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REPORT

# **The Geopolitics of East Asia: New Geometries of Competition and Cooperation**

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## The Geopolitics of East Asia: New Geometries of Competition and Cooperation

### Abstract

The present study aims to develop an analysis of how the fast-changing geopolitics and geoeconomics of East Asia impacts current and potential trends in cross-regional economic cooperation, with a focus on Latin America. The paper revolves around three anchor trends: i. The Economic Transformation of East Asia; ii. Security and Cooperation in the Pacific; and iii. Mega-Agreements. For each of these areas, the study provides a succinct yet analytical overview of current debates by incorporating both Western and non-Western perspectives from academe and policy.

East Asia finds itself at a crossroads. Along with its transformation and emergence as the new economic powerhouse, new sources of uncertainty are emerging, as are novel patterns of cooperation. China remains the central element shaping the region's economic, political and security dynamics, but it is by no means the only important actor. The ways in which China opts to interact with other states within the region—and, conversely, the response of Asian actors to China's continuing rise—shapes patterns of cooperation, competition, and contestation in the region that reach far beyond the area conventionally known as East Asia.

The three anchor trends analyzed provide the basis for three prospective scenarios, in which different configurations of power are laid out for East Asia over the next two decades. The first entails regional hegemony by China; the second, regional bipolarity with China and Japan as the main actors; and the third, regional multipolarity marked by shifting centers of gravity and changing alignments. In turn, each of these scenarios has a particular set of implications for Latin American actors, from states to private sector firms and non-governmental organizations.

The complexity of the scenarios prompt more questions than allow for fixed conclusions. These changing geometries of competition and cooperation in East Asia (and more broadly, in Asia as a whole) are important to Latin American actors not only because they will shape opportunities in trade and investment, but also because new sectors and market niches will open up (or, in some cases, close down). The paper intends to launch deeper debates about how East Asia's rapidly changing landscape of power may translate into opportunities and challenges for Latin America. It thus closes with a set of key questions for further discussion and research as follows:

How does Latin America view the interests and cooperation styles of their Asian counterparts, and how do they understand the relevance of the geopolitical and geoeconomic transformations in shaping ties between Latin America and East Asia?

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Conversely, how does Asia view their Latin American counterparts, and how do they perceive challenges and opportunities in the region?

What policy channels can be created and institutionalized in Latin America to better deal with the changing landscape in Asia?

To what extent would tensions between China and the US affect Chinese access to Western markets?

Can regional and global supply chains be affected by the political tensions outlined in this paper? If so, what would be the main impacts?

Given the importance of geopolitics, what role should Latin American governments, including that of Brazil, play in shaping economic relations with East Asia (and, more broadly, Asia)?

How can a wide gamut of actors from government, private sector, and civil society in Latin America be better prepared and engaged with Asia?

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## I. Introduction

Latin America and East Asia may be located on opposite sides of the globe, but over the past fifteen years, this geographic distance has mattered less and less. A broad consensus has emerged among international relations experts and practitioners that the geopolitical importance of East Asia has increased since the turn of the millennium, for two interrelated reasons. First, experts perceive intensifying threats to the region's stability and security, most of them primarily regional but with potential spillovers beyond this space. Second, East Asia is increasingly viewed as a space of economic opportunity and political cooperation. The emergence of regional and trans-regional agreements covering trade, investments, and other areas reflects not only East Asia's interdependence with other regions, but also the vast potential for further cooperation with actors outside East Asia, including those in Latin America.

Economically, East Asia has become an important source of trade and investments in Latin America, with locations across the continent increasingly considered by East Asian corporations as current or potential distribution hubs for a wide array of manufactured goods<sup>i</sup>. In addition, East Asia continues to be viewed as a hotbed of development policy innovation that can yield important lessons for Latin American countries. On the political side, relations between Latin American countries and their East Asian counterparts have also deepened, not only through bilateral relations but also, increasingly, through multilateral arrangements, including loose coalitions like the BRICS and the Forum of East Asia-Latin American Cooperation (FEALAC). Finally, within international security, Latin America increasingly cooperates with East Asian countries and companies, for instance through defense agreements and military equipment purchases.

However, these ties are far from homogenous, and their precise consequences for Latin America have become the subject of sharp controversies. For instance, some critics of the Trans-Pacific Partnership (TPP) warn that, since the agreement centers on the Pacific, it may contribute toward a growing cleavage among Latin American countries on the continent's opposite shores. There are also ongoing debates about whether East Asia's role in Latin American economies (particularly that of China) constitutes a new wave of dependency. Adding to the uncertainty is the present context of economic turbulence in parts of Latin America as well as considerable slowdown in some of the key East Asian economies.

This paper has two main objectives. The first is to draw on the existing literature, both academic and policy, to analyze the contemporary geopolitics of East Asia, focusing on East Asia<sup>ii</sup> during the past fifteen years. The intent is not

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describe the region's short-term oscillations, but rather to map and analyze those “structural elements”—i.e., the historically rooted configurations of cooperation and tension that have defined the region's geopolitics and geoeconomics, and that are likely to do so in the next twenty years. Looking ahead, the basic premise is that, just as they help to explain many of the changes observed in the region over the past two decades, so will these essential pillars shape the broad configurations of Asian geopolitics, both cooperation and competition, over the next twenty years.

The paper's second objective is to hone in on key regional trends that are of particular importance to Latin America. To this end, the paper focuses on three anchor trends. The first is the **Economic Transformation of East Asia**, and in particular the reforms and policy adaptations under way (or being attempted) in major economies of the region. The second trend concerns **Security and Cooperation in the Pacific**—not just hotspots of deepening conflict, but also the most promising arrangements for peaceful cooperation. The third anchor trend encompasses **Mega-Agreements** that suggest major emerging geopolitical realignments, including the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP), and China's One Belt, One Road initiative.

The paper is structured as follows. The next section provides an overview of the “return” of geopolitics in Asia, drawing on recent academic and policy sources to outline the broad changes in economic and political power in recent years. In the final section, the paper offers three possible scenarios emerging in Asia over the next two decades—each characterized by a different center of gravity—and notes some of their implications for Latin American stakeholders. The conclusion summarizes the key takeaway points and poses questions prompted by the analysis.

## II. East Asia Viewed Through a Geopolitical Lens

Geopolitics, once at the core of international relations thinking, was widely assumed to have lost relevance with the end of the Cold War as the ideological rivalry between the Eastern and Western blocs abated. Specialists turned away from geopolitical considerations that focused on states towards issues of world order and global governance, international development, trade liberalization, nuclear nonproliferation, human rights, and climate change. Inter-state conflict had become less common after the collapse of the Soviet Union, but other types of violence were on the upsurge, with non-state actors, including extremist groups, as rising protagonists. While the relevance of the state was not abolished, it seemed to have lost steam relative to other actors. The geopolitical lens began to seem oddly anachronistic—a relic of the Cold War.

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Over the past few years, however, geopolitics as a lens through which to understand international affairs has experienced something of a renaissance. As Mireya Solis of Brookings Institution put it, “The return of geopolitics is all around us<sup>iii</sup>.” Walter Russell Mead summarized the year 2014—during which Russia annexed Crimea, the rivalry between China and Japan intensified over uninhabited islands in the East China Sea, and Iran built up alliances with Syria and Hezbollah—with the phrase, “geopolitical rivalries have stormed back to center stage.<sup>iv</sup>” Others announced that the annexation of Crimea by Moscow signaled the arrival of a new Cold War<sup>v</sup>.

Academics were not the only ones announcing the rebirth of geopolitics (or its close cousin, geo-economics—the spatial, temporal, and political aspects of economies and resources). Policymakers and political leaders also adopted a geopolitical language. German Foreign Minister Joschka Fischer, for instance, called on Europe to recognize that it must “take care of its geopolitical interests” in order to avoid future crises from spilling over into European space.<sup>vi</sup>”

Some scholars have attributed the resurgence of old-fashioned geopolitical thinking to the revisionist orientations of China, Iran, and Russia, which some believe have never accepted the “political settlement of the Cold War” and instead work to change the post-Cold War balance of power in the process, contributing towards instability of the system. Others note that, even if geopolitics has indeed “returned,” the rules of the game have changed. One difference concerns the geography of global power, whether measured along economic, military, or other lines. A 2012 report by the McKinsey Global Institute argued that the economic center of the world—measured by weighting national GDP by each nation’s geographic center of gravity—has shifted from the North Atlantic, reflecting the economic rise of the United States, back towards Central Asia. By 2025, the report estimated, the economic center of gravity will return to a spot in Central Asia, reflecting not only the economic rise of India, China, and other Asian countries, but also the economic troubles besetting Europe and the United States<sup>vii</sup> (see Figure 1).

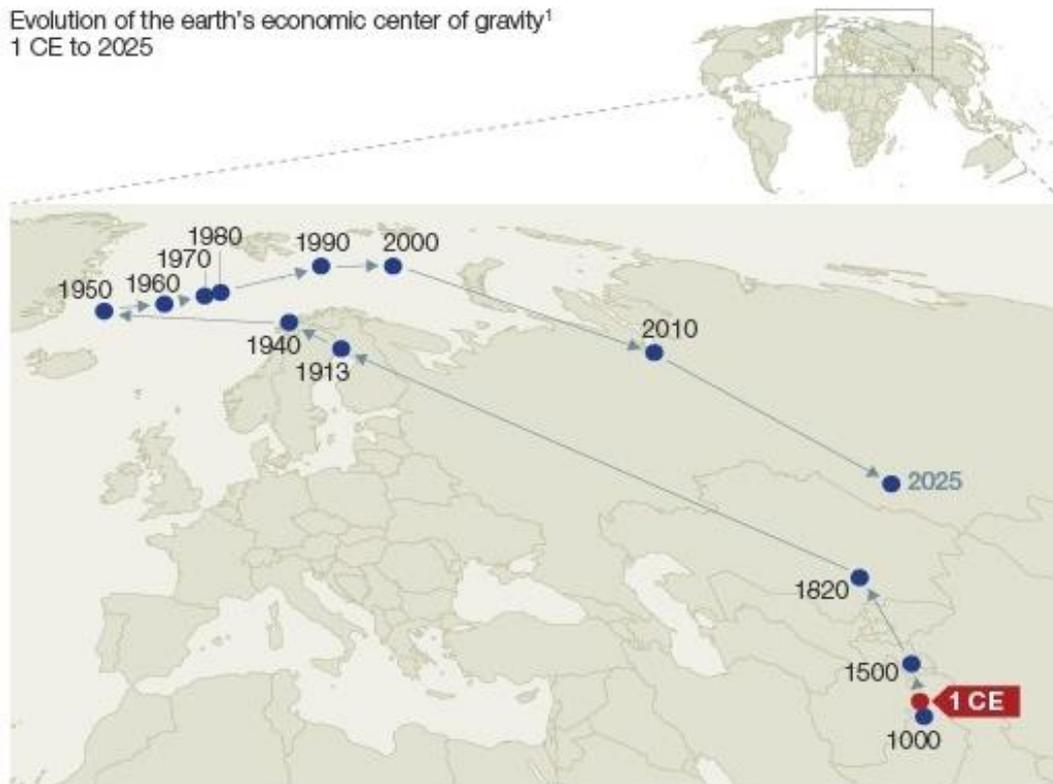
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Evolution of the earth's economic center of gravity<sup>1</sup>  
1 CE to 2025



<sup>1</sup>Calculated by weighting national GDP by each nation's geographic center of gravity; a line drawn from the center of the earth through the economic center of gravity locates it on the earth's surface. For detailed analysis, see the appendix in the McKinsey Global Institute (MGI) report *Urban world: Cities and the rise of the consuming class*.  
Source: MGI analysis using data from Angus Maddison, University of Groningen; MGI Cityscope v2.0

A 2015 IMF report noted that, while in 2000 Asia-Pacific accounted for less than 30% of world output, by 2014 this contribution had risen to nearly 40%. A 2012 US intelligence report went even further, suggesting that, by 2030, Asia would have more “overall power” than the US and Europe combined, taking into account population size, GDP, military spending and investment technology<sup>viii</sup>. In demographic terms alone, Asia is already a giant: in 2013, the total population of the Asia-Pacific region reached 4.3 billion, which represents 60% of the world's population. The region is also home to the two most populous countries in the world: China (with 1.4 billion) and India (1.25 billion). Although overall population growth in the region has been slowing down (0.96% per year), different speeds of population growth in Asia's subregions will transform Asia's demographic composition. Notably, slowing growth and unprecedented ageing rates in parts of the region will shift the most densely populated areas from East

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and North-East Asia to South and South-West Asia, and with urbanization taking place at an accelerated rate, both within and outside of China<sup>ix</sup>.

In terms of wealth distribution, one of the most salient aspects of Asian growth is the continuing expansion of the middle classes—a phenomenon that builds on the gains made by countries like South Korea in the second half of the 20<sup>th</sup> century. The Organization for Economic Cooperation and Development (OECD) has shown that the bulk of the expanding “global middle class” is located in Asia, and it estimates that by 2030, the region will represent 66% of the global middle-class population, as well as account for 59% of middle-class consumption.

With respect to trade, Asia has become a hotbed of dynamism, both for intra-region trade and for its commercial ties to the rest of the world. On both counts, China clearly dominates this story. Asia’s total imports rose to over \$1 trillion in 2014 from \$262 billion in 2000. Yet the share of Asian countries’ imports from China more than doubled during this period, while the share of Japan and the US in Asian imports approximately halved<sup>x</sup>.

Thanks in part to these trends, the region is widely viewed as holding enormous potential for further growth and development. For this to happen, however, some major bottlenecks have to be addressed. The Asian Development Bank (ADB) has estimated that Asia must spend \$8 trillion on infrastructure alone before 2020 so as to maintain its levels of economic growth and the population’s living standards. If the right projects are implemented, people across Asia stand to benefit from an additional \$4.5 trillion in income until 2020, and another \$8.5 trillion afterwards<sup>xi</sup>. According to data from the World Economic Forum (WEF), the Asia-Pacific region is presently home to three of the 10 most competitive economies—Singapore, Japan, and Hong Kong. And another three Asia-Pacific states (Taiwan, New Zealand, and Malaysia) appear in the top 20<sup>xii</sup>. Tables 1 and 2 (below) show the GDP ranking of six East Asian Economies from 2011 to 2015, both within Asia and within world rankings, as well as of 12 South Asian economies:

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### EAST ASIA GDP RANKINGS<sup>xiii</sup>

Rank Asia	Rank World	Country	2011 GDP (PPP) billions of USD	2012 GDP (PPP) billions of USD Forecast <sup>[2]</sup>	2013 GDP (PPP) billions of USD Forecast <sup>[3]</sup>	2014 GDP (PPP) billions of USD Forecast <sup>[4]</sup>	2015 GDP (PPP) billions of USD Forecast <sup>[5]</sup>
1	1	 China <sup>[note 1]</sup>	\$11,316.224	\$12,164.940	\$13,198.960	\$14,320.870	\$15,538.150
3	4	 Japan	\$4,395.600	\$4,507.970	\$4,599.200	\$4,692.270	\$4,787.230
4	12	 South Korea	\$1,556.102	\$1,616.790	\$1,703.420	\$1,795.930	\$1,897.170
8	19	 Taiwan	\$886.489	\$921.062	\$956.984	\$994.306	\$1,033.084
33	96	 North Korea	\$40.000				
45	138	 Mongolia	\$12.609	\$13.330	\$14.860	\$16.570	\$18.470
		<b>Total</b>	<b>\$18,207.02</b>				

### SOUTH ASIA GDP RANKINGS<sup>xiv</sup>

Rank World	Country	2015 GDP (PPP) in USD CIA factbook est.
8	 Indonesia	\$3.04 trillion
21	 Thailand	\$1.15 trillion
29	 Malaysia	\$859,881 billion
30	 Philippines	\$793 billion
36	 Vietnam	\$592 billion
42	 Singapore	\$484 billion
45	 Hong Kong	\$414.6 billion
56	 Myanmar	\$311 billion
99	 Macau	\$65.38 billion
108	 Cambodia	\$59 billion
116	 Laos	\$40 billion
124	 Brunei	\$32 billion

The size and dynamism of many of these economies, in addition to their role in international trade, mean that any significant changes in patterns of

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regional wealth and cooperation would have global repercussions, not just economically but also politically.

From a security perspective, this chapter in Asian geopolitics involves not only hotspots of rivalry and instability, but also configurations in military cooperation. As will be discussed further along in this paper, even as territorial disputes over Pacific islands have sharpened and China openly disputes the predominance of the United States in the region's security architecture, there are also new, state-led efforts to cooperate bi- and multilaterally, both on economic and security issues. Deepening relations between Beijing and Moscow, which had kept each other at arm's length since the Sino-Soviet Alliance of the 1950s, suggest that some of the region's key actors are rethinking their relationships to one another as well as to external actors.

Yet the novelty of these trends should not be exaggerated; East Asia, after all, has long been of global importance. Even during the Cold War, Japan and smaller states in the region, especially the Asian Tigers, showed that it was possible to foster economic growth and development through a combination of state-sponsored industrialization, export-oriented manufacturing, and social policies<sup>xv</sup>. These countries were held up as sources of inspiration for the rest of the developing world and offered hope for strategic insertion into the global economy. In terms of security, the US has maintained its position as the top military power in the region, and remains so by a significant gap. However, its armed forces have been subject to extensive budget cuts and troop reductions, even as other states, including China, amass and diversify their hard power. The Global Firepower Ranking, which does not take nuclear arms into account, lists three East Asian countries among the world's top ten military powers: China, South Korea, and Japan<sup>xvi</sup>. It is also relevant that, among nuclear powers, China and Russia are both Non-Proliferation Treaty (NPT) states, while India developed nuclear arms capacity more recently; North Korea possesses nuclear weapon capacity but withdrew from the NPT in 2003 and is broadly considered to be a non-compliant state when it comes to international norms and regimes more broadly.

Politically, East Asian countries have also become more relevant players, not only bilaterally but also multilaterally, both as active members of established international organizations (most notably, China is a permanent seat holder at the UN Security Council and has become a key contributor to the Bretton Woods Institutions) and as participants in loose coalitions that have emerged in the post-Cold War era, such as the BRICS (Brazil, Russia, India, China, and South Africa) and the Group of Twenty (G-20). Japan, South Korea, and Turkey are the only Asian members of the OECD. On certain topics, such as climate change and sustainable development, East Asian countries are viewed as essential players,

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not only due to their vulnerability to global warming, but also because of their growing role in global efforts to reduce emissions.

However, one angle is still missing from the surge in geopolitical studies of the region: a Latin American perspective on contemporary East Asian geopolitics. While there is a burgeoning literature that looks into bilateral relations between individual Latin American states and their Asian counterparts, of that occasionally casts a glance at multilateral efforts such as the Pacific Alliance, by and large this knowledge has overlooked structural changes within East Asia (or, more broadly, Asia) and its implications for Latin America. Filling this gap is particularly pressing because—geographic distances notwithstanding—Latin America and East Asia are increasingly connected economically, politically, and militarily, and this interdependence is marked by shifting asymmetries.

A variety of factors have driven the intensification and diversification of these ties over the past fifteen years. They include the expansion in maritime trade, the globalization of East Asian corporations, the activist role of some Asian governments, such as those of China, Japan, and South Korea in opening doors and facilitating cooperation, and the emergence of new technologies enabling actors on opposite sides of the planet to interact more efficiently.

On the economic front, East Asian countries increasingly rely on Latin American metals to expand their “global factory” function and on agricultural products to enhance the food security of their population, including their expanding middle classes. Given the complementarity of Asian demands and Latin America’s production of commodities, it is not surprising that interregional trade, which was almost insignificant in the 1990s, more than doubled over the past decade, reaching a peak of more than US\$500 billion in 2013. What’s more, these flows have proven relatively resilient in times of systemic crises. When the global financial crisis struck in 2008-9, these commercial and investments weathered the economic turbulence with considerable resilience, in some instances reaching higher volumes than during the pre-crisis years. Asian Development Bank specialists described East Asian-Latin America trade as a “safe haven” from declining markets in industrial economies<sup>xvii</sup>.

Latin America also represents a significant regional market for Asian industrial goods and foreign direct investment, particularly given its own expanding middle classes and “untapped markets” for manufactured goods. In addition, some Latin American countries are increasingly viewed as a promising distribution hubs for markets within and beyond the region. For example, in Mexico, Chinese investors planned a major development that would serve as a distribution hub for Chinese products, with exhibition spaces for a vast array of manufactured goods. The project was inspired by the example of another Dragon

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Mart, set up in Dubai in 2004, which functions as a sales hub for the Middle East. However, in 2013 work on the \$200 million-dollar Cancun Dragon Mart megamall was suspended by the Mexican government due to allegations of widespread environmental impact<sup>xviii</sup>. The idea of using Latin America as a distribution hub has also been incorporated into recent cooperation agreements. Japan and Uruguay have signed a bilateral investment deal in which the latter is framed broadly as a distribution hub for Mercosur's larger market, acknowledging that "many Japanese companies are highly interested in the country as an overseas base through which to develop business.<sup>xix</sup>" These instances have prompted some Latin American countries to vie for Chinese investments that will specifically enhance their capacity as distribution hubs for the region.

Broadly put, these multiple ties mean that East Asian geopolitics and geoeconomics matter to Latin America both directly and indirectly. First, East Asia's economic, political, and security trends can directly impact Latin American actors, for instance, when inter-state tensions threaten maritime trade routes carrying commodities and manufactured products between the two regions, or when the implementation of new economic policies drives changes in Asian consumption patterns, in turn affecting Latin American commodities exports. But dynamics in Asia can also have strong implications for Latin America in roundabout ways, for instance through the effect they have on global governance, world markets, and the behavior and strategy of global powers, especially the US and Western European actors. Both types of links—direct and indirect—can generate hurdles and opportunities for Latin American actors, often simultaneously.

#### *a) The Economic Transformation of East Asia*

During the past four decades, East Asia has grown faster than any other region in the developing world. In 2014, the GDP of East Asia and the Pacific (as defined by the World Bank) grew 6.9%, and the projection for 2015 hovered around 6.7%<sup>xx</sup>. At the same time, East Asia is important to the global economy as a space of qualitative innovations in economic policies, with several countries that were once predominantly rural and poor making remarkable transitions to modern industrial and service economies over the course of a few decades. Three aspects of this transformation are particularly noteworthy: these countries' heavy reliance on globalization; the heterogeneity of development experiences across the region; and the incomplete nature of the transformations that have taken place, with many hurdles to implementation.

From the early 1960s to the 1990s, the rise of the Asian Tigers, three of which are in East Asia—Hong Kong, South Korea, and Taiwan (the fourth Tiger is

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Singapore)—involved accelerated GDP growth rates (above 7% annually) and ambitious industrialization initiatives. By the turn of the millennium, these four countries had become high income economies, with Hong Kong and Singapore specializing in finance while South Korea and Taiwan focused on manufacturing and information technology. The Asian Tigers have since been held up as development models to be emulated: those four countries showed that significant advances could be made through investments in poverty reduction, capacity-building, and technological innovation, along with a strategic insertion into regional and global economies.

The economic rise of Japan overlapped with that of the Asian Tigers, although it had deeper roots: Japan had undergone extensive industrialization in the late 19<sup>th</sup> century during the Meiji Restoration. Despite being on the losing side in World War II, the country experienced high growth levels in the post-war period. This economic boom was jumpstarted by aid from the United States but given momentum by the Japanese government, especially the Ministry of International Trade and Industry (MITI) and its highly interventionist export-oriented policies.

Starting in the 1980s, Japan began running into roadblocks as stock and real estate prices rose in an economic bubble that finally collapsed in 1990-92. The Japanese Miracle, which some had interpreted as a new phase in capitalism, gave way to Japan's Lost Decade, with the country plunging abruptly into recession before entering a prolonged period of stagnation<sup>xxi</sup>. In the past fifteen years, the Japanese success story has been eclipsed by the rise of China, and Japan's slump is now often presented as a "cautionary tale" for other countries. However, even in stagnation, Japan continues to be an important driver of growth and innovation in East Asia and beyond. Prime Minister Shinzo Abe's struggles to implement the "three arrows" of "Abenomics"—a mixture of fiscal stimulus, monetary easing, and structural reforms—represent an effort to revert the country's lackluster economic performance of the past two decades.

Especially after the 1997-8 financial crisis, which hit much of East Asia—especially Korea, Taiwan, and then Japan—the region's main pole of growth shifted to the People's Republic of China, which was entering its third decade of market-oriented reforms. China's shift from a planned to a market economy accelerated with its 2001 entry into the World Trade Organization (WTO), which greatly increased China's relevance in global economic governance.

Between 1980 and 2010, China experienced double-digit GDP growth, which helped to lift an estimated 300 million Chinese citizens out of poverty. In contrast to the deep isolation of the Mao Zedong years, this extended reform period helped to fuel a massive globalization of Chinese companies—at first,

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primarily state-owned enterprises (SOEs) going abroad in search of natural resources, and later medium and small private companies as well. The Chinese government's "Go Out" policy, meant to encourage investments abroad, contributed towards the emergence of specialized value chains within the region, especially in manufacturing. But China's rise has also made waves far beyond its immediate vicinity, as trade and China-led investments in other regions, such as Africa and Latin America, picked up. In Latin America, for instance, China has been using certain countries as platforms for investments in other parts of the region. China's ravenous appetite for commodities provided a boost for resource-rich economies in Asia and elsewhere as prices soared, production increased, and trade flourished.

However, in the past three years the limitations of China's growth model have become more apparent. Although, like many other East Asian economies, China was able to weather well the initial shocks of the economic crisis that began in 2008, its growth slowed down to a respectable but (for Chinese standards) no-longer-spectacular levels. In 2015, the *Economist* quipped on the old engine analogy: "Asia's locomotive, China, is losing power."<sup>xxii</sup>

In response, Chinese leaders began looking for a way to carry out another economic and social transformation over the next 20 years. At the Third Plenum, held in November 2013, the Communist Party openly recognized the need for serious structural reforms. President Xi Jinping's government announced a general overhaul: China would transition from a primarily investment-powered growth model in which manufacturing was the dominant sector, to one that privileged domestic consumption and in which the services sector would play a bigger role. Despite these plans, the Chinese economy has continued to show signs of deceleration; in 2015 China's GDP grew 6.9%—a 25-year low—and there are signs of slowdown in industrial output and increasing unemployment, especially along the country's densely populated eastern seaboard. However, it is important to remember that this nonetheless represents a US\$600 billion expansion per year, and that some sectors, especially services and household consumption, are absorbing some of the job losses from manufacturing<sup>xxiii</sup>. Even a slowing China is still an upper middle-income country with a nearly \$11 trillion economy (as of 2015)<sup>xxiv</sup>.

Xi is expected to deliver significant reform, yet the Chinese government faces a series of obstacles, including persistent inequality. In addition to a substantial wealth gap, there is a significant urban-rural divide, and sharp regional disparities have emerged between coastal and inland areas. The Communist Party is arguably more subject to popular contestation nowadays, in part due to the spread of technologies that provide Chinese citizens with unprecedented means of communication, censorship efforts notwithstanding. In

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addition, Chinese officials remain “addicted” to investment and fiscal stimulus inclinations, and Chinese SOEs enjoy excessive protection from competition. In a worrisome sign of the slow pace of reform implementation, the country’s national debt—recently estimated at almost 300% of GNP—continues to balloon as policy changes are repeatedly postponed<sup>xxv</sup>.

Recent and sudden drops in the Chinese stock market and the Chinese government’s stumbling attempts to reassure investors, for instance by temporarily halting trading, have raised questions about the direction of Xi’s attempted economic revolution. Some scholars predict a hard landing with dire consequences for other economies, including those of Latin America. Others stress that the Chinese economy possesses “sound fundamentals” and that Xi stands a chance of making a relatively smooth transition if the government is able to implement reforms.

In the meantime, smaller economies just outside East Asia have experienced economic growth and are increasingly cited for their development potential: Indonesia, Malaysia, the Philippines, and Thailand, known collectively as the Tiger Cubs. All four countries have proven reasonably successful at diversifying exports, both through entry into completely new products, and by quality upgrading<sup>xxvi</sup>. However, the Tiger Cubs’ economic wellbeing is tied up with that of China and, to a lesser degree, Japan. In addition, having suffered through the 1997-8 financial crisis—in which debt played a major role—these governments are trying to amass large foreign currency reserves and issue debt in their own currencies.

As a result of this landscape, while the prospects for the region as a whole are generally optimistic, Asian economies vary widely with respect to GDP size and level of competitiveness. Table 1 summarizes the 10 top economies in Asia:

#### *b) Security and Cooperation in the Pacific*

Despite an extended history of turbulence, over the past three decades East Asia experienced a “long peace”, in which inter- and intra-state conflicts decreased considerably. However, in recent years debates have sharpened over the sustainability of this stable scenario as new geopolitical tensions arise, old ones reemerge, and the region faces new threats to its political as well as economic wellbeing. Broadly put, growing uncertainty has arisen over three essential pillars of the East Asian security architecture: China-Japan relations, the role of the US and its alliances in the region, and the Korean peninsula.

Relations between China and Japan have deepened through economic cooperation as well as political accommodation; the bilateral trade relationship

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between the two countries is the world's third largest partnership, at around US\$340 billion. China is Japan's top trade partner, accounting for 20% of its trade, while China is China's second largest. In addition, Japan is the top investor in China, with a stock of direct investment estimated at around US\$100 billion in 2014<sup>xxvii</sup>. Conversely, China needs Japan as much as Japan needs China. The Chinese export sector depends on parts imported from Japan for manufacturing and assembly in China (approximately two-third of Japanese exports to China consist of equipment and parts used in assembly), and Japanese companies establishing and expanding their presence in China generate jobs, investment, and technology transfers<sup>xxviii</sup>.

Nonetheless, in recent years the parallel rise of China and stagnation of Japan have led to renewed animosities. Chinese officials have worked to underscore the idea of interdependence with its neighbors, presenting the idea of a "peaceful rise" to great power status (later switched to "peaceful development," a phrase that is viewed by its formulators as less threatening than "rise") and promoting the image of China as a responsible player in international affairs<sup>xxix</sup>. As Barry Buzan has put it, these efforts indicate not just a series of incremental policy changes, but in fact "a radical shift in China's perception of itself, the world, and its place in the world.<sup>xxx</sup>" In turn, this identity shift has emboldened Chinese leaders in defense and security affairs, for instance by expanding its military power and mobilizing this hard power both within and beyond East Asia.

Largely in response, the Abe government has announced major shifts in Japan's defense policy, using legislative strategies to embolden the country's military forces—the Self-Defense Force (SDF). This historic move might usher in a new era for Japan, whose Constitution was widely viewed as banning the option to collective self-defense through its war-renouncing Article 9. In addition to changing the mandate of the SDF, the changes in defense policy are meant to improve Japan's interoperability with the US, its main ally in the Pacific, in a move that unnerves some of its neighbors, especially China.

Much of the attention on the part of the international community focuses on China's counter-reactions, and more broadly on what these tensions mean for the international order. Some scholars argue that China has become too integrated into the US-led international system, including its main multilateral institutions, to be truly revisionist; in this view, China's rise does not present inevitable battle between East and West<sup>xxxi</sup>. Others predict that China's contestation of the Western-dominated world order is more problematic, and that China's faltering model of economic growth is likely to heighten tensions and increase the likelihood of conflicts<sup>xxxii</sup>.

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Within East Asia, it is already clear that China seeks to re-shape norms and rules that it perceives as having been imposed by Western powers at a time when China was weak. Here the narrowing hard power gap with the United States is particularly pertinent. Some believe that China's intent is far more ambitious, and that it seeks to establish hegemonic rule over East Asia—a claim that has been made not only by academics, but also by high-ranking US military officers<sup>xxxiii</sup>. Mearsheimer, one of the main proponents of a realist take on China's rise, has argued that China's expanding power is likely to provoke an intense security competition with the United States, “with considerable potential for war,” and that most of China's neighboring countries (not just Japan) would bandwagon on the American strategy of containing the rise of China<sup>xxxiv</sup>.

However, as Shambaugh has noted<sup>xxxv</sup>, China's underlying insecurity—heightened by its leaders' difficulties in managing the economic downturn and implementing structural reform—manifests itself primarily on the domestic front, for instance through efforts to censor citizens and repress those who toe the line. At the same time, China has behaved more assertively (or, depending on the perspective, more aggressively) abroad, especially when it perceives threats to its “core interests”—still-vaguely defined priority areas that represent the non-negotiable bottom lines of Chinese foreign policy<sup>xxxvi</sup>. Many observers believe that China increasingly treats East Asia as its sphere of influence (without openly using that language), which clashes with the idea of the United States as the region's foremost “guarantor of peace”. In challenging US strategic primacy in the region, however, China may prompt the US to increase rather than retract its presence in East Asia—even if it can no longer be the preponderant power in the Asia-Pacific<sup>xxxvii</sup>.

Indeed, at the beginning of the Obama administration, the US government responded to the expansion of Chinese interests in East Asia, especially in the South China Sea, with measured alarm, and government officials spoke of a “pivot toward Asia.” However, US involvement conflicts elsewhere around the globe—especially in the Middle East, Central Asia and Northern Africa—and defense budget cuts pose new hurdles for the expansion of US military power in the Pacific. There is also a possibility that the pivot idea is based on a misreading of Chinese intentions, and particularly a tendency on the part of US officials to overlook the deep insecurity driving much of Chinese assertiveness in the region<sup>xxxviii</sup>.

As a result, the US has tried to reassure its allies in East Asia that it will not abandon the region, for instance by reaffirming its defense commitment to Japan<sup>xxxix</sup>. On occasion, US officials have echoed the Chinese narrative that Asia-Pacific is large enough for both China and the US and that the time is ripe for “a new model of great power relations”, but it is not clear that both sides actually

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mean the same thing. At the same time, these key actors—China, Japan and the United States—may be motivated to maintain a degree of pragmatism, given that the costs of open conflict would be so high for all involved. As the Singaporean Foreign Minister has observed, both countries have strategic interest in maintaining peace, and “The general assumption is that neither wants war and both will seek to avoid open conflict.<sup>xi</sup>” Yet miscalculations could happen, especially around China’s South China Sea sovereignty claims, which extend over some 90% of this space. On the Paracel and Spratly islands, Beijing has built from scratch new islands featuring military runways and facilities, exacerbating tensions with neighboring states<sup>xli</sup>. Some Pacific states, such as the Philippines, have resorted to legal means. However, China’s dismissive reaction to the 2016 decision by the Permanent Court of Arbitration at the Hague, which ruled that there was no legal basis to China’s claim to sovereignty over much of the South China Sea<sup>xlii</sup>, suggests that China’s attitude towards international regimes which it views as limiting its role in the South China Sea will become increasingly contestatory.

Among these states, including Japan, at least two factors drive sharpening tensions with China. First, their governments are concerned about increasing vulnerability. Second, East Asian leaderships see a need to avoid seeming weak (“losing face”) before domestic audiences, even when nationalist groups rile up emotions that undermine mutual trust and cooperation. The frequently emotive reactions and counter-reactions make those situations vulnerable to miscalculations and sudden escalations that could spill over into open confrontation.

In recent years divergences over the Diaoyu/Senkaku islands and differing interpretations of historical episodes (mostly Japanese occupations of Chinese territory, including during World War II) have strained bilateral political relations, even as trade between these states expands. As Yang Bojiang, the deputy director of the Institute of Japanese Studies at the Chinese Academy of Social Sciences wrote in the government-owned *China Daily*, “If the China-Japan relationship breaks down, neither can afford to bear the strategic cost. To break through the stalemate in relations and push bilateral ties back onto a positive track, the key in the near term is to enhance cooperation, reduce confrontation, and properly handle the issues in bilateral relations.<sup>xliii</sup>”

However, neighboring states along the Pacific Rim have not reacted uniformly to China’s rise or to broader changes in East Asian geopolitics. For instance, in contrast to the Philippines’ legal move, Malaysia has opted to deepen ties to both China and the United States<sup>xliv</sup>. The variation in responses makes it difficult for these countries to coordinate stances and act together, because each feels caught up in a classic “prisoners’ dilemma”<sup>xlv</sup>. Nonetheless, regionalism

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elsewhere in Asia has become more relevant to security in the Pacific. ASEAN, which will mark its 50<sup>th</sup> anniversary in August 2017, has prospered in part due to its good relations with the region's major powers. While China's rise has benefitted ASEAN members economically, it has also prompted some rethinking of the current security paradigm. ASEAN has arguably constituted a "security community"—a group of states that have developed a long-term habit of peaceful interaction and that have ruled out the use of force in settling disputes with other members—as a way to confront changes in the regional order, including the escalation of tensions in the South China Sea, the US "pivot" to Asia, and the rise of India<sup>xlvi</sup>.

### *c) The New Mega-Agreements*

The East Asian landscape in trade, investment, and other areas of economic cooperation seems to be undergoing a major structural change. There are major new realignments, configurations, and behaviors. Across the region, companies are moving online and finding or developing new niches. There are new attempts to foment and harness global value chains (GVCs), seen as major vehicles for trade, for instance by upgrading within the chains in order to move away from a narrow focus on low-skill, low-cost to high-value production<sup>xlvi</sup>. And these changes and aspirations are deeply affected by broader realignments both within and outside the region.

Within Asia, trade has been characterized by the "noodle bowl effect<sup>xlvi</sup>"—the overlapping bilateral and, to some extent, plurilateral free trade agreements (FTAs) since the 1990s. In January 2013, the Asian Development bank calculated that the number of ratified FTAs involving at least one Asian country had tripled since 2002. Within East Asia more specifically, both Japan and South Korea have been highly active in establishing new FTAs. The sheer size of China's economy and its weight in Asia-Pacific trade, however, makes it a pillar of East Asia's trade architecture: a hub-and-spokes model of economic cooperation with regional partners that relies heavily on bilateralism.

The noodle bowl creates hurdles for trade, for instance because the additional red tape and cross-border procedures increase transaction costs<sup>xlvi</sup>. However, FTAs can also be viewed as building blocks towards a global free trade regime<sup>l</sup>. Disentangling the noodle bowl would involve consolidation through the creation of a regional FTA designed to harmonize bilateral agreements. An alternative path entails multilateralization, primarily by granting non-discriminatory preferences to nonmembers and eliminating preference discrepancies<sup>li</sup>. For now, however, the noodle bowl effect coexists with, rather than is being replaced by, emerging mega-agreements.

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For now, however, this entangled architecture stands to undergo tectonic shifts as mega-agreements reshape not only the relationship between key players within the region, but links with external actors, especially the US. The most far-reaching of these deals is the planned Trans-Pacific Partnership (TPP), whose negotiations are already a decade old. The potential deal establishes new terms of trade and business investment between the US and eleven other Pacific Rim nations, including Japan (Taiwan and South Korea have expressed interest in joining). If implemented, the agreement will bring together members with an annual GDP of almost US\$28 trillion, representing around one-third of global trade and accounting for approximately 40% of global GDP.

The TPP is far more than a trade deal. From a geopolitical perspective, the agreement represents an important (if non-military) component of the US pivot towards Asia. In addition, the TPP is presented by the US government as an opportunity to unleash enormous economic potential and to address a variety of hurdles to international trade, for instance in financial services and e-commerce. As a result, the TPP covers far more than tariffs and quotas; there are also provisions for environmental, labor, and intellectual property standards, data flows, services, the role of state-owned businesses, and the removal of protectionist agricultural policies.

Defenders of the TPP say it is a potential boon for all involved countries; some analysts (especially in the US) go as far as to argue that failure to negotiate the deal would have “devastating consequences for US leadership, for the deepening of key partnerships in strategic regions, for the promotion of market reforms in emerging economies, and for the future of the trade agenda.” Solis, for instance, warns that the US may lose the ability to set the rules of international trade; that the rebalance to Asia may stall; and that the US-Japan alliance might lose steam<sup>lii</sup>. This alarmism may explain why, concurrently, the US is working to establish trade deals with some of the Asian states participating in the TPP discussions: Japan, Malaysia, and Vietnam.

However, the TPP also has plenty of critics, including among US stakeholders. Many Democrats, unions, and progressive groups staunchly oppose the deal, arguing that it may have dire consequences for labor, environmental, and other standards, as well as investor protections<sup>liii</sup>. There is also unease over how the TPP and other mega-agreements may affect the Asian FTA noodle bowl. Jayant Menon has argued that “the world trade system is fragmenting to the point it appears more like a jigsaw puzzle than a spaghetti bowl”, both at the regional and at the global levels, and that piecing together the blocs to form a coherent whole presents considerable challenges<sup>liv</sup>.

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Another defining feature of the TPP thus far is the absence of China. Some observers have interpreted this exclusion as a sign that the TPP is part of a broader “China containment strategy.” However, Chinese cautiousness may also play a role; Chinese officials have expressed concern with the partnership. More recently, some officials have sounded more accepting of the potential agreement, hinting that China may wish to participate in certain discussions<sup>lv</sup>. The agreement may nonetheless affect China’s economic strategy as it works to maintain competitiveness.

Other East Asian states are also beginning to rethink their international strategies in light of broader geopolitical dynamics. South Korea, once described by its officials as a “natural partner” in TPP because it has bilateral FTAs with all but two TPP parties, has shown signs of a subtle shift in attitude toward the TPP. Because the agreement is increasingly viewed as a strategic partnership that will potentially define global trading standards in the 21<sup>st</sup> century, South Korea’s stance in increasingly shaped not only by economic calculations, but also by national security considerations. Those priorities include strengthening ties to historic partners—especially the USA—even as Seoul aggressively pursues FTAs within and beyond East Asia. A desire to distance itself from US-led regional architectures, perhaps out of fear of upsetting China, has made Seoul more reluctant towards the TPP.

Although sector-specific effects are not yet clear, the TPP may have a divisive role in Latin America. Only three Latin American countries—Mexico, Chile, and Peru—are part of the agreement, leaving out major economies, like Brazil and Argentina, that are located on the Atlantic coast. This recalibration of the world trade architecture has uneven implications in Latin America. For instance, for the three states participating in the deal, there will be new opportunities to diversify the FTAs already in place with Pacific partners, and to explore new markets in Asia. Peru’s export is expected to expand significantly, approximately 10% by 2030, while both Mexico and Chile may experience increases of 4 and 5% respectively.

However, Latin American states that are not part of the agreement will also be affected. Smaller Latin American economies along the Pacific may be candidates for joining the TPP if they are willing to conform to the multilateral standards and norms imposed by the deal. Brazil and Argentina, which are left out, will face harsher competition from exporters like the US, Canada, and New Zealand in Asian markets. They may come under increasing internal pressure to rethink their trade strategies, for instance by making Mercosur more flexible, especially in light of the integration initiative Pacific Alliance (Chile, Peru, Mexico and Colombia), whose priorities include greater alignment with the TPP<sup>lvi</sup>.

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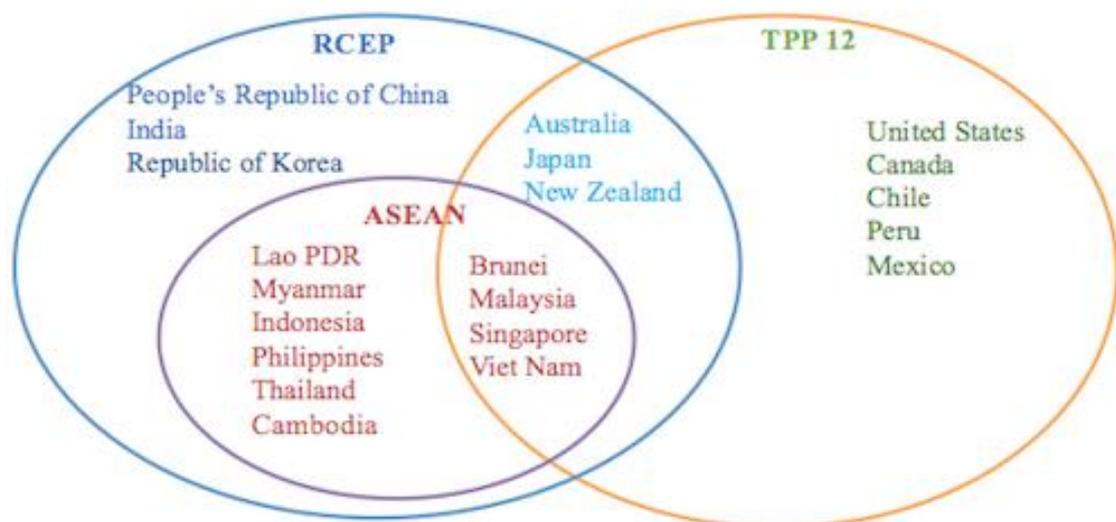
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The TPP, at any rate, is not the only major agreement relevant to East Asia. Although the Trans-Atlantic Trade and Investment Partnership (TTIP) involves only the US and the European Union, the deal under negotiation covers even more of the world's purchasing power parity (33%, versus the TPP's estimated 27.3%), and a larger portion of the world's population (11.2%, versus the TPP's 10.7%). The TTIP is mostly focused on Foreign Direct Investment (FDI) and arguably would have a more extensive geostrategic impact, in that it builds on the already-strong ties linking the US and Europe, overlaps with the North Atlantic Treaty Organization (NATO), and would consolidate an innovation powerhouse that already dedicates substantial R&D spending on technology and innovation<sup>lvii</sup>. If the deal comes to fruition, it would thus represent major competition not only for Latin American actors, but also their counterparts in Asia.

Since 2013, the ten members of ASEAN and six other countries in the Pacific (China, Australia, India, Japan, New Zealand, and South Korea) have been negotiating the Regional Comprehensive Economic Partnership (RCEP), an agreement covering trade, goods, services, and investment. If signed, the agreement will create an economic bloc with a combined population of 3.4 billion and trade volume of US\$10.6 billion, accounting for nearly 30% of the world's trade. Some observers interpret the RCEP as a sign that, just as the United States is using the TPP to contain China, so is Beijing using RCEP to keep the United States out of its zone of influence<sup>lviii</sup>. However, as the Venn diagram below (*Figure 1*) shows, the two agreements are not mutually exclusive:



Although information about RCEP has been relatively scarce, and the initiative is far less ambitious in coverage and scope when compared with the

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TPP. However, the conclusion of TPP negotiations, in late 2015, has placed new pressures on RCEP. First, some of the countries outside the TPP are pinning higher hopes on RCEP. Second, although China has been active in RCEP discussions, the negotiations have no clear leader, and Indonesia, in particular, has tended to clash with RCEP's more liberal members.

In addition to the TPP and RCEP, East Asia may be heavily influenced by China's One Belt, One Road Initiative, which is intended to re-channel the country's domestic overcapacity and capital for regional infrastructure, but also to secure energy supplies and deepen relations with other states in Asia, Central Asia, and Europe. At the heart of this effort is the creation of an economic land belt stretching from China to Central Asia, the Middle East, and Europe that draws inspiration from the Silk Road, a network of trade routes that once linked imperial China to Europe and to South Asia<sup>lix</sup>. At the same time, the initiative includes a maritime road connecting China's ports with the coast of Africa, up through the Suez Canal into the Mediterranean. Domestically, Beijing is also hopeful that the scheme will foster development in Xinjiang, where Uighur separatism has increased.

The One Belt, One Road initiative centers on the implementation of infrastructure projects such as roads, railways, and ports, meant to enhance connectivity between China and other parts of the world. At the March 2015 Boao Forum, Xi announced that China would make available a \$40 billion dollar Silk Road Fund to finance this infrastructure, although details of the plan remain vague<sup>lx</sup>.

Some analysts view the initiative as an attempt by Beijing to further Chinese strategic interests and compete with Western interests. Yet others have expressed skepticism about China's ability to actually finance and implement these projects in the midst of an economic slowdown. In addition, there are competing interests in Central Asia. As part of its plans to foment regional stability, the US hopes to develop energy resources in Central Asia as its troops withdraw from Afghanistan<sup>lxi</sup>. Meanwhile, Russia has pursued regional integration through the Eurasian Economic Union and increasingly competes with China over energy.

Along with other institutional initiatives in which China plays a clearer role of protagonist, such as the creation of the Asian Infrastructure Investment Bank (AIIB) and the Shanghai Cooperation Initiative (SCI), East Asia's patterns of economic cooperation and geopolitical dynamics are undergoing important shifts, although it may be too early to tell who the winners and losers will be (within the region or in Latin America). These initiatives can be considered as part of Xi Jinping's new "Peripheral Diplomacy," announced in 2013<sup>lxii</sup> as part of a

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recognition that Beijing has mishandled its relations with neighboring states, including with its maritime neighbors. For Latin America, the AIIB in particular may represent a new source of development financing, especially for infrastructure. However, the institution may also have an indirect impact, for instance by reorienting global normative debates about development away from social policy towards heavy infrastructure. Brazil is the only Latin American country among the institution's 37 founding states, but others (reportedly, Chile, Colombia, and Venezuela) have expressed interest in becoming members<sup>lxiii</sup>, which would further enhance the bank's relevance to the region and help to channel loans to countries there.

### **Looking Ahead: Three Scenarios of Regional Polarity**

Not since World War II has East Asia been the site of so many fundamental geopolitical and geoeconomic transformations—a result not only of the shifting power dynamics within the region itself, but also a product of broader structural changes in the world order, including the “rising power” phenomenon, the changing geography of violent conflict, and emerging trends in economic cooperation. While new opportunities in East Asia and its vicinity are emerging for actors outside the region, those changes also imply a high degree of uncertainty, not least because there are so many moving parts.

The analysis above points to three possible scenarios over the next two decades. While these are not exhaustive, they take into account the major structural trends within the region and beyond. Each scenario is characterized by a different type of configuration, in which the regional center of gravity of East Asia is either concentrated in one state (namely, China) or shared with other actors. In the first scenario, China achieves regional hegemony and imposes a largely hub-and-spokes model of control over East Asia. In the second scenario, China shares regional dominance with a US-backed Japan, yielding a sort of regional bipolarity. In the third scenario, multiple poles of power emerge within the region, in a highly volatile configuration. In turn, each of these possible configurations have very different sets of implications for Latin American actors.

#### *a) Regional Hegemony by China: A Hub-and-Spokes Configuration*

Although China's interests in East Asia have been and will continue to be challenged by many of its Asian neighbors, there is a distinct possibility that Chinese economic growth will continue to outpace that of its neighbors. In that case, Chinese leaders may be able to combine tactics of cooperation and coercion to establish and consolidate regional hegemony. This would make China the

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single great power in East Asia, in essence representing the economic, security, and political center of gravity for the region.

A China-centric regional hegemony would imply that Beijing would succeed in overpowering any substantial challenges to its role as regional leader, whether from within the region itself or from external actors, such as the United States. More specifically, in this scenario, China's power projection would outpace that of the US-Japan dyad, especially within the most sharply contested Asian space: the Pacific.

A China-dominated East Asia can occur independently of China attaining global power status, although regional hegemony would provide it with a stronger platform for doing so. In other words, this scenario can become reality even if China's power projection remains secondary to that of the US in other parts of the world. In fact, US dominance in other regions, for instance through deeper economic engagement with Africa and South America, may further push China to consider Asia its own "backyard", concentrating its efforts on its maritime and terrestrial environs.

With respect to Japan, although China has exhibited hawkishness on the security front, in the economic sphere relations have improved since 2012, signaling a decoupling from economics to defense issues. The normalization of economic relations will remain susceptible to periodic flares of tension and rivalry, but expansion of trade and investment is consistent with the long-term goal of securing peace as a basis for broader prosperity. A shift in behavior on the part of the Chinese government suggests that, in a scenario of regional hegemony, China would no longer use Japanese dependence on the Chinese market to wrest territorial concessions from Japan, putting aside their differences over claims in the Pacific. The deep complementarity of the Chinese and Japanese economies, which feature different levels of industrial specialization and technological capacity, will continue to generate trade and investments at a massive scale. In addition, China's plans to concentrate on clean industrial technologies makes Japan a natural partner in all types of economic cooperation.

On the economic front, Chinese preponderance in Asia would depend not only on the maintenance of sustained economic growth at near-present levels, but also on the successful implementation of reform policies announced under Xi Jinping, with the transition towards a consumption-driven growth model causing no major disruptions to the Communist Party's grip on power. Since all growth spurts entail some degree of social disruption, including deep demographic transformations like rapid urbanization, in order to keep discontent at

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acceptable levels, the Chinese government will have to combine growth with sustainability and inclusiveness.

However, because economic growth does not translate automatically into power projection outside the country's national borders, the Chinese government would also have to mobilize these economic resources so as to impose its will elsewhere in Asia. A hub-and-spokes system would emerge through bilateral cooperation of asymmetric trade and investment relations with China, with initiatives such as trade agreements and regional cooperation organizations providing some semblance of multilateralism. Institutions such as the NDB and the AIIB would also be harnessed to increase the role of China in investments within the broader region as part of increasingly asymmetric ties of cooperation with neighboring states. The One Belt, One Road initiative—its rhetoric of connectivity notwithstanding—would serve to open up Central Asian markets to Chinese firms, to deepen ties to Russia, boost cooperation with an appeased India, and establish more exchange channels with Europe, creating a vast East-West corridor of Chinese influence along the Eurasian landmass.

If successfully implemented, the One Belt, One road initiative would reorient China's surplus investment capacity and capital towards new markets, opening up new opportunities for trade and perhaps investment by Latin American actors. However, these opportunities would require new knowledge-generation in Latin America, which has a severe deficit in knowledge about Central Asia in particular, with few academics specializing in the region and only a handful of major Latin American companies with significant experience there. In addition, if the new development financing institutions become highly active within this space, Latin American member states (so far, only Brazil is a part of the AIIB) will no doubt have an advantage in terms of helping to define loans and accompanying development debates in broader Eurasia.

Regional hegemony does preclude challenges to the center of gravity. Contestation of Chinese claims in the South China Sea are unlikely to abate, but in a regional hegemony scenario, China would rely on its ample toolkit of soft and hard power to co-coopt, coerce, and convince its neighboring states to behave more or less in a fashion that is aligned with core Chinese interests. The declaration by China of an Air Defense Identification Zone (ADIZ) over islands in the South China Sea (not just the Senkaku/Diaoyu islands, but also an island controlled by Korea) are but two examples of unilateral coercive moves that China has at its disposal to exert greater control over its maritime vicinity. However, the use of such tactics has coexisted—and will continue to coexist—with overtures of greater investment and cooperation, alternating between the carrot and the stick, following the Peripheral Diplomacy concern of the Chinese leadership.

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The regional hegemony configuration would remain stable only insofar as China remains unchallenged by the United States, with the latter grudgingly accepting Chinese preponderance in Asia. This would occur not only in response to a more proactive role by China within Asia, but also by US retraction of its engagements abroad, or by Washington's pursuit of security and economic interests elsewhere in the developing world, especially the Middle East and Africa. In Central Asia, American power has been dwindling (and will probably do so further with the large-scale withdrawal from troops in Afghanistan) and is unlikely to resurge in any significant way as a challenge to the Silk Road projects. Western Europe is unlikely to offer up major resistance; it is an important trade and investment partner for China, and both sides have been investing heavily (including along political lines, with several high-level diplomatic overtures) in deepening ties with China. Several Western countries, including the UK, Germany, Austria, Norway and the Netherlands are founding members of the AIIB, in just one among many indications that Western Europe is already taking into account the possibility of China rising further, both within and beyond East Asia.

For Latin American actors, a smooth transition to a consumption-driven model of growth by China would open up new opportunities for exports, not only of commodities but of “niche” products that appeal to expanding and urbanizing middle classes such as wines. Closer integration between China and other Asian economies, especially Japan, would also generate new productive chains within the region that could be tapped into by Latin American companies, as long as they are able to accompany and prepare for the dynamic process.

While such a scenario is unlikely to foment the kind of boom in commodities demand seen in the 1990s and 2000s, a restructuring of China's presence in Asia—not only bilaterally, but also through institutions like the AIIB and NDB—could lead to some recovery of currently low priced commodities and open up new markets in China's broader neighborhood, both along the Pacific Rim and in Central Asia. If met, the massive demand for infrastructure in Asia—estimated by the Asian Development Bank at \$8 trillion by 2020 in order for the region to maintain its economic growth and living standards—may create new pools of prosperity and demands for raw materials, even if direct participation by Latin American construction companies in the sector may not be feasible due to regulatory barriers and high costs. On the other hand, Chinese regional hegemony, especially if it concentrates further growth in China, may exacerbate Latin American dependence on the wellbeing of the Chinese economy, especially for economies that are already heavily reliant on commodities exports.

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*b) Regional Bipolarity: China and a US-backed Japan*

In a scenario of bipolarity, two separate yet intertwined centers of gravity would emerge in East Asia—China and Japan, the latter effectively backed by US power. Economically, this scenario would depend on Japan closing some of the gap with China—notably by successfully implementing economic reforms that translate into a new surge of sustained growth, while maintaining its competitiveness in high-value added manufactures and parts. In “catching up,” Japan would also tap into its accumulated capacity for technological innovation and the sophistication of its services sector to compensate for the smaller scale of its economy and rapidly aging population. Conversely, the same type of scenario may come about were China to experience considerable economic deceleration, for instance as a result of poorly implemented reforms or political upheaval.

Either way, if regional bipolarity is marked by deepening antagonism between these two countries, economic linkages between China and Japan would also weaken. Western scholars sometimes refer to the East China Sea as the “most dangerous place on the entire planet,” noting that—despite the shared desire for prosperity and stability—there is a recurring risk that vessels patrolling the contested islets could become embroiled in an exchange of gun fire, with the conflict escalating to include the fleets. While the chance of all-out war is tempered by recognition of interdependence, prolonged antagonism would lead to a decoupling of economic ties, not only decreasing flows but also altering supply chains long established by China’s reliance on Japanese exports of parts.

On the other hand, Japan does not have a substantial hard power presence and relies heavily on US support for defense. Even with the recent turn towards greater Japanese assertiveness within the region, as illustrated by the Abe government’s announcements of a revamped defense policy, it would take years for Japan to catch up to China in terms of military capacity, even with US assistance and enhanced interoperability of their armed forces. This defense catch-up by Japan would rely heavily on Washington’s willingness to boost Japanese offensive capacity, signaling a shift by both allies—something not unthinkable for the US if China is viewed by American leaderships as unruly and aggressive.

More broadly, therefore, a scenario of regional bipolarity would also depend on a fuller and more multi-dimensional “pivot to Asia” by the US, one combining economic cooperation with increased military presence—especially of its Navy—within the eastern Pacific. A strong US military presence would contribute towards a certain equilibrium of power, but one marked by increased distrust. Beijing would work to isolate Japan geopolitically, in part by co-opting

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its neighbors. Japan, in turn, would likely continue to diversify its partnerships in the broader Asian arena, building on recent overtures to India and ASEAN that show a new disposition on the part of the Japanese government to branch out in geopolitical alignments designed not only to intensify economic cooperation elsewhere in Asia, but also to counterbalance Chinese power projection.

In the most benign version of the bipolarity scenario, a sort of competitive *détente* would be established, with two rival regional powers relying on assorted means to court the other Asian countries while counterbalancing each other. The US, in this case, may assume a role of mediation, helping to promote cooperation and to adjust to the evolving balance of power. Western Europe would also likely assume a pragmatic approach and boost ties not only to China, but also to Japan, especially in light of the latter's continued relevance to technology and innovation in the global economy.

Other countries in Asia would stand to benefit from deepening competition between Beijing and Tokyo, already evident in multi-billion dollar financial rivalries and competing megaproject investments across the continent. Such economic rivalry, which has been dubbed "a great game," would also encompass valuable trade routes through the South China Sea and expanded spheres of influence across Asia. Other countries, both within and outside Asia, could gain from these dynamics if they successfully play China and Japan against each other so as to extract maximum benefits.

In the more dangerous variant, bipolarity would be the result of a major rupture between Beijing and Tokyo, such as open (though not necessarily prolonged) conflict over the disputed islets. In this variant, the US would back up Japan but avoid embroiling Beijing in a large open conflict that would threaten to spill over elsewhere in Asia. However, since China is already viewed as a national security threat by countries along the eastern Pacific, other states would likely seek to strengthen their ties to Washington. These would include not only Japan but also those countries that already have some affinity with the US and vested interest in Washington maintaining a robust presence in Asia (even if by proxy): Vietnam, Australia, India, and the Philippines, as well as ASEAN as a collective body.

The stability of a regional bipolarity scenario featuring China on one end and Japan/US at the other would be intermediate, compared with the other two scenarios, and the maintenance of a balance of power between the two main poles would depend heavily on a tacit or imposed agreement to this arrangement on the part of other regional actors. In the case of enhanced rivalry, China would likely use subregional multilateral arrangements like RCEP to further its geopolitical and geoeconomic goals, including circumventing Japan with a belt of

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economic goodwill towards Beijing. The new development finance banks, such as AIIB, have already prompted concern by Japan and the United States that China may be reshaping the global economic agenda according to its own interests. Heavy pursuit of self-interests would exacerbate the cultural tensions between the two countries, as well as the resulting divergent interpretations of history (both deep and recent).

If Japan is able to rev up its economy, the end of stagnation would present new opportunities for Latin American actors to build upon the long established history of ties between Japan and Latin America, as well as the considerable mutual knowledge acquired over the past few decades. And a reasonably stable balance of power between China and Japan would help to ensure a “foundational peace” for regional prosperity, fostering growth elsewhere in Asia, including secondary and tertiary nodes like South Korea, Indonesia, Malaysia, and Vietnam. However, a major cleavage between two camps, with its inherent political tensions and economic decoupling, would mean that Latin American stakeholders would do best to diversify beyond the two regional giants.

In either event, Latin American actors must pay close attention to the implementation of the TPP, which—as long as China is left out of the equation (or opts out of it)—stands to create different standards and norms of economic cooperation and geopolitical alignment among Asian countries. In contrast to the Chinese unipolarity scenario, a bipolar configuration within East Asia would make it easier to diversify trade and investment ties, allowing Latin American actors to hedge their bets in Asia by courting both Beijing and Tokyo, and perhaps extracting better cooperation deals in light of the existence of two strong centers of gravity within the region.

*c) Regional Multipolarity: Competition and Instability*

The most unstable (and least likely) scenario among the three presented here would involve multipolarity, with several states (or groups of states) competing for regional dominance, and with the US continuing to play an important but non-determinant role in the region, especially in security affairs. Judging from economic power alone (as measured by GDP), relevant players would include not only China, but also India, Japan, Indonesia, South Korea, Australia, Taiwan, Thailand, the Philippines, and Malaysia. There is overlap here with the list of Asian countries with the most hard power, but the two are not coterminous; among the region’s largest military powers are Russia, China, India, Japan, South Korea, Indonesia, Vietnam, Taiwan, Thailand, Australia, and North Korea<sup>lxiv</sup>.

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This scenario would depend on a considerably weakened China alongside the emergence of a new (or reemergence of an old) wave of “successful states,” akin to the Asian Tigers phenomenon in the latter half of the 20<sup>th</sup> century. Several secondary Asian powers, empowered by high economic growth and political stability on the domestic front, would scramble to expand their influence within the region, some of them bolstered by the US network of Asian allies and/or via the TPP. However, there would be no clear long-term hegemony by any one actor, including China itself, nor the kind of semi-stable bipolar configuration bringing China and Japan closer (or pitting them against one another). The lack of clear dominance would make major actors like India, Russia, and Australia more relevant to the region, especially within their respective immediate vicinities, and it would enhance the importance within Asia of the US and Western Europe.

Among the three scenarios, this multipolar configuration would be the most volatile, because it is bound to be the most fragmented and pathologically competitive, and thus the most prone to shifting and unreliable alliances, ripened rivalries, and territorial disputes, all subject to escalation of hostilities and open conflict. Fragmentation would undermine the legitimacy and efficacy of regional institutions like ASEAN and the SCO, and it would weaken regional norms, prompting countries to pursue self-interest more narrowly. The realist dictum for the world order also applies to the regional version of multipolarity: such configurations do not remain indefinitely in peaceful equilibrium. This is also the only scenario in which nuclear weapon capabilities present a considerable risk, especially due to regime instability in North Korea.

For Latin American actors, this scenario would present both advantages and disadvantages. The main potential benefit would arise in the broadened gamut of trade and investment partners, especially if their growth models are outward-oriented. On the other hand, insofar as regional multipolarity implies volatility, the stability of these partnerships would be subject to sudden reversals, and it is unlikely that there would be a major surge in growth. Without a clear center of gravity, East Asia—and, more broadly, Asia—would present new risks for Latin American actors, from governments to private sector and even civil society entities. Latin American companies would do best to adopt a “China plus one strategy,” already observed among many Japanese firms, funding facilities in at least one other Asian country besides China rather than betting all their chips on the healthy expansion of the Chinese economy and the stability of the region as a whole. Along with government ministries and other state divisions involved in setting policy for Asia, as well as civil society organizations involved in Latin America-East Asia cooperation, the need for monitoring and analysis of East Asian geopolitics and geoeconomics would remain paramount,

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as would more proactive policymaking involving inputs from the entire range of stakeholders.

### **Conclusion**

To sum up the broad picture painted here, East Asia finds itself at a crossroads. Even as it maintains its status as the world's economic engine, new sources of uncertainty are emerging, as are novel patterns of cooperation. The central element shaping the region's economic, political and security dynamics in the next twenty years is the role of China, and specifically the way it chooses to interact with other states within the region—and, conversely, the response of Asian actors to the region's major power at a time of growing uncertainty. Although China is by no means the only factor behind deep changes in Asia, it is the primary variable in whether the region will develop along regional hegemonic, bipolar, or multipolar lines over the next two decades.

Among all permutations within the region, the relationship between China and Japan constitutes a primary pillar in the geopolitical landscape of Asia. The two countries were able to sufficiently overcome, even with a degree of unease, centuries of rivalries and historical tensions to develop a massive and highly complementary economic cooperation—a link that is nonetheless periodically imperiled by territorial disputes in the South China Sea. Robust trade and investment between the region's largest two economies (both driven to improve their standings in innovation and technology) not only contributes towards regional prosperity and stability, but also creates opportunities for external actors along a series of concentric circles radiating outwards in and beyond Asia. However, resurging nationalisms and military games of brinkmanship threaten to undo decades of partnership built on a combination of diplomacy and private sector initiatives. Finally, more than any other two actors in the region, the ties between China and Japan do not follow a narrowly bilateral logic, but rather are embedded in interlocking networks of broader alliances and alignments. These configurations extend their reach far beyond that particular corner of the Pacific, and they involve everything from a consistently “non-compliant” nuclear state (North Korea) to major external actors (especially the United States), secondary regional powers (India and Russia), and a range of smaller yet economically powerful states along the Pacific rim.

Despite the centrality of the China-Japan dyad, it is also worth noting that Asian geopolitics is expanding, in the sense that the region's borders as conventionally understood are becoming fuzzier. India and Russia, two states that for a long period either turned inwards or were somewhat narrowly concerned with their immediate vicinities, have become more deeply involved with inter-regional arrangements, from the BRICS to the One Belt, One Road

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initiative. Given their economic and military weight in this part of the world, in the mid- to long-term these countries may end up functioning as de facto connectors between Asia (broadly writ) and the Western world, especially Europe, and the Middle East. Even in the case of a regional hegemonic scenario dominated by China, Russia and India will continue to exert influence on Asian geopolitics—all the more so if Central Asia undergoes a period of revitalization and connectivity inspired by the Silk Road narrative promoted by Beijing. That Latin America's direct ties to these countries remain weak poses challenges, because for the most part there is little knowledge of these actors, or of geopolitical dynamics in and around Central Asia, among Latin American policymakers and other stakeholders.

At the same time, major regional powers are not the only sources of change in Asia. Subregional cooperation initiatives are emerging alongside mega-agreements that are, far more than trade deals, broad geopolitical and geoeconomic realignments, and there is both overlap and competition among these different arrangements. ASEAN is well established but has faced a number of challenges in the process of institutionalizing itself. The implementation of the TPP may motivate China and other actors to respond to the US's changing global strategy by investing more seriously in the negotiation of RCEP and the expansion of the new development financing banks, especially the AIIB and the NDB, as soft power instruments designed to both fulfill demand for infrastructure but to consolidate Chinese reach (under a veneer of multilateralism) while meeting this demand.

These changing geometries of competition and cooperation in Asia (and by Asia) are important to Latin American actors not only because they will shape opportunities in trade and sources of FDI, but also because new sectors and market niches will open up (or close, depending on the context). In many of these spaces, getting a foot in early makes all of the difference for external actors, because there is a certain path dependency at stake—early arrivals in emerging sectors/niches/markets are able to establish institutional ties, social relations, and technical specifications that raise the cost later on of local actors switching partners.

Moving forward, Latin American stakeholders, not just private sector firms but civil society organizations such as research centers, think tanks, professional associations, and universities, should be more proactive in analyzing, anticipating, and formulating strategies for cooperation with Asian counterparts. At the same time, government actors, both at the national and subnational levels, should promote new channels of communication and knowledge exchange with these actors, with a view towards formulating policy instruments that plan for, rather than react to, the changing geopolitics and geoeconomics of Asia.

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The complexity of the scenarios painted above prompt more questions than allow for fixed conclusions. It is then perhaps fitting to end this analysis with a set of key questions for further debate and research:

- a) How do Latin American stakeholders view the interests and cooperation styles of their Asian counterparts, and how do they understand the relevance of the geopolitical and geoeconomic transformations described here in shaping ties between Latin America and East Asia?
- b) Conversely, how do Asian stakeholders view their Latin American counterparts, and how do they perceive challenges and opportunities in the region?
- c) What policy channels can be created and institutionalized in Latin America to better deal with the changing landscape in Asia?
- d) To what extent would tensions between China and the US affect Chinese access to Western markets?
- e) Can regional and global supply chains be affected by the political tensions outlined here? If so, what would be the main impacts?
- f) Given the importance of geopolitics, what role should Latin American governments, including that of Brazil, play in shaping economic relations with East Asia (and, more broadly, Asia)?
- g) How can a wide gamut of actors from government, private sector, and civil society in Latin America be better prepared and engaged with Asia?

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<sup>i</sup> For instance, in 2012 Huawei inaugurated a \$61.5 million electronics production and distribution hub in Sorocaba, a municipality near the port of Santos, in the state of São Paulo. Source: Ellis, E. (2014) *China on the Ground in Latin America: Challenges for the Chinese and its Impacts on the Region*, New York: Springer, p. 100.

<sup>ii</sup> Although there is no set-in-stone definition of East Asia, here we treat it as a subregion of Asia encompassing China, Hong Kong, Macau, Taiwan, Japan, North Korea, South Korea, and Mongolia. East Asia includes not only a considerable continental space, but also an enormous maritime area stretching deep into the Pacific Ocean, parts of which are hotly contested among the region's states. However, thinking about East Asia within a vacuum would lead to oversimplification, and thus these countries' interaction with broader Asia—a macro-region covering a total of 58 countries ranging in economic size from China to Palau—is also taken into account. And finally, although they are not located in East Asia as such, there are also important external players in the region, such as the US, Europe, and Australia, that also exert considerable influence on Asian dynamics. Given these interconnections, the primary focus in this paper will be on East Asia, but references will also be made to other Asian actors, as well as to dynamics and data information that reach beyond the confines of East Asia, to encompass Asia broadly writ.

<sup>iii</sup> Mireya Solis (2015) "The geopolitical importance of the Trans-Pacific Partnership: At stake, a liberal economic order" Brookings Institution, 13 March: <http://www.brookings.edu/blogs/order-from-chaos/posts/2015/03/13-geopolitical-importance-transpacific-partnership>

<sup>iv</sup> Walter Russell Mead (2014) "The Return of Geopolitics: The Revenge of the Revisionist Powers" *Foreign Affairs* May/June: <https://www.foreignaffairs.com/articles/china/2014-04-17/return-geopolitics>

<sup>v</sup> Stephen Cohen (2014) "Why Cold War Again?" *The Nation* 6 April: <http://www.thenation.com/article/why-cold-war-again-2/>

<sup>vi</sup> Joschka Fischer (2015) "The Return of Geopolitics to Europe" Project Syndicate 2 November: <https://www.project-syndicate.org/commentary/geopolitics-returns-to-europe-by-joschka-fischer-2015-11?barrier=true>

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- xiv *Ibid.*
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