

UNDERSTANDING 21ST CENTURY EAST ASIA: THE BIFURCATED REGIONAL ORDER AND COMPETING-HUBS THEORY

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In between China's economic takeoff in the 1980s and 1990s, the Asian Financial Crisis of 1997 and the emergence of ASEAN as a major trading bloc, the economic architecture in East Asia has undergone significant changes. Of the many changes, one of the more notable has been a shift in trade patterns from West to East—or, more specifically, from the US to China. Gone are the days when the US and Europe were the primary trading partners and export markets for countries in East Asia. Save for the European Union, Asia now accounts for the highest level of intra-regional trade in the world. The change in trade patterns is significant for the political economy of the region, particularly for the relationship between economics and trade. Despite the United States maintaining its position as a primary import market for finished products from East Asia, there has been a fundamental shift in the balance of economic power and political influence in the region. This shift highlights the effects of China-centered economic growth and a relative decline of American economic power and influence. With significant implications for the balance of power in East Asia, China has replaced the US as the number one market for Korean and Japanese exports and is ASEAN's top trading partner. The result of China-centered economic growth has been the creation of a bifurcated regional order: countries in East Asia are dependent on China for economic growth and the United States for security. China is exploiting this new regional order in order to increase its political leverage over its neighbors and balance against American power and influence. To accomplish its regional political and strategic goals, China is using its economic prowess to establish an alternative hub-and-spokes system within the shadow of the traditional America-centric hub-and-spokes system, known otherwise as the San Francisco System (SFS).

Shifting Economic Landscape: The Bifurcated Regional Order

To date, there has been much ink spilled regarding China's impressive economic growth since the implementation of Deng Xiaoping's economic reforms and the arrival of a "new" China on the world scene. An equal amount of writing

has been devoted to the debate surrounding the “Unipolar Era” and whether or not America’s time atop the pyramid of nations has come to an end.¹ This paper addresses both of these debates by looking at the implications of “China’s rise” in a region of the world with a long history of influence by American economic power: East Asia.

Since China’s economic takeoff in the 1980s and 1990s, and particularly following the Asian Financial Crisis of 1997 and the emergence of the Association of Southeast Asian Nations (ASEAN) as a major trading bloc, the economic architecture in East Asia has been undergoing significant changes. Of the many changes, one of the more notable has been a shift in trade patterns from West to East—or, more specifically, from the US to China. Gone are the days when the US was the engine of economic growth and primary trading partner and export market for countries in East Asia. Save for the European Union, Asia now accounts for the highest level of intra-regional trade in the world.

More significantly, China has replaced the US as the number one market for Korean and Japanese exports and is ASEAN’s top trading partner. Thus, for countries in East Asia, Hillary Clinton’s declaration that this is “America’s Pacific Century” sounds strange amongst the sounds of cargo ships and freighters docking to load and unload goods coming from and being shipped to China.² Repeated assertions that America is in terminal decline are probably exaggerated, but amidst its financial crisis, massive budget deficit, uncompetitive job sectors and political gridlock, the suggestion that this century will belong to China—and Asia more generally—has merit.³

The change in the structure of foreign trade for countries in East Asia has significant ramifications for the political economy of the region, particularly regarding the structure of East Asia’s economic architecture and the relationship between economics and politics in the region. The result of China-centered economic growth has been the creation of a bifurcated regional order: Countries in East Asia are dependent on China for economic growth and the United States for security. The objective of this paper is to explore the implications of the bifurcated regional order in East Asia.

Overall, this paper finds that China is exploiting the bifurcated regional or-

1 For a recent critical review of the “Unipolar Era,” see: “China’s Century? Why America’s Edge Will Endure,” *International Security* 36, no. 3 (2011/12): 41-78; and John C. Corrigan, “Whose Century Shall It Be?,” *Papers, Essays and Review* 4, no. 1 (Spring/Summer 2012): 159-162.

2 Hillary Clinton, “America’s Pacific Century,” *Foreign Policy*, November 2011, 2012, accessed May 29, 2012, http://www.foreignpolicy.com/articles/2011/10/11/americas_pacific_century.

3 For an objective review of the notion that this is the “Asian Century,” see Asia Development Bank’s publication *Asia 2050: Realizing the Asian Century* (Asian Development bank, 2011).

der by using its economic prowess to accomplish regional political and strategic goals through an alternative hub-and-spokes system within the shadow of the traditional America-centric hub-and-spokes system, known otherwise as the San Francisco System (hereafter referred to as the SFS).

The roadmap for the rest of this paper will proceed as follows: First, a brief recap of the traditional regional order under the US-centric hubs-and-spokes system is made for purposes of contrasting it with the emerging China-centric alternative. Second, the chief characteristics of the China-centric hub-and-spokes system are explored, much in the same way Kent Calder lays out and explores the chief characteristics of the SFS in his well-known 2003 article about the SFS.⁴ The paper will then conclude with a brief discussion of the implications the bifurcated regional has for Sino-US relations and security and stability in the region.

The San Francisco System: Economic-borne Security

According to Kent Calder, “the ‘San Francisco System’ refers to the comprehensive structure of interrelated political-military and economic commitments between the United States and its Pacific allies that were catalyzed by the San Francisco Peace Treaty process of 1950-51.”⁵ Although the SFS never achieved “true multilateralism,” it did result in the creation of an informal web of multi bilateral-alliances built on America’s economic prosperity. Based on the author’s own assessment, the following are the three most enduring characteristics of the SFS, amongst those originally presented by Calder: A network of formal security alliances between US and strategic states in the Asia-Pacific, a hub-and-spokes network of bilateral ties built on a highly asymmetric political and economic structure and the extension of economic benefits to security allies through the opening of the US market (as revealed in Table 1.1).

Motivation for the SFS centered around security concerns and Washington’s efforts, led by Secretary of State John Foster Dulles, to advance political and strategic goals in East Asia and the Pacific theater at large. The result of Washington’s effort to extend its political influence in the region was the infamous US “defense perimeter.”⁶ This defensive arch extended from Japan to the

4 Kent Calder, “Securing Security Through Prosperity: the San Francisco System in Comparative Perspective,” *The Pacific Review* 17, no. 1 (March 2004): 135-157, see esp. “Anatomy of the San Francisco System,” 138-139.

5 In the interests of space, all of the main characteristics of the San Francisco System are not covered. For a concise breakdown of the primary components, see: the section entitled “Anatomy of the San Francisco System” in Calder, “Securing Security Through Prosperity,” 138-139.

6 See: Dean Acheson’s speech to the National Press Club. Important excerpts can be found at <http://web>.

TABLE 1.1: PERCENT OF JAPANESE TRADE

	Japanese Exports			Japanese Imports		
	1934-36	1954	1956	1934-36	1954	1956
US	16	17	22	25	35	31
China	18	1	3	12	2	3
Korea/Taiwan	21	8	6	24	3	2
South/Southeast Asia	19	31	27	16	19	21

Source: Ministry of International Trade and Industry data; used by Calder in "Securing Security through Prosperity," 143.

southern part of Southeast Asia and south to Australia and would serve as an ideological—and at times actual—battleground between Communism and the US-led non-Communist Bloc.⁷ Although similar in some ways to US strategy on the European continent, the SFS differed in several crucial ways. The most pertinent to this paper's analysis is the use of asymmetric trading relationships to achieve political and strategic goals, the motivation for which came from Northeast Asia's particular political-economic situation at the time.

Through the SFS, the US sought to stem the tide of communism by building a bulwark against the influence and expansion of Communism. This was partly accomplished by ensuring that countries like Japan, Korea and other strategically located countries traded with America and not with other Communist states, most notably China. The economic component was not, as Berkeley Professor and experienced China-hand Lowell Dittmer rightly points out, clearly apparent to policymakers in Washington during the early years of the Cold War. In a conversation about the makeup of the system, Dittmer stated: "The SFS was at least initially conceived exclusively as a security system, the economic interdependence discovered only retrospectively."⁸ Though this may certainly be true, the fact remains that without prosperity, US attempts to "secure security" would have been exceedingly more difficult. Redirecting trade towards the American market, at considerable economic costs to America, ensured the achievement of

viu.ca/davies/H323Vietnam/Acheson.htm.

7 Calder, "Securing Security," 140-142.

8 Communiqué with Professor Lowell Dittmer.

this goal. In the words of Calder: “America accorded Japan unusually favorable (and highly asymmetric) trading and investment arrangements...that Europe did not enjoy.”⁹

With Japan, and other states of strategic value, the “[SFS] embodied a distinctive bargain: unusual and asymmetric US *economic* concessions to the host nation, particularly with respect to trade and investment access, in return for unusual and asymmetric *security* concessions from the United States...[I]n short, [the SFS involved] *definite economics for security tradeoffs*.”¹⁰ In other words, the US accomplished international political and strategic goals by inducing states in East Asia to realign their structure of foreign trade towards the American market and away from China and other countries in the Communist Bloc.

Like the US has done through the SFS throughout the decades since the end of the Cold War, China is linking trade to political goals through the establishment of its own hub-and-spokes system within the shifting economic landscape in East Asia. Although many similarities can be made between the two “hubs,” there are many fundamental differences. These differences are identified and explored in the sections that follow.

Shifting Economic Landscape: the Rise of a China-Centric Hub

Like the SFS, five key characteristics can be identified. The China-centric hubs-and-spokes system has six general characteristics. They are:

1. Regional dependency on China for economic growth, as revealed in the shift in trade patterns and the overall economic landscape in East Asia
2. A hub-and-spokes network of asymmetric trading relationships with countries dependent on China’s market for economic growth strengthened by the use of FTAs
3. The absence of formal or informal security alliances with spoke nations
4. An organizational system that excludes a security-focus and the United States
5. The use of economic coercion and inducement to achieve political and strategic goals

Although China is building particularly strong relationships with other countries in the region, the five characteristics of a China-centric hubs-and-spokes

9 Calder, “Securing Security,” 143.

10 Ibid., 144-145. [emphasis added]

system are particularly applicable to the region that includes ASEAN and the region's pivotal middle-powers: Japan and South Korea. These countries make up the majority of countries in East Asia.¹¹

Analysis of the recent shift in the economic landscape in East Asia based on China-centered economic growth highlight the first three characteristics of the China-centric hub: a shift in trade patterns revealing a change in dependency from the US market to the Chinese market; the use (or intended use) of FTAs as a means to strengthen already dependent trading relationships; and a preference for regional vehicles that exclude the United States.

Shifting economic landscape

Despite the United States maintaining its position as a primary import market for goods produced in East Asia, there has been a considerable shift in the balance of economic power in the region. As John Ravenhill points out: "what has occurred," particularly since the Asian financial crisis, "has been... a reorientation of trade patterns in response to the rapid emergence of China as the assembly plant to the world" and the emergence of "China-centric networks."¹² This shift highlights the effects of China-centered economic growth and the relative decline of American economic power and influence.

With significant implications for regional influence and the balance of power in East Asia, China has replaced the US as the number one market for Korean and Japanese exports and has become the number one trading partner for ASEAN member countries.¹³ The result of China-centered economic growth has been the creation of a bifurcated regional order. Or, as Donald Emmerson describes it from the perspective of Southeast Asia:

...back in 2003 America took in more than three times the share of ASEAN's exports absorbed by China—19 percent versus six percent. Seen from Southeast Asia, that American advantage over China has

11 ASEAN—which includes Cambodia, Indonesia, the People's Democratic Republic of Lao, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam—South Korea and Japan are the countries referred to as "East Asia" throughout this paper.

12 John Ravenhill, "Trading out of a Crisis," in *Crisis as Catalyst*, eds. Andrew MacIntyre, T.J. Pempel and John Ravenhill (Ithaca: Cornell University Press, 2008), 150.

13 This is clearly shown by the statistics used in later sections. For a second source, see: Justin McCurry, "Asia: China Replaces US as Japan's Biggest Export Market," *The Guardian*, August 22, 2008, accessed November 29, 2011, <http://www.guardian.co.uk/world/2008/aug/22/japan.china>. For a more detailed report on Japan's economy and its level of dependence on China (its number one trading partner), see the World Trade Organization's "trade profile" on Japan in its statistics database, <http://stat.wto.org/Home/WSDBHome.aspx>.

since disappeared. From 2003 to 2008, China's share of all Southeast Asian trade burgeoned at an astonishing average annual pace of 26 percent....[As a consequence,] the tendency in Southeast Asia is to think of Beijing and Washington as playing specialised roles: China the economic partner who facilitates prosperity, America the security provider who guards the peace.¹⁴

The bifurcation of the regional order is a phenomenon that has not gone undetected. Amy Searight, amongst others, finds that the US-centered hub-and-spokes system is giving way to a "competing hubs" system, wherein major powers with vested interest in the region are "vying to form competing 'hubs' by forging FTAs with multiple regional and trans-Pacific partners," with China as the clear leader of states that are challenging US primacy.¹⁵ Stated alternatively, East Asia is in a form of economic tug-of-war, with the US and China competing with each other for the position of dominant "hub state."

In a way similar to the US strategy during the Cold War, China is establishing a network of asymmetric trading relationships. This is, as indicated above, a primary characteristic of the China-centric hub-and-spokes system. As is revealed in the following analysis of the structure of trade for ASEAN, Japan and Korea, the pattern of trade in East Asia is undergoing a fundamental shift, underscored by a shift in dependency from the American to the Chinese market. Policymakers in Beijing are conscious of the shift in trading relationships and are consolidating Chinese market dominance with ASEAN, Japan and Korea through the strategic use of FTAs.

14 Donald K. Emmerson, "US, China Role Play for ASEAN," *Asia Times*, November 19, 2011, accessed May 21, 2012, http://www.atimes.com/atimes/Southeast_Asia/MK19Ae01.html. [emphasis added]

15 Amy Searight, "Emerging Economic Architecture in Asia: Opening or Insulating the Region?," in *Asia's New Multilateralism: Cooperation, Competition, and the Search for Community*, eds. Michael J. Green and Bates Gill (New York: Columbia University Press, 2009), 201. Also, as Searight shows, China is not alone in attempting to establish an alternative hub. Japan has through various trading agreements attempted to form stronger regional trading ties with other states in the region. Searight highlights Japan's efforts, following its recent FTA with Singapore, to form additional bilateral FTAs with Thailand, Malaysia and the Philippines. Japan hoped to establish a framework from which it could structure a larger multilateral Japan-ASEAN FTA, with the ultimate goal of incorporating China. Despite initial success with key ASEAN states, Japan has found it hard to complete more comprehensive trade agreements, because of negotiating roadblocks created by Japan's strong resistance to concede on sensitive areas, such as intellectual property rights (IPT) and its agricultural sector. Also, given its continued economic troubles and creeping demographic concerns, Japan is not likely to possess the necessary power and influence. See: Searight, "Economic Architecture," 200-201.

ASEAN

Between 2007 and 2008, a “great divergence” took place in Southeast Asia, specifically among the countries comprising the Association of Southeast Asian Nations (ASEAN). Until that date, apart from intra-ASEAN trade, the US had been ASEAN’s number one trading partner. However, due to the rapid increase in ASEAN-China trade, sped up by the phased implementation of ASEAN-China free trade agreement, the US fell behind China in total trade with the Southeast Asian trading bloc.¹⁶ As Tables 2.1 and 2.2 reveal, China has taken a clear lead over the US as ASEAN top trading partner. To capitalize on its growth in trade with ASEAN, China concluded a free trade agreement with ASEAN: the ASEAN-China Free Trade Area (ACFTA).

ASEAN-China FTA (ACFTA)

The ACFTA is the largest free trade area in terms of population and GDP and represents a milestone for China in the region. The ACFTA is, as David Shambaugh puts it, the “accord of greatest significance” for China, because it represents a change in the way ASEAN countries perceive China and the way China engages its neighbors.¹⁷ “China and ASEAN are forging a productive and lasting relationship that is gradually erasing a history built on widespread suspicion, painful memories, and lingering tensions.”¹⁸

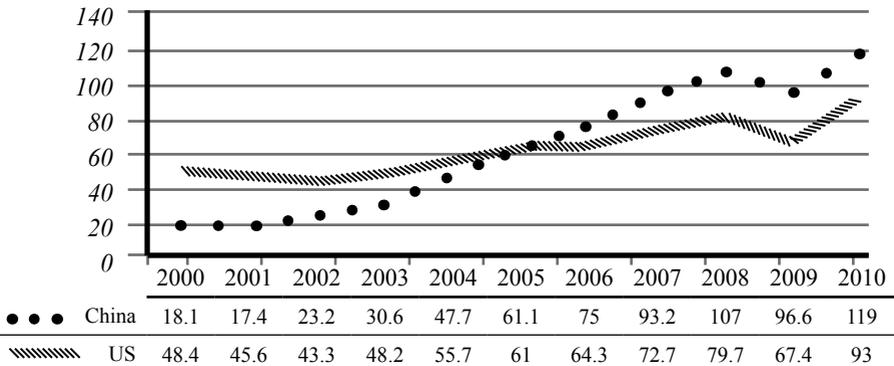
As part of a broader strategy to appease rather than threaten regional neighbors (see the section “Inducement Strategy” below), the ACFTA is certainly useful as a tool to patch-up ideational rifts caused by historical animosities. However, another likely reason that China’s neighbors are seeking closer economic ties with Beijing is the acknowledgement of China’s growing economic might and regional influence. As Shambaugh recognizes, the ASEAN countries “believe that China’s rise is inevitable and that the best strategy for ASEAN to hedge against potentially disruptive or domineering behavior, is to entangle

16 ASEAN Secretariat, “ASEAN-China Free Trade Area: Not a Zero-Sum Game,” *Association of Southeast Asian Nations*, January 7, 2010, accessed May 20, 2012, <http://www.asean.org/24161.htm>. Although the ACFTA did not come into “full effect” until January 1, 2010, an “Early Harvest Programme” went into effect as early as 2003 for some ASEAN nations. The Early Harvest, which saw the reduction or elimination on agricultural tariffs, greatly accelerated the speed of economic integration between ASEAN and China. See: Article 6 of the “Framework Agreement on Comprehensive Economic Co-Operation Between ASEAN and the People’s Republic of China,” Phnom Penh, November 4, 2002, <http://www.aseansec.org/13196.htm>.

17 David Shambaugh, “China Engages Asia: Reshaping the Regional Order,” *International Security* 29, no. 3 (2004/05): 64-99.

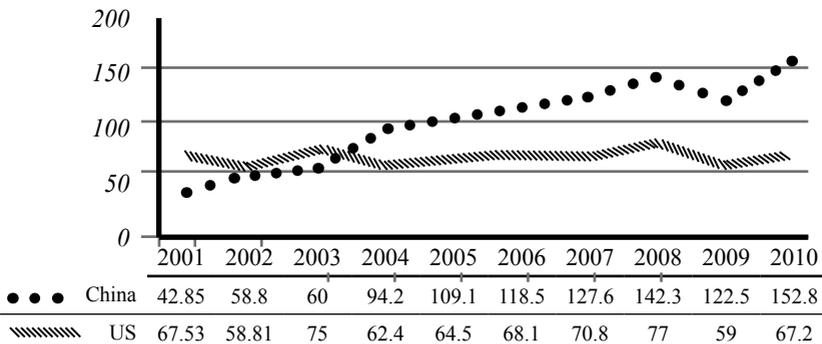
18 *Ibid.*, 76.

TABLE 2.1 ASEAN EXPORTS (\$ BILLION)



Source: ASEAN Merchandise Trade Statistics Database

TABLE 2.2 ASEAN IMPORTS (\$ BILLION)



Source: ASEAN Merchandise Trade Statistics Database

the dragon in as many ways as possible.”¹⁹ However, the effectiveness of such a strategy is likely to be limited, if effective at all. ASEAN member states are small and highly dependent on Chinese for trade and economic growth through highly asymmetric trading relationships (see the section “Dependency and Asymmetry” below). China’s strategy to deal with the shift in ASEAN trade patterns is to increase economic interdependence between the two through the

19 Ibid.

AFCTA as a way to consolidate its economic power and influence in the region. China specialist Robert Sutter finds that the ACFTA is an opportunity to cement closer trading relationships with ASEAN countries as means “not only to shore up China’s position relative to the United States, but also to place in a negative light trade initiatives from Japan, South Korea, and India, undergirding China’s leading position in the region.”²⁰

Japan and Korea

Between 2001 and 2003, exports to China increased nearly 50 percent (increasing by less than one percent to the US) while more than 32 percent of Korean exports were crossing the Yellow Sea and into Chinese docks.²¹ In 2002, Korea was for the first time since World War II primarily dependent on an economy other than the US for trade and economic growth. Korea had shifted its trade dependence to China. The same phenomenon has occurred in Japan.

After the turn of the century, Japan, like Korea, had become increasingly dependent on trade with China. Between 2000 and 2002, exports to China increased by more than 50 percent, and in the follow year an additional increase of another 25 percent, while exports to the US declined. Moreover, “by 2003, the value of Japanese exports to China and Hong Kong combined was more than 75 percent of the value of its exports to the US.”²²

Tables 2.3-2.6 show the shifts in trade patterns from America to China in the latter half of the decade. Since 2003, Korean exports to China have nearly quadrupled from \$35.1 billion to \$117.1 billion, while exports to the US have increased by less than 50 percent, moving from \$34.4 billion to \$49.9 billion. A similar trend persists for imports coming from China. Since 2004, China has made a clear break from the US as the number one market for imports. In 2009, imports from China were more than double that from the US. Although the year 2010 saw a slight decrease in the difference between Chinese and US imports, if the overall trend continues, a greater divergence is likely to occur.

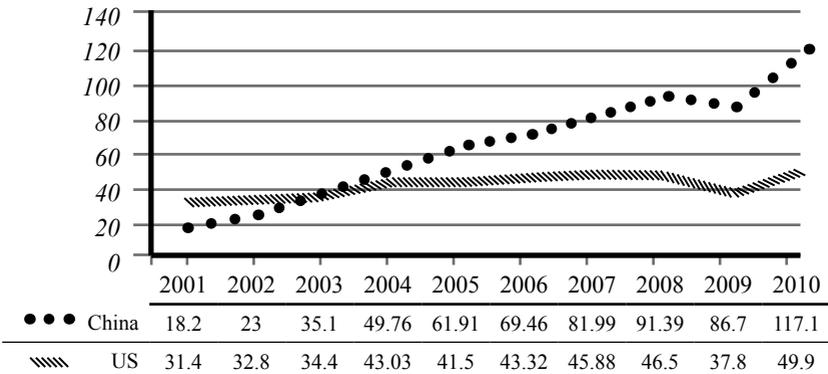
The overall shift for Japan, although not as pronounced as the Korean case, is perhaps of even greater significance. As Table 1.1 above shows, and Calder’s analysis of the SFS reveals, Japan represented the rock upon which the SFS was built—or as Yasuhiro Nakasone put it: America’s “unsinkable aircraft carrier in the Pacific.” Although Japan is not likely to cease being a major economic

20 Robert Sutter, *Chinese Foreign Relations*, 3rd ed. (Lanham: Rowman & Littlefield, 2012), 267.

21 Robert S. Ross, “Balance of Power Politics and the Rise of China: Accommodation and Balancing in East Asia,” *Security Studies* 15, no. 3 (2006): 360.

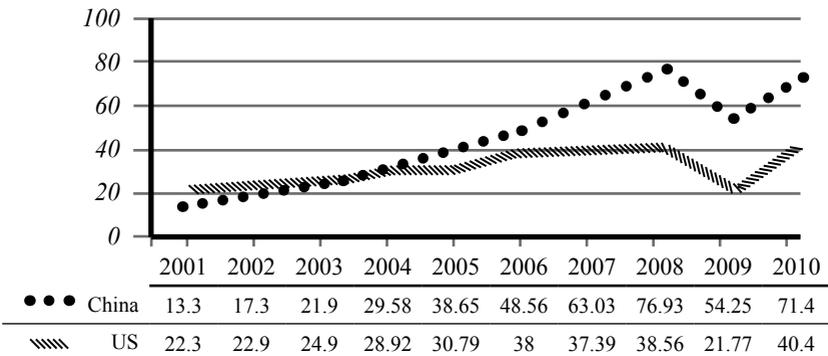
22 *Ibid.*, 377.

TABLE 2.3: KOREAN EXPORTS (\$ BILLION)



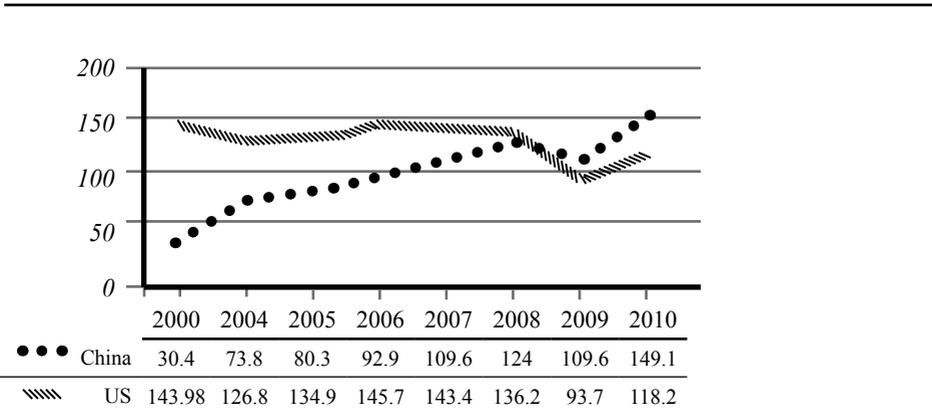
Source: WTO International Trade Statistics

TABLE 2.4: KOREAN IMPORTS (\$ BILLION)



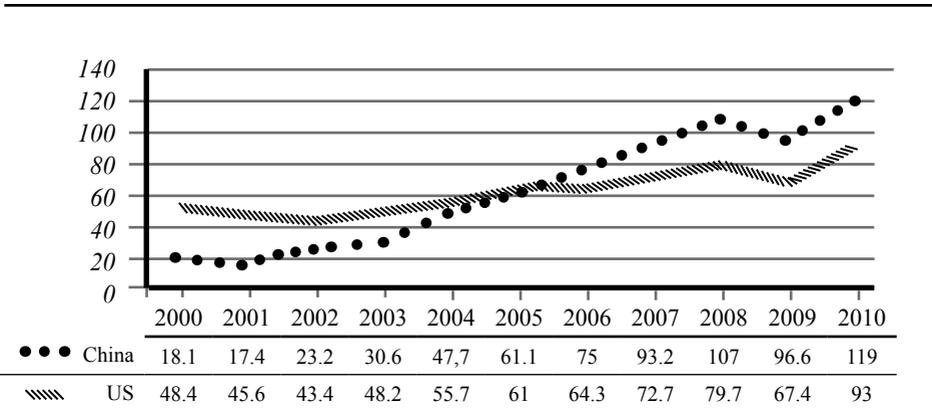
Source: WTO International Trade Statistics

TABLE 2.5: JAPANESE EXPORTS (\$ BILLION)



Source: WTO International Trade Statistics

TABLE 2.6: JAPANESE IMPORTS (\$ BILLION)



Source: WTO International Trade Statistics

trading partner and key US ally any time soon, there has begun an irreversible bifurcation of Japan's trade pattern—an unprecedented phenomenon in Japan's post-war economic history. As the table below indicates, Japan's trade—both exports and imports—are split between the world's two largest economies, thus making Japan a poster-child for the emerging economic architecture in the region—one split between China and the US, with a distinctive eastwardly trajectory.

Despite both being located in East Asia, Korea and Japan are different from ASEAN in one distinctive way: neither Japan nor Korea has signed an FTA with China. The lack of an FTA, however, may soon change for one or both of the vital middle powers in in the region.

China-Korea-Japan FTA prospects

Shortly after the signing of the US-Korea FTA (KORUS FTA), Beijing renewed its interest in FTA negotiations with Seoul, interest first communicated in 2004. Although much talk was made about the mutual economic benefits to each country, many news stories emphasized the strategic motivation behind Beijing's efforts to forge an FTA with its Northeast Asian neighbor.²³ One *Chosun Ilbo* story made no mention of economics, emphasizing instead the strategic implications of Korea signing an FTA with China. The headline of the article reads as follows: “FTA with China Could Have Geopolitical Ramifications.” In discussing the implications “beyond the realm of commerce,” the article makes the following claim:

The South Korea-China FTA could have a major geopolitical impact on Northeast Asia...Until now, the security landscape in Northeast Asia has been a Cold War-style standoff between the South Korea-US-Japan alliance on one side and China and North Korea on the other. But if the Seoul-Beijing FTA is signed and economic cooperation increases rapidly, this traditional framework would crumble.²⁴

23 Of course, an FTA is still a major commercial concern with projected economic benefits and losses. See: “FTA with China Finally Gains Traction,” *JoongAng Daily*, January 13, 2012, <http://koreajoongangdaily.joinsmsn.com/news/article/article.aspx?aid=2947036&cloc=joongangdaily|home|newslst1> (, accessed May 21, 2012); and “Seoul Must Proceed Warily in FTA Talks with China,” *Chosun Ilbo*, January 10, 2012, http://english.chosun.com/site/data/html_dir/2012/01/10/2012011001785.html (accessed May 22, 2012).

24 “FTA with China Could Have Geopolitical Ramifications,” *Chosun Ilbo*, January 11, 2012, http://english.chosun.com/site/data/html_dir/2012/01/11/2012011101423.html (accessed May 22, 2012). [emphasis added]

Policymakers in Beijing are certainly thinking along these lines as well. They understand that China's economic prowess is a means through which to mitigate US power exercised through the traditional SFS, which, as discussed above, was built upon the US using its large import market to affect Seoul's strategic calculus in a way favorable to Washington.

Trading away from US influence

Aside from efforts at negotiating a China-Korea FTA, policymakers in Beijing are also exploring the possibility of entering into negotiations on a China-Japan-Korea FTA. A trilateral FTA in Northeast Asia, initiated by China, is a move of obvious strategic motivation and indicative of another key tenet of the China-centric hub-and-spoke system: a preference for using regional organizations that excludes the US. Regional forums like the East Asia Summit (EAS), and the newly proposed Trans-Pacific Partnership (TPP), are not nearly as favorable to Chinese policymakers as an organization that includes only countries dependent on China's market and is *not* predominantly security-focused.

If China were able to successfully negotiate a tri-lateral FTA with Korea and Japan, it would result in China having an FTA with all of the countries that make up the ASEAN+3 (APT) regional forum. Having an FTA network with the countries of ASEAN, Korea and Japan would serve as a key stepping stone to the institutionalization of the APT regional framework. The APT is, to return to Emerson's analysis, "China's preferred regional vehicle" mainly because it "excludes the United States" and is not oriented around security-concerns.²⁵ Extending its economic influence over countries in East Asia is particularly important for China, because it has no formal—or informal—security alliances with countries in the region,²⁶ and thus cannot use "alliance influence" as a way to advance political and strategic goals, unlike the US through the SFS.²⁷

There are two general reasons that China does not have security alliances with regional powers. One: several of the states within China's spoke system are current US allies, and thus rely on the US for security.²⁸ Additionally, aside from the Shanghai Cooperation Organization (SCO), China has an informal policy

25 "US, China role play for ASEAN."

26 Technically, China has a mutual defense treaty with North Korea. However, North Korea is not included in this paper's analysis.

27 For an argument that the US used strong bilateral ties through security alliances as a way to influence allies' domestic and foreign policies, see Victor Cha, "Powerplay: Origins of the US Alliance System in Asia," *International Security* 34, no. 3 (January 2010): 158-196.

28 Countries in East Asia that have bi-lateral defense treaties include: Korea, Japan, Thailand, Singapore and the Philippines.

of not entering security alliances—bilaterally or multilaterally. Furthermore, it can be reasoned that, under current conditions, even *if* China sought to establish some sort of multi-bilateral system of alliances (like the SFS), or a broader multilateral security regime, opposition from the US and the lack of support amongst East Asian countries for greater security integration with China would likely prevent it.²⁹ In this regard, the SFS persists and is a key characteristic of the bifurcated regional order. Thus, given these conditions, it is in China's best interest to seek greater *economic* cooperation through an organization that neither focuses on security nor includes the US.

Dependency and asymmetry

As indicated above, the entire structure of East Asia's foreign trade—exports and imports—is now oriented towards China's market. As Table 2.7 shows, with the exception of Cambodia's exports, China ranks in the top five in both exports and imports (where data is available). Despite East Asia's dependence on China for trade, China is not similarly dependent on East Asia.³⁰ This is a key tenet of the China-centric hub: highly asymmetric trading relations. The data in Table 2.7 also suggests that countries closer to China geographically have a relatively higher level of dependency on China's market. Stated alternatively, geographic location determines the strength of the spoke's connection to the China hub.

Another important and often overlooked facet of trade dependency is the extent to which countries with asymmetric trading relationships are also dependent on trade for economic growth. Simply having an asymmetric trading relationship is one thing; having a highly asymmetric trading relationship *and* being dependent on trade for economic growth is another matter. In the latter

29 This view is captured well by a speech given by Richard Bush at a Brookings Institute event on January 31, entitled "Understanding the US Pivot to Asia." His speech, "The Response of China's Neighbors to the US 'Pivot' to Asia" can be accessed at: <http://www.brookings.edu/research/speeches/2012/01/31-us-pivot-bush>. For a uniquely East Asian perspective, see: Le Hong Hiep, "Vietnam: Under the Weight of China," *East Asia Forum*, August 27, 2011, <http://www.eastasiaforum.org/2011/08/27/vietnam-under-the-weight-of-china/> (accessed June 1, 2012).

30 Japan and Korea, as countries with highly developed economies and close proximity to China, do account for a significant portion of China's total trade, reflecting the extent to which Japan, Korea and China are economically interdependent. Japan is China's fourth largest destination for exports (7.7%) and the number one market for imports (12.7%); Korea is fifth in exports (4.4%) and third in imports (9.9%). However, as shown in Table 2.7, the relationship is still highly asymmetric when compared to the extent of China's reliance on Korea and Japan: China is still, by large, the larger of the two in Japan and Korea's trading relationship. For a more complete breakdown of China's trade, see: China's trade profile at the World Trade Organization's Trade Profile statistics, <http://stat.wto.org/CountryProfile/WS-DBCcountryPFHome.aspx?Language=E>.

case, the country dependent on another country for both trade and economic growth is also theoretically more vulnerable to the influence of the trading partner's economic influence. As established above, countries in East Asia have highly asymmetric trading relationships with China—but to what extent do they depend on trade with China to fuel economic growth?

Understanding dependence on trade for growth is particularly important for countries in East Asia, all of which have export-oriented economies. In fact, the Export-Oriented Industrialization (EOI) model is the foundation upon which the so-called “Asian Tigers” built their enormously successful economies.³¹ Given the structural bias towards exports to sustain economic growth, knowing the extent to which countries in East Asia depend on trade with China to sustain growth is an important second variable in understanding trade dependency.

One indicator of the extent to which countries rely on trade for economic growth is the Trade-GDP ratio. As Table 2.8 shows, countries in East Asia are, unsurprisingly, extremely dependent on trade for growth—albeit some more than others.³²

Thus, when viewed together, the pattern of trade and Trade-GDP ratio for countries in East Asia reveal that they have both asymmetric trading relationships and are dependent on China to sustain their economic growth. As discussed in the next section, there are significant political implications for asymmetric and dependent trade.

Dependency Strategies:

How China Uses its Asymmetric Trading Relationships

China's economic engagement with regional states is not primarily about forging closer relationships for purely commercial reasons, as Western-trained economists like to argue, or for ideational reasons, as some in ASEAN would like to believe. Policymakers in Beijing are confident that China's economic power can be used to further political and strategic goals in East Asia—the

31 The literature on the EOI model and the economic growth of countries in East Asia is well documented. For a good summary of a few of the major countries in the region, see: Stephan Haggard and Tun-jen Cheng, “State and Foreign Capital in the East Asian NICs,” in *Political Economy of the New Asian Industrialism*, ed. Frederic C. Deyo (Ithaca: Cornell University, 1967).

32 For a good benchmark, consider the trade-GDP ratio for countries of the OECD. In 2008, the ratio was 29%. Using this benchmark, only Japan and Myanmar could be considered as having “normal” levels of dependence on trade for economic growth. “OECD Factbook 2010: Economic, Environmental and Social Statistics,” *OECD iLibrary*, <http://www.oecd-ilibrary.org/sites/factbook-2010-en/03/01/01/index.html?contentType=/ns/StatisticalPublication,/ns/Chapter&itemId=/content/chapter/factbook-2010-24-en&containerItemId=/content/serial/18147364&accessItemIds=&mimeType=text/html> (accessed May 26, 2012).

TABLE 2.7 TRADE WITH CHINA: PERCENTAGE AND RANK

	Imports		Exports	
	<i>percentage</i>	<i>rank</i>	<i>percentage</i>	<i>rank</i>
ASEAN				
<i>Cambodia</i>	(not in top 5)		24.2	1
<i>Indonesia</i>	9.9	3	15.1	1
<i>Lao PDR</i>	—	—	—	—
<i>Malaysia</i>	12.6	2	12.6	2
<i>Myanmar</i>	—	—	—	—
<i>Philippines</i>	11.1	5	8.5	4
<i>Singapore</i>	10.3	3	10.8	4
<i>Thailand</i>	11	2	13.3	2
<i>Vietnam</i>	9.5	4	23.8	1
Korea	25.1	1	16.8	1
Japan	19.4	1	22.1	1

Source: WTO *International Trade Statistics, Country Reports for April 2012*

fourth characteristic of the China-centric hub-and-spokes system. As Thomas Christensen points out, throughout the period of explosive economic growth, “the Chinese leadership has kept an eye on the great power prize, has created strategic dependencies on China among its neighbors, and has prevented balancing coalitions.”³³ China is, like the US in the post-war world, setting up a network of strategic asymmetric trading partnerships in order to recreate the region in a way it sees fit.

Attention now is turned to how exactly China uses trade dependencies to achieve “the great power prize”—expanding its political influence and strategic position in the region. Understanding the use of economics for other ends, and not simply as a means of economic benefit, requires an explanation of the two ways China can exploits its trade dependencies for political and strategic purposes.³⁴

33 Thomas J. Christensen, “Fostering Stability or Creating a Monster: The Rise of China and US Policy Toward East Asia,” *International Security* 31, no. 1 (2006): 104.

34 The use of the terms “political” and “strategic” in reference to goals, purposes, and strategies can, at

TABLE 2.8 TRADE-GDP, 2008-2010

ASEAN	
<i>Cambodia</i>	128.2
<i>Indonesia</i>	49.5
<i>Lao PDR</i>	56.4
<i>Malaysia</i>	177.6
<i>Myanmar</i>	38.9
<i>Philippines</i>	68.2
<i>Singapore</i>	420.1
<i>Thailand</i>	138.2
<i>Vietnam</i>	154.4
Korea	107.3
Japan	30.9

Source: WTO International Trade Statistics, Country Reports for April 2012

Hirschman's national power and asymmetric trade

A close reading of Albert Hirschman's seminal work *National Power and the Structure of Foreign Trade* reveals two ways through which large states in asymmetric trading relationships can use trade as a means to achieve political and strategic goals: a coercive strategy and an inducement strategy.³⁵

The coercive strategy is taken by the larger state when it exploits the pattern of trade with the smaller state in a way that intimidates the smaller state into doing what the larger state wants. Hirschman conceptualizes this as follows:

If small state A trades with large state B, the total trade between them might only represent a small percent of large state B's exports and imports, but might account for a significant (over half or more) of small state A's. The severing of trade is infinitely more harmful to the smaller state, thus giving the larger state a significant amount of influence and 'coercive power' over the smaller state.³⁶

times, appear vague; the difference between a political and strategic goal is sometimes hard to decipher. In general, a political goal can be understood as one country's efforts to increase its leverage over the actions (usually the domestic political process) of another country, whereas a strategic goal can be understood as a country's effort to advance its geopolitical position vis-à-vis strategic competitors. Though these two efforts often overlap, they can be conceptualized as mutually exclusive (i.e. an increase in one does not necessarily result in the increase in another).

35 Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1980).

36 Hirschman, *National Power*, 29-37; 39-40.

The flip side to Hirschman's dependency coin focuses on *inducement* rather than coercion. Inducement is used when economic power in asymmetric trading relationships is used to influence the domestic politics of the smaller state through economic incentive. Through a process called the "constellation of incentives," large states use economic influence to redefine the smaller state's perception of its national interest.³⁷ The logic of this approach is as follows:

[B]ecause firms and sectors engage in patterns of activity based on economic incentives, and since this constellation of incentives will be transformed by [a trade agreement], the subsequent reshuffling of behavior will lead to new interests and the formation of political coalitions to advance those interests.³⁸

From a trade-influence perspective, the inducement strategy focuses on the ability of the larger state to incentivize the smaller state's domestic business into lobbying on behalf of the larger state's interests by providing access to a lucrative market for exports—a particularly attractive offer for businesses in the export-oriented economies in East Asia. This quote in an *Economist* article provides a concise conceptualization of the inducement strategy:

‘[A] salesman of [state A’s] exports in his own market’ becomes ‘a spokesman of [state B’s] interests with his own government.’³⁹

As Hirschman's *National Power* shows, there are two ways larger, economically more powerful states can use trade asymmetric trading relationships for political and strategic goals. As the examples below show, China is employing both strategies through its alternative hub-and-spokes system. A brief look at China's trade relationships with its "spoke" nations reveals both strategies at work.

37 Rawi Abdelal and Jonathan Kirshner, "Strategy, Economic Relations, and the Definition of National Interests," *Security Studies* 9, no. 1: 120-121; see also: Johnathan Kirshner, "States, Markets, and Great Power Relations in the Pacific: Some Realist Expectations," in *International Relations Theory and the Asia Pacific*, in John G. Ikenberry and Michael Mastanduno, 277.

38 Abdelal and Kirshner, "Definition of National Interests," 120-121.

39 *Ibid.*, 121; "The Aski Mark," *Economist*, August 12, 1939, 322, qtd. in Abdelal and Kirshner, "Definition of National Interests," 120-121.

Coercive strategy

Despite China's "peaceful rise" narrative, increasing tension surrounding issues like territorial disputes, tariffs and fishing rights has put China into a situation where it has chosen to use economic coercion as a means to assert its political leverage over its asymmetric trading partners (i.e. its spoke nations). Four incidents have been chosen to illustrate this point: the Korea-China "Garlic War" in 2000, the Sino-Japanese "Mushroom War" in 2001, China's response to a fishing boat incident with Japan in the waters around the Senkaku/Diaoyu Islands in 2010 and a recent dispute with the Philippines over the disputed Scarborough Shoal in the South China Sea show China's use of economic coercion to assert its political influence with countries that are export-oriented economies and have symmetric trading relationships with China.

In 2000, as a result of the decrease in the price of garlic, which greatly affected the politically influential farming population, the Ministry of Finance and Economy (MOFE), upon the recommendation of the Trade Commission and support from the Millennium Democratic Party (MDP), imposed full-fledged safeguards on Chinese imports of garlic.⁴⁰ In retaliation, China "imposed massive tariffs on South Korean polyethylene and mobile phone equipment, causing losses of nearly \$100 million to South Korean companies."⁴¹ Although the issue at stake during the Garlic War was tariffs, the highly disproportional response by Beijing was meant to send a clear political message: China is the more powerful of the two in the relationship and will use its economic as a means to assert its political authority.

According to Seoul National University professor Jae Ho Chung, "it appears that Beijing wished to use the occasion to pass on a message of strong warning to Seoul and other markets for Chinese agricultural exports" that China was not afraid to be an unfriendly trading partner if it meant increasing its political leverage over South Korea. China's outright rejection of Seoul's overture to compensate Beijing for its losses over garlic imports "best illustrates this point."⁴²

Another example of China's use of economic coercion is the "Mushroom War" with Japan in 2001. Like in the Korean case, China exploited its asymmetric trading relationship with Japan for political purposes: asserting politi-

40 Jae Ho Chung, "From a Special Relationship to a Normal Partnership: Interpreting Sino-South Korean 'Garlic Battle,'" *Pacific Affairs* 76, no. 4 (2003/2004): 555.

41 Ross, "Balance of Power Politics," 374.

42 Chung, "Garlic Battle," 557.

cal leverage over Tokyo. In June 2001, Tokyo imposed temporary import safeguards on Chinese leeks, shiitake mushrooms and reeds used in tatami mats. In response to Tokyo's actions, Beijing imposed a 100 percent duty on Japanese automobiles, cell phones and air conditioners. Like the response to safeguards imposed on garlic, the response by Beijing was anything but proportional. As Robert Ross points out, "the value of the Chinese sanctions on the Japanese goods was *seven times* the value of the Japanese sanctions on the Chinese goods and could have cost the Japanese automobile industry 420 billion yen in lost sales" had Japan not lifted the tariffs.⁴³

The next example, in addition to sending a political message, also contains an explicit strategic goal. In response to a Chinese fishing boat captain being taken into custody by the Japanese Coast Guard after failing to heed an order for inspection around the disputed Senkaku islands (Diaoyu in Chinese), the Chinese blocked exports to Japan of crucial rare-earth minerals, a vital material used in making electronic components and in tech-items such as handheld gadgets, hybrid cars, wind turbines and guided missiles.⁴⁴ China's response in this case indicates its willingness to use economic power as an instrument to protect and promote its "core interests"⁴⁵—a matter of the utmost strategic importance officials and policymakers in Beijing.

The last, most recent example revolves around another maritime dispute within China's core interest—this one in the highly volatile South China Sea—between China and the Philippines and, the fishing boat incident, contains both a political and strategic component. According to a *New York Times* article, a tense standoff in the waters around the Scarborough Shoal, an area claimed by both the Philippines and China,⁴⁶ precipitated the quarantine of Philippine banana imports—a primary agricultural export of the Philippines.⁴⁷ In response

43 Ibid. [emphasis in the original]

44 For documentation of the event see: Keith Bradsher, "Amid Tension, China Blocks Crucial Exports to Japan," *New York Times*, September 23, 2010, <http://www.nytimes.com/2010/09/24/business/global/24rare.html?pagewanted=all> (accessed December 16, 2011). For more detailed analysis, see: "Out But Not Over," *The Economist* September 24, 2010, http://www.economist.com/blogs/banyan/2010/09/chinas_spat_japan (accessed November 12, 2011).

45 The term "core interests," a term that is sometimes as nebulous as international law itself, generally refers to territories that China claims to hold absolute sovereignty over, e.g., it will not "give an inch" in negotiations regarding its right to sovereign control. These territories are traditionally understood to be Xinjiang, Tibet and Taiwan, though there has been an increase in the Chinese media of referring to the Diaoyu islands (currently occupied by Japan) and the South China Sea as falling within China's core interests.

46 China claims the territory, called Huangyan Island, whereas the Philippines' territorial claim is on the Panatag Shoal.

47 Jane Perlez, "Dispute Between China and Philippines Over Land Becomes More Heated," *New York*

to the attempted detention of Chinese fishermen caught by the Philippine Navy with “large quantities of illegal coral and fish,” the Chinese authorities “blocked the import of more than a thousand boxes of bananas” worth more than \$720 million. The “quarantine” is particularly damaging to the Philippine’s economy. Bananas are a primary exports of the Philippines, and China’s market is the second largest market for Philippine bananas after Japan’s.⁴⁸ Although officials from both sides claim that the issue is not related to the territorial dispute in the South China Sea, given China’s track record and the timing of the two incidents, correlation seems highly likely. Similar to the previous three cases, China is exploiting its asymmetric trading relationship with a spoke nation for political and strategic purposes.

Despite the examples cited above, Beijing has not only employed a coercive strategy towards its asymmetric trading partners. Through its New Security Concept (NSC), it has also been using inducement strategy as a means to realign the national interest of dependent spoke nations.

Inducement strategy

Like the SFS, the China-centric hub-and-spokes system, too, is part of a broader effort by Beijing to use economic inducement for broader political and strategic goals. In the aftermath of the Asian economic crisis in 1997, calls for greater regional cooperation were led by South Korea and China through the ASEAN+3 (APT) formula. China’s response for greater regional cooperation is found in its “New Security Concept” (NSC). The concept is, according to Robert Sutter, “a reworking of the Five Principles of Peaceful Coexistence that were the mainstay of moderate and accommodating phases in Chinese foreign policy for fifty years.”⁴⁹ Although initially suggested for the purpose of mitigating US power and influence in the region, the NSC developed beyond a security-only focus to emerge as a framework through which all trends in bilateral relations with other regional powers as part of a broader “peaceful rise” narrative and “good neighbor policy” that began in 2004.⁵⁰ More specifically, China used the

Times, May 10, 2012, http://www.nytimes.com/2012/05/11/world/asia/china-philippines-dispute-over-island-gets-more-heated.html?_r=1 (accessed May 25, 2012).

48 Didi Kirsten Tatlow, “Inside the China-Philippines Fight in the South China Sea,” *IHT Rendezvous*, May 15, 2012, <http://rendezvous.blogs.nytimes.com/2012/05/15/oil-nationalism-and-bananas-in-the-south-china-sea/> (accessed May 26, 2012); Agence France-Presse, “Philippine Bananas Impounded by China,” *ABS-CBN News.com*, May 12, 2012, <http://rp2.abs-cbnnews.com/business/05/12/12/philippine-bananas-impounded-china> (accessed May 26, 2012).

49 Sutter, *Chinese Foreign Policy*, 242.

50 For a good review of the origins of the “peaceful rise” narrative and China’s relationship with other

NSC framework to foster better conditions for commercial activity, particularly trade. In the case of Sino-South Korean relations, Sutter finds that the strengthening of bilateral ties resulted in stronger trade ties, specifically a pledge by both nations in 2004 “to seek a bilateral trade volume of \$100 billion by 2008” (a level already far surpassed). The NSC did not just promote better trade ties with South Korea. As clearly identified above, all countries in East Asia have increased trade with China.

The main point behind China’s NSC framework is fostering better commercial relationships with regional powers. Despite China downplaying the NSC as an alternative to “cold war thinking” or “power politics,” Beijing’s effort to foster better trading relationships has clear political and strategic goals. However, contrary to the coercive strategy analyzed above, the NSC framework embodies the inducement strategy of using economic influence rather than force. A more recent example of the NSC being invoked to promote greater regional cooperation is a November 2010 interview with China’s assistant foreigner minister, which, according to one CSIS *Comparative Connections* report “seemed to recall Chinese rhetoric in the late 1990s that took aim at US alliances in the Asia Pacific and other aspects of ‘Cold War thinking’ by the US in urging regional governments to reject the US approach and to support the [NSC].”⁵¹

Despite China’s pursuit of broader political and strategic goals, the NSC can be seen as invoking the lighter, non-coercive side Hirschman’s contention that the pattern of international economic relations affects domestic politics, insofar as it avoids the use of coercive economic behavior to convince trading partners to do business with Beijing. A case-in-point of the inducement effect is business opposition to Japanese Prime Minister Junichiro Koizumi’s repeated visits to the Yasukuni Shrine between 2003 and 2006.

Despite a strong sense of economic nationalism and a peculiar “dispensation from reflection,” regarding Japan’s wartime history, major business associations, including the *keidanren*, and the current Finance Minister, have emerged as vocal critics of Japan’s resistance to Beijing’s pressure regarding the public portrayal of military activities in China during World War II, revealed by their opposition to Koizumi visits to the Yasukuni Shrine.⁵² Kakutaro Kitashiro, head

countries, particularly the United States, see: Ming Xia, “‘China Threat’ or a ‘Peaceful Rise of China,’” *New York Times*, <http://www.nytimes.com/ref/college/coll-china-politics-007.html> (accessed May 29, 2012).

51 Robert Sutter and Chin-Hao Huang, “China Reassures Neighbors, Wary of US Intentions,” *Comparative Connections* (January 2011), http://csis.org/files/publication/1004qchina_seasia.pdf (accessed June 1, 2012).

52 Bennett Richardson, “Japanese to Koizumi: change tone toward China,” *The Christian Science Moni-*

of the Japan Association of Corporate Executives, is noted by one *Financial Times* article as saying that “Koizumi’s visits to the Yasukuni shrine [threaten] Japanese companies’ business prospects in China.”⁵³ Domestic business groups in Japan, given their high level of dependency on China’s market for profit and economic growth, are adverse to actions or decisions that put a strain on Sino-Japanese relations. In fact, in 2002, without exports to China, Japan would have experienced negative economic growth.⁵⁴ Sutter attributes the support for pro-business policies—meaning pro-Chinese policies—in Japan to the “broad forces of globalization” and the international trade regime; however, given Japan’s dependence on China’s market, the more likely reason is the profit-motive that induces domestic business groups to take a stance that advances its own interests. Or, as Sutter puts it: “Japanese business and other opinion leaders recognized” that Sino-Japanese friction “impelled Japanese enterprises to work more closely with China in order to achieve the advantages of economic scale needed to keep Japanese firms competitive in the international economy.”⁵⁵

Although not the result of a concentrated policy by the Chinese government to buy up special interests groups within Japan, the opposition by Japanese business is one example of the “constellation of incentives” at work through the NSC framework. Japanese business is, in effect, acting as an informal lobby, pressuring the Japanese government to adopt policies that China supports.

One other interesting case to explore is the concept behind what some scholars call Chinese “colonization” of states heavily dependent on trade with China. Jae Ho Chung, quoted above, discusses this issue in regards to the way countries in East Asia are responding to the rise of China. Using balance of power logic, Chung finds that countries in the region are, generally speaking, either “balancing” or “bandwagoning.” Of the countries bandwagoning, or accommodating, three countries that seem to be riding the rising influence of China are Myanmar, Cambodia and Laos—all countries that fall within the China-centric hub-

tor, June 1, 2005, <http://www.csmonitor.com/2005/0601/p04s01-woap.html> (accessed May 29, 2012). Ross, “Balance of Power Politics,” 377. Ross’ analysis suggests that the business opposition is in response to the use of coercive economic measures to enact concession and compliance from the Japanese government and domestic business. Although there is some truth to this assertion, when put in broader perspective, despite the use of high tariffs and other coercive measures, China has been pursuing an agenda based on fostering strong commercial ties through regional cooperation.

53 David Ibson, “Koizumi Visits to War Shrine Attacked,” *Financial Times*, November 26, 2004, <http://www.ft.com/intl/cms/s/0/791345a6-3f4f-11d9-8e70-00000e2511c8.html#axzz1wKbzdrKy> (accessed May 29, 2012). Qtd in Ross, “Balance of Power Politics,” 377.

54 Ross, “Balance of Power Politics,” 377.

55 Sutter, *Chinese Foreign Relations*, 232.

and-spokes system.⁵⁶ Contrary to other countries in the region, policymakers in Naypyidaw, Phnom Penh and Vientiane have not pursued a strategy of “entangling the dragon.” For these three countries, all of which have high volumes of trade with China (especially Cambodia), China’s “good neighbor” policy—part of the broader NSC framework—appears to have succeeded. This may be a consequence of geography, though. Contrary to other East Asian, Myanmar, Cambodia and Laos do not have territorial disputes with China in locations like the South China Sea and thus do not perceive China to be a security threat.

Conclusion

This paper has shown that China’s rise and the subsequent bifurcation of the regional order, reflected in the change in the structure of foreign trade for countries in East Asia, has resulted in the development of an alternative China-centric hub-and-spokes system within the shadow of the traditional American-centric hubs-and-spokes system. Furthermore, the attrition of America’s economic preeminence in the region has buttressed and sped-up the shift in the balance of power from Washington to Beijing. Contrary to the Cold War-era, during which the US was able to “secure security” through prosperity, the rise of China-centered economic growth has greatly altered the geopolitical landscape. This paper has also argued that China’s asymmetric trading relationships with countries dependent on China for economic growth are being used as a means to achieve broader political and strategic goals through the use of coercive and inducement-based strategies. Through the China-centric hub-and-spokes system, China has been able to assert its political authority in the region and balance against the influence of the United States absent any formal or informal security alliances.

There are, however, a few issues that are not discussed. One issue this paper does not address is the way in which the US is *responding* to the bifurcation of the regional order in East Asia and the erosion of its traditional source of power and influence in the region. With the potential for a renewed Cold War-era standoff, the US has through its “competitive liberalization” efforts and its “pivot” to Asia attempted to regain some of the influence it lost over the last decade. Policymakers in Washington are attempting to hedge against the loss of economic-borne influence in the region by employing the tactic currently used by Beijing: strategic trade agreements.⁵⁷ The signing of the KORUS FTA and

56 Jae Ho Chung, “East Asia Responds to the Rise of China: Patterns and Variations,” *Pacific Affairs* 82, no. 4 (Winter 2009/2010): 660-661.

57 Christensen, “Fostering Stability or Creating a Monster?” 114; for more on US trade policy in Asia, see:

efforts to promote the Trans-Pacific Partnership (TPP) in an age of China-centered growth suggests a future marked by “competing hubs” vying for preeminence in a bifurcated regional order.

Another key aspect not addressed is how countries that rely on trade with China for economic growth but on America for security are responding to competition between Washington and Beijing for the position as dominant hub. Although it may be too early to tell how states in East Asia are responding to their split allegiances, early indications seem to suggest that China’s overuse of economic coercion is pushing countries like Vietnam, South Korea and Japan towards closer relationships with Washington, despite their reliance on China’s market to sustain economic growth.⁵⁸ Although, for now, countries seem to be employing a hedging strategy, i.e. “co-engagement,” as a way to stay economically close to China while maintaining security-ties with the US.⁵⁹ However, if China overextends its hand in using economic power to achieve broader regional goals, it may lead to a strengthening of trans-Pacific ties between the US and countries in East Asia. This will, in turn, greatly increases the chances that the US will be able to implement a new, multilateral trade regime that does not include China, thus beckoning the question with which this paper will conclude: *whither the China-centric hub-and-spokes system?* **YJIS**

Evelyn Goh, “Southeast Asia Bright on US Radar Screen,” *Asia Times*, May 28, 2005. See: also the full draft cited in Steven C. Denney and Brian D. Gleason, “The Political Economy of Trade Policy in the KORUS FTA,” *London School of Economics and Political Science: International Affairs at LSE*, May 31, 2012, <http://blogs.lse.ac.uk/ideas/2012/05/the-political-economy-of-trade-policy-in-the-korus-fta/> (accessed June 1, 2012).

58 Ralph A. Cossa and Brad Glosserman, “The Illogic of China’s North Korea Policy,” *Center for Strategic and International Studies*, PacNet#32, May 17, 2012, <http://csis.org/publication/pacnet-32-illogic-chinas-north-korea-policy>.

59 “East Asia’s Response to China’s Rise,” 661.