth. However, what makes things equally interesting for students of Chinese foreign policy is also the PRC's acceptance of Taiwan's APEC membership.¹¹⁷ It is a widely known position of the Chinese government that Taiwan is an inalienable part of China, and that all countries or inter-governmental organisations, who recognise the People's Republic of China (PRC) as China's

legitimate government, must cut off any official relations with Taiwan. The Chinese government has always been steadfast on this point.¹¹⁸

Why, then, did the Chinese government choose to ignore the implication of the fact that Taiwan for the first time in twenty years gained the membership of an inter-governmental organisation along side the PRC? Did the fact the Taiwan and the PRC join this organisation at the same time mean that China changed its mind about Taiwan? This section will prove that it was the intention of the Chinese government to set up close economic relations with the APEC countries while preventing Taiwan from gaining international recognition that had prompted China to sit down with its old enemy at the meeting table of APEC. It is a measure of active prevention of the Chinese government to put up with Taiwan's diplomatic gains while maintaining a generally favourable international environment.

4. 3. A. Taiwan's Campaign for International Recognition

The central issue in contention between the government in Mainland China and the government on Taiwan since 1949, when the Guo Min Dang (Nationalists) regime was driven to Taiwan, has been over sovereignty and international recognition, namely, which regime represented China, and consequently, should be accorded the appropriate legitimate and official diplomatic status. The PRC since 1949 steadfastly maintained that it was the legal government of China, that "there is only one China," and that Taiwan was part of China. For the Republic of China (ROC), a similar line was also followed in its diplomatic activities. They insisted that the ROC was the sole legitimate government of China and would cut off official relations with those countries that recognised the Mainland. The Taiwan authority kept that line even after most of the countries shifted their diplomatic recognition to the PRC since 1970. This led to Taiwan's isolation in the international community.

However, the question evolved in recent years to become one of Taiwan's survival separate international political entity. Though Taiwan was recognised as an

important economic force internationally, the rapid development of China's economy and its potential economic power compelled Taiwan to take active actions to avoid total international oblivion. Split between its desire to break out of isolation and a commitment to China's reunification, Taipei pursued "substantive" relations with other nations rather than inflexibly insisted on official diplomatic ties. As far as multilateral organisations were concerned, Taiwan pursued "dual recognition", that Taiwan and the Mainland were both represented formally and officially in these organisations.¹¹⁹

Taiwan was engaged in a battle to maintain its position in the international community since the early 1970s, the decade which saw the Mainland greatly enhance its international position. The cessation of official relations between Taipei and Washington in 1979 led to even further decrease in the number of countries that recognised the ROC on Taiwan and maintained diplomatic relations with it. By 1992, there were only 24 countries throughout the world maintaining diplomatic relations with Taiwan. Meanwhile, with the Mainland implementing the policies of economic reform and opening to the outside world, its growing economic importance led to the establishment of official ties between the Mainland and such key former allies of Taiwan as South Korea, Saudi Arabia and Israel. Furthermore, more and more Taiwan businesses turned their attention to the Mainland.¹²⁰

Against such a background, Taiwan started a counter offensive. It drastically changed some of its traditional stances. Internally, Taipei dropped its claims to be the legitimate government of China. In recent years, no article in the ZYRB actually challenged the legitimacy of the Beijing government to rule the Chinese mainland, nor did they directly claim this legitimacy for the Taipei regime.¹²¹ Taiwan also stopped calling the communist government on the Mainland a bandits regime. Taiwan largely shelved the question of the rightful ruler of China and instead concentrated on the legitimacy of the reunification process. ZYRB and certain other Taiwan publications appealed to certain international precedents and to growing global democratic norms,

arguing in effect for a kind of procedural legitimacy based implicitly upon the principle of democratic self-determination.¹²²

Externally, the Taiwan authorities took a series of initiatives to avoid further isolation in the international community. The purpose of these initiatives was to shake off the restrictions that the issue of sovereignty imposed on Taiwan and the limitation of the fact that most countries with whom Taiwan wished to develop strong economic and political relations had diplomatically recognised the Mainland authorities. The most significant change in the Taiwan authorities' position was their acceptance of "dual recognition", in other words, they stopped insisting that the Republic of China was the only legitimate government of China, and that no country should have at the same time official relations with both the Mainland and Taiwan. Taiwan's Foreign Ministry also started implementing the so called "flexible and pragmatic" foreign policies. The key feature of such policies was the lack of insistence on official recognition.

In bilateral relations, Taiwan focused its efforts on developing "substantive" relations through setting up direct official contacts with other countries. Efforts were made to expand and deepen exchanges in different areas with other countries rather than on formal diplomatic recognition. Taiwan also expanded its economic relations with many countries around the world by setting up an International Aid Fund. Taiwan's senior officials, including its president, managed to visit several countries with no diplomatic relations with Taiwan under various pretexts. The most illustrating case was the so called "holiday diplomacy". Taiwan's President Li Tenghui visited Singapore and Thailand, who have embassies in Beijing, in the name of having a "holiday".

But Taiwan devoted more of its energy to return to multi-lateral organisations, as individual countries would find the pressure from the Mainland too much to bear. This was represented by Taiwan's drive to regain its seat in the United Nations. It was back in June 1991 when Taiwan took the first move to regain its seat in the UN. On 18 of that month, Taiwan's Legislature, Li Fa Yuan, passed a recommendation made by some

members of Taiwan's incumbent Guo Min Dang Party that Taiwan should rejoin at a suitable time the United Nations under the title of Republic of Taiwan. The government promised to consider this issue with seriousness, instead of brushing it away by insisting that Taiwan would not try to regain its seat at UN while the PRC was on it.¹²³ In January 1993, Taiwan's Foreign Ministry once again put on its policy agenda Taiwan's re-entry into the UN. This time it was the Taiwan Administration, rather than the Legislature, which took the initiative. Along with Taiwan's membership in multi-lateral international organisations, Taiwan's return under the title of Republic of China to the UN was declared as one the three key purposes of Taiwan's diplomacy. Li Tenghui, Taiwan's President, also expressed the wish that Taiwan would apply for re-entry into the UN in two to three years' time.¹²⁴

The Taiwan authorities' stepped-up effort to return to the international community was also caused by the democratisation process which started after Jiang Ching Guo decided to remove the ban on political parties and anti-government newspapers in 1987. This allowed the underground anti-government forces to resurface. The Democratic Progress Party (DPP), which is now Taiwan's main opposition party, has always demanded that Taiwan should become independent.¹²⁵ With the ban on political parties removed and the development of a genuine election system, the DPP's positions on Taiwan's international identity subjected the incumbent Guo Min Dang to a huge amount of pressure. In order to avoid losing touch with the voters, the Taiwan government changed its strategy on this issue by stepping up its campaign for more international recognition.¹²⁶

Taipei certainly realised the significance of the process of setting up economic co-operation in the Asia-Pacific region for its cause to return to the international stage as a legitimate and independent entity. As a matter of fact, Taipei had been very active in the process in its early days. It made an application to participate in PECC at the second conference back in 1981. It was only the PECC member countries' wish to include both China and Taiwan and to accept China in precedence of Taiwan that had postponed

Taiwan's membership. This situation repeated itself when APEC came into being.¹²⁷ Taiwan's media was also very frank about Taiwan's intention to participate in this process. For instance, an article carried in the Taiwan government controlled newspaper *Zhongyang Ribao* said that membership in APEC would be highly significant for Taiwan to break the Mainland's efforts to cut it off from the international community.¹²⁸

4. 3. B. China's Analysis of Taiwan's Intention and Their Reactions

As it was shown in the previous chapter, the Chinese government was actively making suggestions with regard to the solution of the membership issue after APEC was set up. The Chinese Foreign Minister Qian Qichen mentioned in a highly important foreign policy speech that the issue could be resolved by APEC admitting both Hong Kong and Taiwan as economic regions.¹²⁹ This seemed to have laid down the bottom line for this issue. This is to say that the Chinese government made it clear that this issue could be resolved only within the framework of not confusing and compromising China's sovereignty over Taiwan. The reason that China did this was that it realised that its membership issue was not going to be helped much if it insisted that Taiwan be excluded from APEC. Hence, China chose to realise its aim of preventing Taiwan from gaining the international recognition that it wished for by making sure that APEC did not become the catalyst for it.

As it has been mentioned at the beginning of this chapter, the reunification of China was the third mission that Deng Xiaoping gave the Chinese government. Taiwan's drive for wider international recognition and participation in international organisations, in particular the United Nations, made the Chinese government deeply concerned. The most important reason behind the concern was its implications for the relations across the Taiwan Strait. They believed that, despite of the fact that the Taiwan-Mainland relations improved in recent years, the Taiwan authorities' real intention was to turn Taiwan into an independent state. "What must be made clear is that, at a time when the

relations across the (Taiwan) Strait is improving and people on both sides of the Strait are expecting the early reunification of the motherland, the Taiwan authorities' intention to return to (the international community) is an outright movement to create 'two Chinas, or one China, one Taiwan'.¹³⁰

There were several reasons for the Mainland authorities' concern about Taiwan's APEC membership and its other efforts to return to the world society. First of all, they believed that this would prolong or even undermine the process of bringing about reunification across the Taiwan Strait. They explained that Taiwan's campaign to regain its UN seat under the title of Republic of China is an attempt to "co-exist with the People's Republic of China in the international community on an equal footing".¹³¹ Such actions meant to lead to situations that would never be accepted by the Mainland authorities because they would delay the arrival of the time when the Communist Party on the Mainland and the Guo Min Dang Party in Taiwan would meet to discuss China's reunification. The end purpose of such Taiwan activities was therefore to bring about a situation of one country with two regions and dual recognition, which would ultimately lead to Taiwan's independence. In his letter to the UN Secretary General, Buttros-Gali, the Chinese UN Ambassador Li Zhaoxing wrote, "The Taiwan authorities have implemented its "silver-bullet diplomacy" (a euphemism used by Taiwan's own press) to service its attempt to return to the UN. The real purpose of this scheme is to split (China), delay and undermine the great cause of the reunification (of China)."¹³²

The Mainland authorities also believed that it was the Taiwan authorities' deliberate attempt to break away from China that had caused them to make such big efforts to regain Taiwan's position in the international community. They pointed to the statements made by Taiwan's senior officials and senior members of the Guo Min Dang as evidence that the Taiwan authorities' real intention was to seek dual international recognition and to create the reality of two Chinas, or one China one Taiwan. For instance, Renmin Ribao quoted an anonymous Guo Min Dang legislator, "We do want

to bring about international consensus on the fact that there are two Chinas. In fact, the government's activities are those guided by a policy of two Chinas."¹³³

Due to this perception, the Chinese government strongly attacked Taiwan's movements to seek independence by international recognition. They charged that the Taiwan authorities, by arguing for dual recognition and the return to the UN, had moved over to the side of those who openly advocated Taiwan's independence. "Once this declaration was made, some people wanting independence for Taiwan expressed their instant approval and their regret that this was not enough. These people want the Taiwan authorities to make a clear-cut declaration that they will forswear their one-China policy and adopt that of 'one China one Taiwan'. They said that such policies will run into further difficulties on the international stage. The only way forward is to declare one China one Taiwan and to turn Taiwan into an independent state. This attitude of those wanting independence for Taiwan clearly indicates that the "temporary two-China policy has taken the Taiwan authorities so far that they have not much difference with Taiwan's Democratic Progress Party (DPP)."¹³⁴

China has also attacked those countries which sponsored Taiwan's return to the UN. These countries were accused of seriously violating China's sovereignty and rudely interfering in China's domestic affairs by putting forward the demand to include the discussion of Taiwan's return on the agenda of UN General Assemblies. Their activities were said to have violated the purpose and principles laid down in the UN Charter on one hand, and UN resolution 2758 adopted at the 26th UN General Assembly on the other. The Chinese argument was that the United Nations, through Resolution 2758, recognised that the People's Republic of China as the only legitimate government of China and Taiwan was a part of China. Any member country, who wished to support a part of member country to join the UN would violate that country's sovereignty and the UN Charter.

4. 3. C. Beijing's Counter Offence

It seems that the Mainland authorities in Beijing chose to counter Taiwan's international offensive by highlighting the PRC's unquestioned right to govern the whole of China, including Taiwan. This could be seen from Beijing's overall emphasis on formal statehood and absolute national sovereignty, which justified its sensitivity to external interference in Chinese domestic affairs. The PRC's logic was that if a state accepted it as legitimate government of China and Taiwan being part of China, then the process of reunification was an internal Chinese matter in which no foreigners should be involved. The principle of non-interference rendered unacceptable any external pressures on the question of Taiwan and reunification, or any efforts by Taipei to utilise the international environment to its political advantage vis-a-vis Beijing.¹³⁵

This argument was also the underlying theme of a 1993 Beijing White Paper on Taiwan, particularly in passages regarding the latter's status in the international system and regarding Beijing's range of legitimate means to resolve this issue. In the White Paper, Beijing argued that UN membership was restricted purely to sovereign nation-states, that the world society had with near unanimity recognised the People's Republic as the sole sovereign national government of China (including Taiwan province) and the legitimate representative of China in all international organisations, and as a result, there was no question whatsoever of Taipei's returning as a member of the United Nations, which was made up by sovereign nation-state. In the same document, Beijing also asserted that its refusal to forswear the use of military force as means of resolving the Taiwan issue was predicated upon the legitimate right of a sovereign nation to protect the integrity of its territorial boundaries by any means thought necessary.¹³⁶

Beijing's argument that Taiwan was not a nation was based on several points. First, they pointed to the origin of the Taiwan issue. Taiwan argued that since the two Koreas and the two Germanys are or used to be members of the UN, Taiwan should also be accepted alongside the Mainland. To counter the argument that the state of separation across the Taiwan Strait was the same as those between the two Koreas or the two Germanys before their unification, the Mainland authorities used the cause of

China's disunification as an argument that China's sovereignty remained complete. The Mainland's counter argument was that the circumstances in Germany, Korea, and China were not comparable. They claimed that unlike the case of the two Koreas, who were divided into separate sovereign states as a result of international agreement at the end of the Korean War, the separation of China was caused by the result of the defeat of the Guo Min Dang in China's civil war and foreign intervention in China's internal affairs. "The confrontation between Taiwan and the Mainland was brought about by the Guo Min Dang regime's escape to Taiwan after being defeated by the Chinese revolutionary people and the protection offered to the Taiwan authorities by foreign powers."¹³⁷ Taiwan was therefore only a temporarily separated from China while China's sovereignty and territory remained complete. Hence it "can not be compared in nature to the separation of either Germany or Korea."¹³⁸

The end purpose of this exercise of the Chinese government to emphasise its legitimacy as the sole government for both the Mainland and Taiwan was to underline to the international community that Taiwan is only a region of China's, and should be accorded the appropriate status in international affairs. Starting from such an argument, the Chinese government and its leaders repeatedly and steadfastly made the point that Taiwan should not join the international community as an independent entity because neither did the majority of nations recognise Taiwan as a sovereign state nor do the people of Taiwan favoured independence. This was also the reason for Qian Qichen to suggest that Taiwan could admitted into APEC as an economic region.¹³⁹

Hence, when a high level Taiwanese official declared that the Chinese nation was "temporarily divided into two Chinas" and that Taiwan had sovereignty over the territory actually under its control at the close of the 1993 informal APEC Summit Meeting in Seattle in response to Beijing's public claims of sovereignty over the island, Chinese officials immediately responded by criticising the unlawfulness of such claims. The Chinese government also battled hard to prevent Taiwan's president and foreign minister from attending APEC meetings, both ministerial and the informal summit. As

they publicly demanded that China's sovereignty be respected, large amount of diplomatic activities were carried out behind the scenes to make sure that the hosting countries of APEC meetings only invited Taiwan's economy minister.¹⁴⁰

Despite of the fact that the Chinese government or academia never openly linked China's participation in APEC with that of Taiwan, it is not difficult to believe that one of the reasons that China joined APEC was to prevent Taiwan from using APEC as a stage for it to argue its case for independence. This is so because the PRC government took Taiwan's anxious desire to participate in this forum, and to send its top political leaders to its meetings as a part of the stepped-up campaign to return to the international community, where it still could find certain amount of support for its cause. This is very much part of China's scheme to preserve its favourable international environment. Should the Mainland government felt that Taiwan's independence movement was getting out of hand, China would certainly intervene, with military force if necessary.¹⁴¹ This kind of scenario would certainly cause problems for China in the wider international community, which would damage the stable and beneficial international relations that China had worked hard to establish.

Conclusion

As the analysis in this chapter has shown, China's participation in the process of bringing about economic cooperation among the Asia-Pacific countries should be seen as a key part of its strategy to obtain and maintain a long-lasting favourable international environment to allow it to concentrate on domestic economic development. Since China's export-oriented strategy shifted its emphasis onto utilising China's almost limitless cheap labour, it became highly necessary for China to secure both the necessary means to produce better value-added goods and the market which was capable of absorbing such goods. The Asia-Pacific countries, particularly the APEC countries, were found to fit well into this strategy. An equally important motive was China's wish to benefit from the existing structure of intra-regional trade and economic

relations, and to make sure that China would fit into the future intra-regional division of labour. It was held by the Chinese that China's labour resources and level of technology made it possible to conduct cooperation with almost all the APEC countries, many of whom were believed to want to enter into such cooperation with China. Since APEC was designed to influence the pattern of intra-regional economic relations, it is only natural for China to join APEC as trade and economic relations with the other APEC members are the most important.

The long-lasting favourable international environment also has a political side to it. Before the Cold War ended, the main concern for the Chinese leadership was to assume a position from which it could deal with threats from either of the super powers. This endeavour was characterised by shifting alignment between the super powers to balance off the most threatening one. In the post-Cold War era, China's biggest challenge was believed to be the rapid increase in its comprehensive national strength, the old strategy of balance of power lost much of its significance. Instead, stable and healthy relations with all of its neighbouring countries became one of the most important foreign policy target. But the PRC did not find it easy to make sure that its relations with its most important neighbours would remain so in the post-Tian An Men period as well as in the aftermath of the Cold War. Therefore, a forum like APEC, in which Chinese officials could come into direct contact with all of China's Asia-Pacific neighbours, was regarded by the PRC to be a most important means to maintain a long-lasting favourable international environment.

China's decision to become an APEC member was also motivated by Taiwan's admission as a full member of this forum. It was the result of the strategy of following the second best choice, since China could not have the benefits that the process of economic co-operation could offer it without making certain concessions over Taiwan's membership. However, it would certainly not be in China's interests to see Taiwan use this forum to advance its return to the international stage as an independent entity. As it has been shown above, the PRC always insists that it is the legitimate government of

the whole of China, including Taiwan. It is plausible to believe that the PRC saw its APEC membership as the best way to ensure that Taiwan is treated as an economic region by the other APEC members. This could let China kill two birds with one stone, preventing Taiwan going too far along the road of independence while enjoying whatever economic and political benefit that this forum could yield.

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1. China never treated the Asia-Pacific countries as members of a single region, hence, China never had a policy for the region. This can be seen in the fact that relations between China and the Asia-Pacific countries were handled by different departments in both the Foreign Ministry and the Ministry of Foreign Trade and Economic Relations.
 2. As explained by Lawrence T. Woods, The other APEC member countries wanted to open and maintain a channel of direct and legitimate contact with the Taiwan government. APEC was thought to be the right venue. See Woods, "Delicate Diplomatic Debut", 1987., pp. 573--574.
 3. See Xue Mohong & etc. ed., *Dangdai Zhongguo Waijiao* (Contemporary China's Diplomacy), Beijing, China Social Science Press, 1987, pp. 337--339.
 4. See Renmin Ribao, 17 Nov. 1993, p. 1.
 5. See chapter three for more on this point.
 6. "Comprehensive national strength" is a term introduced in the middle of the 1980s. Its essence is economic strength, which is regarded as the foundation for other aspects. This term represents a shift of the perception of the Chinese leadership's of a nation's power. They concluded that it was the low level of comprehensive national strength that had failed the Soviet Union in the armament race against the United States. If China was to become a modern country, its comprehensive national strength must be of a level comparable to that of the developed countries.
 7. See Sheng Hua, Xuejun Zhang & Xiaopeng Luo, "Introduction" *China: From Revolution to Reform*, Hampshire and London, The Macmillan Press Ltd, Basingtoke, 1993.
 8. Gerald Segal "Introduction" in Gerald Segal ed. *Chinese Politics and Foreign Policy Reform*, London and New York, Fegan Paul International for The Royal Institute of International Affairs, 1990, p. 5.
 9. Ibid., p. 34.
 10. See Han Nianlong etc. ed., *Diplomacy of Contemporary China*, 1992, pp. 138--140.
 11. Sheng Hua, Xuejun Zhang & Xiaopeng Luo, *China: From Revolution to Reform*, 1993, p. 28.
- It was also mentioned by other western writers that this policy was started by Deng Xiaoping himself, when Deng was rehabilitated and put in charge in China's economy during the Cultural Revolution. See for example, Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*, Princeton, New Jersey: Princeton University Press, 1986, pp. 260--264.
12. See Nicholas R Lardy, "Chinese Foreign Trade", *The China Quarterly*, No. 131 September 1992, pp. 691--720.
 13. Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*, 1988, p. 260.
 14. Ibid. p. 262.
 15. See Nicholas R Lardy, "Chinese Foreign Trade", 1992.
 16. Editorial Board of the Almanac of China's Foreign Economic Relations and Trade: *Almanac of China's Foreign Economic Relations and Trade 1989* (English Edition), Hong Kong, China Resources Advertising Co. Ltd., 1989), p. 361.
 17. See Nicholas R Lardy, "Chinese Foreign Trade", 1992.
 18. See Zou Gang, Ma Jun, "Zhongguo yu Huantaipingyang Guojia (Diqu) de Maoyi Geju yu Bijiao Youshi" (The Trade Pattern and Comparative Advantages between China and the Pacific Rim Countries (Regions)), *Guoji Maoyi* (International Trade), September, 1990, pp. 58--63.
 19. Ma Hong and Sun Shangqing, ed. *Jingji Baipi Shu 1992--1993*, 1993, p. 38.
 20. See Fang Sheng, ed. *Zouxiang Kaifang de Zhongguo Jingji--Lilun, Moshi, Luxian* (An Opening Chinese Economy---Theory, Model and Line), Beijing, Jingji Ribao Chuban She, 1991, pp. 68--74.
 21. See Ma Hong, "Jiushi Niandai de Shijie he Zhongguo Huiyi Kaimuci (Opening Speech at the Symposium on the World and China in 1990s), in Wu Mingyu ed. *Jiushi Niandai de Zhongguo yu Shijie* (China and the World in 1990s), China Finance and Economy Press, Beijing, 1989, pp. 4--9.

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22. See Hu Yaobang, "Zhongguo Gongchan Dang Di Shier Jie Daibiao Dahui Gongzuo Baogao" (Work Report to the Twelfth National Congress of the Communist Party of China), Renmin Chubanshe, Beijing, 1982, p. 25.
23. Zhao Ziyang, "Zai Huanying Meiguo Fuzongtong Bushi Yanhui Shang de Jianghua" (Toast at the Banquet in Honour of US Vice President Bush), Renmin Ribao (People's Daily), 14 October 1985, p. 1.
24. Xie Yixian, "Bashi Niandai Zhongguo Duiwai Zhengce de Zhongda Tiaozheng Jiqi Yiyi (Major Adjustments in China's Foreign Policies in the 1980s and their Significance), *Qushi* (Quest for Truth), Beijing, No. 1, 1989, p. 38.
25. Chen Yue and others, "Zhongguo Jingji Duiwai Kaifang Shisunian---Jincheng, Tedian, Zhengce, Chengjiu" (Fourteen Years of Opening the Chinese Economy to the Outside World---Process, Characteristics, Policies and Achievements), *Guomin Jingji Jihua yu Guanli* (The National Economy's Planning and Management), Beijing, No. 6, 1993, p. 160.
26. This is a typical term used by Chinese economic planners, who see the end-purpose of the economy as the satisfaction of the "gross social demand" through "gross social produce". The existence of such terms in the discussion of the Chinese economy by Chinese academics and policy makers indicates that the old way of thinking is still influencing the perception of these people.
27. See Ma Hong and Sun Shangqing, ed. *Jingji Baipi Shu 1991--1992*, 1993, p. 312.
28. *Ibid.* pp. 316--317.
29. For more details see Yang Deming etc, ed. *Guoji Jingji yu Zhongguo Duiwai Jingji Guanxi 1991---1992* (International Economy and China's External Economic Relations 1991---1992), China Finance Press, Beijing, 1992; and the figures for China's trade with the EEC's are from "1990 Foreign Trade Yearbook".
30. These figures are quoted from *Shijie Zhishi* (World Knowledge), No 1 1994, p. 4.
31. Yang Deming etc, ed. *Guoji Jingji yu Zhongguo Duiwai Jingji Guanxi*, 1992, p. 282.
32. *Ibid.*
33. Hong Kong dollar is pegged with the US dollar, and the exchange rate can not fluctuate due to political reasons. See Nicholas R Lardy, "Chinese Foreign Trade", 1992.
34. *Ibid.* & Fang Sheng, ed. *Zouxiang Kaifang de Zhongguo Jingji--Lilun, Moshi, Luxian*, 1991, p. 278. Figures quoted in this section are mostly those of 1990 and 1991.
35. The initial gesture of reconciliation across the Taiwan Strait was made by the Mainland side. In 1979, Ye Jianying, Chairman of the National People's Congress, declared in an open letter to people in Taiwan that the Mainland was ready to start negotiations for reunification. Low level contacts were kept until 1987 when Jiang Jinguo decided to allow people of Taiwan, who have relatives on the Mainland, to visit the Mainland. Open negotiations have been conducted in both Taipei and Beijing since 1992.
36. See Yang Deming etc, ed. *Guoji Jingji yu Zhongguo Duiwai Jingji Guanxi*, 1992. For figures of 1992, see Ma Hong and Sun Shangqing, ed. *Jingji Baipi Shu 1992--1993*, 1993.
37. See *Ibid.*
38. This is especially true for Sino-US trade. Re-export of Chinese products from Hong Kong to the United States has been quite substantial. Such export has been regarded by the United States as exports from China, and has caused serious problems as far as China's Most Favoured Nations (MFN) status is concerned. The dispute between China and the United States over the MFN issue has caused concern not only in China but also in Hong Kong. See Nicholas R Lardy, "Chinese Foreign Trade", in *China Quarterly*, No. 131. 1992's figure for re-export to the United States through Hong Kong is not available.
39. See Yang Deming etc, ed. *Guoji Jingji yu Zhongguo Duiwai Jingji Guanxi*, 1992.
40. *Ibid.*
41. *Ibid.*
42. *Ibid.*
43. See *Shijie Zhishi* (World Knowledge), No 1, 1994.
44. See Y.Y. Kueh, "Foreign Investment and Economic Change in China", in *The China Quarterly*, No. 131, September 1992, School of Asian and African Studies, London. pp. 278--302.

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45. Ibid.
46. See Ma Hong and Sun Shangqing, ed. *Jingji Baipi Shu*, 1993; & Zou Gang, Ma Jun, "Zhongguo yu Huantaipingyang Guojia (Diqu) de Maoyi Geju yu Bijiao Youshi" 1990.
47. See Yang Deming etc, ed. *Guoji Jingji yu Zhongguo Duiwai Jingji Guanxi*, 1992.
48. Ibid.
49. See Yang Dali, "China Adjusts to the World Economy: The Political Economy of the Strategy of Coastal Development", *Pacific Affairs*, Vol. 64, No. 1, Spring 1991, pp. 49--54.
50. See Li Meng Yan, *Dangdai Shijie Zhengzhi, Jingji he Guoji Guanxi Gailun* (Overview of the Contemporary World Politics, Economy and International Relations), Beijing, China Finance and Economy Press, 1991, pp. 182--194.
51. Wang Jian, "Guanyu 'Guoji Daxuhuan' Jingji Fazhan Zhanluede Gouxiang" (Some Thoughts on Economic Development Strategy Based on International Circulation), in World Economic Editorial Board, *The Export Oriented Economic Development Strategy for China's Coastal Regions*, Beijing, China Social Science Press, 1989, pp. 63--74.
52. See Section Three of Chapter One for more details on this.
53. See Ibid, pp 275--282. Also according to Yang Dali, such a perception was the main rationale for Zhao Ziyang's Strategy for the Development of the Coastal Regions. See Yang Dali, "China Adjusts to the World Economy", 1991, pp. 42--64.
54. Ibid., p. 279.
55. See Wang Jian, "Guanyu 'Guoji Daxuhuan' Jingji Fazhan Zhanluede Gouxiang", 1989, pp. 63--74..
56. See *ibid.*, and also discussion on this point in part one of this section.
57. Fang Sheng, ed. *Zouxiang Kaifang de Zhongguo Jingji--Lilun, Moshi, Luxian*, 1991. Due to political reasons, China has always insisted that Hong Kong and Taiwan are not individual countries but two regions belonged to China. South Korea was regarded as a part of North Korea until established diplomatic relations with South Korea was established.
58. Yang Deming etc, ed. *Guoji Jingji yu Zhongguo Duiwai Jingji Guanxi*, 1992, p.280.
59. See discussion on this point in part one of this section.
60. See Ma Hong, "Jiushi Niandai de Shijie he Zhongguo Huiyi Kaimuci", 1989.
61. See Zou Gang, Ma Jun, "Zhongguo yu Huantaipingyang Guojia (Diqu) de Maoyi Geju yu Bijiao Youshi" 1990.
62. Ibid.
63. Ibid.
64. This is by no means to say that China will confine the introduction of foreign technology and investment to such downgraded ones. However, the transfer of such industries from the NIEs and other developed Asia-Pacific countries is highly significant to China at the moment.
65. Kong Derong & Shi Ruohua ed. *Huan Bohai Diqu Jingji Fazhan Yanjiu--Zhong Han Jingji Zhanwang* (Studies of the Economic Development of the Po Hai Sea Region--Prospects for China-South Korea Economic Development), China Scientific Publishing House, Beijing, China, 1993, p. 302
66. See *Ibid.*
67. Taiwan investments tend to prefer setting up wholly own enterprises rather than joint ventures with mainland China's enterprises. See Robert F. Ash and Y.Y. Kueh, "Economic Integration within the Greater China: Trade and Investment Flows between China, Hong Kong and Taiwan", pp. 711--745; and Qi Luo and Christopher Howe, "Direct Investment and Economic Integration in the Asia Pacific: The Case of Taiwanese Investment in Xiamen", 746--769 *The China Quarterly*, No. 136, December 1993, Special Issue: Greater China.
68. Qi Luo and Christopher Howe, "Direct Investment and Economic Integration in the Asia Pacific", 1993, p. 762.
69. For these figures, see *Ibid.*
70. It has been widely believed that Taiwan's economic relations with the Mainland is set to expand at a higher speed due to the relaxation in the political relations, Taiwan's huge

foreign reserve, which is looking for outlet and Taiwan's own desire to enter into a higher level of development. For more details, see *ibid.*

71. See Michael Yahuda, "China's Forty Years", 1989, pp. 519--539.

72. See Han Nianlong, *Diplomacy of Contemporary China*, 1992, pp. 411--413.

73. See Central Committee School of the Chinese Communist Party, *Sishi Nian de Huigu yu Sikao* (Recollections and Reflection on the Past Forty Years), Central Committee School Press, Beijing, China, 1991, pp. 78--85.

74. *Ibid.*, p. 79.

75. See Sheng Hua, Xuejun Zhang and Xiaopeng Luo, *China: From Revolution to Reform*, pp. 18; and Samuel S. Kim ed. *China and the World ---New Directions in Chinese Foreign Relations*, 1989, pp..

76. Deng Xiaoping, *Deng Xiaoping Wenxuan* (Selected Works of Deng Xiaoping), Beijing, People's Press, 1985, p. 396.

77. See the previous chapter for more on this.

78. See Han Nianlong, *Diplomacy of Contemporary China*, 1992, pp. 416--419.

79. Deng Xiaoping, *Deng Xiaoping Wenxuan* (Selected Works of Deng Xiaoping), pp. 74, 249.

80. *Ibid.* pp. 123, 205, 204.

81. For a more comprehensive discussion about China's view of the world situation in the late 70s and early 80s, see Zong He, "Guoji Xingshi de Bianhua he Fazhan Qushi" (Changes and developing Trends in the International Situation), *Guoji Yanjiu* (Journal of International Studies), No. 1, January 1983, pp. 21--25; and Xing Shugang, Li Yunhua and Liu Yingna, "Su--Mei Shili Pingheng de Bianhua" (Change in Soviet-US Power Balance), *Shijie Zhishi* (World knowledge), No. 11, June 1983, p. 14.

82. See Zong He, "Guoji Xingshi de Bianhua he Fazhan Qushi", 1983, pp. 21--25.

83. Deng Xiaoping, "Da Meiguo Jizhe Wen" (Answers to Questions by an American Journalist), *Renmin Ribao*, p. 1.

84. Qian Qichen, "Interview with the 'Outlook Weekly'," *Outlook Weekly*, No. 18, (May 1988), p. 3.

85. See Zheng Lansun, Liu Peng ed. *Deng Xiaoping de Sixiang Lilun Yanjiu* (Studies on Deng Xiaoping's Thoughts and Theories), Beijing, Chinese Book Press, China, 1988, pp. 48--51.

86. See *ibid.*

87. Liang Shoude, "Woguo Changyi de Guoji Xinzhi de Zhuyao Neirong he Tezheng" (The Main Features and Contents of the New International Order That China Advocates), *Zhongguo Waijiao* (China's Diplomacy), Beijing, China, February, 1992, p. 36.

88. Deng Xiaoping, *Jianshe You Zhongguo Tese de Shehui Zhuyi* (The Construction of Socialism with Chinese Characteristics), Beijing, People's Press, 1991, pp. 95, 112.

89. See Zheng Lansun, Liu Peng ed. *Deng Xiaoping de Sixiang Lilun Yanjiu*, 1988.

90. See Zong He "Guoji Xingshi de Bianhua he Fazhan Qushi" 1983; and Xing Shugang, Li Yunhua and Liu Yingna, "Su--Mei Shili Pingheng de Bianhua" (Changes in Soviet-US Power Balance) *Shijie Zhishi* (World knowledge), No. 11, June 1983.

91. Central Committee School of the Chinese Communist Party, *Sishi Nian de Huigu yu Sikao*, 1991, p.170

92. See Li Jingzhong, *Sino-Soviet Relations: The Summit Meeting and Its Implications*, M Phil Thesis, University of Cambridge, 1989, pp. 37--39.

93. Hu Yaobang, "Create A New Situation in All Fields of Socialist Modernisation: Report at the 12th National Congress of CPC," *Beijing Review*, Vol. 25, No. 37, September 1982, p. 29.

94. Deng Xiaoping, "Opening Speech at the 12th Congress of CPC", *Selected Works of Deng Xiaoping*, p. 396.

95. CPC Central Committee, *Collection of Documents of the 12th Party Congress*, Beijing, People's Press, 1982, p 8.

96. Zhao Ziyang, "Report on Government Work: 1984", *Yearbook of the Encyclopaedia of China*, 1984, p. 8.

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97. Hu Yaobang, "Toast in Welcome of the Delegation of the Yugoslavian Communist Alliance", *Renmin Ribao* (People's Daily), May 19, 1984, p. 4.
98. Winston Lord, "China and America: Beyond the Big Chill", *Foreign Affairs*, Vol. 68, No. 4 Fall 1989, pp. 1--26.
99. Mao Zedong's decision to lean over to the Soviet Union caused the United States to adopt a policy of containment. After Sino-US relations normalised, China actually faced bigger threat from the Soviet Union. See Li Jingzhong, *Sino-Soviet Relations*, 1989, pp. 37--39.
100. Chen Qimao, "Zhongguo da Fazhan de Guoji Jiyu (The Favourable External Chance for China's Rapid Development)", *Guoji Zhanwang* (International Forecast), Shanghai, China, September 1993, p. 3.
101. See Li Dezhong, "Jiushi Niandai Zhongguo Mianlin de Lishi Jiyu (China's Historical Opportunity in the 1990s)", *Chinese Politics*, Beijing, Centre for Book and Newspaper Data, People University, May 1992, pp. 15--19.
102. Ibid.
103. See Bonnie S Glaser, "China's Security Perceptions: Interests and Ambitions", *Asian Survey*, Vol. XXXIII, No. 3, March 1993, p. 254.
104. Chen Qimao, "New Approaches in China's Foreign Policy: The Post-Cold War Era", *Asian Survey*, Vol. XXXIII, No. 3, March 1993, pp. 238--239.
105. Bonnie S Glaser, "China's Security Perceptions: Interests and Ambitions", 1993, p. 255.
106. See *ibid.*, and Chen Qimao, "New Approaches in China's Foreign Policy: The Post-Cold War Era", 1993, pp. 238--239.
107. See Chen Qimao, "New Approaches in China's Foreign Policy: The Post-Cold War Era", 1993, p.240.
108. See Chen Qimao, "New Approaches in China's Foreign Policy", 1993, pp. 240--241.
109. In a speech delivered in Guangzhou in Spring 1991, Chinese Vice Premier Tian Jiyun reportedly warned CCP officials not underestimate the possibility of an overall economic leap forward in the former Soviet Union once it passed through its difficulties. See "Vice Premier Tian Jiyun Urges Attention to Persons Who Trim the Sails While Opposing Leftism," *Ming Pao*, 4 May 1992, p. 3.
110. See Shen Qurong, "Security Environment in Northeast Asia: Its Characteristics and Sensitivities", *Xiandai Guoji Guanxi* (Contemporary International Relations), the China Institute of Contemporary International Relations, No. 2, 1992, pp. 7--15.
111. Deng Xiaoping warned Jiang Zemin and other Chinese leaders in his speech during his last trip to Shenzhen that only rapid economic development could enable the Chinese Communist Party to maintain its grip of power. See *Zheng Ming*, Mar. 1992, pp. 3--4.
112. *Renmin Ribao*, 10 November 1993, p. 1.
113. *Ibid.*
114. This was confirmed by former South Korean Deputy Foreign Minister Chun Phing Sun, who took part in the negotiations that led to the diplomatic relations between China and South Korea. MY interview with him on 29 January 1997 in Seoul.
115. See Zhao Suisheng, "Deng Xiaoping's Southern Tour", *Asian Survey*, Vol. XXXIII, August 1993, PP 739--756
116. Jiang Zemin, "Zai Yatai Jingji Hezuo Zuzhi Lingdaoren Feizhengshi Huiyi Shangde Jianghua (Speech at the Informal Summit of Asia-Pacific Economic Leaders)", *Renmin Ribao*, 11 November 1993, p. 1.
117. The Chinese Foreign Minister said that it was "a good thing" that Taiwan and Hong Kong joined APEC along with Mainland China. See *RMRB*, 16 November 1991, p.6.
118. Hong Kong's situation was different. According to the *Basic Law of Hong Kong*, as a special zone of administration, Hong Kong was allowed to take part in international economic and Trade organisations, See Peter Wesley-Smith & Albert H. Y. Chen ed., *The Basic Law and Hong Kong's Future*, Hong Kong-Singapore-Malaysia, Butterworths, 1988, p. 349.
119. Taiwan had strong political and economic reasons to keep its identity on the international stage. For a fuller explanation, see George T. Yu and David J. Longenecker,

"The Beijing-Taipei Struggle for International Recognition, From the Niger Affair to the U.N.", *Asian Survey*, Vol. XXXIV, No. 5, May 1994, pp. 475--488.

120. See the previous section for details.

121. George T. Yu and David J. Longenecker, "The Beijing-Taipei Struggle for International Recognition", 1994, pp. 475--488.

122. *Ibid.*

123. See ZYRB, 18 July 1991, p. 1.

124. See reports in ZYRB of Jan 1991 for more details on this.

125. See Leng Shao-chuan and Li Cheng-yi, "Political Change on Taiwan: Transition to Democracy", *China Quarterly*, No. 136, Dec. 1993, pp. 805--808.

126. See *ibid.*, pp. 826--832.

127. See Donald Crone, "The Politics of Emerging Pacific Cooperation", 1992, pp. 69--75.

128. See ZYRB, 19 Nov. 1993, p. 1.

129. See Section Three, Chapter Three.

130. RMRB, Overseas Edition, 25 February 1993, p. 4.

131. "Comment", *Outlook Weekly*, No. 36, September 1993, p. 41.

132. RMRB, 14 August 1993, p. 1.

133. RMRB, 19 July 1991, p. 4.

134. "Xin Hua News Agency Comment", *Renmin Ribao*, Overseas Edition, 6 September 1991, p. 6.

135. Customary norms of sovereignty and non-interference are principal themes in a recent Beijing White Paper on Taiwan. See "Taiwan Wenti Yu Zhongguo de Tongyi" (The Taiwan Question and China's Reunification), *Renmin Ribao*, 1 September 1993, pp. 1, 5.

136. *Ibid.*

137. Yuan Yang, "Lishi Chenzhade Fanqi" (The Flying of Historical Rubbish), *Liaowang*, No 37, September 1994, p. 36.

138. *Ibid.*

139. See "Taiwan Wenti Yu Zhongguo de Tongyi" (The Taiwan Question and China's Reunification), *Renmin Ribao*, 1 September 1993, pp. 1, 5.

140. *Ouzhou Ribao* (European Daily), 19 Oct. 1994, p. 6.

141. As President of China, Yang Shangkun explained to Taiwan journalists it was just because China is worried that Taiwan's independence movement might get too far that China did not want to give up its position to reunite China with military means when necessary. See *Renmin Ribao*, 23 April 1991, p. 1.

Chapter Five. Regional Collectivism Versus Balance of Power

As was set out at the beginning, the purpose of this study is to ascertain whether the PRC can work cooperatively with other countries, particularly its Asia-Pacific neighbours in a multilateral framework. The answer has been sought by examining how and why China participated in the multilateral economic cooperative forum: APEC. However, in order to put China's participation in APEC in a wider perspective, the study started off by looking at how a regional identity has emerged among the Asia-Pacific countries on one hand and what kind of a cooperative structure has been set up in this region on the other. What this study has shown is that China's APEC membership indicates that it has very strong reasons to enter into multilateral cooperation with its Asia-Pacific neighbours. This is because in the post-Cold War era, China's traditional method of securing a favourable international environment, i.e. the balance of power between the super powers, has lost most, if not all, of its relevance. On the other hand, it is hardly possible for China to ignore multilateral cooperation with its Asia-Pacific neighbours.

5. 1. Rising Collectivism & Declining Balance of Power

As it has been shown, there are important internal and external reasons for China to consider adopting regional collectivism as a key principle guiding its foreign policy. Externally, a clear regional identity has emerged among the Asia-Pacific countries, though the Asia-Pacific is a vast, heterogeneous region in geographical and cultural terms. This is proved by the strong tendency of the governments in this region to consider and adopt multilateral measures to deal with issues in their relations. This is clearly due to the developments in the intra-regional political relations, which have helped these countries realise that they share large amount of common interests and common problems. If the emergence of ASEAN and the normalisation of Sino-US relations were developments which only gave rise to some major changes in the intra-regional relations, then the end of the Cold War proved to the Asia-Pacific countries that

it had become necessary for them to adopt collective measures to deal with the intra-regional issues.

A far more important factor is the fundamental economic changes occurred in this region. The emergence of a number of countries with rapidly increasing economic power has turned this region into another centre in the world economy. Supported by different comparative advantages and intra-regional flow of investments and transfer of production activities, a strong momentum of economic development has been sustained. The region's economic dynamism is increasingly self-generated. In the meantime, the Pacific Asian countries have emerged as significant markets as well as production bases. Therefore the APEC countries are the most important trade partners for each other. This type of intra-regional economic and trade relations urge the Asia-Pacific countries to adopt multilateral means to deal with the issues in their economic relations. Such developments in the intra-regional political and economic relations have led to a convergence of interests among these countries, and therefore a sense of identity.

So far as the economic issues are concerned, the Asia-Pacific countries chose to set up APEC, a region-wide, multilateral forum, to deal with these issues. Obviously this is due to, first and foremost, academic promotion and political support. Driven by the need of their respective countries, Japanese and Australian academics, represented by Kiyoshi Kojima and Peter Drysdale, have argued strongly for Asia-Pacific economic cooperation. Their promotion have received strong support from their governments, and later from the US congress and government, which has kept the process moving forward. An equally important factor is that economic cooperation found increasing support in the rest of the Asia-Pacific countries. As dictated by the direction of their countries' foreign economic and trade relations, these countries are highly interested in stabilising such relations through multilateral means, which are accepted to be more efficient. These countries' interests have ensured that cooperation not only focuses on economic issues but also is Asia-Pacific in scope. APEC's main functions at the present are promotion of regional trade liberalisation, trans-national investment and prevention

of protectionism by emphasising communication and co-ordination at the policy level. The long-term target of APEC is to form an open regional free trade area to strengthen the global liberal trade regime.

The regional identity emerged among the Asia-Pacific countries and the set-up of APEC provided strong external incentives for China to consider regional collectivism in the form of APEC. But the domestic considerations for China to do so are even more significant. China joined APEC following a long process, which saw the PRC's position and reaction to multilateral economic cooperation evolve from opposition to support to participation. This process also saw Chinese academics and government officials gradually realised that the PRC ought to join its Asia-Pacific neighbours to work out collective measures to deal with issues that affect all of them. Change in perception occurred because of the reform policy and the relaxation of the political conditions, which removed the ideological restraint to develop close trade and economic relations with countries which used to be Cold War enemies. The change in perception was not reversed even after Tian An Men square followed by economic and political sanctions by the major western countries. Instead, China became even more anxious to join the process to construct economic cooperation once it was raised to the official level.

This clearly indicates what the PRC was concerned about was the possibility of being left out of a process that is set to have significant impact on the region. Another technical consideration seems to be that the Chinese government believed that APEC by nature was easier to accept, and would allow it to have certain amount of influence in it. APEC remains a forum, whose decisions have only started getting more influential on its member countries. This offers China a certain amount flexibility. The aim to turn the Asia-Pacific region into an open free trade area by 2020 is also significant because it gives China more time to narrow the gap with the stronger countries. It will also put China in a stronger position in dealing with other countries over trade related issues.¹

The anxiousness of the Chinese government to join APEC was apparently caused by its nature and characteristics. There are in fact other domestic considerations which carried more weight than APEC's official nature. The pragmatic Chinese leadership of the Deng Xiaoping era, who were, including Deng Xiaoping himself, deeply impressed with the material wealth of the capitalist countries, particularly China's East Asian neighbours, were awakened to the fact that China could become powerful only through developing rapidly its comprehensive national strength. Earlier attempts to transplant modern technology and equipment bartered with Chinese oil and other raw materials soon ran into trouble as domestic demand for energy and other raw materials shot up. Even Deng's idea of special economic zones did not work well at first.

This forced the Chinese leadership to come up with other more effective measures. The development experiences of China's East Asian neighbours and the new round of technology upgrading and external transfer by both Asia-Pacific developed countries and NIEs turned the Chinese leaders' attention to the huge Chinese population. They realised that the Chinese population could be turned from a liability into an asset. They decided that the strategy of "transplant" must be replaced by the externally oriented strategy of development. But the PRC needed foreign investment and market to achieve that. The Asia-Pacific countries were thought to be ready to meet China's requirement for investment and market. Since APEC is meant to maintain the momentum of economic growth in this region through communication and coordination at the policy level, being a member of it would apparently help the PRC to maintain close economic and trade relations with the other member countries.

This was explained by Chinese academics and officials as efforts to obtain a favourable international environment for domestic development. But Deng Xiaoping and other Chinese leaders also realised that the favourable international environment had a political dimension as well. The end of the Cold War not only removed the necessity for the PRC to shift between the super powers to ensure its security, but also strengthened the Chinese leaders' belief that China must develop its economy rapidly so

as to keep up with the fast developing Asia-Pacific region. Domestically, the Chinese communist party also had to produce high growth in order to ward off challenges to its rule. But they could not turn China into a developed country quickly. They needed a long-lasting favourable international environment to do so. They therefore would not want Taiwan's efforts to expand its international space to spoil this. Since other APEC members preferred strongly to include Taiwan, the PRC chose to ignore the sensitivity of the issue of sovereignty to join APEC. The aim was to maintain and expand positive political relations with the Asia-Pacific countries on one hand and prevent the issue of Taiwan getting out of control on the other.²

The PRC's APEC membership should therefore be regarded as a strong indication that it is inclined to work collectively and cooperatively with the other Asia-Pacific countries. Any other choices would mean the eventual abandonment of the policy of reform and opening to the outside world, whose success depend on better and stronger economic and political relations with its Asia-Pacific countries. The post Tian An Men policies of the Chinese government seem to stress that is not on their agenda. Another factor, which is likely to cause the PRC to give up its intention to work with the other Asia-Pacific countries, is for the Asia-Pacific countries to abandon the present policy of active engagement. Though these countries are getting ready to contain a potentially aggressive China, but the emphasis of the present policies towards China is still on engagement.

5. 2. A Foreign Policy Adjustment with Long-term Effects

For over forty years since the founding of the PRC in 1949, major foreign policy adjustments have by no means been rare. China's APEC membership represented another major foreign policy adjustment in response to the new international environment in the post-Cold War era. It indicates that the Asia-Pacific region became the focus of the PRC's foreign relations. What is equally important is it indicates that a significantly new concept had been incorporated into the government's foreign policy

thinking. Collectivism had been accepted as an effective measure to achieve foreign policy targets. This is certainly going to have long-term effects on the evolution of Chinese foreign policy as well as on China's relations with its Asia-Pacific neighbours.

Each time when the PRC made major foreign policy adjustment, it was for some fundamentally crucial reason. This can be proved by the major foreign policy adjustments in the past, particularly the adjustments made vis-a-vis the super powers. For instance, it was Mao's determination not to sacrifice China's independence that caused the Sino-Soviet split at the beginning of the 1960s. At that time, China could not afford to see its relations with the Soviet Union deteriorate for both internal and external reasons.³ A more typical case was the normalisation of Sino-US relations. It was for the sake of national security. When China and the Soviet Union went separate ways back in the early 1960s, the Soviet Union did not openly threaten China with military invasion. Therefore China did not face pressure from both the north and the south.⁴ But the border conflicts towards the end of the 1960s made Mao Zedong and his comrades realise that only a strategic partnership with western capitalist countries would restrain the Soviet Union from posing more serious dangers to China.⁵

The thaw in Sino-Soviet relations in the 1980s was an even better illustration of this point. As it was shown in last chapter, it was the PRC's desire for better international strategic environment that made it move to the middle ground between the super powers. In the early 1980s, the Reagan administration was thought to lean towards Taiwan. The Chinese government found that this was not in China's favour. It needed to balance it off by improving relations with the Soviet Union. Deng Xiaoping and his followers held that it was not possible for China to concentrate its resources on economic development if it was going to be confronted with a situation harking back to the 1960s, when China was on the opposite side to both the United States and the Soviet Union. The United States must be stopped from "bullying" China. Yet China must maintain the international circumstances which were generally good for its

economic development. Therefore, the Sino-Soviet relations were only brought back to the level of normal state-to-state relations.⁶

This study has shown that this latest adjustment was motivated by the government's overriding priority of rapid economic development. As I have demonstrated in last chapter, what prompted the Chinese government to ensure that China was quickly admitted as a full APEC member was their concern that China would face the danger of being left alone by the emerging regional multilateral structure. This would obviously affect adversely China's externally oriented strategy of economic development. The post "cultural revolution" Chinese government was clear that self-reliance behind closed doors was not going to turn China into a modern nation equal to western powers. It would have to open its doors to the outside world to acquire the means to realise modernisation. Chinese policy makers were convinced that the Asia-Pacific region offered them the best chance to do so.

Rapid economic development was accorded even more importance after the collapse of the East European Communism. Challenged by demands for more political freedom and participation, the Chinese government found that the communist ideology had lost its attraction. The only way for it to claim legitimacy to govern was to make the economy grow even faster. However, strong economic development is an on-going issue which can not be settled forever. This together with all the above reasons have made the new change in the Chinese foreign policy thinking long-lasting.

5. 3. China's Future Relations with the Asia-Pacific Countries

What implications does the APEC membership have for the PRC's foreign policy towards and behaviour in the Asia-Pacific region? It is always difficult to predict the future development of Chinese foreign policy. Nevertheless, certain rough ideas can be deduced from this study. What has become clear is that China is going to devote more attention to, and to be involved more deeply in, the affairs of the Asia-Pacific region in a more positive manner. The kind of hostile attitude and strong attack on regional

collective schemes back in the late 1960s will not make a come-back. Hence China will likely adopt more conciliatory and cooperative positions on matters concerning its interests, while making sure that its interests will not have to sustain too much damage. As matter of fact, China has already adopted such an approach in dealing with matters of this kind. The way that China handled the dispute over Spratleys⁷ has proved that China is ready to adopt less hostile positions on issues regarded as crucial.

It can also be expected that China will begin to resort more to collective measures in handling intra-regional political and economic issues and problems, rather than resorting to those based on the concept of balance of power. This is determined by the fact that the intra-regional issues and problems facing China today are no longer those that China could deal with only by seeking the support of one power or one group of powers against another or another group. In addition, China will face more issues and problems that will make it vital for it to adopt collective measures. Should the APEC forum be given more real power in the settlement of regional trade and economic issues, China will rely more on this mechanism. For instance, China is most likely to join those APEC member countries to mount more pressure on the United States and Japan to increase access to their markets.

But this hardly means that China will give up other options just for APEC. How much China is going to rely on APEC to find solutions to problems in its trade and economic relations with other member countries, and how far it is going to accept the influence of this forum, will largely depend on its effectiveness. If China finds that APEC can not offer what it really wants from it, it can be expected that China will try to find alternatives to APEC. The other factor affecting China's attitude towards APEC is how soon China will join the World Trade Organisation (WTO). Should this come in the very near future, APEC's importance will probably shrink, since WTO membership is more effective in resolving China's immediate foreign problems. Nevertheless, even China were to join the WTO soon, APEC will continue to be important for China

simply for those reasons explained in last chapter. As a result, APEC will remain highly important in Chinese foreign policy considerations.

Similarly, China is expected to assume a more conciliatory and co-operative attitude to the bilateral relations with its Asia-Pacific neighbours. It is also likely to resort more to this collective format in dealing with bilateral issues. First of all, it is most likely to use APEC to gain more access to the markets of the developed countries, and to deal with bilateral trade and economic issues with the rest of the APEC countries. As far as the United States is concerned, China will likely to continue to use APEC to influence US leaders and policy. China is most likely to resort more to APEC in dealing with American protectionism, since it is subjected to similar pressures to those faced by many other APEC countries. APEC is probably going to be used by China as a kind of a shield protecting it against pressures from the United States as well. For instance, China may use APEC to argue against the US intention to treat China as an economically developed country.

As for Sino-Japanese relations, APEC's significance is expected to be economic. While access to the Japanese market is highly important, China is expected to influence through APEC Japanese policy of direct foreign investment and aid. As it was shown in chapter two and chapter four, Japanese overseas aid and FDI are highly important for China, who is obviously concerned with any shift in Japanese aid policy. In this respect, China is in the same boat with the ASEAN developing countries. Should more Japanese FDI and overseas aid be shifted to ASEAN, China will see its share shrink. As a result, China will use APEC to influence Japan's policies in these areas. This goes for those countries that are important sources of FDI as well. China will certainly be more knowledgeable about these countries' policy intentions, which will allow it to become more adept at adjusting its own policies.

As an information gathering and communicating forum, China will gain through APEC more understanding about the ASEAN developing countries, who have been

shown as competing with China for market and investment due to the similarity in their development levels. This will assist China in selecting the key areas of development. This will certainly be true for the ASEAN developing countries too. It can be expected that there will be more communication and co-ordination between China and these countries under the auspices of APEC.

What will be interesting to see is what will happen to trade and economic relations and political relations between Mainland China and Taiwan. The effect appears to be more negative than positive. It is to be expected that China will continue to do all it can to prevent APEC from becoming the arena for Taiwan to realise its ambition to return to the international community. This will be taken, at least by the authorities in Taiwan, as a *negative gesture* by the Mainland. What is more, should APEC bring about a region-wide free trade area, Taiwan will find that it will have even less reason to develop wide-ranging contacts with the Mainland. For all these reasons, APEC is capable of hindering the contacts and exchanges between the two sides across the Taiwan Strait.

Despite the fact that Taiwan has tried hard to avoid being overshadowed by the Mainland, contact is not avoidable. This is recognised by Taiwan as well.⁸ APEC can also become another channel of contacts between the Mainland and Taiwan. Exchanges, particularly indirect exchanges, will increase. They will undoubtedly be quite frequent between lower-level officials. Whether it is going to be used for reunification purposes remains to be seen. But what is certain is more understanding of each other, although this may be limited to policies related to international economic and trade issues. However, a series of variables will play important parts in this respect.

Despite all these uncertainties and variables, China is expected to continue to attach a great deal of importance to APEC in its external policies and foreign political, economic and trade relations. China will also use the APEC forum to influence the process of regional economic integration. China's concern is focused on the speed at which regional integration will happen in this region. China is also anxious to see that

no big powers will use APEC to impose their will upon the weaker countries. Chinese President Jiang Zemin pointed out at the 1993 Seattle informal summit that economic integration in the Asia-Pacific region should proceed in a slow and assured manner, and that differences between the Asia-Pacific countries should be respected.⁹ Nevertheless, China is most likely to explore actively how regional economic co-operation can be brought forward through APEC, and how China will be able to function effectively in this framework. One can believe that collectivism, both regional and global, is likely to feature more prominently in China's foreign policy considerations and behaviour.

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1. See Renmin Ribao, 22 November 1991, p. 7.
 2. The Chinese government's policy over Taiwan is, should Taiwan go too far along the road to independence, China would have no other choice but to use military means to unify China. See Yang Shangkun, "Interview with Journalists from Taiwan", Renmin Ribao, 26 March 1992, p. 1.
 3. See Han Nianlong, *Diplomacy of Contemporary China*, 1992, pp. 131--148.
 4. Ibid.
 5. See Section Two, Chapter One for more on this point.
 6. See Li Jingzhong, *Sino-Soviet Relations*, 1989.
 7. China has indicated that she is ready to join those countries claiming sovereignty over these islands in joint development. During the recent dispute with the Philippines in which China set up some structures and the Philippines responded by showing a group of foreign journalists to these islands, China showed such attitudes. See *Far Eastern Economic Review*, Vol. 158, No. 22, 1 June 1995, pp. 20--21.
 8. See reports in Zhongyang Ribao, 16--20 November 1993, p. 1.
 9. See Renmin Ribao, 20 November 1993, p. 1.

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