



Implications of the Financial Crisis for Soft Power in East Asia

Report of a Workshop Hosted by The Chicago Council on Global Affairs and The East Asia Institute
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FOREWORD

The international financial crisis of 2008 shook the foundations of the global economy to their very core. It originated in New York but some of the strongest tremors were felt in Asia where trade plummeted and economic growth ground to a halt, or reversed, in many countries. This was no ordinary crisis. The fallout has the potential to shift the tectonic plates of international politics in one of the most strategically important regions of the world.

In early 2008, before the crisis hit full force, The Chicago Council on Global Affairs and the East Asia Institute conducted an unprecedented multi national survey of soft power in Asia that was generously supported by the Korea Foundation. By soft power, we mean the ability of a state to achieve its goals through attraction rather than coercion. The project's findings showed that the United States enjoyed greater levels of soft power than China in the eyes of several Asian publics. Now, twenty months after that survey was put in the field, the foundations of the regional order in East Asia have been shaken. A key question is thus how the international financial crisis has affected American, Chinese, South Korean, and Japanese soft power and influence in Asia.

These recent developments inspired a workshop in Chicago co hosted by The Chicago Council on Global Affairs and the East Asia Institute, Seoul, and generously sponsored by the Korea Foundation and the Korean Consulate, Chicago. The workshop brought together thirty experts drawn from current and former foreign policy and national security officials, academics, and policy experts to discuss the implications of the current crisis for the soft power of these four countries. Over a day and a half, participants engaged in discussion on what the financial crisis will mean for the future of each country.

The discussions motivated this summary report authored by Dr. Thomas J. Wright, Executive Director for Studies at The Chicago Council. The findings presented in the report emerged from the discussion, but do not necessarily reflect a consensus opinion amongst the workshop participants or the views of any single participant.

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EXECUTIVE SUMMARY

Dennis Blair, the Director of National Intelligence, told the U.S. Senate in February 2009 that the “primary near term security concern of the United States is the global economic crisis and its geopolitical implications.” The crisis, he said, “has increased criticism about free market policies, which may make it difficult to achieve long time U.S. objectives. . . It already has increased questioning of U.S. stewardship of the global economy and the international financial structure. . . China has an opportunity to increase its prestige.” Admiral Blair’s concerns include America’s soft power, i.e. the attractiveness of U.S. policies so that other countries want what the United States wants.

The Chicago Council on Global Affairs and the East Asia Institute of Seoul, South Korea organized a two day workshop to study the broader implications of the financial crisis for the soft power and influence of the United States, China, South Korea, and Japan in East Asia. The overarching questions addressed in the workshop included:

1. Has the crisis put at risk the postwar security regime in the Asia Pacific?
2. Has the “American model” been irreparably damaged and has the financial crisis provided a boost to philosophies that challenge Western orthodoxies of governance and international order?
3. How has the crisis affected the relative influence of the United States, China, Japan, and South Korea?

This report, inspired by the workshop discussions, offers eleven analytical points:

- In terms of regional order, the 2008 crisis is seen through the prism of the 1997 Asian Financial Crisis;
- Economically, China has emerged stronger from the crisis while Japan is weaker;

- The soft power, or attractiveness, of multilateralism has increased although if the G 20 or regional initiatives cannot deliver, it could be fleeting;
- The crisis places pressure on China to play a more active part regionally;
- But Japan and Korea will also continue to be key players because they are indispensable for pan Asian multilateral initiatives;
- The dichotomous distinction between the U.S. and Chinese economic models is a false one so it is inaccurate to say that the U.S. model is weaker relative to a Chinese alternative;
- The Chinese government is not taking advantage of the financial crisis to criticize the U.S. model domestically;
- The hit to U.S. soft power is in competence—militarily bogged down and economically inept—not a desertion of the U.S. worldview;
- There is an increasing interest internationally in wanting to understand China but this is not the same thing as wanting what China wants. Countries also make a distinction between wanting what China wants economically and wanting what China wants politically and diplomatically;
- China is often clumsy in its use of soft power because it lacks a thick skin to accept international criticism as a normal part of the political discourse;
- America’s allies continue to want what the United States wants but they worry about U.S. capabilities to realize its goals.

INTRODUCTION

The international financial crisis, triggered in September 2008, may be a transitional moment in the history of postwar order in East Asia with significant implications for great power influence in the region. It is at least as significant as the 1997 crisis and probably more so. In late 2008 regional trade collapsed while growth rates plummeted.² American capitalism and globalization now stand co accused. While there are some signs of a gradual recovery, the political establishment is under pressure within states while the shifting distribution of power, although still unclear, may alter the balance between them.

The last major world economic crisis—the Great Depression—led to an upsurge in protectionism, the rise of communism and fascism as leading political philosophies, and the strengthening of authoritarianism. While such a calamity appears remote at this stage, it is no surprise that the crisis has raised questions as to whether U.S. influence and prestige in East Asia have been severely damaged. Dennis Blair, Director of National Intelligence, told the U.S. Senate in February 2009 that “the primary near term security concern of the United States is the global economic crisis and its geopolitical implications.” The crisis, he said, “has increased criticism about free market policies, which may make it difficult to achieve long time U.S. objectives . . . It already has increased questioning of U.S. stewardship of the global economy and the international financial structure. . . China has an opportunity to increase its prestige.”³

Admiral Blair’s concerns include America’s soft power, which refers to the ability of a state to achieve its goals through attraction rather than coercion.⁴ Historically, soft power has played an important role, alongside U.S. military power, in maintaining America’s

strategic role in East Asia. The United States is in East Asia by the invitation of its allies, with whom it shares liberal and democratic values. Moreover, the U.S. economic model has been adopted by choice by all major powers in the region. In Asia, as in the rest of the world, America’s philosophy of international order is without a competitor of the sort provided by communism during the cold war. While the United States suffered a global loss in standing in the seven years after the terrorist attacks of 9/11, a 2008 survey by The Chicago Council on Global Affairs and the East Asia Institute found that the United States is the undisputed soft power leader in East Asia.⁵

However, over the past decade, China’s leaders have sought ways to increase China’s soft power by sponsoring Confucius Institutes around the world, hosting study missions of foreign journalists and opinion leaders, improving China’s media outlets, participating in cultural exchanges, engaging with the Chinese diaspora, and reassuring its neighbors that its rise will be peaceful by playing an active part in regional multilateral institutions.⁶ Yet China’s use of soft power has differed from that of the United States. Chinese leaders view soft power primarily as a defensive tool—a means of correcting misperceptions of China overseas, and occasionally at home. To date, China has not sought to develop a philosophy or set of values that compete with dominant Western orthodoxies although some countries seek to emulate its mix of free markets with authoritarian control.

The Chicago Council and the East Asia Institute organized this workshop, which brought together thirty experts from the United States, South Korea, China, Japan, India, and Australia to discuss the implications of the crisis for soft power and international relations in East Asia. The topic was chosen to provide an analytical tool for understanding the deeper

roots of great power influence in East Asia and how they may be affected by the changing economic climate. The overarching questions addressed in the workshop included:

1. Has the crisis put at risk the postwar security regime in the Asia Pacific?
2. Has the “American model” been irreparably damaged and has the financial crisis provided a boost to philosophies that challenge Western orthodoxies of governance and international order?
3. How has the crisis affected the relative influence of the United States, China, Japan, and South Korea?

The workshop consisted of four sessions—one each on the United States, China, South Korea, and Japan. This report offers eleven themes or insights arising out of the workshop’s proceedings. They do not necessarily reflect the views of all participants and are the responsibility of the report’s author.

1. 1997 still matters

In East Asia, the international financial crisis is viewed through the prism of the Asian financial crisis of 1997. In 1997 the United States was perceived as clumsy, aloof, condescending and incompetent in its response to the crisis. The decision not to bail out Thailand stood in stark contrast to the decision to bail out Mexico three years earlier while U.S. Treasury opposition to the creation of an Asian Monetary Fund continues to rankle. The crisis provided a spur for pan Asian (as distinct from trans Pacific) multilateralism, leading to the creation of the Chiang Mai Initiative and ASEAN +3 grouping. To many in Asia the fact that the 2008 financial crisis occurred provides further evidence of the dangers of U.S. led globalization although it also

shows that the United States and Asia share a vulnerability to economic storms. Moreover, the U.S. response has not been nearly as controversial in Asia this time round. That said, there is reason to believe that the 2008 crisis will add to the impetus for pan Asian financial cooperation, particularly if the G 20 fails as an institution, which could disadvantage the United States in some important ways.

2. Economically, China has emerged stronger from the crisis while Japan is weaker

The international financial crisis initially hit East Asia the hardest although in recent months the region has outperformed the rest of the world. China seems to be the locomotive for this recovery although for some analysts the quality and sustainability of its stimulus is dubious. China’s quick rebound has revived speculation that Asia is in the midst of a dramatic power transition with China on track to replace the United States as the region’s leading power. Certainly, as long as its rapid growth continues, China’s importance for the region’s economy will grow. By contrast, Japan, America’s closest ally in Asia, has been severely affected by the crisis with projections of a 6% loss in GDP for 2009, the result of a collapse in exports. The psychologically important moment looms closer when China surpasses Japan to become the world’s second largest economy. Closer U.S. Chinese cooperation and the dilution of Japanese influence in the G 8 have both damaged Japanese standing and influence.

3. The soft power of multilateralism has increased

States do not have a monopoly on soft power. Logics of international order can also be measured in terms of their standing and attractiveness in the international community. It is widely believed that the international financial crisis offers evidence that the primary

problems facing major states are shared and the solutions require cooperation.

Consequently, it is reasonable to assume that the soft power of major powers will depend to some extent on the degree to which they can represent and drive tangible progress in international cooperation to solve seemingly intractable problems like the structural flaws in the international financial system and climate change. Whether China can become the linchpin of a liberal economic order remains a great unknown and the answer will play a significant part in determining the degree to which other countries desire to follow its lead. The attractiveness of multilateralism itself may prove fleeting if it fails to deliver upon its promise, leading to controversial unilateral steps by powerful states.

4. The international financial crisis places pressure on China to play a more active part regionally

China's centrality to a healthy global economy is now incontrovertible and the financial crisis highlights how solutions to problems in the global economic order must include China as a key player—a huge change from the pre crisis period. Although they wish to focus their efforts on domestic challenges, China's leaders will find themselves under pressure to play a more active part in managing the international and regional order. China is at the heart of the G 20 and has seen its influence in international institutions, including the IMF, grow. Chinese officials are also beginning to become more assertive in articulating views at odds with those of the United States. For instance, earlier this year Zhou Xiaochuan, the governor of the Chinese Central Bank, has called for the greater use of Special Drawing Rights (SDRs) to bring an end to dollar dominance.⁷

It is not clear that China is ready to take on a greater leadership role internationally given the scale of its domestic challenges and it is also doubtful whether its leadership has thought through an alternative model of international order, either economically or politically. China's increasing importance will also place it under greater scrutiny and pressure. For example, China's exchange rate will remain a source of tension with Washington, especially if the U.S. recovery is long, slow, and jobless.

5. But, Japan and Korea will also continue to play a key role because they are indispensable for pan-Asian multilateral initiatives

Japan has suffered more than China during the economic crisis but Japan's leadership experience in reducing the vulnerability of East Asian economies to currency crises—through ASEAN + 3 and the development of the Chiang Mai initiative—make it an indispensable player in future regional economic diplomacy. In addition to this experience, Japan's closeness to the United States gives it a special importance in pan Asian initiatives while its economic integration with the rest of the region—through trade, regional production networks, and investment—gives it influence and leverage. More generally, Japan is also a leader in the innovation and employment of technology which should give it a hard power advantage even as its relative economic power declines. However, in order to realize its potential, Japan will have to get its own house in order politically. In particular, the newly elected Democratic Party of Japan (DPJ) will need to develop a coherent foreign policy.

South Korea's size and location are sufficient to ensure that it will continue to be a pivotal middle power in regional diplomacy, although it wants to avoid having to choose

between China and the United States. However, two other factors make it especially important. First, its alliance with the United States and its membership of the G 20 provide it with a role in ensuring that the alliance and partnership systems compliment rather than undermine each other. Second, South Korea is on the front line of one of likely foreign policy crisis points during the Obama administration—instability in North Korea if Kim Jong Il dies. Such a crisis would likely test South Korea's own soft power. Would Japan, a fellow democracy, support Korean unification? Can South Korea maintain and strengthen its positive reputation in the region?

6. The dichotomous distinction between the U.S. and Chinese model is a false one so it is inaccurate to say that the U.S. model is weaker relative to a Chinese alternative

Distinguishing between U.S. and Chinese models of economic development—i.e. the Washington and Beijing consensuses—clouds the issue rather than clarifying it. Although it is American in origin, the United States and China have employed different versions of the same capitalist economic model. While there are some differences (the use of central planning and a propensity to save), China's privatization of industry, opening up of its markets, and entrance into the global economy make it the star pupil of the so called "Washington Consensus". Therefore, China will not and cannot take advantage of the crisis to offer a competitor model to the rest of the region. The genuinely unique and exportable feature of the Chinese experience is its authoritarian political structure but its appeal, which is primarily to other authoritarian regimes, has not increased as a result of the crisis. By contrast, South Korea and Japan have made the U.S. political model their own and

gain from the soft power associated with political freedoms.

7. China is not blaming the United States for the crisis internally

Chinese scholars of soft power have argued that China ought to articulate a set of values that would unite the domestic population and have appeal internationally. The workshop was presented with evidence that suggests that the Chinese government is not taking advantage of the financial crisis to criticize the U.S. model domestically, presumably a necessary precondition of developing an alternative set of values at home. According to a study conducted by the Long Term Strategy Group, mentions of American economic institutions in the Chinese media actually precipitously declined in 2008, which may indicate a national desire to avoid a debate on the merits of globalization and U.S. leadership. Interestingly, Chinese leaders have been vocal in their criticisms of the United States at public international forums but this has not manifested itself as a domestically focused communications strategy.

8. The hit to U.S. soft power is in competence—militarily bogged down and economically inept—not a desertion of the U.S. worldview

The region has not lost faith in the broad contours of capitalism or in the value of America's philosophy of international order but Asians do question America's competence in economic management and national security policy. The financial crisis and the botched occupation of Iraq both serve as reminders of Washington's fallibility, particularly when confronted with a severe crisis. U.S. (and regional) readiness for a looming succession crisis in North Korea causes particular concern. Moreover, how can the United States be

expected to be a leader in Asia when it is bogged down in South Asia and the Middle East? These concerns are somewhat ameliorated by perceptions that the Obama administration has gotten off to a solid start in its Asia policy although recent U.S. protectionist moves against China and the continuing failure of Congress to approve the U.S. Korea Free Trade Agreement are discouraging.

Blame is often placed on U.S. domestic politics and the U.S. political system which is perceived as a barrier to serious attempts to address the deficit, regulate Wall Street, and conduct a responsible foreign policy. What happens in Washington in the coming years will be closely watched as a bell weather of future U.S. behavior. In other words, can Americans get their own house in order? By contrast, China is currently perceived as economically competent and capable of mobilizing and harnessing national resources quickly.

9. There is an increasing interest internationally in wanting to understand China but this is not the same thing as wanting what China wants. There is also a distinction between wanting what China wants economically and wanting what China wants politically and diplomatically

Unquestionably, there is an increasing international interest in understanding China. The growing number of Confucius Institutes, exchange students visiting China, and foreigners learning Chinese, as well as the tremendous interest in the Beijing Olympics, should come as no surprise. China's star is ascendant and the world wants a better view. Understanding may lead to greater agreement with China's objectives but this is not necessarily true.

Other countries also make a distinction between different types of Chinese goals. Chinese prosperity acts as a locomotive for

economic growth throughout Asia, and, to a lesser extent, throughout the world. China's increasing importance to the global economy means that other states will have a national interest in seeing China do well economically. This has spillover consequences in the increasing number of foreigners who see China as the new land of opportunity and want to study and work there—both important elements of soft power and influence. However, the situation is much more ambiguous with respect to political influence. The rest of East Asia is made nervous by the political consequences of China's growth. While East Asian nations take some reassurance from China's non-threatening foreign policy and its engagement in multilateral institutions, they also rely upon the presence of the United States as an insurance policy against a change in Chinese intentions and behavior. The apparent seizing of the relative advantage by China in the aftermath of the financial crisis merely adds to that dynamic. As a general rule, if a state's economic and military power is rising, its soft power is at risk.

10. China is often clumsy in its use of soft power

The Chinese government appears unable to accept public criticism of China as part of the normal political discourse. The workshop heard how China's outreach to journalists and other opinion formers was complicated by an overzealous desire to contain or prevent critical commentary. Similarly, vigorous Chinese opposition to the visit of Uighur leader Rebiya Kadeer to Australia to launch a documentary on her life only served to unite Australians in support of Kadeer's right to speak out and highlighted China's illiberal attitude toward freedom of speech and its repression of minorities. By contrast, the U.S. government is quite skilled at

participating in forums where it is strongly criticized, while U.S. society more generally is renowned for its open debate. This “thick skin” gap is likely to be an important American advantage in the years ahead.

11. There is regional concern over the U.S. role in East Asia

America’s allies continue to want what the United States wants but they worry about U.S. capabilities to realize its goals. Over time, this may erode U.S. soft power. As the recent Australian defense white paper suggests, there is some concern about U.S. maintenance of its conventional warfare advantages, particularly its military control of the commons (air, sea, and space) in light of China’s military buildup and ongoing U.S. commitments in Iraq, Afghanistan, and now Pakistan.⁸ Moreover, although the United States will remain the world’s preeminent military power, the amount of U.S. power that is usable in Asia is a fraction of America’s total power given the U.S. commitments in other regions. On the other hand, U.S. pioneering of new technologies in its wars in Iraq and Afghanistan and its demonstrated propensity to learn and adapt to harsh environments provide some reassurance. Diplomatically, Asians are wondering if the Obama administration can deepen its alliance with South Korea to move beyond the shared North Korean threat and if it can resolve any differences of worldview with the DPJ government in Japan.

CONCLUSION

The 2008 crisis may reinforce trends toward regional multilateral cooperation already underway since 1997 but it has not dealt a body blow to the attractiveness of the U.S. regional order in East Asia. American capitalism’s reputation has been damaged but the United States agrees on the need for reform and there

is no sign of new competitor philosophies of governance. Rather, the United States remains well placed to provide regional leadership. Its bilateral alliances remain the bedrock of regional security order, its democratic values continue to appeal to other nations, and its history of responsible and cooperative leadership in the region stand it in good stead. Its Achilles heel is doubt about U.S. competence and commitment to the region.

China has had a good crisis and is becoming an increasingly important economic partner to the rest of the region but its attractiveness to other states will continue to be based in rational economic and political calculation rather than a genuine desire to see China achieve its objectives. China’s authoritarian political system and the normal insecurities created by a perceived power transition will act as significant constraints on its soft power.

South Korea and Japan, two key U.S. allies, share the U.S. worldview and are strong supporters of a continuing U.S. presence in Asia as a regional balancer. Both countries recognize that America’s relative resources and power projection capabilities may diminish over time and as such they are willing to deepen their commitments with the United States to assist it in its mission. At the same time, South Korea and Japan want a rising China to play a positive role in the region although they do not want to see it become dominant. Both South Korea and Japan have soft power vis a vis China and want to use it to construct effective multilateral institutions and mechanisms to tackle shared challenges.

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² Ellen Frost, "Recent Economic Trends: Implications for Post Crisis Power Relationships in East Asia," Memo Prepared for The Chicago Council on Global Affairs and the East Asia Institute, Presented in Chicago, October 23 2009.

³ Dennis Blair, "Intelligence Community Annual Threat Assessment", *Testimony to the Senate Select Committee on Intelligence*, Washington DC, February 12 2009, pp 2 3. While Admiral Blair is referring to economic power, which is not normally thought of as soft power, he also emphasizes the importance of the reputational power of the United States which is a key component of the attractiveness of the U.S. model.

⁴ This definition comes from Joseph S. Nye, *Soft Power: The Means to Success in World Politics*, Cambridge, MA: Perseus Books Group 2004, pp x. For more in depth discussion of soft power see *Soft Power in Asia: Results of a 2008 Multinational Survey of Public Opinion*, A Publication of The Chicago Council on Global Affairs and the East Asia Institute, Chicago, IL: April 2009, pp 7 10.

⁵ For evidence of the loss of standing see *U.S. Standing in the World: Causes, Consequences, and the Future: Report of the Task Force on U.S. Standing in World Affairs*, American Political Science Association, Washington DC, September 2009. For U.S. soft power in Asia see *Soft Power in Asia: Results of a 2008 Multinational Survey of Public Opinion*.

⁶ Mingjiang Li ed., *Soft Power: China's Emerging Strategy in International Politics*, New York: Lexington Books, 2009.

⁷ See Zhou Xiachuan, Statement on Reforming the International Monetary System, March 25 2009, available at http://www.cfr.org/publication/18916/zhou_x

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⁸ *Defense White Paper: Defending Australia in the Asia Pacific Century*, Commonwealth of Australia, 2009. Available at http://www.defence.gov.au/whitepaper/docs/defence_white_paper_2009.pdf

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