

# POLICY FORUM

Alternative Perspectives: Institution Building or Breaking?

## Introduction

### *“Alternative” Regional Institutions in Asia? A Cautionary Note*

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Asian regionalism is in a state of flux. Recent Chinese initiatives such as the Asian Infrastructure Investment Bank (AIIB), the new Silk Road, the Conference on Interaction and Confidence-Building Measures in Asia (CICA), and more broadly what some have called “China-led alternative institution-building in Asia,” could redefine the contours of Asian regionalism. China is not the only country to come up with new proposals and initiatives for Asian or Asia-Pacific regional cooperation. The United States has been pursuing its own idea of a Trans-Pacific Partnership (TPP), which has been joined by what some analysts see as a competing idea of Regional Comprehensive Economic Partnership (RCEP) that has the support of China and India.

But the Chinese initiatives deserve particular notice for two reasons. First, they represent the first serious efforts by China to take the initiative and lead in Asian regionalism. Until now, most Asian regional institutions were proposed either by the Association of Southeast Asian Nations (ASEAN), or by other Western powers. For example, the launching of the Asia Pacific Economic Cooperation (APEC) in 1989 can be seen as a Japanese–Australia initiative, with the involvement of American, Canadian, and Asian academics and policy intellectuals. China was a major sponsor, jointly with Russia, of the Shanghai Cooperation Organization (SCO), but this is only a limited sub-regional grouping that began as an offshoot of the break-up of the Soviet Union. China had little to do with the establishment of the ASEAN Regional Forum (ARF) in 1994, the ASEAN Plus Three (APT) process in 1997, or the East Asian Summit (EAS) in 2005. If anything, China was quite nervous about joining the ARF.

Second, during the early stages of its rise as an economic and military power, China was theoretically wedded to Deng Xiaoping’s famous dictum that “China should not lead” in world and regional affairs. This has already become obsolete in the last several years as evidenced by the growing number of Chinese regional and global initiatives, of which the AIIB is only the most recent. Financial institutions such as the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA), which are being set up by the BRICS (Brazil, Russia, India, China and South Africa), mark

the further erosion—and perhaps the definitive phasing out—of Deng Xiaoping’s dictum.

Of course, new Chinese initiatives may be seen to reflect not so much its leadership ambitions in Asia, but rather its desire to play a more active role in the region and the world, which is commensurate with its growing economic clout and status. These initiatives also reflect China’s frustration with existing regional and global financial institutions, especially the slow progress of reforming the International Monetary Fund (IMF), a process that has been significantly stalled by the U.S. Congress’s refusal to approve such proposals, including those put forward by the Group of 20 (G-20) nations in 2010. Moreover, by developing institutions aimed at financing infrastructure in Asia, China may be seeking to compensate for gaps in the infrastructure financing role of the Asian Development Bank and the World Bank.

Notwithstanding the above, do these Chinese-led initiatives constitute an alternative form of regionalism in Asia? Historically, Asian regionalism has been marked by a significant role for the ASEAN countries. For a region with some of the most powerful nations in the world, it is remarkable that Asia’s weaker players have driven the process of regional institution-building. ASEAN, as the saying goes, is in the “driver’s seat” of Asian regional institutions, especially the ARF and EAS. The AIIB challenges the principle of “ASEAN centrality” in the Asian regional architecture. This development has assumed greater significance in recent years as ASEAN’s leadership of Asian regional bodies has experienced challenges due to intra-ASEAN divisions, the growing power of the region’s bigger Asian players, especially China and India, as well as competition among the major powers.

However, calling this phenomenon an “alternative” form of regionalism may be going too far. The term “alternative” suggests a mutually exclusive relationship with existing regional institutions. But this is implausible given the overlap in the membership between China’s initiatives and existing institutions such as APEC, ADB, and the APT. “Parallel” regionalism might be a more apt description, but even here one has to keep in mind the fact of membership overlap. No Asian country is likely to withdraw from any of the existing regional institutions in order to participate in the AIIB. Unless Asian security order collapses due to Chinese expansionism and intensified Sino-U.S. competition, it may be more appropriate to view China’s new initiatives as “intersecting regionalism,” because they may end up in a roughly complementary relationship with existing regional and global institutions.

For example, the AIIB is within the framework of Asia’s “open regionalism.” Participation in the AIIB is not only open to any country in Asia, but also to nations outside of Asia. Germany, France, the United Kingdom, and Italy (all four of which are Group of 7 members) have already signaled their intent to participate in the AIIB.

Furthermore, the new Chinese regional initiatives are mainly in the economic arena. Even if these initiatives were to become highly successful, a Chinese takeover of Asian regionalism cannot be complete without a similar trend in Asia’s political and security

regionalism. To this end, China has advocated the CICA, but this initiative has gained little traction. Its call for “Asian solutions to Asian problems” has evoked suspicion (although, in my view, rather prematurely). More importantly, through the CICA, China seems to be building upon existing notions of “cooperative security” and “comprehensive security,” rather than introducing something dramatically new or peculiarly Chinese. The prospects for the CICA taking off anytime soon are not bright, particularly given the prevailing territorial disputes between China and many of its neighbors as well as the mistrust and apprehensions about Chinese intentions and power in the region. China can, of course, take steps to reassure its neighbors. However, making significant concessions on its territorial claims and accepting a much greater level of transparency about its military posture will be required to create the level of confidence necessary to attract countries to a China-led security institution. Thus, a broader security institution led by China remains a distant possibility. China has also been a leading player in the SCO, but its influence is balanced by that of Russia.

Finally, the success of these new initiatives is far from guaranteed. Much depends on the governance structure of these institutions. China must ensure that these organizations do not usher in a Chinese fiefdom in Asia, but rather conform to international norms and standards of transparency for such institutions. Success also depends on the level of trust between China and its neighbors, which are supposed to benefit from these institutions. And, as noted, China’s legitimacy as a regional leader faces many problems in this respect. Additionally, there is the question of how long China can sustain these institutions financially during a time of slower economic growth, as well as growing demands for increased internal social and welfare spending to satisfy its own people.

Against this backdrop, what should be the role of the United States in the AIIB and other Chinese-proposed regional bodies? The Obama administration’s negative response to the AIIB has been widely criticized, both inside and outside of the West. Yet, the Obama administration’s response is not new. This response is reminiscent of the George H.W. Bush administration’s outright rejection of the Malaysian proposal for an East Asian Economic Grouping (later renamed the East Asian Economic Caucus) in 1990, and the Clinton administration’s fierce opposition to Japan’s Asian Monetary Fund (AMF) proposal in the wake of the 1997 Asian financial crisis. The situation with China, however, is quite different. Japan, a U.S. ally, could put up with Washington’s heavy-handed response and abandon the AMF idea, at least in its original form. Unlike Japan, China’s willingness and ability to resist American pressure is far stronger today.

The United States and the West should abandon the liberal complacency that the existing international order founded and led by the United States after World War II can easily co-opt emerging powers like China. New initiatives in the region do not suggest that China is seeking to outright supplant the existing order. These initiatives do, however, indicate that China will demand changes and introduce new approaches that may significantly challenge the leadership and decision-making practices of existing global and regional institutions that have—until now—essentially served American and Western power and purpose. The Bretton Woods institutions and their regional

counterparts like the ADB need to either readjust in order to accommodate the aspirations of the emerging powers, or risk obsolescence.

Even if the United States continues to distance itself from these new initiatives, it can take a more nuanced approach towards new forms of Asian regionalism. The participation of its European allies actually creates a possibility of them playing the role of “good cop” to Washington’s “bad cop.” Washington should encourage its allies to use their participation in these new forums to ensure institutional transparency, accountability, and openness. In that way, the new bodies can be made “complementary” to the existing regional institutions, rather than creating “alternative” or “parallel” forms of regionalism that might lead to competition and conflict in Asia.

Washington remains obsessed with the TPP, which is unlikely to ever become a truly pan-Asian trade group without Chinese or Indian membership (the prospect of which appears minimal at this point). Perhaps the TPP might be called an alternative form of regionalism because of the high standards it demands regarding trade liberalization and because it is cast as an element of America’s rebalancing strategy (which also renders it unacceptable to China and controversial for those who would like to stay out of the Sino-U.S. competition). The United States might do well to drop linking the TPP with the rebalancing agenda and start constructively exploring other complementary forms of regionalism, which the Chinese-proposed groups may turn out to be.

If properly governed, the new institutions can have a positive effect, not only by picking up the slack in infrastructure funding from the ADB and World Bank, but also by putting more pressure on Western decision-makers, such as the U.S. Congress, to get serious about reforming existing global and regional institutions. These institutions also present a major test for China. In proposing such institutions, Beijing will be under intense international watch to deliver results. If China fails in this endeavor, its image and clout as an emerging global power will be seriously damaged for the long-term. Success in this case would require China to make significant adjustments to its regional policy by abandoning its expansive territorial claims and enhancing its military and economic transparency. If this happens, then Asia and the West, including the United States and indeed the entire system of global governance, will be the big winners from Asia’s new intersecting regionalisms.

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