China's Regional Relations

Evolving Foreign Policy Dynamics

Mark Beeson and Fujian Li

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in thanks for their support and encouragement

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1

China Changes Everything

The world seems to have become obsessed with China. It's not hard to see why. Whether it is the unprecedented speed and scale of its economic development, the possible threat posed by its military and territorial ambitions, or the more diffuse influence of its culture and people, China is continuously in the headlines and seems to have changed not only the world around us but the way we understand it. Coming to terms with the "rise of China" is not just something that preoccupies the world's media, though. On the contrary, policymakers and analysts everywhere are having to rethink the way they understand the evolution of the international system and China's place within it. Will China be a "responsible stakeholder," as former deputy secretary of state and World Bank president Robert Zoellick famously demanded, or will its growing economic, political, and military power present a fundamental challenge to the existing order? More pertinent for prominent US policymakers such as Zoellick, will China threaten the hitherto dominant position of the United States itself?

Only a decade ago such a question might have seemed preposterous. As we shall see, for some observers—especially in the United States—it still does. But a growing number of people think that the rise of China really does have the potential to change the existing distribution of power and influence in the international system in ways that will have consequences for China itself, for the United States as the world's existing "hegemonic" or dominant power, and especially for China's neighbors, who have been the first to feel the real impact of China's growing power and presence. This last group of states and peoples is the primary focus of this book.

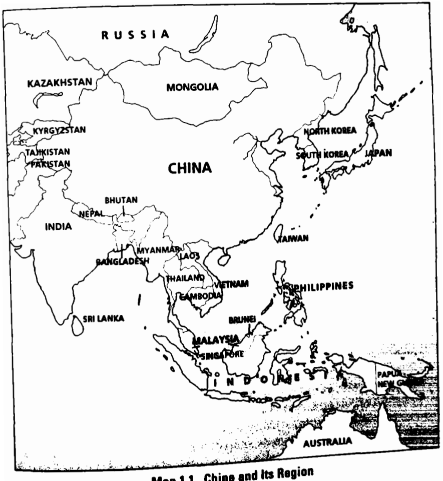
At the outset it is important to emphasize that for all the attention that China's seemingly sudden emergence on the world stage has garnered, this territory is hardly uncharted. On the contrary, for most of recorded human history China has been the most powerful, advanced, and influential force on the planet. In China's own neighborhood in particular, its cultural influence over countries such as Japan, Korea, Cambodia, Burma, and Vietnam has been profound and enduring. We simply cannot understand the evolution of what we now describe as "East Asia" without recognizing the impact Chinese ideas and social practices have had on the region.

Crucially, however, during the course of the thousands of years when China was the dominant force in East Asia in particular, it was not the sort of nation-state that it (and every other polity in the world) has become now. The creation of an international system populated by geographically discrete, sovereign nation-states is a product of the time when China was in decline and European nations were the "rising powers." European expansion was traumatic for China and would initiate what has become known as China's "century of shame," in which its territorial sovereignty was compromised and its ancient dynastic system was ultimately overthrown, plunging the country into decades of bloody civil war. However, from this appallingly destructive and humiliating interregnum, China has recently reemerged to once again occupy what many of its people and policymakers see as the country's rightful place at the center of world affairs. From a long-term Chinese perspective, one might even suggest that normal geopolitical business is being resumed after an unfortunate, aberrant interlude.

One does not have to agree that Chinese ascendancy is the normal, even "essential," order of things to recognize that this period is one of epochal change, and not just for China itself. How the United States—whether we think of it as either a unitary political actor or as a people long accustomed to being the world's dominant power with all the privileges that dominance brings—will respond to the prospect of being challenged, much less usurped, is an interesting question. No shortage of potential guesses is being made about, and answers suggested to, that question, including the possibility that it is purely academic, and China will never attain dominance. But whatever one thinks may happen in the future, the world is being clearly transformed in significant ways right before our eyes. Nowhere is this transformation more obvious and apparent than in China's immediate neighborhood, which is why that area is the principal focus of this book.

Our overall argument, in short, is that at this stage, China's rise and growing importance are manifesting themselves primarily in China's relationships with its closest neighbors. China's regional relations therefore offer an important and revealing window into not just its evolving foreign policy, but also the way its elite policymakers actually think about the world and China's place in it. As we shall suggest, important variations can be found in the style of diplomacy and the policy priorities China pursues in different parts of its varied and extensive neighborhood. That China has longer borders and more diverse neighbors than any other country on earth is important to remember (see Map 1.1). China's land border is 22,000 kilometers (13,670 miles) and its coastline stretches more than 18,000 kilometers (11,200 miles), giving it the most complex geostrategic environment in the world, according to some leading figures in China's foreign affairs (Y. Wang 2003). As a result, different issues are given priority in different regions; geography and history continue to shape regional diplomacy, even in an era of so-called globalization.

Indeed, the other reason for focusing on any region—not just ones in which China happens to be involved—is that they remind us that the world is far from a uniform place in which universal values or practices predomi-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AUSTRALIA

Map 1.1 China and Its Region

nate. On the contrary, regional variation remains a very important determinant of living standards, cultural values, policy priorities, and international relations. Even if China ultimately becomes a world power with a more extensive and all-encompassing international agenda, many of the attitudes, policy preferences, and diplomatic tactics that it may eventually employ are being forged in its own regional relations. As such, they provide a potentially tantalizing glimpse of the way China's overall policy preferences may evolve. At the very least they highlight the constraints and opportunities that currently confront China's policymaking elites as they come to terms with the country's newfound status and power.

Thus far, we have been talking rather glibly about "China," with or without the quotation marks. We should make it clear that in this book we are concerned primarily with the foreign policy of the People's Republic of China (PRC), although we shall invariably call it "China" for the sake of convenience. This semantic shortcut should not be taken to imply that we uncritically accept that the use of the single word "China" conveys a straightforward, universally accepted idea about what "China" might mean. We are, in fact, very conscious of the fact that China's foreign policy is the consequence of an increasingly contested process; indeed, we spend a good deal of time trying to explain and indentify some of the different forces that are attempting to influence the construction of foreign policy in China. However, where it is convenient to do so and the meaning is clear, we shall sometimes refer to China as if it is a unitary actor, even though we are very conscious of the fact that it is often no such thing. As we shall explain, however, policymaking in China is more opaque than in many comparable Western countries, and this convention is actually more forgivable than it might be elsewhere.

Our principal goal in what follows is not to provide an exhaustive analysis of the policymaking process, however. Even utilizing such Chinese language sources as actually exist and drawing on our own interview material, defining Chinese policy is still a very difficult task: this particular policy "black box" resists easy opening. Consequently, we concentrate primarily on the actual policy outcomes in China's various and varied regional relations. As a result, the book is organized as follows.

In Chapter 2, we provide an introduction to the nature of and debates about regions. One of the key arguments we make here is that regions are very important elements of the overall international system. Indeed, in China's part of the world, a lively competition is taking place to actually define the boundaries and membership of "the region" of which China is a part. As we explain, China is actually a member of a number of overlapping regions. Significantly, China is a more powerful and consequential actor in some of these regions than it is in others, and it is unsurprisingly more enthusiastic about some as a result. Equally important, however, regions are not simply vehicles through which powerful states try to get their way (although they may be that, too), but they are also arenas in which states are "socialized" into particular patterns of behavior and norms.

Before actually considering how China's policymakers have acted and attempted to utilize various regional groupings, we provide a sketch of China's own development. We do this for a number of reasons. First, China has had more history than most, at least of the recorded kind, and its leaders and people take it rather seriously as a consequence. Indeed, the East Asian part of China's neighborhood pays a great deal of attention to history: the current disputes over territory and the frequently tetchy relations between China and Japan have their origins in historical conflicts and events that continue to resonate in the present day. Unless we have some understanding of these events, making sense of the seemingly nonnegotiable nature of some contemporary problems is difficult. In addition to providing a snapshot of some aspects of China's long-term history in Chapter 3, we provide a brief outline of China's phenomenal economic development and the political changes that facilitated it.

In Chapter 4, we introduce the first and arguably the most contentious of our regional case studies. The key issue here is the nature of the region itself: should it be "East Asia" or "Asia Pacific"? As we explain, much is at stake in the answer, not least because the United States is potentially a member of the Asia Pacific, and China's own status is inevitably diminished as a consequence. In East Asia, by contrast, China has the opportunity to play a much more prominent role. We review some of the key institutions that have emerged around these competing visions. We also introduce some of the key conceptual frameworks that have been developed to explain the bilateral relationship between a rising China and a possibly declining United States. Theoretical perspectives such as "hegemonic transition" are important, if only because so many analysts and policymakers take them seriously and act accordingly.

Southeast Asia is one area in which China has assiduously tried to cultivate influence and "charm" its neighbors, and we consider the success of these efforts in Chapter 5. The story here is of mixed messages: as we explain, China's economic importance and the increasingly sophisticated nature of Chinese foreign policy meant that attitudes toward China really had changed in a region that was historically nervous of the geopolitical intentions of its much larger neighbor. Of late, however, in the wake of China's increasingly assertive, even aggressive behavior in the South China Sea, much of that earlier good work has been effectively undone. A number of

Southeast Asian states are increasingly looking to the United States as a hedge against an increasingly alarming China.

Northeast Asia has traditionally been even more problematic for China, in part because it is so much closer geographically, and China's relations with its most important neighbors have been—and generally remain—very difficult, as we explain in Chapter 6. We focus primarily on the bilateral relationships with Japan, North and South Korea, and, most problematically of all perhaps, Taiwan. The focus on bilateral relations is explained in part because so little institutional architecture is available to examine. We consider how much impact economic interdependence is having on the various bilateral relationships and conclude that although it has been surprisingly positive in Taiwan's case, the deteriorating relationship with Japan reminds us that nothing is inevitable in China's regional ties, especially in the absence of institutions that might help manage intraregional ties.

The potential efficacy of such institutionalized regional relations is on display in Chapter 7, where we examine the development of the Shanghai Cooperation Organisation (SCO), which China has played a significant role in creating. Indeed, we explain how the SCO has played a major, very positive role in stabilizing the entire Central Asian region, traditionally a source of serious security threats. Revealingly, the SCO has also proved to be a way for China to manage its historically difficult relationship with Russia. In this chapter, we also consider China's relationship with India, because the Asian giants are competing for influence in the Central Asian region, and India is a potential obstacle to China's regional ambitions.

In Chapter 8, we present a more detailed exploration of a specific bilateral relationship because it illustrates all of the factors that are in play at a more general level in China's regional relationships. Not only is the bilateral relationship between China and Australia one of the most important economic partnerships for both countries, but Australia also has an intimate, long-standing strategic relationship with the United States—the reigning hegemonic power and principal obstacle to China's own international ambitions. If China can get this relationship right, it may yet exert a broader influence than some of the skeptics think. Thus far, however, the signals are mixed.

The final chapter offers a conclusion by way of an exploration of China's possible global role. All other things being equal, China will soon overtake the United States as the biggest economy in the world, and we would expect its international influence to continue expanding in line with this achievement. At the very least, other countries will be compelled to take China seriously as it plays an increasingly critical part of the global economy. The key question is, can China translate its material presence into international influence? Does it actually have a vision it wants to promote? Can China, or its current generation of "communist" policymakers, to be more precise, actually play the role of good international citizen and stabilizing force? The experience of the United States reminds us that balance is not easily found, and the temptations of hegemony and the promotion of the national interest are very real. However, by looking at China's evolving regional relations, we might begin to get some idea of whether or not China is up to the task.

2

The Rise of Regions

One of the most striking and counterintuitive features of the contemporary international order is the importance of regions. In an era commonly associated with processes of globalization, regions remain surprisingly prominent, both as a way of defining particular parts of the globe and even as a source of identity (Beeson 2007a). Despite the recent problems that have afflicted the European Union (EU), the idea that regions are potentially important pieces of the international institutional architecture remains firmly in place. Indeed, in the part of the world in which China has become the dominant actor, a growing number of regional initiatives suggests that regional institutions are still seen as potentially important ways of managing relations with neighbors (Dent 2008). The creation of regional institutions is also a way of establishing the membership, goals, and operational style of an area, which otherwise might exist only as a geographic signifier.

Regional institutions are potentially important and attractive because they may help to solve "collective action problems" or issues that states cannot address on their own.[1] At their most ambitious and consequential, regions may provide the basis of new forms of governance that transcend national borders (Hameiri and Jayasuriya 2011). As we shall see in more detail in the chapters that follow, a flurry of interest has arisen in the East Asian region in developing institutions to deal with specific problems, such as monetary coordination, trade facilitation, and security cooperation, all issues that individual states cannot address effectively on their own. Such initiatives have the potential to be important parts of the way particular regions act, as well as the way they are organized and perceived.

However, the precise way that politically conscious, institutionally realized regions begin to coalesce may also reflect long-standing geographical identities, which are not exclusively dependent on the actions of policymakers to come into being. On the contrary, policy initiatives may actually reflect preexisting ideas about geographical boundaries. "South America" and "sub-Saharan Africa" are good examples of geographically defined entities that have assumed a salience beyond simple cartography; social agency brought an underlying geographical structure to political and cognitive prominence. As we explain in more detail in Chapter 5, Southeast Asia is an example of a region that owes its initial identity to external forces rather than anything innate or "natural" in the region itself.

At one level, then, such regional geographical descriptors are somewhat arbitrary and simply reflect physical geography. But at another level, they can be given greater salience if they become the center of focused political activity that has the effect of reinforcing or giving expression to a putative underlying identity (Paasi 2003). In the following chapters we shall see examples of various degrees of regional development ranging from Southeast Asia (which has a comparatively long-standing, distinctive institutional identity), to Northeast Asia (which has a very limited sense of political coherence or institutional identity. Despite—indeed, because of—these quite dramatic differences in the degree of regional development, regions offer a useful way of thinking about the development of China's foreign policy. Such differences not only help us to understand how and why foreign policy debates are evolving in China, but also shed a revealing light on the development of the broadly conceived "Asian region" in which China is playing an increasingly important and active role. By breaking China's regional policies into distinct, geographical parts, we can understand the different regional dynamics that are driving political, economic, and strategic developments in China's neighborhood, and the effectiveness of China's responses to such changes as its leaders try to come to grips with the Middle Kingdom's new role in a rapidly changing world.

We begin this chapter with a brief overview of the historical context in which regionalism in Asia is developing. History continues to matter in Asia in a way it does not in other parts of the world, as the unresolved and increasingly dangerous territorial disputes in Northeast and Southeast Asia remind us. A sense of both why this is the case and what this implies for China and its neighbors is important. Following the discussion of history's importance in the Asian region, we provide an overview of some of the most influential theories of regionalism. Readers who are more interested in China's policy toward specific regions could skip this discussion and still understand what follows if they wish. However, we feel a need to spell out how regions are understood by the scholarly community in the West, where such debates originally emerged, and the way these ideas have been taken up, adapted, and critiqued in China. In the final part of the chapter, we offer a preliminary assessment of China's evolving regional policies.

Regions in Historical Context

We have customarily talked about areas such as Europe or South America as geographically distinct entities that divide the world into recognizable parts. This relatively modern sensibility could not, of course, have occurred before some parts of the world were actually "discovered." Before Europeans—or Asians, for that matter—could think of themselves as different and distinctive, they had to have something or someone to be different from (Buzan 2012). One does not necessarily need to subscribe to theories of postmodernity to recognize the importance of discourse in shaping concepts of self and "other" (E. Wolf 1997). In this regard, the age of European exploration was not only profoundly important for Europeans themselves, but at least as important for the peoples they encountered, colonized, and generally surprised by their very existence. As we shall see, nowhere was the impact of Europe more evident than in China's traumatic interaction with imperialism, which culminated in "one hundred years of humiliation"—an epochal transformation that continues to reverberate throughout China and the rest of Asia to this day (Bayly 2004; Morris 2010).

Before we explore this period and its ramifications in any detail, however, we wish to emphasize a couple of conceptual points that have significant theoretical and practical implications for the following discussion. First, history has—until relatively recently, at least—tended to be told by the colonizers (Blaut 1993). Consequently, much of our understanding of the history of Asia has tended to have a Eurocentric bias. Put differently, the impact of European imperialism, and modern economic and political development more generally, has usually been seen from a modern, successful, technologically advanced, and essentially Western perspective. Only recently have Western scholars begun to rewrite the conventional historical narrative to recognize the importance of both China's technological inheritance and its historical economic dominance for both Asia and the West itself (Frank 1998; Hobson 2004).

Chinese scholars, by contrast, have different views about the historical narrative and the impact of European imperialism. Yang Hongbo (1992) and Yan Zhongping (1992), although approaching this debate from different intellectual traditions,[2] are representative of Chinese views that stress the negative impact of colonialism. Yang emphasizes how colonial relations undermined Chinese culture and sovereignty while promoting the national interests of countries such as the United States in particular. Important as such views are, they are far from uniform or representative of the range of thinking in China about the legacy of the colonial experience. Zheng Yan (1994) argues that the opium wars were actually instrumental in bringing modernizing influences to China, while Li Shenzhi (1994) suggests that the United States might actually have provided an important role for China that ought to have been taken up as a force for development, in much the same way as happened in Japan. Chinese scholars are beginning to develop their own ways of theorizing about these processes, in part to overcome what some think is the self-serving, ideologically driven nature of US international relations theory, of the sort that was so influential during the Cold War (Y. Wang 2007).

Whatever we think about the way in which a new generation of Chinese analysts interprets the impact of European imperialism on China in particular, a number of points are worth emphasizing. First, from a Chinese perspective, China has been the dominant power of its place and time for most of recorded history. Indeed, one could possibly argue that by today's standards, we could describe China as the oldest "world" power, even if the world before European imperialism was rather truncated and confined largely to Asia.[3] Given China's dominance of its known world, that successive Chinese dynasties might have taken themselves rather seriously and assumed that they were literally and metaphorically the center of the world is hardly surprising. China's notorious rejection of British trade demands in the late eighteenth and early nineteenth centuries is more understandable when seen in the context of a history in which China was the dominant force of its era and area (Kaufman 2010).

Among some scholars, and many of China's political elites, a sense can be found that in many ways the period of European imperialism was something of an historical aberration, and we are now returning to geopolitical business as usual, with China once again at the center of world affairs. This attitude is best captured in the idea of the "great rejuvenation of the Chinese nation" (*Zhonghua Minzu de Weida Fuxing*), in which modern China is seen to be reassuming its traditional dominance. One of the most important exponents of this view is Zheng Bijian (2003), who is also considered to be the architect of the influential "peaceful rise" concept, which has become such a prominent part of China's recent foreign policy discourse. We consider the impact of this concept in more detail in subsequent chapters, but the point to emphasize at this stage is that it is part of a growing internal debate about the nature of China's past and present and the way they ought to be understood.

The second point that merits mention about this historical context is not simply that China has generally been the dominant force in Asia, but that when it has been strong, China's dominance has arguably been positive for the region as a whole.[4] David Kang (2003) has articulated this contention most completely and persuasively for an English-speaking audience, but Chinese scholars have also developed similar ideas. Zhou Fangyin's (2011) analysis of the "international" system China dominated before European intrusion into what we now think of as East Asia claims that this order was characterized by harmony despite inequality. Although China was dominant, in practice other actors within the system enjoyed high levels of autonomy, too, helping to account for the system's durability. Significantly, however, Zhou is not as optimistic as Kang about the adaptability of this system to the modern world.

Kang's (2003) central point is that the East Asian region has long been dominated by China in a system that is a mirror image of the West's: a formal regional hierarchy is complemented by informal equality as an essentially benevolent China provides a nonintrusive bedrock of regional stability. The quintessential manifestation of this regional order was the tributary system in which China's neighbors acknowledged its dominance in an elaborate but ultimately cost-effective display of deference (Y. Zhang 1991; Kang 2010). Kang suggests that many of China's neighbors recognize the possible advantages of a strong China—especially economically—and are quite happy to accommodate its rise. Consequently, he argues, "the picture of East Asia in the twenty-first century that emerges is one in which China, by virtue of geography, power, and identity, is becoming the core state. In response, Asian nations are likely to accommodate, rather than balance China, even if the United States reduces its presence in the region" (Kang 2007: 201).

We shall consider the implications and credibility of some of these arguments in more detail later, but of significance at this stage is the possibility that China's rise is neither unprecedented nor necessarily going to generate the sorts of responses predicted by some Western scholars, such as John Meirsheimer (2001)—or their students in China, for that matter. There are, however, similarly pessimistic, even hawkish commentators in China. Yan Xuentong (2011) of Tsinghua University, a self-proclaimed "realist," provocatively draws on ancient Chinese strategic thinking to argue that China needs to establish the sort of network of alliances that has underpinned US dominance.[5] Significantly, however, although Yan thinks the international system is ultimately a zero-sum game, he doesn't assume actual conflict is inevitable. Even some of China's hawks, therefore, believe it is entirely possible that regional development in Asia will follow a different trajectory to that experienced in Europe or elsewhere. This view is certainly that of some prominent Chinese observers such as the former Chinese ambassador to France, Wu Jianmin. Wu (2009) argues that the rise of Asia is a very different historical phenomenon from the rise of the other regions, which were marked by conflict and war; globalization has fundamentally changed the nature of interstate relations in the twenty-first century, creating common challenges that have changed the calculus of conflict. Such views are entirely in keeping with a growing body of scholarship on the so-called capitalist peace (Gartzke and Hewitt 2010).

To gain a better appreciation of the plausibility of some of these positions, we must give some consideration to the way regional processes have been understood at a conceptual level. The key issues here are the manner in which regions have developed historically and the purposes to which regional organizations have been put.

Theorizing Regions

When we think about regions, we inevitably think about Western Europe. Until recently, Europe provided the benchmark against which regional processes and initiatives elsewhere tended to be measured. Although Europe is nothing like as influential a model as it may once have been, the European experience remains the starting point for discussions of regional initiatives and a source of some of the most influential and sophisticated theorizing about regional integration (Mattli 1999; Wiener and Diez 2004). Whether the European experience provides an appropriate comparison for regions elsewhere is moot given the unique historical circumstances from which it emerged. Nevertheless, the European experience does provide a useful point of departure for thinking about regional development elsewhere, as well as a rich theoretical literature, which is becoming increasingly well known in China.[6]

Regional development can be conceptualized and approached in a number of ways, which focus on political, economic, and strategic forces along with internal and external drivers and bottom-up and top-down initiatives (see Soderbaum 2012). None of these tell a complete story in isolation, and not all of them are useful or illuminating in an Asian context, but they do highlight some important variables, the absence of which can sometimes be as important as their presence. One of the most important and relevant to the European *and* Chinese cases is the impact of external geopolitical pressures.

Geopolitics and Regional Development

Geopolitical perspectives have tended to go in and out of fashion. The popularity of geopolitics in Nazi Germany made this approach unpopular for decades, but it has recently come back into vogue (Agnew 1998). "Critical" geopolitics emphasizes the socially constructed nature of geographic space (and regions) and usefully alerts us to the arbitrary and potentially unsettled nature of borders and identities (ÓTuathail 1996). For more traditionally minded geopoliticians, physical geography remains paramount. For Robert Kaplan (2012: 200), for example, "the challenge China poses at its most elemental is geographic": sheer geography dictates a state's overall strategic orientation. Whatever one thinks of such claims, geopolitical approaches remain popular in China, in part, because they are in accord with a long-established tradition dating back to Sun Tzu's *The Art of War* written about 2,500 years ago, and in part, because noncritical geopolitics of the sort pioneered by Halford Mackinder has long been a staple of China's domestic debates and thinking about international relations.[7]

When thinking about the possible formation of regions and the role that major powers may play within and outside them, the European experience remains instructive. A number of broad comparative points remain relevant when one considers the possible course of regional development in Asia. First, the European project developed in inauspicious circumstances in the aftermath of World War II, and no one ever had any expectation that it would develop into the sort of deeply integrated, institutionally dense entity that exists today—its recent travails notwithstanding. One possible lesson here is that although regional processes are comparatively underdeveloped in Asia, they may not inevitably remain so. On the other hand, we should also not expect that Asia will necessarily follow a "European model" (Farrell 2009). Second, the process of integration and the associated pacification of Europe might not have begun at all were it not for the efforts and objectives of a newly ascendant United States of America. The fact that the United States had emerged from World War II in a hegemonic position meant it had the material power and capability, to say nothing of the geopolitically informed desire, to create a new international order, of which Europe was to be a key pillar. In short, the United States encouraged European integration as a way of shoring up Europe against possible Soviet expansionism (Beeson 2005).

The situation confronting the United States—and China—in Asia following World War II was rather different and treated as such by the United States. Whereas the United States considered itself to be dealing with similar sorts of powers to itself in Europe, albeit ones that had gone sadly astray, US attitudes toward Asia were very different and tinged with underlying racism (Hemmer and Katzenstein 2002). In Asia the United States effectively consolidated rather than erased regional divisions, ensuring that what we now think of as East Asia would remain divided along ideological lines. The inauguration of a series of "hub-and-spoke" security relationships with key allies such as Japan, the Philippines, Thailand, and Australia meant that those countries on the "wrong" side of the ideological divide such as China were effectively locked out of any putative regional relationships (Cumings 1997; Calder 2004). The possible existence of a genuine region of the sort that was taking shape in Europe, thanks to pressure from the United States, was effectively foreclosed in Asia, because of very different US foreign policy priorities and attitudes. In short, hegemonic power and external influence can make an enormous difference, either encouraging *or* discouraging regional integration and cooperation.

We explore China's relationship with the United States in more detail in Chapter 4, but worth noting here is that many Chinese observers remain preoccupied with the United States' historical role, and some important contributions have been made to the debate about the overall influence of the United States on regional processes. For example, in their comparison of Asian and European regionalism, Wu Zhicheng and Li Min (2003) argue that due to differences in US policy in Europe and Asia during the Cold War era, multilateralism became the dominant practice in Europe, while the idea of regional cooperation in Asia was actually undermined, profoundly influencing the course of subsequent development in the two regions. Not only have similar perspectives on the history of multilateralism in Asia been developed by Western scholars (Hemmer and Katzenstein 2002; Beeson 2005), but Chinese analysts such as Ma Rongsheng (2007) have argued that even now when multilateralism has become more common, the United States still uses such mechanisms to pursue primarily national rather than regional goals.

As far as Chinese policymakers are concerned, in the Cold War period at least, regional strategy was primarily associated with the US "containment" policy (see Gaddis 1982). While this policy may have been aimed mainly at the Soviet Union, in Asia it had the effect of isolating China and enhancing the position of some of its traditional foes. Not only Japan, but—most gallingly for China, perhaps—Taiwan benefited from direct US assistance and the overall economic environment that US hegemony was instrumental in creating at both a regional and a global level (Stubbs 2005). Recently, the nature of the debate and attitudes toward regional processes have changed in China. On the one hand, this shift reflects wider changes in the international system and the rise of China as an increasingly important and influential part of that system. On the other hand, however, it reflects the way that theoretical debates about the nature and possible advantages of regional relationships have advanced in China itself.

Distinguishing Regional Dynamics

One can think about the role and nature of regions in a number of ways that reflect some of the most enduring approaches to the study of international relations more generally. Unsurprisingly, perhaps, given the influence of the European model and the apparent benefits of closer economic cooperation, liberal ideas about the merits of greater economic interdependence, intergovernmental cooperation, and institution building more generally have provided some of the background assumptions about the possible merits of regional cooperation (Keohane and Martin 1995; Mattli 1999). The EU itself also had a catalytic effect on other parts of the world because policymakers outside the EU were concerned about the implications of a tightly integrated European region from which they might be excluded: developing regional cooperative arrangements elsewhere offered a defensive response to possible isolation and exclusion (Hurrell 1995; Grieco 1997). And yet important differences can be found between what has happened in Europe and the way regional development has occurred elsewhere. As we have suggested, in Europe greater cooperation was initially driven by powerful geopolitical pressures that emanated from outside the region itself. However, once under way the European project was marked by increasingly high levels of economic integration and political cooperation.

Political and economic activity are, of course, inescapably linked, especially in East Asia in general and China in particular, where the state continues to play a central role in directing the course of economic development (Szamosszegi and Kyle 2011; Brødsgaard 2012). However, despite the deeply interconnected nature of political and economic processes in East Asia, in theoretical discussions of regionally oriented activities, a basic distinction between regionalization and regionalism is increasingly more commonplace (Breslin and Higgott 2000). Regionalization is generally taken to refer to those relatively uncoordinated, private-sector-led economic activities that have helped to bind regions together. This form of integration has been especially important in East Asia as a result of the impact of multinational trade and investment strategies and the establishment of complex regional production networks (Coe et al. 2004). We consider the impact of such activities in more detail in subsequent chapters.

Regionalism, by contrast, is used primarily in connection with the formal initiatives of state policymakers and officials and their attempts to establish political institutions at the regional level. This form of regional cooperation has been particularly prominent in Europe where the political dimensions of regional cooperation have actually moved faster than economic integration and coordination—something that helps to explain many of the EU's contemporary problems (Carr 2011). However, throughout Asia, too, a growing number of regional political initiatives and proposals for regional institution building have emerged, although a great many variations can be found in their feasibility and substance.[8] Nevertheless, the basic distinction between the self-conscious efforts of policymaking elites and the activities of economic entities, be they private sector or state controlled, remains a useful one, especially when we think about the course of institutional development throughout Asia.

The general point to make about institution building in Asia is that, until relatively recently, at least, there really wasn't very much to discuss. Significantly, the Association of Southeast Asian Nations (ASEAN)—the only enduring Asian organization of any substance—was, like the EU, a product of the Cold War, but that is the extent of the similarities. Unlike the EU, ASEAN has since its inception been primarily concerned with *protecting* rather than *pooling* sovereignty. In part this purpose reflects the specific circumstances that confronted ASEAN's membership: as relatively new states in a region overlaid by superpower rivalries, the member countries focused their concern on maintaining national autonomy, even survival (Acharya 2001; Jetschke 2012). The generally authoritarian nature of the early ASEAN regimes also offered a degree of solidarity among an otherwise rather disparate membership. While ASEAN has arguably not made a significant contribution to the process of economic integration or development in the region, it has exercised a subtle influence over a later generation of institutional initiatives and diplomatic practices throughout Asia Pacific in particular (Narine 2002; Acharya 2009).

Despite the modest material influence and power of ASEAN's combined membership, it has become the benchmark for Asian-style diplomacy, and one that is highly compatible with Chinese foreign policy practices. It has also generated a range of commentary and criticism from Chinese scholars. In one of the most cited papers on the "ASEAN way"[9] in Mandarin, Chen Hanxi (2002) argues that while the ASEAN way is an important component of the early period of political cooperation between ASEAN members, today this principle prevents ASEAN members from developing an effective supranational body. Consequently, ASEAN's capacity for resolving any collective action problems that might affect China is limited. Other scholars such as Xie Bixia and Zhang Zuxing (2008) argue that continuing differences between ASEAN members means that any attempt to build a stronger supranational architecture will face resistance and damage the organization. Consequently, they suggest, changes should be modest and in keeping with past practice.

Most significant about ASEAN in the longer term is that it provides both a focal point for the diplomatic efforts of neighboring countries, such as China, and a very distinctive and influential modus operandi. The ASEAN way, which has attracted such attention in China, is based on voluntarism, consensus, and consultation (Haacke 2003). The key objectives are achieving agreement and compromising without losing face and without threatening the domestic autonomy of member states. The preservation of national sovereignty remains a critical goal for ASEAN states, despite some noteworthy transgressions (Jones 2010). Consequently, in reality, even much ballyhooed initiatives, aimed at more consistency among the member states, such as the ASEAN Charter with its commitments to human rights and the rule of law, are at this stage more rhetoric than reality (Ruland forthcoming). Consequently, the real significance of ASEAN is that it has provided a template for subsequent regional initiatives, so its possible failures may be as significant as any possible successes.

All of the most important recent regional initiatives have replicated ASEAN's norms and values. We discuss organizations such as the ASEAN Regional Forum (ARF) and the Asia Pacific Economic Cooperation (APEC) grouping in more detail in later chapters. The point to emphasize here is that all these organizations have been predicated on the idea that ASEAN must remain "in the driver's seat," and its style of operation should provide a blueprint for other organizations (Beeson 2009a). As we explain in Chapter 5, this dedication to national sovereignty suits Chinese policymakers as they are generally just as keen as their Southeast Asian counterparts to maintain domestic autonomy and minimize the impact of multilateral constraints. How much regional institutions can shape rather than simply reflect the foreign policy goals and behavior of their members is therefore an important practical and conceptual question as it has played a central role in policymaking and theorizing in the West and lately in China.[10]

Socializing China

A number of core beliefs inform the theory and practice of institutional development, and these beliefs have potentially important consequences for the evolution of regional institutions. First, a long-standing expectation can be found, dating back to the early years of the EU in particular, that institutions generally have a "functional" utility in that they facilitate mutually advantageous cooperation and problem solving (see Rosamond 2005). Consequently, a "demand" has arisen for new institutions, as rational, self-interested policymakers recognize these instutions' advantages and use them instrumentally to achieve positive-sum games (Keohane 1982). This kind of thinking provided the foundation for the EU's successful expansion and development and still provides an organizational rationale for the emergence of specific institutional initiatives in a host of technical issue areas, such as health policy, creating a common regulatory framework in the process (Majone 1997; Moravcsik 1998). This sort of institutional and regulatory density is a feature of the EU's internal architecture and has been seen as encouraging compliance and normative congruence (Checkel 2001).

Consequently, one of the expectations about institutional development is that it will help to align the expectations and behavior of members. In other words, simply by participating in intergovernmental organizations, individual states will change their behavior as they have to abide by the rules and norms of any organization if they hope to enjoy its benefits. The most important example of this process involving China was its accession to the World Trade Organization (WTO) (H. Feng 2006). A number of aspects of China's accession process are important for comparative purposes and for shedding light on the thinking that informs China's overall foreign policies, of which China's place in the Asian region is such an important component.

China was extremely anxious to join the WTO as membership was seen as a way of advancing that country's economic development by integrating more fully into the global economy. As we explain in the next chapter, the subsequent expansion of Chinese trade in particular and economic development more generally has exceeded the wildest dreams of its architects. China's integration with the international economy has also sparked a lively debate in China between pro- and antiglobalization advocates about the costs and benefits of WTO membership. Some, such as China's principal negotiator for the WTO, Tong Zhiguang (2002), argue that in an increasingly globalized world, China had no other choice than to join the WTO as it needed the benefits of tariff reductions. The WTO's dispute resolution mechanism was also seen as a way of safeguarding China's position and attracting more foreign investment. Likewise, WTO accession was seen by the proglobalizers as a way of using market pressures to improve the competitiveness of Chinese companies by integrating them into global production networks. By contrast, scholars such as Zuo Dapei (in Zuo et al. 2000) from the Chinese Academy of Social Sciences argue that free trade primarily benefits developed economies and that China should protect its infant industries rather than prematurely exposing them to the international market—a position in keeping with East Asia's historical experience and a growing body of analysis in the West, it should be noted (H.-J. Chang 2002; Rodrik 2010).

China was prepared to agree to more far-reaching and invasive demands than any other country hitherto in order to secure membership (Fewsmith 2001). Making changes to the Chinese constitution, for example, was both contentious and unprecedented and caused a good deal of consternation in China itself. The net effect, however, was to lock in a commitment to trade liberalization, economic openness, and integration into the global economy and limit the potential influence of domestic opponents to reform and liberalization (Breslin 2004). Senior policymakers judged that WTO reforms were in China's long-term national interest, and subsequent events suggest they were right. The expected benefits of accession were a decisive influence even *before* China actually joined and any process of socialization could really take place.

While the WTO is plainly not a regional organization, it merits discussion because it highlights a number of important comparative points. First, the WTO has an ability to discipline and sanction members that no regional organization in Asia possesses. Consequently, it has the capacity to influence the behavior of members directly, without recourse to the sort of moral suasion and peer pressure on which ASEAN relies. This sort of institutional leverage is crucial because so much of the literature that deals with regional cooperation generally and China's participation in regional organizations in particular is predicated on the assumption that simply by participating in international institutions the thinking and behavior of Chinese participants will be changed.

Alastair Iain Johnston (2008) has made the most detailed case in support of this claim. He argues that "there is considerable, if subtle, evidence of the socialization of Chinese diplomats, strategists, and analysts in certain counter-realpolitik norms and practices as a result of participation in these institutions" (xiv). Other scholars have argued that the small states of ASEAN can influence the behavior and attitudes of major regional powers such as the United States and China (Acharya 2004; Ba 2006). Although China's overall foreign policy *has* clearly changed in important ways over the last couple of decades, the country itself working to become a more integrated and important part of regional and international institutional architectures, how much of this change is due to the impact of external organizations and processes is less clear. One of the benefits of breaking down China's foreign policy into regional components is that important comparative points emerge. The general argument we make in this context is that although the actions and tactics of Chinese policymakers can assume different forms in different regions—partly because of the sorts of institutions that exist or don't exist to manage regional relations—many of the underlying goals are the same. While Western scholars may highlight its contingent and socially constructed nature (Weldes 1996), the pursuit of the "national interest" remains the unsurprising, persistent bedrock of Chinese foreign policy wherever it is practiced (S. Zhao 2004; Lampton 2008). What may differ is the way those goals are defined and the manner in which they are pursued.

The scholarly debate in China reflects both the "traditional" realist approach to policymaking that was and often still is the hallmark of Chinese policy, as well as some more sophisticated contributions that recognize the inherent complexity of the pursuit of national interests in a "global" era. A number of Chinese scholars have begun to argue that for any sovereign state—including China—national interests have both an obvious domestic component but also a growing number of shared international interests (S. Li 2003). The relationship between domestic and international interests generates potential for both conflict and cooperation in the international system. Importantly in a Chinese context, national interests not only include material factors such as national security and economic development, but also questions of "national dignity" (X. Yan 1997). In the context of the rise of modern China, China's national interests have been defined as first, economic, social, and political development; second, sovereign and territorial integrity; and third, the development of a leadership role in Asia Pacific and in other international institutions, but one not based solely on narrowly prescribed national interests (Y. Wang 2002). All definitions of national interests are to some extent discursively contested ideas about national priorities; what distinguishes many elite-level policymakers' views in China's case is the "comprehensive" understanding of security and the assumption that economic development and national security are intimately connected (J. Wang 2011: 74). For our purposes what matters is not whether or not such ideas are the "correct" foreign policy priorities for China, but that policymakers believe they are and attempt to realize them in practice.

Defining the Region

When thinking about foreign policy and the pursuit of the national interest, we find that regional demarcation offers a convenient way of unpacking and highlighting the different dynamics and goals that influence Chinese foreign policy in different areas. However, we also recognize that such an exercise is inherently arbitrary and somewhat artificial: no "natural" regions exist (Hurrell 1995). As an example, throughout the history of the EU, its boundaries as an institutional and political actor have been in flux, mainly as a consequence of its continuing expansion, but recent events also demonstrate that this process may also go into reverse. Indeed, the very existence of the EU itself has been called into question as it seems incapable of resolving a sovereign debt crisis that has highlighted major weaknesses in the design and operation of the European economic model (Milne 2011). Given that the EU was originally a product of an earlier existential European crisis, its existence being called into question by another such crisis, albeit economic rather than geopolitical, is striking and not a little ironic. Either way, the EU's experience suggests that crises can provide important turning points in regional evolution and actually help to define both the raison d'être and the membership of institutions. That crisis can play a powerful role in institution building is true for Asia as well, although the way such processes have played out there thus far has been surprisingly different (Beeson 2011). To understand why, one must first understand the relationship between crises and institutional change.

Institutions are important because they provide what Douglass North famously called the "rules of the game" (North 1990). Actors know how to act appropriately because rules and norms provide the cues that determine behavior. Institutions need not be formal organizations of the sort we have been discussing here; instead, they may be informal social practices or recurring patterns of behavior that are widely accepted and that provide the basis for social activities. Importantly, such institutions assume a taken-for-granted quality in societies of which they are both a reflection and a constraint in a complex dialectic of social evolution (Scott 1995). As we explain in more detail in subsequent chapters, institutions may vary in important ways across different regions, reflecting historically embedded patterns of cultural development, political contestation, and economic evolution. Some of these institutions may be judged to be more "efficient" than others in achieving broadly similar social goals such as economic development and political stability, but they are unlikely to change dramatically in the absence of some major shock or challenge to the status quo. In other words, all other things being equal, institutions display a significant degree of "path dependency," or a preference for established patterns of behavior and relationships (Pierson 2000). Crises can provide the catalyst for institutional change.

As long recognized in the theoretical literature, "critical junctures" offer an opportunity to redefine the institutional states quo. As Capoccia and Kelemen (2007) put it, "critical junctures [are] relatively short periods of time during which there is a substantially heightened probability that agents' choices will affect the outcome of interest" (348). This moment of crisis and possible change is potentially important because a particular institutional order reflects the preferences and interests of the actors that created it. One of the most important examples of this possibility in contemporary international relations is the highly institutionalized international order created under the auspices of US hegemony in the aftermath of World War II. The formation of key organizations such as the World Bank and the International Monetary Fund (IMF) was not simply a functional response to the demand for new international institutions. On the contrary, the creation of the so-called Bretton Woods regime was in large part an expression of American values and preferences, which served to advance specific geopolitical and economic goals (Latham 1997). In this context, World War II was a quintessential critical juncture that offered an opportunity for the United States to systematically rebuild the international system in ways that reflected its values and interests (Ikenberry 2001).

Much the same happened in the aftermath of the East Asian crisis of the late 1990s, albeit on a more modest scale. We provide a more detailed examination of this episode in subsequent chapters. At this point it is sufficient to note that the crisis provided an opportunity for China to play a regional leadership role and redefine the existing regional institutional architecture (Bowles and Wang 2006). In one of the most important and unforeseen consequences of the East Asian crisis, the process of regional institutional development was accelerated. Regional policymakers were made painfully aware of the fact that the region was exposed to powerful external actors and forces, which they had little control over or defense against. In these circumstances the creation of indigenous institutions became an urgent priority and offered policymakers across the region the opportunity to develop a new institutional architecture (Beeson 2011).

As we explain in more detail in Chapter 6, the significance of this period as far as China was concerned was that China was offered an opportunity to both establish itself as a responsible regional citizen, and to push its own preferred vehicle for regional cooperation—ASEAN Plus Three (APT) (X. Zhang 2006). The point to emphasize at this stage is that APT offered an alternative vision of the region, its boundaries, and its membership to the one promoted by the United States. Furthermore, the ability to determine which countries are insiders or outsiders is potentially crucial in the event that any institution becomes dominant and capable of setting a specific set of rules, regulations, and norms.

Chinese policymakers and scholars are increasingly aware of the potentially important role institutions can have in defining both the extent and organizational content of any region. The United States achieved this sort of dominance and influence on a global scale (especially after the Cold War), and while China is not capable of achieving this sort of dominant international position at this stage, the regional arena offers a more realistic goal, a possibility that is generating a wealth of policy-oriented commentary in China as a consequence. Notably, more and more Chinese strategists have begun to promote the idea that regional policy should become the core part of China's grand strategy, a relatively new way of thinking given that Chinese analysts have traditionally seen diplomacy between individual great powers (*daguo waijiao*) as being most important. A representative view of this new thinking has been developed by Men Honghua (2009) from the Central Party School of the Communist Party of China (CPC), who argues that the East Asian region should become the strategic focus in China's rise and that "China should push forward more comprehensive cooperation in East Asia and engage itself in the construction of the common-interests-based East Asian Community" (53).

China's Evolving Regional Policies

China's regional policies are made more complex by two issues in particular. First, China's diplomacy is still evolving rapidly and its policymakers and diplomats are still adjusting to a world that was not of their making. Indeed, as we demonstrate in more detail in the next chapter, China's policymakers have had to deal with a diplomatic transformation that has been every bit as remarkable and challenging as the more immediate economic change. Second, the very nature of the various regions with which China has to engage presents a number of different challenges, partly as a consequence of regional membership, partly because some of the goals of Chinese diplomacy vary from region to region. True, the overwhelming, non-negotiable, bottom-line concern remains China's "national interest," but the way this interest is conceived and pursued is more protean and contingent than this phrase might suggest, as the chapters that follow demonstrate. Before we consider any particular manifestations of the national interest in detail, though, we need to say something about a final aspect of regional policies that continues to highlight China's ambivalent attitude toward the international institutions that are such prominent parts of the political dimension of regionalism.

The principal feature of regionalism is, by definition, an effort to institutionalize and multilateralize cooperation and policy coordination among a group of geographically contiguous neighbors. The formal definition of *multilateralism*—the capacity to coordinate relations between three or more states—is well known and at first blush unremarkable sounding. Yet Ruggie's (1992) celebrated analysis of multilateralism is worth quoting more fully: "What is distinctive about multilateralism is not merely that it coordinates national policies in groups of three or more states, which is something that other organizational forms also do, but that *it does so on the basis of certain principles of ordering relations among those states*" (567, emphasis added).

This definition becomes more significant when we consider that the most consequential institutions of the postwar order, and the benchmark by which others have tended to be judged, were established under the auspices of US hegemony in the aftermath of World War II and reflect that country's values and interests (Burley 1993). As we explain in more detail in Chapter

4. China is perennially preoccupied with the idea of "US hegemony" and what many Chinese scholars regard as attempts to contain China and thwart its legitimate ambition. One of the most influential and high-profile critics of US dominance is Wang Jisi, dean of the School of International Studies at Peking University. Wang Jisi (2005) argues that US policy is designed to support China's potential rivals in the region, magnify conflicts and disputes between China and its neighbors, and thusly contain both China's rise and the cultivation of an exclusively East Asian form of regional development.

Noteworthy about China's increasingly sophisticated foreign policies is the recognition that multilateral institutions may actually offer a way of pursuing national interests (Goldstein 2005; I. Sohn 2012), especially the goal of limiting the United States' ability to act unilaterally. In other words, although effective multilateral cooperation may have the effect of limiting China's policy autonomy, it may also do the same to the United States, and this mutual containment may mean that the benefits of multilateral participation could outweigh the costs, according to some Chinese observers. In one of the earliest and most influential Chinese studies of multilateralism, Pang Zhongying (2001) suggests that China should embrace multilateralism and not worry too much about possible balancing coalitions. Indeed, Pang argues that multilateralism can actually serve China's national interests by reinforcing its security and gradually helping China to pursue its leadership ambitions in Asia. This sort of thinking and the diplomatic practice it is informing seems to mark a new era in Chinese policymaking in which "relying on existing institutionalized channels to contest U.S. hegemony, China seeks to increase its political influence and prestige through active participation in, not confrontation with, the existing order" (Schweller and Pu 2011: 53).

Once established, multilateral institutions may plainly take on something of a life of their own and come to have a possibly unwelcome influence over the behavior and policy autonomy of their members (Barnett and Finnemore 1999). Also clear, however, is that institutions reflect the interests and ambitions of their most powerful and active members. Therefore, the contest to shape them assumes such potential importance: establishing regional definition and purpose may have important path-dependent consequences that are manifest in continuing, institutionalized patterns of behavior. The ASEAN way has become the operational template for many organizations in Asia Pacific, illustrating the potential of some institutions to establish the ordering principles that determine behavior in specific multilateral forums.

China's diplomats and policymakers have had little difficulty in adjusting to the modest demands of the ASEAN way and have sought to expand its influence through APT and similarly configured regional initiatives such as the SCO. We consider the success of such initiatives in more detail in subsequent chapters. The general point to make here is that Chinese policy-makers and scholars are increasingly coming to argue that China's active participation in, and development of, regional multilateral institutions may give it the chance to define both the region and its operating principles.[11] Some policymakers and scholars also recognize that such bodies may allow China to pursue its traditional national interests more effectively.

Conclusion

Regions have become a potentially important part of the international system. We stress the word *potentially* because much depends on how the operating rationales and behaviors of regions are realized. Much skepticism can be found among international relations theorists about the potential of international institutions generally and about those found in East Asia in particular (Jones and Smith 2007b; Ravenhill 2009). In the case of East Asia the skepticism appears at least partially warranted. As we shall see in subsequent chapters, for all the growing interest in institution building in East Asia (and Asia Pacific, for that matter), thus far at least, the impact of such institutions has been limited, which, as the doubters would argue, is precisely the way the region's elites want it: a continuing preoccupation—especially in East Asia—with sovereignty and a residual wariness about possible constraints on domestic autonomy mean that any EU-style sovereignty pooling is likely to be fiercely resisted. The construction of something like the European Commission with all the legal and regulatory compulsion that it implies is an even more remote prospect (Kahler 2000). This tendency to resist was true before the current crisis gripped the EU; in the aftermath of the crisis, the possibility that Asians will follow the European lead is even more remote. Indeed, some argue that the EU ought to be taking lessons from the likes of ASEAN, rather than vice versa (Mahbubani 2008).

At the very least, such views suggest a couple of things. First, a good deal of sensitivity still exists in Asia about the sometimes condescending, sometimes intrusive, policies of institutions such as the EU and more particularly the IMF (Higgott 1998). Second, no reason can be given to suppose that the East Asian (or Asia Pacific) experience will necessarily replicate that of Europe or anywhere else. If nothing else, the recent crisis in Europe serves as a powerful reminder that not only is the EU not without its own profound problems and design flaws, but any idea that it represents some sort of functionally superior, quasi-teleological trajectory of European "best practice" needs to be abandoned.[12] Europe is not the only model of, or benchmark for, regional development (de Lombaerde et al. 2010). However, Europe's recent experience does not necessarily mean that ideas of regional integration and cooperation are also doomed or unsustainable. On the contrary, regionalism remains attractive to governments precisely because of what Peter Katzenstein (2005) calls "neighbourhood effects" (23), especially regionally based economies of scale.

Thus, the reasons regions became prominent parts of the "global" institutional architecture remain as salient as ever. At one level, the continuing integration of economic activity within specific geographic spaces has important political effects, some of which have major regional consequences. The shifting relationship between political and economic power has been one of the defining features of the literature on globalization and led to inflated claims about the demise of the state (Ohmae 1996). As we shall see, the rise of so-called state capitalism and the East Asian tradition of state-led development serve as powerful reminders that not only is the state not inevitably fading away, but capitalism may be organized very differently across the world (Hall and Soskice 2001). China is, of course, the most important expression of this possibility. And yet even in China, as we explain in more detail in Chapter 3, "the state" is far from monolithic or immune from the influence of powerful external and internal forces. In this regard, it would be more accurate to say that even in China, the state is being reshaped rather than simply undermined by forces associated with globalization and the transnationlization of economic activity (Brenner 2004). Indeed, one must recognize that, in what Andrew Hurrell (2007) calls the "paradox" of regionalism, "a successful move beyond the state depends on the existence of reasonably well-functioning states" (143).

Regions are arguably becoming more important in this context as they provide an intermediate link and arena for political activity in an environment where "international relations are in the process of undergoing a vertical reorganization in which the emphasis is shifting both upward and downward from the national level" (Vayrynen 2003: 44). Even if this process has not gone as far in East Asia as it has in Europe because of the absence of similar levels of institutional infrastructure (Beeson 2001), as economic activity becomes increasingly integrated across national borders, the demand for supportive regulatory agreements and political coordination inevitably will grow. The notable growth of free trade agreements is perhaps the most obvious manifestation of this push by economic actors seeking to reduce transaction costs (Milner 1997; Dent 2010). Also evident, as we saw in the case of China's WTO accession, is that regional agreements have the potential to lock in possibly unpopular or contentious reforms and thereby become an important part of domestic politics in the process (Oman 1994).

Despite the growing significance of regions as centers of policymaking attention and economic activity, and the potential advantages they offer in addressing transnational collective action problems and facilitating economic activity, their importance and possible role are ultimately determined by contingent local circumstances. Where general institutional development is limited, so too is the role of regional organizations, placing potential limits on regional organizations as either an influence on, or an instrument for, the pursuit of nationally determined foreign policy goals. Some of China's "regions" exist primarily as geographic signifiers or aspirations. Others are beginning to develop real institutional weight and influence and may consequently both constrain and facilitate China's foreign policy ambitions. Considering China's policy in the context of its regional neighbors helps us to understand why Chinese policy has different impacts and even goals in different areas. It also helps us to understand the varied importance of regions as a part of the contemporary international system in which China is an increasingly important player. Before we look at individual regions in any detail, though, an explanation is important as to how China has come to be once again the most important country in Asia.

Notes

1. One of the most influential statements on collective action problems and the potentially important role institutions can play in resolving them has been provided by Ostrom (1990).

2. Yan Zhongping is a Marxist while Yang Hongbo operates in a broadly nationalist tradition.

3. Buzan (2012) argues that the separation between regions before European expansion means that we should consider Western Europe and East Asia as international systems in their own right. At the very least, we must recognize the absence of external influences at this time.

4. A debate is growing about China's historical impact generally and about Kang's (2003) thesis in particular. Some scholars point to the expansionist and aggressive aspects of Chinese foreign policy at different times in history and argue that recent events raise doubts about the stability thesis. See Hui (2005) and Cunningham-Cross and Callahan (2011).

5. On the general debate about alliances in China and their potential impact on policy, see F. Zhang (2012a).

6. There are now numerous discussions by Chinese scholars of the European experience and its theoretical implications. Xiao Huanrong's (2003) book *Diqu Zhuyi: Lilun de Lishi Yanjin* (Regionalism: Historical Evolutions of the Theories) was very important as it introduced the major theories of regionalism to a Chinese

audience. A growing number of studies have been done on comparative regionalism, especially between East Asia and Europe or between the "old" and the "new" regionalism. See, for example, Wang Chuanxing (2011) and Qiu Fahua (2011).

7. For an overview of geopolitical studies in China, see Ye Zicheng (1998). On the influence and ideas of Halford Mackinder, who is generally seen as the founding father of geopolitical thinking, see Kaplan (2012) and Kearns (2010).

8. A substantial literature on East Asian regionalism has built up. For representative examples, see Dent (2008), Munakata (2006), and Frost (2008). For more skeptical views, see Ravenhill (2009), Lincoln (2004), and Jones and Smith (2007a). For a comprehensive overview, see Beeson and Stubbs (2012).

9. The "ASEAN way" is used to refer to the style of consultative, consensus-based decisionmaking that has emerged in Southeast Asia. See Acharya (2001).

10. For a discussion of regional interaction from a Chinese perspective, see Ma Rongjiu (2010).

11. For example, Gao Fei (2010), a scholar in the China Foreign Affairs University, argues that China's diplomacy in the SCO has been quite successful in promoting its New Security Concept, New Development Approach, and New Civilization Outlook in the region. Similarly, another of China's leading analysts, Fudan University's Shi Yuanhua (2005), has emphasized the positive role played by the Six-Party Talks and the potential for developing security cooperation mechanisms that can replace the largely Cold War–derived structure that exists in Northeast Asia.

12. The most widely cited exposition of this thesis is offered by Manners (2002).

3

China Transformed

China is a country like no other. Much the same could be said about any country, perhaps, but aspects of Chinese history set it apart and influence the way Chinese policymakers and even ordinary people view their country and its place in the world. Indeed, speaking of "Chinese exceptionalism" in much the same way as Americans describe what they think of as their unique historical mission is becoming fashionable (T. Smith 1994; Callahan 2012a; F. Zhang 2013). In China's case, claims to exceptionalism flow in part from the sheer length of its history: no other country *can* compare with the continuity of civilization in China or its dominant position in regional affairs (Jacques 2009). For all its contemporary significance and power, the United States looks like something of a Johnny-come-lately when compared to China. Although we might expect that the two countries that are currently the most powerful in the world might take themselves rather seriously, both the United States and China are strikingly dedicated to the idea that they are each fulfilling unique historical roles. We may have become accustomed to the United States behaving in this way, but in China, too, prominent nationalists such as Wang Xiaodong (2008) argue that China's destiny is to become a great power, while Zhang Weiwei (2011) suggests that China is pursuing an historically unique developmental trajectory.

Because history has such an important and enduring influence on China's contemporary policies, in the first part of this chapter, we provide a brief snapshot and reminder of China's unique inheritance. While the principal concern of this chapter, like the book as a whole, is contemporary relations and attitudes, a degree of path dependency is present in their evolution. Consequently, we initially provide some historical context and commentary on Chinese attitudes toward China's historical development and its singular place in what we now think of as the region's history. The presence and success of the tributary system in China epitomizes the country's unique historical position and highlights what is a distinctive feature of regional development. The subsequent discussion of the contemporary period and the revolutions that shaped it becomes more comprehensible as a consequence of these earlier events and sensibilities. So, too, do the attitudes of policymakers and commentators. Because of the periodically traumatic nature of Chinese history and social upheavals that have punctuated it, an understandable preoccupation with maintaining social stability can be found, especially at a time of profound economic change (Callahan 2010). He Zhenhua (2005), for example, has helped articulate the official position that sees social stability as a precondition for political order. Wang Shaoxing (2012) goes further and suggests that the CPC has the responsibility of maintaining order in the midst of modernization.

In the bulk of this chapter, we provide an overview of the economic transformation that has made China such a potentially important actor in world affairs. As well as detailing some of the more visible manifestations of this process, we give particular consideration to the way such economic development has influenced domestic "social relations," to borrow some rather apposite Marxist jargon. Paradoxically, as we shall see, economic expansion and rising living standards have had rather less impact on the general population than we might have expected, and rather little indication can be found that China is about to replicate the Western experience. Not only is China's rapidly expanding middle class not clamoring for political rights and liberalization in quite the same way much Western political theory might lead us to expect, but—thus far, at least—the CPC remains firmly in charge of domestic and foreign affairs.[1] For many Chinese commentators, this situation is exactly as it should be. Li Chunling (2011a) argues that while China's expanding middle class contains a growing plurality of political views, those in the middle class are generally satisfied with the status quo and incremental change, while Wen Tiejun (2012) highlights the rather ironic absence of class consciousness in China—an obstacle to political mobilization.

The principal reasons for dwelling on the extent and style of China's economic transformation are twofold. First, at the risk of stating the obvious, it is why we are all interested in China. The scale and speed of China's economic expansion is historically unprecedented. China's success not only makes it of theoretical interest—how did China do it, and are there lessons to be learned?—but it has profound practical implications, too. Second, China's economic rise is important because it is forcing a process of adjustment in the rest of the world. Countries in the region or the wider world may not necessarily like the fact that China is too big to ignore, but they have little choice other than to make the best of it. China's neighbors may also need to recognize that China's economic transformation is giving it both a new set of policy priorities and a greater capacity to pursue them.

History Matters

Perhaps no other country currently exists in which the historical legacy matters more than in China. The reasons for the past's importance are not hard to discern: China has simply had more history than anywhere else, or at least more of the "civilized," recorded variety. For some 4,000 years, social and political entities have existed that we might describe as manifestations of some sort of Chinese civilization, and this longevity has given a shape to the way Chinese people have tended to think about themselves and their country. Lucian Pye (1985) famously suggested that thinking of China as a civilization, rather than just another country, actually makes more sense. Either way, as a country or a civilization, that China's distinctive and enduring role in human affairs didn't impart some sense of the exceptionalism or difference noted above would be surprising. Especially striking in the Chinese case is that for hundreds of years Chinese political elites were actually encouraged to take themselves seriously and assume that China was rightfully at the top of a hierarchy of nations. Even more remarkably, perhaps, China's leaders' beliefs about the superiority of the country and its culture were reinforced by the actions of China's neighbors.

The tributary system is a unique system for managing regional relations. Dating back to the Tang dynasty (618–907), China's neighbors acknowledged its status as the leading power in the region by sending diplomatic delegations to pay homage. At one level this ritualistic performance had a limited impact on the subordinate powers that acknowledged China's superior status. But while the tribute system may have been largely symbolic, it provided an important stabilizing influence in a region with no formal mechanisms with which to manage intraregional relations. David Kang (2010) suggests that "far more than a thin veneer of meaningless social lubricants, the tribute system and its ideas and institutions formed the basis of relations between states" (10). Kang (2003) has also pointed out that when China has been strong, the historical record suggests that what we now think of as East Asia has generally been stable and relatively peaceful. Such arguments have been utilized and developed by Chinese scholars and officials eager to dampen fears about the implications of China's rise (see Y. Cheng 2006, for example). Some officials like to use the historical example of Admiral Zheng He's celebrated voyages to suggest that Chinese expansion can be compatible with trade and nonaggression (see Y. Zheng 2009b).

Kang's analysis has been subject to a good deal of criticism and his depiction of Chinese stability has been challenged, both from an historical perspective (Hui 2005) and especially in light of China's recent, increasingly assertive behavior in various regional territorial disputes (Cunningham-

Cross and Callahan 2011). While some merit plainly exists in these criticisms, the general point to make about China's prominent historical role in the region is that firstly, it is not unprecedented, and secondly, China was instrumental in creating some of the region's most distinctive institutions. As Zhang and Buzan (2012) point out, "fundamental institutions defined and shaped by these [historical and social] processes do not just reflect the hegemonic institutional preferences, but also represent a collective solution invented by, and consented to among, East Asian states to the perennial problem of inter-state conflict, co-existence and cooperation" (34).

For our purposes what is significant about the tributary system is that it provides a reminder of two important underlying realities. First, China has been at the center of what we would now call regional affairs for more than a thousand years. Second, intraregional relations can be organized in a variety of ways: the sort that prevail in Western Europe or even contemporary East Asia, for that matter, are not the only possibilities, which explains the growing interest in developing Chinese perspectives on, and theories of, international relations (Callahan 2008; Qin 2009). Although recognizing the contingent, time- and place-bound nature of regional relations is important, most significance at this point is the way China's system of managing regional relations came to an end.

Although China has been the leading political, economic, and cultural force in the world for most of human history, "the world" was highly circumscribed and limited by geography for much of that time. Simply put, until Western Europeans began to explore and forcefully integrate parts of the world that were hitherto largely unconnected, speaking of "world" affairs or sensibilities at all was not meaningful. One cannot possibly deal comprehensively with the question of why it was "the West" rather than "the East," or more particularly China, that went on to become dominant here.[2] However, a few general points are worth emphasizing as they help to explain why China was so profoundly affected by the impact of European imperialism—the legacy of which can be felt to this day—and just how much China has changed over the past 150 years or so.

First, following the deliberate inward turn that occurred under the Ming dynasty (1368–1644), during which foreign exploration and contact were actively discouraged, Chinese elites were poorly placed to respond to the increasingly insistent demands for economic opening that were coming from Europe. The contrast with the current situation and the sophisticated understanding that Chinese elites generally have about the international system and China's place in it is noteworthy and revealing. In the eighteenth and nineteenth centuries, however, China's political establishment and governance structures were characterized by the "ethnocentric complacency of Confucian officials and the imperviousness of Chinese culture to outside stimuli" (Hsü 1983: 106). China's rulers thought they had little to learn or gain from interaction with the West and that their system was inherently superior, an attitude that would lead directly to the end of the dynastic system and national humiliation at the hands of European powers and—even more gallingly—Japan. Indeed, the very different responses that were triggered by extensive contact with the West in Japan and China serve as a powerful reminder that nothing is inevitable about the impact of external challenges and pressures; what matters is the response of political elites and policymakers in particular and the societies of which they are a part more generally (Beeson 2007a).

The second general point to emphasize, therefore, is that China's response to European expansion and intrusion into a region in which it had previously been dominant was feeble and inadequate and revealed the comparative inferiority of Chinese institutions—at least when confronted with Europe's highly effective political, economic, and technological innovations (Wong 1997). Ironically, Western expansion and development owes a good deal to Chinese ingenuity along with a host of Chinese inventions and innovations, such as gunpowder, paper money, and sophisticated navigation (Hobson 2004). Yet as became plain during Europe's expansion into Asia, while China's leaders had made comparatively little use of such wonders, the Europeans would utilize them to their full imperialistic potential. Paradoxically, China's relative stability internally and within the region was a source of vulnerability (Fairbank, Reischauer, and Craig 1965). Europeans, by contrast, were continually at war and locked in a relentless struggle for security, a process that led to the development, through consolidation, of the nation-state as the most powerful and effective political entity in history (Spruyt 1994). When the emergent state is combined with the implacable dynamism of growing capitalist economies, the impact on China was profound and irresistible—especially when reinforced by Europe's military superiority (Abernethy 2000).

The story of China's descent into chaos, warlordism, and civil war in the aftermath of the collapse of the Qing dynasty (1644–1911) has been told many times,[3] and we have no intention of trying to retell that complex and traumatic story here. However, this period remains such a pivotal moment in China's modern history that a few remarks about it are necessary, however cursory. Importantly, and somewhat counterintuitively, we need to recognize that the ground work for the modernization and reconstitution of China's political attitudes, legal institutions, and social values was established in the last days of the Qing dynasty, when a series of belated reforms were undertaken (Y. Zhang 1991). While the implications of profound social change may have taken decades to work themselves out, that the old imperial order was dead was evident, even if precisely what was going to replace it was less clear. One of the most important forces that emerged at the beginning of the twentieth century in China, as it had been in Western Europe in the nineteenth, was nationalism (S. Zhao 2004; G. Wu 2008). It remains a powerful undercurrent in Chinese society and one that present-day leaders struggle to control and direct.[4]

Although many outside observers worry about the destabilizing potential of nationalist sentiments and forces in China (Gries 2004), we should not be surprised about its existence and importance. Not only was nationalist sentiment a profoundly important part of the European experience and the political reforms that underpinned its collective dominance of the international system (Gellner 1983), but as recent events in Europe remind us, it retains a potency even in the most institutionalized of regions (Barber 2012). Especially noteworthy is that, despite the emphasis placed on ideology when considering the rise of communism in China, Mao Zedong famously used nationalist sentiment to mobilize the peasantry during the ultimately successful campaign to unseat the avowedly nationalist forces of the Kuomintang during the Chinese civil war (1927–1949) (C. Johnson 1962). Nationalist sentiment remains a potentially powerful tool of mobilization, albeit one with inherently unpredictable outcomes. Its overall role, as Zhao Suisheng (2004) astutely points out, has been "to compensate for the all-too-evident weakness of communist ideology in the postcommunist era. Pragmatic leaders fashioned nationalism to suit their needs because it had the effect of removing differences within the country and replacing them with a common, hegemonic order of the Chinese nation-state" (245).

A preoccupation with national stability has been the all too predictable consequence of the traumatic events of the first part of the twentieth century. Nationalism in particular, and a more general concern about sovereignty, have been recurring features of public policy and domestic political discourse. In this regard, the preservation of sovereignty and autonomy is a priority that China shares with many of its neighbors and something that provides a potential common basis for regional cooperation, as we shall see. In China's case, this preoccupation is hardly surprising: in addition to the civil war's self-inflicted wounds, China also had to cope with invasion from Japan, an event that continues to haunt bilateral relations to this day. We say more about this situation in Chapter 6, but one cannot emphasize enough just how important such historical events remain in shaping and limiting intraregional relations. They also exerted a powerful influence over the development of domestic politics, which in turn delimits what is feasible in external affairs. Therefore, outlining some of the key features of the Chinese polity is important as it remains distinctive and consequential.

China's Domestic Politics and the Policy Process

The most important and distinctive feature of China's political system is that it is "communist." We place this word in quotation marks not because its current meaning in a Chinese context is very different from what the founders of the People's Republic of China had in mind when they consolidated the revolution under Mao's leadership in 1949. Despite Mao's pragmatic attitude during the civil war noted above, he was no doubt a committed revolutionary, and "Mao Zedong thought" was broadly but clearly in line with the principles of Marxism-Leninism (Knight 2005). The fact that Mao adapted Marxist ideas to a Chinese context is arguably less significant than the abandonment of such ideas by today's leaders—other than as a rather ritualistic invocation that is more concerned with preserving political continuity and social stability than it is with ideological or conceptual purity (Dickson 2003). Communism—or socialism, for that matter—may never have actually existed in China, but that has not stopped it from providing the ideological glue with which to hold the country together and justifying the continuing primacy of the CPC itself. As a result, and the relative failure of the Great Leap Forward and the Cultural Revolution—both of which have been airbrushed from contemporary Chinese history[5]—notwithstanding, Mao continues to occupy a pivotal place in the narrative of China's postwar reconstruction and renewal. Indeed, the CPC has a specific edict on Mao's historical status, which stresses the centrality of his contribution to China's historical development (see Central Committee of the Communist Party of China 1981). This interpretation rather glosses over the increasingly widely known "mistakes" of his later years. The most significant recent statement on Mao's status was provided by Hu Jintao in his report to the Eighteenth National Congress in which he emphasized the importance of Mao's leadership in establishing the basis for subsequent economic development.

The most important and distinctive feature of contemporary Chinese politics is the continuing prominence of the CPC. True, other nondemocratic, even authoritarian regimes rule in Asia, but none has achieved quite the centrality, control, and unchallenged dominance of the Communist Party in China. As Richard McGregor (2010) points out, "the Party's genius has been its leaders' ability in the last three decades to maintain the political institutions and authoritarian powers of old-style communism, while dumping the ideological straightjacket that inspired them" (26). In other words, the primary goal of the CPC has become regime preservation and accelerating the economic developmental process that has largely come to underpin and legitimate it (Y. Zhu 2011). The lengths to which this still-authoritarian political system would go to protect itself and maintain its authority were revealed during the brutal crackdown on prodemocracy activists in Tiananmen Square in 1989. Francis Fukuyama (2011) has suggested that China's dynastic heritage has actually provided the basis for what he describes as "high-quality authoritarian government" (313). Clearly he is not celebrating the state's repressive capabilities, but he does usefully highlight the continuities that underpin the dominant role of the state in China, whatever the prevailing ideology may be.[6]

Unsurprisingly for a regime in which the party still maintains a close grip over political activity, commentary among Chinese scholars about its role remains limited, muted, and often rather uncritical.[7] Although debate is growing about the nature and direction of foreign policy, as we shall see in subsequent chapters, discussion of domestic policy remains much more circumscribed (Wright 2010). Nevertheless, highlighting some of the more salient features of the policymaking process is important as doing so helps to explain the forces that shape the regional policies with which we are especially concerned. The key point to emphasize here is that because China is nondemocratic, not only are most political processes not subject to the sort of notional accountability they enjoy in the West, but they are generally completely opaque as well. The process by which membership of the Central Committee—which along with the Politburo Standing Committee (PSC) is one of the most powerful political bodies in China—is renewed is perhaps the most notorious and certainly the most consequential example of Chinese political power in action.[8] Pivotal decisions about political authority and power remain internal to the party itself, and thus far only the personnel changes, not the central position of the party as the primary decisionmaking body in the country (Saich 2004).

Although the Central Committee remains the paramount decisionmaking body in China, below the committee are six major "clusters" of bureaucratic responsibility, defined by their functional roles: economic, propaganda/education, organizational/personnel, "civilian coercive," military, and the CPC's territorial committees. This complex structure, in which no single body has authority over the others, has been famously characterized as "fragmented authoritarianism" (Lieberthal 1992: 5). In the early period of China's development under the CPC, this description seemed especially apt as it captured the essentially top-down nature of the decisionmaking process in China, as well as internal struggles for power within the regime itself. In many ways this characterization still stands: factionalism, patronage, personal loyalties, and *guanxi*, or personal networks and connections, remain central features of political life in China and important determinants of subsequent policy initiatives (Cai and Treisman 2006; Shih 2008).

And yet powerful forces have been at work within China over the last thirty years or so, and these forces have begun to reconfigure the internal processes and structures of the Chinese state. On the one hand, the sheer complexity of the policymaking process has meant that more and more specialists are being integrated into the pursuit of state goals (X. Zhu 2013). On the other hand, the nature of this incorporation has begun to change the way state personnel think and act. As we suggested in the previous chapter, compelling evidence suggests that many policymakers, especially in the area of foreign affairs, have been "socialized" into new norms and behaviors. Equally important, the need to either utilize, or increasingly be seen to take notice of, a wider range of actors seems to be changing the very nature of the system of fragmented authoritarianism. In this regard, Andrew Mertha (2009) is worth quoting at length:

> The institutions that arose during the pre-reform era have adapted to the issues facing China today only imperfectly. The problems these bureaucracies face are arguably more fast-moving and complex than had been the case under Mao. . . . The state has responded by delegating responsibilities to economic, social and other types of actors (whether NGOs [nongovernmental organizations], *shiye danwei* [public institutions], or other non-state or quasi-state hybrids) under the rubric of "small state large society" (*xiao zhengfu da shehui*) . . . [and] there seems to be a gradual recognition by state actors that as information becomes more accessible in China as a whole, experts who are versed or literate in such information are useful, and the state actors (who do not possess the same skills) therefore seek out such expertise. Finally, there is a reinforcing effect whereby success breeds more success: once policy entrepreneurs are allowed to participate and their efforts contribute to an outcome they deem successful without drawing prohibitive sanctions, they set a precedent and are (cautiously) emboldened. (1001)

The principal arena in which such changes have played themselves out and the primary driver of institutional change in the first place have been economic reform and development. Consequently, we need to say more about this complex process, which continues to shape internal reform and which provides the context for external relations.

The Economic Transformation and Its Consequences

One does not have to be a crude materialist or economic determinist to recognize that social and even political processes in China have been profoundly affected by the transformation that has occurred in the economy. The process of economic opening that began in the late 1970s has not simply raised the living standards and life expectations of millions of people who were formerly mired in seemingly inescapable poverty, but it has also reinstated China at the center of world affairs. In short, commentators and policymakers around the world are interested in China primarily because of its remarkable economic development. Whether other countries see China as a potential role model, a trade and investment partner, or a threat to the established order, they have little option other than to take seriously the challenge China presents and the adjustments it compels.

Not to resorting to clichés is difficult when attempting to describe China's economic development, but everything about China's economic transformation really is unprecedented. So, too, is its impact. Not only the Chinese themselves are being affected by this process; so too is the rest of the world (Arora and Vamvakidis 2011; Das 2011). Countries as far afield and as unalike as Australia and South Africa are having to adjust to the impact of China's apparently insatiable demand for energy and raw materials; they are seeing their economies and even their political systems change as a consequence (Beeson, Soko, and Yong 2011). Remarkable as all this is, even more difficult to comprehend is that China's economic transformation from a peripheral, largely agricultural economy to the world's second largest has occurred within little more than thirty years. Even though China is still home to many poor people, the sheer scale of the economic development that has occurred there has lifted many more out of poverty and collectively propelled China to the forefront of the global economy. Chinese development is complex and not without contradiction, but the overall picture is overwhelmingly positive, growing concerns about the environment and inequality notwithstanding (see, respectively, Economy 2004; D. L. Yang 2006). The big question is, how did China do it?

Development with Chinese Characteristics

Although some significant progress toward industrialization was made under Mao and a developmental model largely based on the Soviet experience, not until the 1980s did the economy really begin to take off (G. White 1993). The limits of the Soviet model were exacerbated by the folly of the Great Leap Forward and a disastrously misconceived attempt to collectivize agricultural production in China. Not only did millions die in the ensuing famines that gripped China as Mao's reforms failed to produce the expected results (Becker 1998), but this enormous social experiment provided an important lesson for subsequent leaders, especially Deng Xiaoping.

More than any other figure in contemporary Chinese history, Deng is responsible for the economic transformation in China. Deng recognized the limits of Maoist economics and was wily enough to reconfigure the basis of the economy without precipitating a major ideological or political crisis.

Crucially, Deng realized that central planning was incapable of providing the necessary incentive structures with which to transform rural production in particular or the economy more generally. The process of relative decentralization, which he oversaw, gradually introduced market forces into the countryside, simultaneously sowing the seeds for the emergence of the "township and village enterprises" that would catalyze production and change social attitudes in the process (Vogel 2011).

Deng's famously pragmatic attitude—it doesn't matter whether a cat is black or white as long as it catches mice—underpinned his attitude to reform. And yet Deng remained firmly committed to the primacy of the party in national political life, an attitudinal reality that was illustrated by his support for the crushing of student protests in Tiananmen Square. In economic matters, however, Deng's approach was very different. The tentative loosening of ideological and organizational shackles in the countryside was eventually replicated in the heartland of the domestic economy. By introducing "special economic zones" from 1979 onwards, China's leaders made a decisive step toward the eventual integration of the "Chinese economy" with the rest of the world (Lardy 2002).

Again, the quotation marks around "Chinese economy" are intentional and used to highlight the very real material and conceptual changes that greater economic integration brings in its wake.[9] For China, as in much of the rest of the world, the idea of a discrete national economy has become increasingly meaningless as production structures, investment patterns, and ownership have come to transcend national borders (Breslin 2007; S. Wilson 2009; Dicken 2011). The blurring of lines has proved an especially difficult challenge for China as the state has generally wanted to retain control of the commanding heights of the economy. The trade-off between domestic control and the benefits that may be derived from foreign investment and competitive forces remains a complex one, but little doubt exists that the great experiment that began with the establishment of a handful of special economic zones little more than three decades ago has been an astonishing success (Subramanian 2011). That is not to say, however, that China's economic development is without contradictions or problems, as Chinese scholars have been quick to point out.[10]

One problem that China's leaders must confront is that in a notionally socialist country, the CPC has a particular historical role to play as a representative and champion of the proletariat (A. Chen 2003). The fact that hardly anyone talks about the "proletariat" in China anymore, and that organized labor is generally seen as a threat to the health of the economy and social stability,[11] is indicative of just how much has changed in China. Rapidly growing levels of inequality are one of the less desirable, ideologically contentious, but seemingly inevitable aspects of China's integration into the global economy (Harvey 2007). In reality, different aspects of economic activity in China have been integrated in different ways, creating complex patterns of winners and comparative losers as a result. Although ordinary Chinese as well as high-profile entrepreneurs have undoubtedly experienced massive material gains, equally clear is that well-connected political figures and "princelings" have benefited most from China's economic growth (D. Yang 2006; Barboza and LaFraniere 2012). All of this matters for China's foreign relations because of the potential impact of economic reform on domestic social stability and by extension China's external relations. So, too, does the precise manner in which China engages economically with the rest of the world.

Managing Contradiction

One way that China's elites have tried to manage and mitigate the impact of global forces is by retaining control over strategically important parts of the economy, an endeavor they have been encouraged in by some Chinese commentators. For example, Liu Guoguang (2010), Zhang Yu (2010), and Li Zheng (2010) have all been prominent in arguing that the government should continue to have a strong presence in strategic industries and that the state-owned enterprises (SOEs) should play a major role in the Chinese economy. The central contention here is that retaining the prominence of SOEs is entirely in keeping with what is, after all, supposed to be China's socialist system. In reality, of course, an important debate took place in 2009 and 2010 in particular about the extent to which SOEs should dominate the national economy. Many liberal economists criticized the government for limiting the role that private companies could play and mitigating the impact of competitive market forces.[12]

Chinese leaders are often lectured by external observers as well, especially about the need to continue the process of economic liberalization (World Bank/Development Research Center of the State Council 2012). The continuing prominence of SOEs and the government's reluctance to fully privatize them are frequent targets of external complaint and criticism. The state still controls around 60 percent of industries considered "strategic" and over 50 precent of the banking sector (Szamosszegi and Kyle 2011). However, one must recognize the crucial role the SOEs continue to play in both China's internal economic and political life. Not only are the SOEs often major players in China's long-term pursuit of energy security, with potentially major consequences for foreign trade partners (S. Chen 2011), but at a domestic level they provide one way of trying to underwrite social stability at a time of rapid change. True, many of the smaller, less strategically important SOEs have been privatized, and fewer people are directly employed by the public sector, but as Wright (2010) notes, "when the state controls key economic resources, individuals and groups that depend on the state for their material livelihood have an interest in perpetuating the political status quo—even when it is illiberal and undemocratic. In China in the reform era, this has been particularly true of private entrepreneurs and state sector workers" (175).

The dependence of SOE employees on the status quo highlights a wider phenomenon that confounds the expectations of many observers of China's social and political development. In Western Europe the rise of the first capitalist class was intimately linked to the push for greater political representation—for that emerging class, at least. As a consequence, many believe that a similar process of capitalist development will generate precisely the same sort of social consequences in China: an expanding bourgeoisie will demand political change and inevitably work to change the existing political order in which the CPC occupies such a pivotal and dominant position. This transformation may, indeed, ultimately occur, but such an outcome is far from certain. On the one hand, no reason can be given to suppose that the Western experience will prove to have inevitable, universal relevance (A. Chen 2002). On the other hand, little evidence suggests that—thus far, at least—China's expanding capitalist class is obsessed with pushing for greater political liberalization. On the contrary, detailed research suggests that many of China's new business elites have formed close relationships with, or are actually part of, the ruling political elite (Dickson 2003). As Tsai (2007) pithily points out, "China's capitalists are pragmatic and creative but they are not budding democrats" (4).

Plainly, the Chinese political system is not without problems and profound contradictions. Very real doubts can be found about the continuing legitimacy of China's unelected authoritarian rulers (Nathan 2009), especially if they cannot maintain economic growth and meet the rising expectations of the population at large. But we must also recognize that at this stage, according to such surveys of popular opinion as do exist in China, confidence in the central government is generally high, much greater than many people in the liberal-democratic West have in their governments, in fact.[13] The key question is whether such confidence can be retained in the face of significant economic dislocation or even a long-term economic decline from the recent stratospheric highs that were the expected norm. At this point, political and economic forces have the potential to collide with unpredictable consequences, making Minxin Pei's (2006) observations potentially so important. Pei argues that the Chinese political economy is incapable of reforming itself because it is based on self-serving relationships that are resistant to reform and the rule of law, in which "the political logic and institutional determinants of autocracy . . . are more likely to create a predatory state than a developmental one" (207). Such observations are especially consequential because the state in China has played a pivotal role in overseeing economic development. The question is whether it can continue to do so in the face of mounting internal and external pressures.

An important debate is emerging about how much control the state can retain over domestic economic—and by implication, political—processes in the presence of foreign investment and the ever more prominent role of foreign multinational corporations. In this regard, China's policies have been closer to Singapore's rather than Japan's, the latter having retained very close control of domestic economic development and relying on domestic rather than foreign savings to do so. In China, by contrast, foreign multinationals and investment have played a much more prominent role, and this role has had important consequences (Xing 2010). On the one hand the amount of value that is added to goods produced in China is actually quite low. Although the picture is changing, historically Chinese labor has generally been of the low-skill variety, with most of the value-added labor occurring elsewhere (Breslin 2005). This issue has generated a good deal of debate in China, where many commentators see the country operating at a disadvantage. Larry Hsien Ping Lang (2008), for example, believes that China has become entrapped by Western business practices and risks being locked into low-end production as a consequence. Many other analysts such as Chen Liyong (2004) and Pang Liping (2010) argue that China needs to actively upgrade its industrial structure to ensure it occupies a more advanced position in global production networks.

As we shall see in Chapter 4, the nuances of global trade and the conceptual problems it presents in analyzing trade relations are generally lost on policymakers in places like the United States. This blindness is unfortunate, because the criticisms made by Chinese observers in this regard are not without merit. Detailed research by Wang Sheng, Chen Jiyong, and Wu Hong (2007) suggest that China's currency policy has had little impact on the United States' overall trade imbalance. Shi Jianxun (2010) reflects a widely held view in China that the United States actually manipulates its currency more than China because of the benefits that accrue from the dollar's status as the world's "top currency."[14] More fundamentally, some observers argue that the most important consequence of the presence of foreign-dominated production structures in China is not simply that much of the profit from such activities is exported, but that China is being transformed by the demands of the contemporary production process itself. As

Edward Steinfeld (2010) puts it, "China today is growing not by writing its own rules, but instead by internalizing the rules of the advanced industrial West. It has grown not by conjuring up its own unique political-economic institutions but instead by increasingly harmonizing with our own" (18).

Part of the problem of knowing how much China is being influenced by the West is that such concepts are all too encompassing to be really meaningful. Significant regulatory reform has plainly occurred in China as a consequence of major policy changes deriving from accession to the WTO and from the more subtle demands of technical compliance and standard setting (Fewsmith 2001). China's own attempts to use its growing economic leverage to establish industry standards have met with limited success so far (Bell and Feng 2007), seemingly confirming Steinfeld's claims. These issues have generated a good deal of debate in China itself (see J. Li 2003 and F. Mao 2007). Mao Fengfu (2007) argues that China's failure to influence international standard setting results from an absence of disincentive core technologies within Chinese companies, a lack of familiarity with international regulatory processes, and competition between different agencies and levels of government in China itself.

A major difficulty in gauging how much changes in the operational dynamics and practices of international industry are being internalized by Chinese elites, as we suggested earlier, flows from the fact that the state itself is far from the sort of unitary entity that figures in much Western international relations scholarship or some of the less sophisticated commentary on "China Inc." and the rise of state capitalism. In reality, the internal architecture of the state is complex, and the policymaking process is increasingly contested. Howell (2006) consequently describes the contemporary state in China as "polymorphous," capable of "assuming multiple, complex forms and behaviours across time and space, and defying any definition which reduces it to a single actor" (277). The continuing fragmentation of political processes and the existence of overlapping claims to authority and responsibility within the state make the idea of regulatory effectiveness and independence inherently problematic as a consequence (Pearson 2005). One must remember that China has not had the same sort of "state capacity" that Japan did in its heyday as a developmental state, something that has limited the sorts of policy initiatives that have been feasible in China as a consequence (Pekkanen and Tsai 2005; Beeson 2009b), while creating opportunities for the best organized domestic business groups to influence national industry policy as a result (Zheng and Abrami 2012).

Given the tremendous challenges that confront Chinese policymakers as they have to manage profound social change, heightened popular expectations, and structural transformation, while simultaneously learning how to maintain development in a rapidly changing and unstable global economy, that they have succeeded as well as they have thus far is remarkable. As we shall see, each region presents particular challenges and problems in this regard, and this variety helps to explain the different policy priorities that have emerged as a consequence. Variations in policy goals also reflect the foreign policy making process itself, however, a subject that merits further elaboration.

The Policymaking Process

How does the recent economic transformation influence the foreign policy making process? What impact does the profound political constraints imposed by the need to keep the CPC at the center of domestic and even external affairs have on the content and construction of policy? At the outset we need to recognize that these questions are not easy to answer. The opaque nature of the policymaking process in China, the absence of institutionalized access points to policymakers themselves, and the overall lack of formal accountability, all conspire to make analysis difficult. The opaqueness is one of the reasons why examinations of China's foreign policy are often conducted at a fairly high level of abstraction: not opening the proverbial "black box" of domestic policy making is an attractive option when so much of the policymaking process remains hidden. However, Chinese policymaking is clearly becoming increasingly "conflicted," as David Shambaugh (2011) puts it, due to the fact that "China has no single identity today, but rather a series of competing identities" (9). In such circumstances we need to try to identify the organizational structures and the agents that populate the policymaking process.

Ultimate responsibility for foreign policy decisions, like so much else, resides with the PSC. Although the Ministry of Foreign Affairs (MFA) has notional responsibility for constructing China's foreign policy, in reality, as Jakobson and Knox (2010) point out, the MFA "is today merely one actor in the realm of foreign policy and not necessarily the most important one" (1). Significantly, no single member of the PSC has sole responsibility for foreign affairs, a situation that inevitably makes policymaking more contested and less focused. Compounding this problem is the fact that new actors are seeking to exert an influence over the content of policy in a way that was unforseen and unintended. As an important recent report from the International Crisis Group (2012) made clear, "the biggest problem in coordinating the actors—apart from their number—is that most of these agencies were originally established to implement domestic policies but now play a foreign policy role. They have almost no knowledge of the diplomatic landscape and little interest in promoting the national foreign policy agenda" (14).

The potentially most consequential result of this proliferation of voices in the policymaking process can be seen in China's increasingly assertive and proactive behavior in the various maritime territorial disputes in which China has found itself embroiled. In the South China Sea disputes in particular, a range of actors such as the People's Liberation Army (PLA) (Swaine 2012a),[15] provincial governments, and SOEs in the energy sector are all attempting to push their often conflicting positions, giving the ultimate policy responses an uncoordinated, unpredictable, and ad hoc quality. Therefore, an initial distinction between "grand strategy" and the day-to-day business of conducting relationships with other countries and actors is useful.

China's Grand Strategy

Deng Xiaoping had famously warned that in foreign policy China should adopt a low profile and never take the lead (*taoguang yanghui, yongbu dangtou*). Whether this approach amounts to a grand strategy of the sort that US commentators and policymakers remain preoccupied with is a moot point.[16] Nevertheless, by the late 1990s Chinese leaders had, Goldstein (2005) argues, developed a two-pronged approach to achieving long-term strategic objectives. The first goal was to make China an indispensable part of the international system. Again the language is strikingly similar to the phrase popularized by former secretary of state Madeleine Albright to describe the United States' role, but in China's case the ambitions are more modest and based essentially on establishing good relations with the other major powers. The other principal goal of China's grand strategy is developing a reputation as a responsible member of the international community, one that is not seen as a threat to the system or its members. Overall, Goldstein (2003) suggests,

> China's emerging grand strategy links political, economic and military means in an effort to advance the PRC's twin goals of security and great power status. Politically, China pursues multilateral and bilateral diplomacy to mute threat perceptions and to convince others of the benefits of engagement and the counterproductive consequences of containment. Economically, China nurtures relations with diverse trading partners and sources of foreign investment, weaving a network of economic relations to limit the leverage of any single partner in setting the terms of China's international economic involvement. Militarily, China seeks to create sole breathing space for modernisation of its armed forces. (83)

Thus, one important and distinctive feature of China's approach to foreign affairs—especially when compared to the United States, the other country that has a preoccupation with grand strategy—is that Chinese officials take a more comprehensive view of strategic issues, one that goes beyond a simple concern with military security (J. Wang 2011).[17] In this approach, China is following a common Asian pattern, largely pioneered in Japan, which stresses the importance of economic and social stability as part of achieving security (Alagappa 1998). The emphasis Chinese officials have placed on resource security becomes more understandable in this context (J. Wilson 2013), as does the emergence of new instrumentalities, such as sovereign wealth funds, which are playing an increasingly important role in securing China's long-term interests (Blanchard 2011). At one level this growing preoccupation with economic security is simply a function of China's rising material weight and wealth. But at another more fundamental level, China's resource policies are a manifestation of a much more strategic, long-term approach to foreign policy in which the state plays an important coordinating role.[18]

For our purposes China's grand strategy has a particular significance because, as Zhang Feng (2012b) points out, "neighborhood diplomacy was an important part of the overall attempt to stabilize the regional environment for China's continued growth" (326). In other words, China's relatively constrained position as primarily a regional rather than a global power has meant that regions have played an especially important part in its approach to foreign policy more generally. Seen in this context, the emergence of Chinese diplomatic discourses centered on its "peaceful rise" and a "good-neighbor policy" becomes more comprehensible. Both of these formulations stress the potential benefits that flow from China's economic expansion and downplay the more traditional concerns associated with the rise of new powers. The evolution of both of these narratives also illustrates the way influential policy ideas are emerging from outside the core institutions of the state (Glaser and Medeiros 2007).

The significance and impact of the so-called peaceful rise theory (*heping jueqi*) can be explained in part by the fact that it was first initiated by Zheng Bijian, who was the former excutive vice president of the Party School of the Central Committee of the CPC. In November 2003 he made a speech in the Boao Forum entitled "China's Peaceful Rise as a New Way and the Future of Asia," which marked the beginning of a major new foreign policy narrative. After that, Chinese leaders actively promoted the idea in international forums, something that became a major part of the overall "charm offensive." Since late 2004, "peaceful rise" has been replaced by the more anodyne phrase "peaceful development," as the idea of China "rising" was seen as potentially threatening and carrying too much conceptual baggage. The phrase "good-neighbor policy" is a rather nebulous English language formulation that does not capture the prescriptive nature of its Chinese equivalent. The Chinese version, *yulin weishan, yilin weiban* (building friendship and partnership with neighboring countries) contains specific initiatives such as *mulin, anlin, fulin* (the policy of creating an amicable, secure, and prosperous neighborhood).[19] The general overall conclusion to draw at this point is that one of the most influential ideas among both policy elites and increasingly the general public is that "the current international environment offers extremely favourable conditions for it [China] to grow into a world power" (Z. Ye 2011: 58).

Influencing the Policy Process

Below the level of grand strategy, however, more routine policy issues are managed by the "foreign affairs leading small group" (*waishi gongzuo lingdao xiaozu*). Leading small groups are responsible for major policy decisions and are composed of PSC and CPC officials. However, members of the PSC are often not well grounded in foreign affairs and consequently have to rely heavily on specialists. Much of this expertise is now drawn from the growing number of foreign policy research centers and think tanks that actively seek to influence policy. Among the more well known are the Chinese Academy of Social Sciences, the China Institute of International Studies, and the China Institute for International Strategic Studies (Q. Zhao 2010). The state instrumentalities that these outside agencies and other commentators hope to influence are the Policy Research Office, the General Office, and the International Department, which provide logistical support and policy advice to the Politburo and senior officials (Jakobson and Knox 2010).[20]

Although formal responsibility for policymaking rests with the MFA, its influence has declined and it is increasingly reliant on outside expertise in its day-to-day operations. The MFA's role now is essentially one of implementation, with decisionmaking occurring within the CPC leadership. Even within the field of foreign affairs, the MFA faces growing competition for influence and policy authority from other government agencies such as the Ministry of Commerce, the Ministry of Finance, and the Ministry of State Security. In this regard, China is much like other countries: the growing complexity of engagement with the international system and the increased specialization of various agencies and representatives inevitably means that the construction of foreign policy is a multidimensional, multiactor process, and, invariably, no single voice speaks definitively on behalf of the nation

(Hill 2003). China is no exception in this regard. On the contrary, a growing number of voices represents and tries to shape the content of Chinese policy, and the presence of so many actors can lead to mixed messages and ambiguity at times as policy is subject to revision and contestation.

One must also recognize that public opinion and the growth of new media outlets, which the government is struggling to control, also offer new sources of opinion and public pressure (Fewsmith and Rosen 2001). Having said that, we must also point out that the state in China has maintained a good deal of control over some of the more traditional media, and that influence has provided a source of legitimacy and even "positive propaganda" (Stockmann and Gallagher 2011). Nevertheless, revealing differences of opinion have surfaced between the MFA and other agencies, such as the Ministry of Education, about the role of the Confucius Institutes, and between the MFA and influential strategic analysts, which highlight the way policy has shifted and evolved in response to multiple competing influences and the absence of a definitive voice on foreign policy in China.[21] At the same time, however, the rise of the "netizens" in China is providing a new source of criticism and pressure on the central government and its policies. Sensitive issues such as corruption have been widely debated in the blogosphere despite the best efforts of the state to control this discussion (Lei 2011). Even more importantly for our purposes, the Internet is a source of increasingly virulent nationalist commentary that is encouraging the government to take an increasingly assertive line in territorial disputes with Southeast Asia and Japan.

The other striking feature of Chinese foreign policy formulation that merits mention in this context is that some of China's "voices" use decidedly foreign accents at times. One of the more important long-term developments in China generally and in the foreign-policy-making process in particular has been the remarkable rise in the number of Chinese citizens who are undertaking study at foreign universities.[22] The possession of a doctorate of philosophy from a prestigious US, British, or even Australian university may not be de rigueur, but it is increasingly seen as a valuable part of any putative policymaker's résumé. One of the most recent Chinese foreign ministers, Yang Jiechi, for example, has postgraduate qualifications from the University of Bath and the London School of Economics. The increasing popularity of overseas study is an interesting and revealing enough indication of just how much has changed in China as far as attitudes to the outside world are concerned and about the possibility of learning from the West.

While a much more positive attitude to the acquisition of Western knowledge has developed since the time of Deng Xiaoping (Vogel 2011), an important difference clearly exists between the sort of "practical" knowledge that emerges from the natural sciences and the potentially contentious, ideologically challenging worldviews that are embodied in the social sciences. One should note just how many international relations specialists and policy officials in China have been educated overseas and just how influential Western views of the international system are in China as a result. While demonstrating an unambiguous causal relationship between educational influences and shifts in policy is difficult, we need to highlight just how much has changed in the way some of China's most important foreign policy makers and shapers think about the international system.

The Influence of Theory and Ideas

For a country that is associated with an increasingly "pragmatic" approach to foreign affairs in particular and development more generally, considering theoretical issues in the context of China's foreign policy formulation might seem odd. And yet we need to remember that China is notionally a communist country, and this self-identification has implications for the way its leading officials might be expected to view the world. It certainly *was* the case that China's leaders and its foreign policy elites saw themselves as occupying a unique place in world affairs. Throughout the first few decades of the PRC's existence, broadly Marxist ideas provided the guiding rationale for state policy domestically and externally. Indeed, as we shall see in the case of Southeast Asia, China's self-appointed role as the vanguard of a revolutionary ideology was profoundly threatening to many of its neighbors during this period. Significantly, in the early years of the PRC, China's elites saw themselves as potential leaders of the third world, a position that was consolidated at the Bandung Conference by Zhou Enlai (Yahuda 2004).

But the world has changed profoundly in the last half century, and so has China's place in it. At one level this shift is a reflection of the material transformation that has occurred in China and East Asia more generally. At another level, however, China's elites have an entirely different view of themselves, the international system, and China's place in it. The language of Marxism or even Maoism gets a tokenistic invocation at best these days, and China's policymaking elites are more likely to be steeped in the equally arcane mysteries of international relations theory and even neoclassical economics. Some people with the most influence over Chinese economic development have been educated in the West, and this exposure has facilitated China's integration with the wider world economy. For example, former World Bank chief economist Justin Yifu Lin earned his doctorate at the University of Chicago and the deputy governor of the People's Bank of China, Yi Gang, earned his doctorate at the University of Illinois.

Western ideas are beginning to exert a similar influence in foreign policy making. Although the CPC still influences the content of syllabi in party schools where many future cadres are trained, the fact that so many of the best students now obtain some part of their education overseas is undoubtedly shaping the worldviews of policymakers. One manifestation of this influence can be seen in the number of Chinese scholars who describe themselves in terms of the principal categories of Western international relations theory. Although a powerful historical tradition exists of "realist" thought in China (Lynch 2009), many Chinese scholars self-consciously describe themselves in language and concepts that have been derived from the West. One can now commonly find self-described constructivists and liberals among leading academic commentators in China, although equally noteworthy is that realists remain in the numerical and policymaking ascendancy (Qin 2009; Shambaugh 2011).[23] Significantly, some observers argue that China's particular brand of realism and its concomitant grand strategy are predicated on a recognition of its continuing relative weakness vis-à-vis the United States (Swaine and Tellis 2000). Be that as it may, interest is growing within China in trying to develop an indigenous brand of international relations theory, one that draws on China's own historical experiences to develop Chinese solutions to international problems (Callahan 2008; Carlson 2011).

The possibility that Chinese scholars might develop their own interpretation of the international system and the forces that drive it is important for a number of reasons. First, it serves as a reminder of the contingent, place- and time-bound nature of social reality. Launching into an exhaustive theoretical digression is not necessary to recognize that the reality policymakers inhabit is at least partly socially constructed; social facts are consequently potentially malleable, contingent, and subject to change (Searle 1995; Wendt 1999). Also clear is that dominant theoretical understandings of social reality, especially in the field of international relations, often reflect the normative preferences and interests of the hegemonic power of the era (S. Smith 2002). This influence is, of course, why so much is potentially at stake in what can otherwise seem the rather marginal and self-referential debates of international relations scholarship; powerful ideas provide a framework for interpreting and acting upon social reality; they help to delimit what is possible and indeed thinkable at times. The history of East Asia provides a powerful historical reminder that viable alternatives have existed to the present reality of sovereign Westphalian states (Ringmar 2012), and no reason can be given to suppose this system will last indefinitely.

The fact that the United States has managed to shape an international system that advances its preferences and interests is not lost on Chinese observers and commentators. As a result, talking about such things as a possible "China model," the "Beijing consensus," and China's growing "soft power" is becoming increasingly commonplace. Given the prominence of these concepts and ideas in popular commentary, something must be said about them as they provide an insight into China's growing global role.

Exporting the China Model?

We must reemphasize just how recent China's integration into the international system actually was. Many people in China and the international community can remember when China was impoverished, agrarian, and underdeveloped—not the possible savior of a global economy suffering a series of seemingly unending crises (Alderman and Barboza 2011). However, not only has China's dizzying economic expansion transformed the material basis of its relationship with the rest of the world, but China itself is beginning to exert a concomitant ideational influence as well (S. Xu 2012).

We have become accustomed to thinking of the United States as having "soft power," or a nonmaterial basis of influence over other countries, because of the apparent attractiveness of its culture, political ideas, and institutions (Nye 2004). Other countries, the argument goes, are more likely to be influenced by the United States and go along with its policy preferences because they are attracted to—or at least not threatened by—what it seems to stand for. This possibility, it should be noted, has not been lost on Marxist-inspired scholarship either, although they are much less sanguine about its implications (Cox 1987). Be that as it may, remarkably, we have now begun to think of "communist China" as having the potential to exert an ideational influence or attractiveness over other countries (S. Ding 2010).

The principal reason that people have begun to think China perhaps can exert an influence over the behavior of other states is, of course, its economic success. Many outside observers, especially in countries keen to replicate China's developmental successes, want to understand how China transformed itself. Talking about a "China model" and a "Beijing consensus" has consequently become more common (Ramo 2004). The Beijing consensus is especially significant as it provides a stark alternative to the more widely known Washington consensus, which was synonymous with US hegemony, and which advocated a broadly neoliberal, free-market-oriented, small-government agenda (Williamson 1994). Primarily associated with pragmatism and taking a nondoctrinaire approach to whatever seems to work, the Beijing consensus is potentially important because it marks a decline in US influence and, at the very least, a recognition that economic development can be approached in different ways. Significantly, however, the Chinese government makes a point of not talking about, much less advocating, the Beijing consensus, so its status is rather different to its US counterpart, variants of which have been enthusiastically supported by the United States and powerful institutions such as the World Bank and the IMF (Foot, MacFarlane, and Mastanduno 2003).

Equal uncertainty can be found about the possible existence of a China model of development (S. Zhao 2010; Breslin 2011), a debate that is being taken up within China itself where the idea of a distinctive Chinese model of development has become increasingly popular and influential since 2008 in particular. Some scholars, such as Ding Zhigang and Liu Ruilan (2010), reject the China model theory because it does not accurately reflect the Chinese experience and may draw negative international attention. Similarly, Yu Keping (2009) points out that the China model is not a static entity and that China's very distinctive mode of development cannot be easily replicated by other countries. However, scholars like Hu Jian (2010) believe that a China model indeed exists, and not acknowledging it displays a lack of confidence in the face of possible foreign criticism. One of the most useful contributions to this debate in China has been developed by Zheng Yongnian (2009b), who argues that the China model does not refer to a mode of economic development so much as to a more comprehensive sociopolitical institution that has provided the context for the overall process of economic development.

As far as the debate outside China is concerned, acknowledging a form of state capitalism organized along quite different principles to its counterparts in the West, with important foreign policy implications as a consequence, has become increasingly more common and meaningful. As Ian Bremmer (2010) points out, the crucial feature of state capitalism is that "the ultimate motive is not economic (maximising growth) but *political* (maximising the state's power and the leadership's chances of survival). This is a form of capitalism but one in which the state acts as the dominant economic player and uses markets primarily for political gain" (5, emphasis in original).

The point to emphasize, therefore, is that some of the most fundamental assumptions that prevail in the West about how states behave—or how states *ought* to behave, at least—are simply not relevant in the case of China and a number of other rising authoritarian powers (Gat 2007). Far from being driven by the logic of the market, like a number of other policymakers in East Asian states before China's rise, Chinese elites are defining broadly capitalist principles in new ways, the logic of which is primarily political rather than narrowly economic. China, in fact, is much more closely aligned to the sort of "developmental state" pioneered by Japan and emulated with varying degrees of success across much of East Asia (Beeson

2009b). In this regard at least, a degree of continuity can be found with what has gone before, despite the wrenching economic changes that have effectively reshaped China and the region of which it has become such a pivotal part.

Conclusion

China's rise was initially thought of in overwhelmingly material terms: the preoccupation with measuring its rapid development and growth levels was an inevitable manifestation of this process. But as we have become more accustomed to China (re)assuming a place at the center of international economic activity, that China's transformation can be attributed to much more than simple material expansion has become apparent. China's domestic political structures may still resemble those that developed in the aftermath of the communist revolution and the establishment of the PRC, but the agents that occupy them are very different from Mao and his comrades. These days senior members of the CPC are as likely to have a master's in business administration from a leading Western university as they are to have a deep understanding of the principles of Marxism-Leninism. The principal debates now are not about the historical role of the proletariat, but about labor market reform and the best ways of lifting productivity in the still extensive SOEs. State control of the commanding heights of the economy may still exist to a much greater extent than it does in a "normal" capitalist economy, but this fact should not mislead us about the nature of the Chinese economy: not only is it essentially capitalist, but it, too, is being inexorably transformed as it becomes more deeply integrated into the wider global economic order of which it is such an increasingly important part.

The other consequence of China's rise that has attracted growing attention and even concern has been the modernization of its military. Although China's spending on security remains relatively small compared to that of the United States, it is growing rapidly and inducing much angst amongst US commentators in particular as we shall see in the next chapter. And yet even though China may be a long way from challenging US military dominance, its more assertive foreign policies are beginning to alarm some of its neighbors, as we explain in more detail in Chapter 5. The point to emphasize here is that the content and even construction of China's foreign policy has evolved in much the same way as its economic policies and for much the same reasons. True, the pursuit of the national interest may still represent the core concern of China's policymaking elites, but a greater debate is occurring about what "national interest" might actually mean and how it might be pursued most effectively. The following chapters illustrate what this debate means for policy in China's region.

Notes

1. It should be recognized that some very persuasive analyses have been done of contemporary Chinese politics that also emphasize its unsustainable and fragile nature. See C. Li (2012) and Pei (2006).

2. For important English language discussions, see Frank (1998), Morris (2010), Pomeranz (2000), and Wong (1997). For Chinese interpretations, see Le Aiguo (2002), who discusses China's technological regression, and Justin Yifu Lin (2012), who analyzes China's economic decline in the nineteenth century. The debate about the rise of the West and the decline of China has not been confined to academics. On the contrary, the popular television series *The Rise of the Great Nations* created widespread discussion when broadcast in 2006. This series marks an interesting point of comparison with the earlier 1989 documentary *The River Elegy*, which argued that only the Western civilization was progressing and that all the other civilizations, including China's, were declining. The debate about *The River Elegy* was directly linked with the democracy movement in 1989.

3. Some of the most useful English language accounts are provided by Elleman (2001), Dillon (2010), and Spence (1999). Among the more important Chinese analyses are Guo Tingyi (2009) and Tsiang Tingfu (2001).

4. Significantly, a number of very high-profile and influential books have been written by Chinese authors from an overtly nationalist perspective, designed to promote Chinese interests and perspectives in a more forceful manner. In 1996, *China Can Say No: Political and Emotional Choices in the Post–Cold War Era* became the best seller in China and even attracted the attention of the Western media. The book criticized what the authors saw as national weakness—including those of the government—and the adulation of the West. The book was initially banned. In 2009, a follow-up version, *Unhappy China: The Great Time, Grand Vision, and Our Challenges*, was published. This book came out in the wake of a series of incidents in 2008 including riots in Tibet, the boycott of the Beijing Olympic Games by some Western civilians and politicians, and the Sichuan earthquake. All these incidents inflamed nationalist sentiment, especially among the young. In this context, *Unhappy China* encouraged the Chinese government to be more assertive with the West.

5. Anyone wishing to confirm the official view of history from which these events are conspicuously absent need only visit the National Museum of China in Beijing.

6. His current thesis is also an important acknowledgment, if not refutation, of his earlier thesis about the inevitability of the spread of liberal democracy and the "end of history." See Fukuyama (1992).

7. However, the number of "liberals" in China is growing, and these "liberals" contribute to debates on the Internet and newspapers, such as those that belong to the Nanfang Media Group based in Guangdong Province.

8. The most recent iteration of China's leadership process has been perhaps the most controversial. Not only was it undermined by the spectacular downfall of former political highflyer Bo Xilai, but the entire "performance legitimacy" of the CPC

came under renewed and unwelcome scrutiny as a consequence (D. Bell 2012). Critics of China's undemocratic system argued that the CPC might not be able to sustain its position in the face of growing challenges to its authority (Pei 2012).

9. An extensive literature has developed on the conceptual and practical implications of globalization and its impact on national economies and policymaking. See Held and colleagues (1999), Reich (1990), and Cerny (2010).

10. Some Chinese scholars, such as Lang and Sun Jin (2012), believe that China's economy is on the edge of collapse; others point to the growing gap between different regions (see G. Zhou 2001). Even critiques of China's controversial currency policy and what is seen as the consequent overheating of the domestic economy have developed within China (see Chen and Tong 2007).

11. Radical critics of China's economic policies claim that China's dominant political factions have established a mutually rewarding, symbiotic relationship with their counterparts in the United States in which the working classes have little part and are essentially reduced to being simply another element of production (see Hung 2009). One does not have to accept this claim in its entirety to recognize that the position of the working class has changed in China, and this change has major implications for the ruling political elite.

12. For an overview of the debate, see the review article by Leng Zhaosong (2013).

13. T. Shi (2008) reports that Chinese citizens trust their political institutions more than citizens of any other East Asian society and suggests that support for authoritarian regimes is not necessarily incompatible with globalization and greater awareness of the idea of democracy.

14. Significantly, such views are not confined to Chinese scholars but are also increasingly commonplace in the West. See Kirshner (2008) and Vermeiren (2010).

15. The PLA has begun to play an increasingly prominent role in debates about China's foreign policy generally and the South China Sea issue in particular. One of the region's more astute China watchers claims that "the generals seem to be pushing the country toward a confrontational approach in sovereignty disputes in the South China Sea, one of the most dangerous flashpoints in the Asia-Pacific Region. Their rhetoric is simple: The PLA should no longer hesitate to punish countries that dispute China's claims to myriad islets, as well as the oil and gas resources under them" (Lam 2012, online version).

16. An extensive literature details US grand strategy, which undoubtedly reflects its status as the hegemonic power of the era (see, for example, Art 2003 and Brzezinski 1997). Significantly, not only is this literature widely known and commented upon in China (see, for example, Z. Wei 2004 and S. Guo 2005 for reviews of Art 2003, and J. Shen 1998 and Y. Xu 1999 for review articles of Brzezinski 1997), but it is beginning to generate a similar body of work on China's own strategic goals. See Ye Zicheng (2003), Men Honghua (2005), Hu Angang (2003), and Ding Li (2010).

17. Most Chinese strategists believe that the grand strategy should include both a national security component and a focus on national economic development. See Hu Angang (2003), Ye Zicheng (2003), and Shi Yinhong (2003). Other scholars such as Zhou Piqi (2005) take a more conventional, Western-style view of grand strategy that is mainly concerned with national security.

18. As Leung (2011) points out, China's energy policy is still evolving and "far from coordinated and with contradictions" (1336). However, the state clearly continues to regard energy security as a key strategic issue, even if a debate is ongoing

about the efficacy of its approach. See Chapter 7 in this book along with S. Chen (2011) and Downs (2004).

19. *Yulin weishan, yilin weiban* was first recorded in the report of the Sixteenth National Congress of the CPC. *Mulin, anlin, fulin* were initially promoted by Premier Wen Jiabao in the ASEAN Business and Investment Summit in October 2003. See Li Zhifei (2011).

20. The following discussion draws heavily on the excellent paper by Jakobson and Knox (2010).

21. In February 2010 for example, after the United States announced new arms sales to Taiwan, the MFA issued routine protest but scholars within the military establishment pursuaded the government to impose sanctions on Boeing in retaliation. See Wang Cungang (2012).

22. According to the United Nations Educational, Scientific and Cultural Organization's Institute of Statistics, more than half a million students from China were doing overseas tertiary education in 2010. Indeed, one of the authors is living proof of the value of such an experience!

23. Traditionally, Chinese realist perspectives were influenced by Lenin, whose analysis of international relations has profoundly affected Chinese thinking (see Y. Li 2004). More recently neorealism has become more influential, and Yan Xuetong of Tsinghua University is perhaps its most important exponent in China. Yan earned his doctorate from Berkeley. Another prominent scholar, Zhang Ruizhuang from Nankai University, also earned his doctorate from Berkeley with Kenneth Waltz as his supervisor. The dominace and influence of realist thinking may, of course, have a major impact on the foreign and security policies of both China and the United States. The implications of this possibility are considered more fully in Chapter 4.

4

East Asia or Asia Pacific?

China has reemerged as a major power, and it may once again play a pivotal role in its region, if not the world. But deciding quite what the geographic extent and membership of "the region" might actually be is not as straightforward as we might expect. As we suggested in Chapter 2, no "natural" regions exist, and they are all, to some degree or other, socially constructed phenomena that reflect the understandings and aspirations of their members. They may also reflect a very material application of geopolitical power. These possibilities are thrown into sharp relief when we consider the largest regions in which China is a major player: East Asia and Asia Pacific. A good deal is at stake in the way each region is defined.

In what we now think of as East Asia, China has been the dominant actor throughout most of recorded history, and as subsequent chapters demonstrate, it is well placed to be so again. In Asia Pacific, however, the ability of China's policymakers to assert themselves is constrained by the existence of an even more powerful state: the United States. As a result, China's relationship with the United States represents a major test of its policymakers' ability to manage the diplomatic and strategic consequences of its growing power and importance. As we shall see, for many Chinese analysts and policymakers, the United States represents a formidable impediment to the goal of becoming a major power both in the region and the wider world. The way its relationship with the United States plays out provides an important indicator of China's ability to influence a region in which the United States is actively attempting to reengage (R. Ross 2012). Before considering any of the smaller regions and relationships in which China might expect to play a preponderant role, therefore, we should examine Sino-US relations in the context of the evolving struggle to define the region.

We begin our analysis with a brief sketch of the historical evolution of bilateral ties, paying particular attention to the Cold War period and US efforts to contain communism. As we shall see, many analysts in China remain convinced that the United States is still trying to contain China and that the United States' vision of an Asia Pacific order is part of this overall strategy (Swaine 2012b). The United States' high-profile pivot to the Asian region is confirmation of this possibility for many Chinese observers. Consequently, we briefly consider the competing strategic visions that have shaped US and Chinese policy before considering whether either country's policies can be achieved given the unprecedented, mutually constraining nature of their growing interdependence.

The Coming Collision?

The clash between the interests and objectives of China and the US was almost inevitable. Both the United States and China have a particular sense of their own historical importance and unique significance. We may have become accustomed to Americans thinking that they have a unique historical mission (T. Smith 1994; Holsti 2011), but we must also recognize that many people in China also think their country is exceptional and has a particular role to play in world history (F. Zhang 2013). Clearly, the number of countries that have uniquely important historical missions is limited, so the potential for misunderstanding and sleights to national pride, if not outright conflict, has always been present. In China's case, of course, acute national sensitivity about its reduced international importance during the twentieth century has been a major influence on domestic and foreign policy (Callahan 2010; Kaufman 2010). China's diminished circumstances have been thrown into especially sharp relief by an ascendant United States, a country that has effectively created the international order with which China has recently reengaged. More is at stake than simply damaged national pride, though. As Deng (2008) points out, "the struggle for status" has tangible goals (21), and this struggle is part of a strategy to allow the PRC to secure core interests and project power in Asia and beyond. The United States' ability to directly or indirectly thwart Chinese ambitions is consequently a major foreign policy challenge.

Even before the United States played such a prominent role in opening up China's economy, it had already effectively announced itself as a major Pacific power by forcing a similarly insular Japan to do likewise. The clash with Japan was momentous for the region, not just for Japan (LaFeber 1997): it demonstrated just what an important role the United States could directly or indirectly play in determining the way in which the entire East Asian region evolved. In the particular case of Japan, US intervention precipitated a profound internal transformation, which set the stage for Japan to become a major regional power. Even though the United States' initial role in China was not as prominent or decisive as it had been in Japan, the US open-door policy took advantage of the impact of European imperialism to push its commercial interests. Unlike the Europeans, however, US policymakers based the open-door policy on the principles of respect for Chinese sovereignty and a preference for diplomacy over force (S. Zhao 1998).

Interestingly, late-Qing statesmen, particularly Li Hongzhang, tried to use the US open-door policy as a way of balancing the influence of more dominant European powers (see T. Tong 1997). Indeed, China suggested that the United States might actually help to develop China's northeast region as a way of potentially blocking the expansion of Russia and Japan into this area. During these troubled times, China's leaders enjoyed more cordial and potentially constructive relations with the United States than with other powers. Some of the activities of the self-strengthening movement were directly related to the United States, such as the Chinese Education Mission (1872–1881), which was first of its kind in Chinese history, and which sent students to the West to study. The leaders of the Nationalist revolution tried to repeat the relative success of relations with the United States with Sun Yat-sen borrowing ideas from leading US political thinkers. This shared history helps to explain the unfulfilled expectations that Chinese people held about the United States' possible role in the Paris Peace Conference following World War I. The potential for misunderstanding and unfulfilled expectations in Sino-US ties has been long standing.[1]

Nevertheless, the repudiation of coercion in this period on the part of the United States is noteworthy for a number of reasons. First, despite the fact that the United States was not averse to using force to protect what it saw as its national interests in other places such as the Philippines and Cuba (Boot 2002), in Northeast Asia the United States did not unleash its full strategic potential until compelled to do so by Japan's surprise attack on Pearl Harbor. Significantly, US policy toward the region had primarily been shaped by its attitude toward Japan rather than China. The US response to Japan's invasion of Manchuria reflects this prioritization. As Iriye (1967) rather caustically observes, as far as US policymakers were concerned, "Japanese aggression, no matter how repugnant morally, was no great cause for alarm so long as it did not interfere with American business activities" (182). This indifference to and complacency about China's situation also characterized postwar policy and helps to explain the surprise of US policymakers at what they would describe as the "loss" of China to communism. US strategists had simply failed to understand or take seriously the threat posed by Mao and his followers. In what would become a familiar pattern, policymakers in the United States fundamentally misunderstood the nature of the changes that were occurring in China and could not believe that its population might actually choose communism as the basis of political and social life in their reunified country (Schaller 1979).

Coping with Hegemony

For China, as for all states in the period following World War II, the overwhelming geopolitical reality with which its policymakers had to contend was US hegemony. The institutional architecture created under US auspices defined the context within which postwar international relations played themselves out. What was distinctive about this period, of course, was that the international system was effectively divided between capitalist and communist camps. The United States' grand strategy in the postwar period was devoted to containing the threat posed by possible communist expansion. Significantly, however, the principal focus of attention during the Cold War was Europe, not Asia, and the United States' Asia policy "developed largely out of inadvertence" (Gaddis 1982: 82). This statement may be something of an exaggeration, but one can have little doubt that China was not high on the list of US strategic priorities for much of the Cold War period.

The consequences of this relative neglect were revealed when US policymakers failed to capitalize on the split between Beijing and Moscow. Ironically both the Soviet Union and the PRC were, for different reasons, keen to improve relations with the United States during the 1950s, but Chinese overtures were treated with indifference by US policymakers. Ideological tensions between the Soviet Union and China came to a head when the Soviets refused to supply the Chinese with a sample atomic weapon in 1959 (Yahuda 2004). Relations between the two communist giants continued to deteriorate during the early 1960s, but the implications of the growing divisions were largely lost on US policymakers. Not until US president Richard Nixon's celebrated rapprochement with China in 1972 did the United States begin to take advantage of the divisions within the communist camp to undermine the Soviet Union's position.

From a Chinese perspective, however, throughout the Cold War period, an overriding sense of national weakness and vulnerability saw China's policymakers adopt a pragmatic attitude that reflected shifting geopolitical circumstances (K. Yang 2006). China's leaders willingly abandoned both their alliance with the Soviet Union and their position as revolutionary champions of the developing world when conditions changed (Goldstein 2005). The rapprochement with the United States was driven by a growing concern about the threat posed by the Soviet Union—notwithstanding the two countries' notional ideological solidarity. However, as the Soviet Union's problems grew and China's strategic position improved, the main focus of strategic attention and concern became the United States. US emergence as the sole superpower and dominant force of the era has seen it become the primary focus of China's strategic planning. The conventional wisdom among China's strategic thinkers is that the United States is an expansionary hegemonic force; responding to US power should, consequently, be the primary focus of China's foreign policy efforts (Deng 2001).

As far as Chinese policymakers are concerned, it is not simply the United States' material power that is important, but the sorts of values it embodies and promotes. The potential for normative dissonance between two such very different states has always been high, despite the degree of socialization that has occurred recently as Chinese policymakers take more prominent parts in international institutions (Johnston 2008; Foot and Walter forthcoming). The biggest challenge for Sino-US ties in particular and China's international position more generally occurred in the wake of brutal ending of the Tiananmen Square demonstrations. Two points are noteworthy in this context: First, good relations between Deng Xiaoping and his US counterpart George H. W. Bush and former secretary of state Henry Kissinger kept diplomatic channels open and ensured that even this high-profile incident did not derail the overall relationship (Vogel 2011). Second, China's post-Tiananmen policy marked the beginning of its assiduous efforts to cultivate good ties with Southeast Asia via its good-neighbor policy, as we explain in more detail in Chapter 5. Significantly, China was assisted in this ambition because many Southeast Asian leaders shared Beijing's concerns about US trade and human rights policies, something that explains ASEAN's "notably muted" response to the Tiananmen incident (Ba 2003: 632). Of more tangible long-term concern for China's policymakers, however, are the United States' bilateral alliances—relationships that highlight China's own comparative strategic weakness and the very real obstacles that confront its preferred vision of the region.

The Architecture of Hegemony

The postwar policy of the United States has profoundly influenced the development of the entire East Asian region. In some ways this influence was simply a function of the United States' vastly increased relative power. All of the other major powers in Europe and Northeast Asia had been badly affected by the war, and the US position would have improved even without the massive stimulus to its previously languishing economy. However, US policy in East Asia was notably different both in its goals and impact.

Whereas US policy was instrumental in creating the preconditions for the reunification of Europe, US policy in Asia had precisely the opposite effect. In Europe the US policymakers used the Marshall Plan to not only kick-start reconstruction but to underwrite the creation of powerful regional institutions such as the North Atlantic Treaty Organization and what would become the common market. In East Asia, by contrast, US policy was designed to perpetuate a series of mutually exclusive bilateral strategic relations with their focus on Washington rather than the region itself. The net effect of this policy, which reflected the racially based assumptions prevalent in the United States after the war, was to entrench regional divisions. Indeed, not until the Cold War came to an end in 1989 was contemplating the emergence of an integrated "East Asian" region possible (Beeson 2005).

As far as China was concerned, then, US hegemony was associated with that country's exclusion from a region in which it had hitherto been the dominant force. It was not simply that the region lacked the sort of institutional infrastructure that had played such a crucial part in drawing the formerly warring European powers together that magnified China's isolation, but its exclusion was reinforced by a series of military alliances. As we saw in the previous chapter, the strategic ties with Japan and South Korea have been particularly significant given China's troubled historical relationship with Japan in particular. We also need to recognize that from a Chinese perspective, these alliance relationships also mean that US troops are permanently stationed in China's immediate neighborhood and are consequently seen by many Chinese scholars as a direct threat to national security (see Dai 2010; H. Zhang 2012).

Pausing at this stage is worthwhile to emphasize just how lopsided the conventional strategic balance remains between China and the United States, despite all the attention China's recent military acquisitions have been attracting (Barnes, Hodge, and Page 2012). Certainly Chinese defense spending has increased significantly over recent years in line with its growing economic power, but China's defense budget remains a fraction of the United States' (Crane et al. 2005). More importantly, perhaps, China's modernization drive has a long way to go before the country's military approaches anything like the sophistication or capability of the United States', and some prominent observers think the gap is growing, not shrinking (Shambaugh 2002). Admittedly, that assessment is now a decade old, and other observers are far less sanguine (Blank 2006; Christensen 2006; Fravel 2008a), but we should note that while US participation in the wars in Iraq and Afghanistan may have been disastrous economically (Stiglitz and Blimes 2008), these conflicts have given US armed forces a battle-tested capability China's much larger conventional forces may well lack. Worth remembering is that China's last major military engagement was with Vietnam in 1979, an episode that left its army bloodied and humiliated.

Nevertheless, this kind of objective assessment is not always pertinent when thinking about the rationale behind China's military modernization, nor about the purposes to which its growing military might could be put. As we shall see in Chapter 6, the PRC's relationship with Taiwan goes beyond a simple—perhaps even a rational—military calculus and has a talismanic importance that flows from existential questions of national identity, integrity, and pride (R. Ross 2009; Gries et al. 2011). Whatever outsiders may think about such sentiments and debates, they are profoundly important and constrain the freedom of action of policymakers. Realist scholars such as Yan Xuetong (2003) argue that pressure should be applied to Taiwan and force should be used if necessary. While such views may not be universally held, they reflect a powerful current of thought in China about the Taiwan issue, the solution to which remains one of the principal tasks of the CPC.

Not only is the question of Taiwan's future status a destabilizing irritant in the bilateral relationship with the United States, but in the view of many Chinese observers, US policy stops China from realizing its ambitions to become a regional and even a global power. Ye Zicheng (2011), for example, argues that unification is a precondition of China's becoming a world power, and the United States is the only country that is actively involved in frustrating that ambition. For some Chinese observers, Taiwan's unresolved status presents an obstacle to China's strategic expansion into the Pacific region (T. Zhu 2001). Other Chinese commentators also stress the fundamental, nonnegotiable importance of Taiwan and unification and recognize the potential the issue has to damage Sino-US relations (B. Zhao 1997).

The heightened sensitivity about US arms sales to Taiwan is the most visible manifestation of a Sino-US relationship that is characterized by increasingly high levels of distrust. As Lieberthal and Wang (2012) point out, a fundamental problem haunts Sino-US relations because "it is strongly believed in China that the ultimate goal of the United States in world affairs is to maintain its hegemony and dominance and, as a result, Washington will attempt to prevent the emerging powers, in particular China, from achieving their goals and enhancing their stature" (10–11).

The recent decision of the Obama administration to pivot toward the Asia Pacific region after years of comparative neglect is confirmation of the potentially constraining impact of US policy as far as many Chinese observers are concerned (R. Ross 2012; Swaine 2012b). For some commentators in China, US policy is seen as an unwelcome attempt to internationalize what is seen as a domestic problem (Ju and Ge 2010), while others believe the United States is intent on moblizing regional states in an effort to contain China (J. Zhang 2012). Indeed, most worrying for Chinese strategic planners is what Secretary of State Hillary Clinton (2011) somewhat euphemistically described as "forward deployed diplomacy." The most visible manifestation of US efforts to increase that country's regional presence and profile has been the conclusion of new or renewed defense relationships with the likes of the Philippines and even Vietnam (Whitlock 2012a) and the establishment of a permanent base for US troops in northern Australia. The rationale for this move was spelled out by President Barack Obama (2011):

> As we plan and budget for the future, we will allocate the resources necessary to maintain our strong military presence in this region. We will preserve our unique ability to project power and deter threats to peace. We will keep our commitments, including our treaty obligations to allies like Australia. And we will constantly strengthen our capabilities to meet the needs of the 21st century. Our enduring interests in the region demand our enduring presence in the region. The United States is a Pacific power, and we are here to stay.

While this message was well received in Australia and most of the countries involved in territorial disputes with China in the South China Sea, understandably enough, it was less rapturously received in China.[2] This reaction is hardly surprising. Chinese scholars, commentators, and policymakers have, after all, read the writings of some of the United States' most influential analysts and absorbed their views about the inevitability of conflict. Indeed, interested Chinese readers can now read such opinions in their own journals (Mearsheimer 2010). Having said that, the official response of Chinese government representatives to the change in US policy was generally muted. Assistant Foreign Minister Le Yucheng (2011), for example, argued that "the US has never left the Asia-Pacific, so there is no 'return' to speak of. China does not want to and cannot push the United States out of the Asia-Pacific." The generally measured tone of official statements notwithstanding, a general concern has arisen among many senior Chinese policymakers, such as Cui Tiankai, former vice minister for foreign affairs and current ambassador to the United States, that the United States is "playing with fire" in the South China Sea, an area where China has "core interests" (Dean 2011, online version).

When seen in the longer sweep of regional history, the United States' policy shift gives a renewed, tangible expression to a different vision of the region based on Asia Pacific rather than East Asia. For some observers, the contest to define the region is an expression of a more fundamental long-term contest between China and the United States for international dominance (Freidberg 2000; Mearsheimer 2010; Brzezinski 2012; S. Zhao 2012). In short, many believe that an inescapable struggle for hegemony will determine the future international order in the Asia Pacific and eventually throughout the world. Whatever we may think about such claims, they have a long and influential track record in academic circles and ultimately among some policymakers.

Hegemonic Transition Theory

A brief theoretical digression is important at this point for two principal reasons. First, "hegemonic transition" theory, or simply "power transition" theory, highlights many of the background assumptions that prevail in both the United States and China, whether they are explicitly addressed in the case of academic analysis or implicitly suggested in the foreign policies of both countries. The second reason flows from the first: in both the United States and China, realist international theory, or the assumptions that it is predicated upon, directly or indirectly influence the construction of foreign policy and grand strategy (Kirshner 2012). As we have seen, China has had a long tradition of what we might describe as realist thinking (Johnston 1995), but one of the more ironic consequences of China's recent opening has been to reinforce the influence of this sort of thinking in contemporary China.

Hegemonic transition theory emerges from realist thinking and consequently shares all of that tradition's strengths and weaknesses. Certainly the model offers a relatively parsimonious account of the international system, its inner dynamics, and—most ambitiously—its future, and it does so by focusing overwhelmingly on material and systemic factors at the expense of nearly everything else.[3] As with mainstream realism, little attention is paid to the social or political context within which policy is formulated or the ideas and norms that might influence policy thinking. Most fundamentally, perhaps, and also in keeping with the realist tradition, scholars of hegemonic transition assume that conflict is an inevitable, inescapable part of the overall system of international relations (S. Chan 2008).

Significantly, theorizing about hegemonic transitions has gone in and out of fashion. Originally formulated by A. F. K. Organski in the late 1950s, the theory of hegemonic transitions assumed that "the fundamental patterns of international relations will not be altered by skillful, reasonable, or sincere talk" (Organski 1968: 481). In other words, and in keeping with the realist tradition, material circumstances dictate political outcomes. However, the overwhelming dominance of the United States—especially following the collapse of the Soviet Union—and the apparent stability of the international system made some of the original claims about the inherently dynamic nature of international relations and the inevitability of conflict look implausible. Indeed, much attention was focused on "hegemonic stability" and the idea that the United States played a unique role in stabilizing the international system by providing vital collective goods (Kindleberger 1973; Keohane 1980). This theoretical model has also gone out of fashion, but some of its most important assumptions have been rearticulated by a new generation of scholars who claim that US hegemony has something distinctive, and that this distinctive element has contributed to systemic stability in the postwar period (Ikenberry 1998). Moreover, much US scholarship over the last half century or so has explicitly or implicitly assumed that an international order with the United States at its apex was both an inevitable expression of its material dominance and normatively desirable (S. Smith 2002).

Of late, however, many of these assumptions have begun to change. Not only have a growing number of critical scholars drawn attention to the possible deleterious impact of US dominance and the values with which it was often associated (Cox 1987; C. Johnson 2004; Agnew 2005), but the very material foundation of US power has also increasingly come into question (Pape 2009; Schweller 2010; Layne 2012)—both issues to which Chinese scholars have drawn attention. A similar debate is taking place in China about a possible US decline, with the majority of scholars believing that the United States' problems are temporary and that US hegemony will be sustained. Liu Jianhua and Deng Biao (2010), for example, argue that the structural importance of the US dollar and the capacity of the United States to institute policy mean that that country will continue to dominate—a conclusion that is strikingly at odds with much US commentary. Similarly, Chinese commentators such as Feng Weijiang (2012) and Li Chenghong (2011b) both believe that it is too soon to make any definitive judgment about a possible US decline. However, a minority believe that the decline of the United States is in fact happening and cite the United States' ineffective policy in the Middle East in support of this thesis (Z. Zhang 2012). Others, such as Wu Qian and Fang Qiulan (2012) suggest that the recent financial crisis effectively marks the end of US dominance.

The rise of China and the possible decline of the United States have, therefore, led to a revisiting of the assumptions about the nature of hegemonic power and the possibility that it may be subject to challenge—hence the renewed interest in power transition theory. One of the most influential statements of power transition theory was developed by Robert Gilpin. Following Organski, Gilpin (1981) argued that economic development, industrialization, and technological change altered the relative economic weight of different actors in the international system and thus the existing balance of power. In this unstable context, rising powers would inevitably seek to assert themselves and establish a new balance in which their positions were enhanced. As a consequence, "those actors who benefit most from a change in the social system and who gain the power to effect such change will seek to alter the system in ways that favor their interests. The resulting changed system will reflect the new distribution of power and the interests of its new dominant members" (9).

Precisely this set of circumstances currently obtain: seen from the perspective of power transition theory, a rising China and a declining United States are on an inevitable collision course as China seeks to improve its position. The presumed zero-sum nature of the distribution of power and its benefits means that China's gain must come at the expense of the United States. Some US analysts who accept that China is rising at the United States' expense consequently argue that "the United States has a profound interest in seeing Chinese economic growth slow considerably in the years ahead" (Mearsheimer 2001: 402). Mearsheimer (2001) believes that power has a material basis; changes in its distribution will destabilize the existing order and encourage dissatisfied powers to push for a new regime that reflects their own preferences. As a result, Mearsheimer argues that the best the United States can do is to postpone the inevitable. In other words, change, competition, and conflict are inescapable parts of a dynamic international system; all that can be done is to prepare for the inevitable consequences of structural change.

Significantly, some power transition theorists consider that regions are an especially important arena in which a rising state will initially begin to manifest its growing power and its potential challenge to the international system as a whole (Lemke 2002). Before we consider how that theory manifests itself in East Asia, however, we should spell out the nature of the political and economic relationship between the United States and China; not only is this relationship remarkable and unprecedented in its own right, but it places potential significant constraints on both countries as they seek to adjust to changes in their relative standing.

The Political Economy of Sino-US Relations

Most analyses of Sino-US relations focus on their strategic dimensions or implications for security. Understandable as this focus may be, a narrow view neglects important elements of the relationship and constraints on the ability of both sides to act. One of the most striking features of the relationship between the United States and China has been the remarkable degree of interdependence and integration that has developed between the two economies, to a point where some observers suggest that thinking of them as entirely separate entities no longer makes sense. The phrase may be awkward, but what Ferguson and Schularick (2007) describe as "Chimerica" captures something of the deeply interconnected nature of the two economies. The way this relationship evolves and the possible constraints it places on both states will have a major impact on not only their bilateral relationship, but also on the international system more generally. It is, therefore, worth spelling out how the relationship works and what its potential impact may be.

At the heart of the growing interdependence between the United States and China is a long-term transformation in their economic fortunes. China has, as we have seen, rapidly developed over the last three or four decades to a point where it will—all other things being equal—soon overtake the United States as the world's largest economy (M. Wolf 2011). Symbolically significant as this event will be—especially for a US population that has become accustomed to its global preeminence—it obscures profound differences in the structure and international role of both economies. Average per capita incomes in China remain a tenth of those in the United States, and this disparity has important implications for both the bilateral relationship and the wider international economy (Rachman 2011). Despite China's remarkable developmental achievements, in many ways it remains a developing country, and this status has major ramifications for economic policy and external relations.

The major point of economic friction between the United States and China is the trade relationship and the vast deficits the United States continues to run.[4] Even though many observers claim that trade figures have been rendered essentially meaningless by the sort of complex, transnational production structures that we discuss in Chapter 5, they remain politically contentious (Sturgeon and Gereffi 2009). One does not have a hard time seeing why: the benefits of the bilateral economic relationship are unevenly spread. The apparent loss of manufacturing jobs to China attracts much attention, while the advantages of increased profitability in a private company such as Apple may be less obvious.[5] Clearly, US consumers have generally benefited from the flood of cheap imports that have been generated by the likes of Walmart as they utilize Chinese labor to drive down prices in the United States (Hughes 2005; Hale and Hale 2008). A number of US companies have, therefore, benefited enormously from their investments in China, and consequently, powerful vested interests in the United States wish to see the extant relationship continue. Having said that, we must also point out that China clearly remains a focus of continuing concern and policy activism in the US Congress (T. Xie 2010).

Much of the negative sentiment toward China results from the difficulty of deciding who wins and who loses in such a complex economic relationship. A balance is hard enough to strike in the "real" economy of tradable goods and services. It becomes even more complex in the financial sector, but this element is arguably the most important one of the relationship and the greatest source of uncertainty at present. Two crucial points need to be made about the trade relationship and its consequences: first, China accumulates large quantities of US dollars as a result of its growing trade surplus with the United States. These foreign exchange holdings are further boosted by the manipulation of the yuan,[6] a manipulation that is designed to protect the competitiveness of products made in China. The value of China's currency is not market determined like the US dollar but actually pegged to the US dollar's value, in part, to enhance the competitive position of China's domestic industry but also as a *political* response to the power and influence of domestic interest groups (Steinberg and Shih 2012). Without recognizing how interlinked political and economic forces actually are in China, important policy positions cannot be understood and are bafflingly at odds with Western expectations and economic theory.

The conventional economic wisdom has it that as China's economy expands and its surpluses grow, its currency ought to rise. The fact that it doesn't is a result of the efforts of Chinese monetary authorities, something that gives producers based in China an unfair advantage, influential US commentators argue (Krugman 2011).[7] And yet if the great influx of foreign currency into China is not to create inflationary pressures that might have negative political consequences, capital inflows need to be "sterilized" and recycled. On the one hand, Chinese authorities use so-called sterilization bonds, a way of forcing domestic banks to hold low-interest-bearing bonds and a means through which the supply of credit can be controlled (M. Wolf 2009). On the other hand, Chinese financial authorities must look to invest elsewhere. Here the relative advantages of the incumbent hegemon remain clear: the United States' long-established financial markets are the largest and most liquid in the world. China, like Japan before it, has chosen to recycle its vast store of US dollars back to the United States and invest them primarily in US Treasury Bonds and other forms of government debt (R. Murphy 2006). This relationship, in many ways, suits both parties: China gets a seemingly secure investment vehicle, while an increasingly indebted US government can pay its bills and maintain interest rates that might otherwise be significantly higher. This relationship has been aptly described by former US treasury secretary Lawrence Summers (1998) as "the balance of financial terror." As Summers implies, this relationship is not without its dangers—especially for China.

Management of the enormous foreign reserves that accrue from the efforts of China's monetary authorities to manage the value of the yuan is entrusted to State Administration of Foreign Exchange, an agency within the People's Bank of China. Although US government debt is widely considered to be one of the safest investments in the world, unlike Japan, China has actually lost money on its investments in the United States (Okimoto 2009). One of the problems with investing in the United States—something to which China's economic success and overall policies actually contribute—is that the US dollar, like the economy, has been in a long-term pattern of decline (Eichengreen 2011). As result, Chinese investments in the United States are notionally worth less as well. The recognition of China's exposure to the weakness of the US economy and associated government policy is causing great anxiety in China and growing domestic criticism of what are seen as failed or unjustifiable policies.[8]

The growing band of domestic critics in China have a point: not only is there something odd about what is still one of the world's poorer countries—on the basis of per capita incomes—lending vast amounts of money to one of the wealthiest, but China's overall economic well-being is increasingly dependent on the United States. From a Chinese perspective, great danger looms in that the United States will seek to shift the burden of economic adjustment caused by its own problems onto others—something it has done in the past (Beeson and Broome 2010). As Barry Eichengreen (2011) points out, this possibility has major implications as far as the US role as system stabilizer and reliable economic partner is concerned: "Recent events have not exactly enhanced the reputation of the United States as a supplier of high-quality financial assets . . . a budget-deficit prone US government will be pumping out debt as far as the eye can see. It will be tempted to resort to inflation to work down the burden. That temptation will be even greater now that the majority of its marketable debt is held by foreigners" (121).

For this reason, China's leaders have begun to explore the possibility of developing an alternative to the dollar as the reserve currency. They have also begun to allow the yuan to be used in internal trade and bond markets, something that would undoubtedly increase its relative importance but at the cost of control over its value (see Prasad and Ye 2012). This dilemma is a major one for the Chinese authorities as a competitive currency is a major part of an overall social compact that protects domestic industry and a still-expanding labor force. Again, the Chinese government is not short of domestic advice about the possible merits of these policies. A major domestic debate is taking place about currency reform, with prominent scholars such as Lu Feng (2012) of Peking University arguing that the appreciation of China's exchange rate is too slow. He claims that three obstacles are in the way to reform. First, policymakers are not well informed about exchange rate policies. Second, powerful vested interests in exportation-related sectors are blocking reform. Third, a widespread unease still exists about the role of a market mechanism in determining China's economic policy. In contrast to Lu's measured calls for policy adjustment, populists and nationalists draw lessons from the Japanese experience when the United States forced Japan to increase the value of the yen and argue China should not fall into a similar trap (see Niu 2012).

If the Chinese authorities are constrained and struggling to define a politically sustainable policy position, they are not alone: the challenge is no less great for their US counterparts, even if little empirical evidence can be found of an ability to exercise economic leverage on China's part (Drezner 2009). Nevertheless, policies toward China have a growing visibility and political sensitivity and no politician can afford to appear "soft" on China. And yet when US policymakers are encouraged to adopt a more assertive attitude to China, the growing constraints on their actions are all too evident. As Secretary of State Hillary Clinton observed, "How do you deal toughly with your banker?" (MacAskill 2010, online version). The point to emphasize here is that for both the United States and China, the growing depth and complexity of their economic relationship is placing major constraints on their ability to act in other policy areas. This situation may be entirely in keeping with the pacifying expectations of liberal interdependence theory (Keohane and Nye 1977; Ikenberry 2011), but that possibility brings little consolation to policymakers in either country who are still expected to pursue national interests, even in a system that is characterized by ever greater degrees of transborder economic integration. Precisely because China and the United States are limited in what they can do to each other, policy toward third parties assumes a renewed importance, and the competition to construct a new regional institutional architecture has become such a focus of attention and expression of the relative influence and standing of both powers.

Realizing Regions: Competing Visions

As we have stressed, nothing "natural" or inevitable can be found in the extent or membership of any given region. While regions may exhibit powerful contiguous, geographic features that continue to shape the policy options and behaviors of states in important ways (Kaplan 2012), the precise extent of regional boundaries is ultimately a product of political agreement. Even in Europe, the long saga of Britain's application to join the EU illustrates that its membership was anything but preordained, despite being unambiguously a member of Western Europe and a part of a generalized Judeo-Christian, liberal-democratic culture. The British experience also reminds us that enthusiasm about the idea of Europe on the part of the general population is not a prerequisite of membership of formal regional organizations either. But Britain's historical ambivalence notwithstanding, its leaders have generally agreed that powerful reasons can still be given for remaining an insider and thus able to influence the development, and enjoy the advantages, of European integration (Gowland, Turner, and Wright 2010).[9]

Similar forces are at work in China's region, too, but they are complicated by competing visions about how the region should be organized and which countries should be part of it. In part, this uncertainty about regional identity reflects the belated start to regional development in this part of the world, but the existence of competing ideas about regional composition is also testimony to an overlay of geopolitical rivalry that does not exist in quite the same way in Europe. Even when geopolitics was an issue in Europe, its contentiousness had the effect of shoring up the boundaries and even the identity of the common market (as it then was) in opposition to, and separate from, something else. In the area of which China is a part, competing ideas about regional identity and organization actually overlap, making institutional development an exercise in identity construction as well as politics (Terada 2003). As a consequence, ideas about regional development are becoming a focus of interstate rivalry, especially between China and the United States (Beeson 2006). Given the potential importance of these institutions in defining the region and China's place in it, a brief retrospective tour of the most important organizational innovations is in order.

Asia Pacific Economic Cooperation

As we explain in the next chapter, ASEAN is perhaps the most enduring regional organization of its sort outside of Europe itself. Like the EU, it was a largely uncontested product of the Cold War and was actually shaped by otherwise unpropitious circumstances. ASEAN is significant in the context of the present discussion because subsequent regional institutional developments—including the security-oriented ASEAN Regional Forum (ARF), which we discuss in more detail in Chapter 5—have followed ASEAN's distinctive style of diplomacy. But ASEAN was the exception that proved the rule: until the Cold War was over, the possibility that something like the East Asia or Asia Pacific region could exist in an institutionalized form was foreclosed by seemingly implacable ideological divisions. What is more surprising, perhaps, is that the structural transformation of the international system appears not to have had as much of an impact on the region as we might have expected given the prominence of systemically focused theories of international relations.[10]

As we now know, the divisions of the Cold War proved to be far less enduring than many had expected. Even before the Soviet Union collapsed, interest was growing in the possibility of developing new regional institutions, although their precise purpose and membership were not always clear. In the case of Asia Pacific Economic Cooperation (APEC), this uncertainty remains one of its defining features and is reflected in its membership, which covers a vast geographic area and includes radically different political economies.[11] Whether APEC actually constitutes a region is a moot point. As Buzan (2012) observes, "a region that spans oceans and contains half of the world stretches the concept beyond breaking point" (23). Revealingly, its principal architects were Australia and Japan (even if the latter was forced to take something of a backseat as a result of lingering sensitivities about its role in the region during World War II) (Funabashi 1995).[12] The principal motivation for both Australia and Japan was to ensure that they were institutionally engaged in a part of the world in which they have both been seen as outsiders (Beeson and Yoshimatsu 2007).

Significantly, APEC's original agenda was determinedly nonpolitical, or so its principal architects believed. APEC was the product of the existence of an array of "track two" organizations in the region (Woods 1993),[13] on the one hand, and the efforts of a highly motivated and influential "epistemic community" on the other. According to Haas (1991), epistemic communities are "composed of professionals (usually recruited from several disciplines) who share a common casual model and a common set of values. They are united in a belief in the truth of their model and by a commitment to translate this truth onto public policy, in the conviction that human welfare will be enhanced as a result" (41).

In APEC's case the epistemic community that agitated for the formation of APEC was composed primarily of neoclassically trained economists drawn from Australia and Japan and, to a lesser extent, the United States. Indeed, notably, while Australia and Japan were enthusiastic about APEC, the United States—despite the fact the putative organization offered it prominent "insider" status in Asia Pacific—was initially lukewarm about the entire enterprise. In that regard not much has changed since APEC was inaugurated in 1989. Successive US administrations have shown little enthusiasm for APEC, in part because its goals and capacities have often been unclear, and its modus operandi unconvincing (Ravenhill 2001). As with much of the region's expanding institutional architecture. APEC was forced to adopt the ASEAN way of voluntarism and negotiation in order to ensure the participation of Asian states who were generally underwhelmed by APEC's trade liberalization agenda and the possibility they might be forced to comply with any binding commitments. As a consequence, APEC's institutional capacity has been minimal and so has the overall impact of its trade liberalization agenda.

In retrospect, APEC is most significant for the purposes of this discussion for two reasons. First, it offers a marked contrast with the East Asia Summit (EAS), an organization with a similar membership, even less clear goals, but crucially—of late, at least—enthusiastic US support. We discuss this organization in more detail below. The point to note at this stage is that the US interactions with APEC and the EAS form metaphorical bookends in the United States' recent institutional engagement with the region and highlight just how much its approach has changed. The second reason for looking at APEC's development is because it also highlights how much thinking about regionalism has changed in China. One can possibly argue that from a Chinese perspective, APEC was primarily significant because it provided a learning experience for an emerging cadre of more sophisticated diplomats and because it also included Taiwan—even if Taiwan had to be described as "Chinese Taipei" to assuage mainland sensitivities. As a consequence of Taiwan's inclusion and a more general lack of enthusiasm about a rather narrowly conceived, difficult-to-implement trade liberalization agenda, Chinese support of APEC has been muted at best (Calder 2008).

John Ravenhill (2001) suggests that China's principal motivations for joining APEC were instrumental: membership in APEC offered a way of minimizing Japanese and US influence and of preparing the way for its subsequent WTO application. Like most other East Asian states, China had little enthusiasm for the sort of policy agenda pushed by the United States and Australia subsumed under the rubric of the "Washington consensus" (Beeson and Islam 2005). Commentators in China have tended to take a similar view. Former president Jiang Zemin (1996) developed an influential and representative view that some economic and technological cooperation was necessary if liberalization was to continue. However, APEC was not necessarily the vehicle through which cooperation would happen. On the contrary, doubts about APEC's usefulness on the part of Chinese officials were reinforced by its role during the financial crisis of 1997–1998. APEC ought to have been uniquely well placed to play a pivotal role in the management of a crisis that profoundly affected a number of economies in East Asia. In reality, APEC was conspicuous by its absence, and the major crisis response was orchestrated by the IMF (Beeson 1999)—with profound consequences for both the crisis-stricken countries and for the region's overall development (Stiglitz 2002). As far as China is concerned, the most important outcome of the Asian financial crisis was a growing interest in the development of *East Asian* institutions, of which ASEAN Plus Three (APT) is the most significant thus far (see, for example, Lu and Zhao 1999).

ASEAN Plus Three

The primary significance of the APT grouping at this stage is that it exists at all. This judgment may seem rather harsh, but for all the attention the APT receives, like much of the region's expanding institutional architecture, tangible outcomes are not thick on the ground. That it includes the three regional heavyweights—China, Japan, and South Korea—in addition to the members of ASEAN gives it great symbolic significance as an expression of a particular regional vision. Consequently, dismissing this grouping out of hand would be unwise, despite its modest achievements thus far. At the very least it provides an important indicator of the evolution of institutional development and of the sorts of institutions that regional elites think ought to be developed (Terada 2012).

The fact that a grouping with an exclusively East Asian membership actually exists is revealing in itself: as recently as the 1990s such an initiative failed to gain traction, despite the best efforts of former Malaysian premier Dr. Mahathir bin Mohamad. Dr. Mahathir is famously hostile to the possibility that Western powers might exert an undue influence over the region through organizations such as APEC. As a result he agitated for the creation of an Asian caucus within APEC to represent "Asian" views. Significantly, Mahathir looked to Japan—a longtime influence on Malaysian development and, in the early 1990s, still the region's largest economy—to lead the development of an East Asian Economic Caucus (Hook 1999). Equally significant, Japan was both unable and unwilling to rise to the occasion and provide the sort of regional leadership that might have seen the Asian economic caucus realized. Once the US intention of opposing such a development became clear, Japan decided to go along with the wishes of its principal strategic ally and once again failed to offer the sort of leadership some in the region had hoped for.[14]

Much has changed in the intervening period. True, Japan is still struggling to define its regional position, but the region itself has undergone a number of profound changes, not the least of which has been China's rise and its newly acquired status as the region's largest economy. China is not constrained by the same sort of ties to the United States that have made diplomatic life so difficult for Japan. On the contrary, Chinese officials are actively looking for ways to counter what they see as the perennial problem of US hegemonism. The key difference between the mid-1990s and the early 2010s is not simply that China has eclipsed Japan as the East Asian region's largest economy, but that the East Asian region as a whole has become painfully aware of the absence of the sorts of institutions Dr. Mahathir was so keen to create (Pempel 2006).

The principal catalyst for this transformation in thinking about the possible merits of exclusively East Asian institutions was the economic crisis of the late 1990s (Beeson 2007a; Grimes 2009). The crisis highlighted the inadequacy of existing institutions to deal with crises and illustrated how reliant the region was on the likes of the IMF in their absence. Notably, the inaugural informal meeting of what was to become APT took place in the midst of the Asian crisis on the sidelines of an ASEAN summit in 1997. The principal outcome of this meeting was the establishment of the East Asian Vision Group, to establish a road map for subsequent development. The most tangible outcome thus far has been the so-called Chiang Mai Initiative, which emerged from the APT finance ministers meeting in 2000 (Henning 2002; Grimes 2009). Significantly, the APT moved to embrace monetary rather than trade cooperation. At one level, the organization's move might seem a pragmatic response to the problems revealed by the crisis—and in many ways it was, of course. At another level, however, monetary cooperation at the regional level offered the possibility of constructing indigenous defenses against a variety of external threats—both economic and political. This area was also one in which China had the potential to play a leadership role (Dieter 2008).

One must remember that a major long-term transformation has taken place in the way its neighbors view China, and much of this improvement can be traced back to the economic crisis of 1997–1998. At this time, when many of the region's currencies were in free fall as a consequence of capital flight and collapsing investor confidence, China's monetary authorities resisted the temptation to indulge in a process of competitive devaluation. Not only did China's decision take some of the pressure off distressed regional economies such as Indonesia, Malaysia, Thailand, and even South Korea, but it also made clear just how influential China had the potential to be (Bowles and Wang 2006). The fact that this latent power was exercised in support of its neighbors made for a seminal moment in reestablishing China as a potential regional leader. Because this transformation in China's fortunes came largely at the expense of Japan, whose own efforts at leadership had failed yet again, the episode was even more consequential as far as the long-term evolution of the region was concerned (Lincoln 2004).

Like other regional institutions, the APT has adopted the ASEAN way of operation,[15] something that is entirely in keeping with China's own normative preferences and political traditions (Yoshimatsu 2009). For this reason, and the fact that neither the United States nor any of the other Anglo-American style economies such as Australia are included, APT has become China's preferred vehicle for regional diplomacy (X. Zhang 2006). Despite the fact that Chiang Mai Initiative currency swap arrangements that were the centerpiece of the APT-inspired monetary cooperation have not proved terribly effective when confronted with the global financial crisis (Emmers and Ravenhill 2011), the significance of the APT may prove to be more political than narrowly "technical" and economic. Indeed, in many respects the establishment of institutionalized networks of cooperation and communication may prove to be one of the most enduring legacies of the APT initiatives. True, these may be "talk shops" to some extent, and the "deliverables" may be modest, but we need to remember that these evolving networks are emerging in a region characterized by generations of conflict and mistrust in which China has been seen a potential source of revolutionary instability rather than economic stability until very recently (Pempel 2005).

The views of Chinese commentators are especially revealing in this regard. Many observers in China believe that the APT has the potential to promote China's foreign policy and strategic interests. The hope and expectation has been that the APT offers precisely the sort of multilateral mechanism that has become a more prominent and successful part of China's international engagement. China, it was widely believed, could improve the relations with ASEAN, contain Japan, and prevent Taiwan from developing a greater international and regional profile, as well as open up new economic opportunities in China's western region (Qiu 2003; Tian 2003). For state officials such as Hu Zhaoming (2002) from the MFA, the APT represented an important potential platform for China to exercise what had—until recently, at least—been an increasingly effective part ofChina's diplomacy in the region. Yet despite the fact that the APT enjoys strong backing from the Chinese government and the enthusiastic endorsement of many commentators and analysts in China, its future prospects are anything but certain. Not only does it face the perennial challenge that has confronted all regional institutions in actually translating potential into reality, but it also is confronting growing competition. Nor is the struggle simply one for institutional preeminence. On the contrary, whichever institution eventually emerges as the most important will also play a large role in determining who is in the region and who is out. The consequences of exclusion could be significant, which explains the renewed interest in regional engagement on the part of the United States.

China's Regional Competitors

As testimony to how much has changed in East Asia and Asia Pacific, the Obama administration has decided to reorient its policies and make what it describes as the "Pacific" region a major priority. Some elements of this reorientation have been predictable and in keeping with the United States' traditional approach to the region. The United States' bilateral strategic relations with the region have always formed the backbone of its hub-and-spokes security architecture, and unsurprisingly, perhaps, the United States has looked to reinforce some of those relationships as part of its reorientation toward the region. There is little doubt that from a US perspective, China is the major challenge in the region and the principal reason for reorienting policy. As the Department of Defense's (2012) most recent statement on strategic guidance puts it:

> The maintenance of peace, stability, the free flow of commerce, and of U.S. influence in this dynamic region will depend in part on an underlying balance of military capability and presence. Over the long term, China's emergence as a regional power will have the potential to affect the U.S. economy and our security in a variety of ways. Our two countries have a strong stake in peace and stability in East Asia and an interest in building a cooperative bilateral relationship. However, the growth of China's military power must be accompanied by greater clarity of its strategic intentions in order to avoid causing friction in the region. The United States will continue to make the necessary investments to ensure that we maintain regional access and the ability to operate freely in keeping with our treaty obligations and with international law. Working closely with our network of allies and partners, we will continue to promote a rules-based international order that ensures underlying stability and encourages the peaceful rise of new powers, economic dynamism, and constructive defense cooperation. (2)

While this expression of US policy might be predictable, it is noteworthy that it is now just part of a more multifaceted approach to engagement with the region. Although the United States has, as we suggested, generally been less than enthusiastic about regional institutions, of late that attitude appears to have changed. When the EAS was initially established, the United States appeared uninterested.[16] Indeed, in the first phases of the EAS's existence, the United States was not even invited to be a member, and whether the proposal would even survive, let alone amount to a significant organization in a region that was beginning to have a surfeit of such initiatives, was unclear (Malik 2006). After all, when former Australian prime minister Kevin Rudd launched his proposal for an organization called the Asia Pacific Community, it was met with studied indifference throughout the region. And yet Rudd's enthusiastic proselytizing on behalf of some sort of inclusive Asia Pacific organization ultimately gained traction in Washington.

While the United States may not have signed on to Rudd's specific proposal, US policymakers began to see the value of having an institutionalized presence in the region in which China was rapidly becoming such an influential and geopolitically consequential part. Renewed US interest in the EAS can be explained by the fact that, firstly, the organization exists and doesn't have to be invented, thereby avoiding adding to the oversupply of regional initiatives. Secondly, its Asia Pacific membership and logic give the United States a presence in what may now become a more important institution with US backing. Indeed, notably, US interest in the EAS has the potential to transform what was a seemingly redundant forum into an institutionalized mechanism with which to constrain Chinese influence. In this regard the United States is assisted by the additional presence of India—a long-standing rival of China's, as we explain in Chapter 7—as an important counterweight to China within the broadly conceived Asian region.

An exclusive zero-sum view of institutional innovation is not necessary to appreciate that the rise of the EAS might come at the expense of China's preferred regional organization, APT. Camroux (2012) argues that China has sought to make the EAS's membership as inclusive as possible as a way of undermining its possible coherence and effectiveness. In this regard, Russia's presence in the EAS may have the same impact it did in APEC, raising questions about the purpose and identity of the grouping and making any agreement on goals less likely. While some Chinese commentators predictably suggest that US policy is designed to contain China (T. Zhang 2010), others such as Wang Guanghou (2011) suggest that the United States' involvement in organizations like the EAS could actually help to resolve otherwise intractable problems. Wei Ling (2011), a prominent figure in the Network of East Asian Think-Tanks, argues that China should not be too unhappy about the enlargement of the EAS and recognize that some regional balancing is an inevitable response to China's dramatic rise. As a result, she argues, China should seek to take more regional responsibility and promote further regional cooperation.

Whether such a sprawling, all-inclusive grouping can rise above the sort of problems that have plagued APEC from its inception remains to be seen. The clear limitations of APEC and the possible difficulties confronting the EAS, especially given China's limited support, may help to explain the United States' other recent initiative, the Trans-Pacific Partnership (TPP). Originally a proposal for a free trade agreement among Brunei, Chile, New Zealand, and Singapore in 2005—of a sort that have become such a prominent feature of the region, however it is defined—the TPP took on much greater significance when the United States decided to become involved in 2008.[17] US interest in this agreement needs to be seen in the context of a proliferation of regional free trade agreements that invariably exclude the United States and that are thought to have an adverse impact on its trade position in the region. Crucially, however, the United States indicated that it wanted to retain features of existing preferential trade agreements it has in the region with Australia, Chile, Peru, and Singapore. The nature of these agreements means that if US preferences ultimately determine the TPP's agenda, "rather than becoming a genuine regional free trade agreement in which each party has a single tariff schedule for all other parties, it will be more like AFTA's [ASEAN Free Trade Area's] complex web of bilateral agreements" (Capling and Ravenhill 2012: 11).

Given that the ASEAN Free Trade Area (AFTA) has achieved very little in promoting trade liberalization (Baldwin 2006), what the real goal of the TPP is actually supposed to be is worth asking. Capling and Ravenhill (2012) argue that "the Obama administration is using the TPP to promote traditional security concerns including strengthening bilateral military alliances in the Asia-Pacific, the projection of power to counter China, and the promotion of democracy, human rights, and the rule of law" (14). The fact that the region's biggest trading nation has conspicuously not been invited to join has led many observers in China to believe that the TPP is primarily about achieving geopolitical rather than economic goals and intended to isolate and pressure China into further, far-reaching reforms (Lieberthal and Wang 2012).[18] Significantly, not only commentators in China are concerned about the noneconomic elements of the TPP agenda (Davis 2012). Prominent economist and free trade advocate Jagdish Bhagwati (2012) argues that the TPP is a "political response to China's new aggressiveness, built therefore in a spirit of confrontation and containment, not of cooperation. . . . America's design for Asian trade is inspired by the goal of containing China, and the TPP template effectively excludes it, owing to the non–trade-related conditions imposed by US lobbies."

One has little difficulty seeing why so many commentators in China are skeptical about the underlying motives and impact of US-sponsored initiatives such as the TPP. Even though Chinese officials may be right to be concerned about the underlying motivation behind the United States' renewed interest in regional institutional development, countering it may prove difficult. The reality is that the United States has a long track record of effectively "securitizing" economic issues (Higgott 2004), along with using its dominant strategic position to pursue goals in a number of other issue areas. Chinese officials have yet to develop such capabilities, and this shortcoming may have major consequences for China's place in the region, the way its institutions operate, and the very definition of the region itself.

Conclusion

Despite some of the claims made about China's impact on the international system (Jacques 2009; Halper 2010), thus far, at least, little evidence can be found to support the hegemonic transition thesis (Beeson 2009c). US influence in China's neighborhood remains significant in part because China is far from being a real "peer competitor." On any measure, China's influence and power remains significantly less than that of the United States. True, things are rapidly changing, and real reasons can be found for thinking that "this time it's different," and that the US really *is* in a period of long-term decline, especially when compared to a still-rising China. But even in the area where China's advantage seems to be increasing most rapidly as a consequence of its continuing economic development, the capacity of China's policymakers to translate these gains into real international influence is still limited.

In a regional context, however, China has a good deal more potential and an imposing historical track record of influence, if not dominance. And yet China has experienced difficulty in actually exercising renewed influence in quite the way its policymakers might like, and not just because the United States has made life difficult. On the contrary, recent Chinese foreign policy and the apparent willingness of some of its leaders to contemplate using force to achieve its goals have undermined years of hitherto effective diplomacy, as we shall see. In much of the region, the Chinese "brand" has been badly damaged, providing a major opportunity for the United States to reposition itself as the sort of "offshore balancer" that generations of US analysts have considered vital to East Asian stability (Art 2003).[19] China's policies have had the unintended effect of reinforcing this somewhat paternalistic view of the region and made the construction of exclusively East Asian institutions more difficult as a consequence. Nowhere has the rapid transformation in China's position been more dramatically illustrated than in Southeast Asia, a region to which we now turn.

Notes

1. For important Chinese interpretations of the early history between the United States and China, see Tao Wenzhao and He Xingqiang (2009).

2. This development was met with almost universally negative commentary in China, something that had potentially negative consequences for relations with both the United States and its allies in Southeast Asia and Australia. China's nationalistic *Global Times* was illustrative of how strongly many in China felt about their historical claims and their relations with the states of Southeast Asia in particular when it editorialized that it might be necessary to use force against the likes of the Philippines. See *Global Times* (2012).

3. A vast realist literature and a growing number of critical studies have emerged. For an important collection, see Booth (2011).

4. The problems facing the US economy have been extensively detailed and are compounded by the polarized nature of US politics and the difficulty of raising taxes. Suffice it to say, many observers think the deficit and the inability of leaders to address it are not only raising troubling questions about the US government's ability to manage the domestic political consequences of its economic problems, but also undermining the United States' international standing and authority as well. See Altman and Haas (2010), Cohen and DeLong (2010), Crotty (2012), and Eichengreen (2011).

5. One of the many paradoxes of the global economy is that China's labor force is growing because of demand from the United States for the sort of cheap products low Chinese wages can provide. Apple retains most of the profits that accrue from the more profitable design and distribution elements of the manufacture of an iPod—only $4 of value was added in the production of a $300 product, according to one survey (Varian 2007).

6. China's currency is also known as the renminbi.

7. As other commentators have pointed out, however, simply revaluing the yuan will not solve the United States' problems, which appear to be more deep seated and structural. See Hale and Hale (2008).

8. In addition to the increasing influence of China's outspoken netizens, scholarly criticism has focused on China's structural dependence on the United States. See Song Guoyou (2008).

9. At the time of writing, however, Britain's status as a long-term member of the EU is less certain than it has ever been—a reminder of how even in Europe, regional identity and diplomacy are subject to changing international circumstances and domestic pressures. See Davidson (2013).

10. The definitive statement on the supposed influence of the structure of the international system comes from Kenneth Waltz (1979). However, in the Asia Pacific region, other, nonsystemic factors seem equally consequential when it comes to explaining state behavior in the aftermath of the Cold War. See Beeson (2007b).

11. APEC's membership has continued to expand and now includes Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, the United States, and Vietnam.

12. Indeed, Japan's wartime role and its inability to lead the region in subsequent decades serves as an important reminder of both the importance of history and the comparative effectiveness of China's region-building efforts. See Beeson (2008).

13. "Track two" organizations refers to organizations such as the Council for Security Cooperation in the Asia Pacific and the Pacific Economic Cooperation Council in which informal diplomatic relations are established between nonstate officials such as academics and retired civil and military officials, who take part in confi-

dence-building activities that have paved the way for more substantive institutions such as APEC and the ARF. See Capie (2010) and Simon (2002).

14. Terada (2003, 2010) argues that Japan was initially a supporter of APT because the entire idea of "East Asia" has become more acceptable and commonplace, something that might be expected to consolidate its position. Of late, however, Japan has come up with its own ideas about possible regional institutions and is more interested in a wider grouping that could offset China's growing influence in East Asia.

15. We explain the "ASEAN way" and its impact on China in Chapter 5.

16. The EAS's current membership is Australia, Brunei, Burma, China, Cambodia, India, Indonesia, Japan, Laos, Malaysia, New Zealand, the Philippines, Russia, Singapore, South Korea, Thailand, Vietnam, and the United States.

17. Current or negotiating members are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States.

18. For example, Du Lan (2011) argues that the TPP is designed to contain China and is part of a long-term effort to redress the trade imbalance. Likewise, Shen Minghui (2012) thinks that although the TPP may be useful for small countries, it is primarily a tool for the United States to achieve its strategic goals and disrupt the East Asia regional cooperation.

19. Interestingly, even prominent US students of geopolitics and realpolitik are now questioning whether such a strategy is any longer appropriate or feasible in the twenty-first century. See Brzezinski (2012).

5

Southeast Asia

China's relationship with what we now think of as Southeast Asia stretches back over hundreds, if not thousands, of years. For most of that time, China has been the dominant force in an area we now think of as East Asia. As we have suggested, these geographical labels are somewhat arbitrary and overlapping, but they have their uses. For the countries of Southeast Asia in particular, the idea of a distinct regional identity is an important part of what defines the region and gives its members a greater collective presence on the world stage (Charrier 2001). As we shall see, China continues to play a not insignificant role in helping to define Southeast Asia as a discrete geographical entity and as a collective actor. Therefore, important continuities can be found in the relationship, but also new challenges and opportunities. Whether or not China or the various Southeast Asian states acting collectively or individually can overcome some formidable obstacles to cooperation and exploit possible mutual gains remains to be seen.

For China, Southeast Asia is a critical test case of its evolving regional strategies. In the hierarchy of China's regional relations, Southeast Asia occupies a special place in the thinking of policymakers and commentators. Zeng Pinyuan (2004), for example, thinks that Southeast Asia is vital for China because it has potential as a springboard for China's global ambitions, it might be used to limit the influence of Japan and the United States, and most importantly for our purposes, it offers a testing ground for China's overall foreign policy. For this reason, more effort and attention has been spent on trying to get relationships in Southeast Asia right than in any other region. The so-called charm offensive that has attracted so much attention and that seems—or seemed—to mark a new era in Chinese foreign policy thinking and practice has been more fully developed in Southeast Asia than anywhere else (Kurlantzick 2007). The ability to reassure some of its nearest neighbors about the nonthreatening nature of its "peaceful rise" will be given an especially demanding test in Southeast Asia. While a rising China presents many economic opportunities for the region. Southeast Asian leaders are increasingly nervous about the potential strategic consequences of China's growing power. The principal focal point of these anxieties is in the South China Sea where China's territorial claims threaten to undermine its claims to be a good neighbor and enthusiastic participant in the sort of regional forums that have been pioneered by ASEAN (Boot 2012).

To explore this tension between China's strategic goals and the possible opportunities presented by its economic expansion, we initially sketch the historical and geopolitical context in which the relationship is embedded. As we have suggested, history matters a lot to China, but it has also profoundly influenced the way many Southeast Asian policymakers think about their states individually and collectively as well. Following this discussion, we analyze the growing economic ties between China and Southeast Asia before considering whether they can prosper given the unresolved tensions generated by China's territorial ambitions and military modernization. In short, is China's rise more alarming than charming (Beeson and Li 2012a)?

China and Southeast Asia in Context

What we now think of as the Southeast Asian region was a pivotal part of the Sino-centric order that had its quintessential expression in the tributary system. Ties between China and a number of its Southeast Asian neighbors are, therefore, deep and long standing. The influence of Chinese culture on Vietnam, for example, is profound, but not something that has guaranteed amicable relations as a consequence. On the contrary, bilateral ties between Vietnam and China have frequently been fraught, and notably, Vietnam is one of the countries in the region that is concerned about China's intentions and most enthusiastic about reestablishing strategic ties with the United States (Thayer 2012). A keen sense of history can, therefore, be a source of uncertainty as well as a possible basis for common values or approaches to policy issues. Vietnam is also an important exemplar of the importance of another key part of China's regional presence: the "overseas Chinese."

The Overseas Chinese

Chinese trade with and even immigration to the Southeast Asian region has been going on for hundreds of years. However, not until the second half of the nineteenth century did large-scale emigration from China start to occur. Once again, European imperialism was the principal driving force of this process. Although limited numbers of Chinese migrants had been moving to the Philippines, Thailand, and what we now think of as Indonesia, the numbers before the nineteenth century remained small, although many of these migrants would assume an economic prominence and importance that belied their numerical significance (Osborne 2000).

The British Empire was one of the most important conduits channeling Chinese (and to a lesser extent, Indian) labor into Southeast Asia. In Malaysia and especially Singapore, Chinese immigrants proved to be profoundly important parts of the national developmental experience. Although many of the immigrants who worked in imperial Britain's mines and plantations were regarded as temporary arrivals, they eventually became part of national society. In Malaysia's case that was—and to some extent still is—a deeply problematic exercise that has given a unique character to the nation's public policies and politics (Gomez and Jomo 1997). Unlike Singapore, where ethnic Chinese were the dominant social group, people of Chinese ethnicity were a large, economically powerful minority in Malaysia that had to be accommodated into an extant indigenous population of *bumiputeras*. People of Chinese descent represent around 30 percent of the population but control about 60 percent of economic activity. The development of Malaysia, especially its subsequent policies of positive discrimination and the ethically divided politics that generated, cannot be understood without taking into account the role of the "overseas Chinese."

The language is contentious and the quotation marks are necessary once again as many of the overseas Chinese are really anything but, and have few if any contacts with the mainland. And yet despite having possibly lived for generations in somewhere such as Indonesia, for example, a continuing sense of difference, separateness, and occasionally tension can be found between people of Chinese descent and indigenous social groups. Indonesia is also another important example of the way in which a numerically small group of ethnically Chinese people has assumed a disproportionately prominent place in national economic life. By some estimates "Chinese" business accounted for something like 73 percent of national economic output, despite "Chinese" people accounting for only 3.5 percent of the population. A similar story can be told about the Philippines (50 percent economic output, 2 percent of the population) and even Thailand (81 percent of the economy, 10 percent of the population).[1] Significantly, however, the process of social integration has gone further in the Philippines and especially Thailand; questions of ethnicity have ceased to have anything like the salience they once did.

Nevertheless, the prominent role played by Chinese business groups continues to this day and attracts some rather sensational claims about the importance of "bamboo networks" and the potential economic benefits that might accrue to China as a consequence (Seagrave 1995). A few general points about the nature of Chinese business and its possible significance to both China and Southeast Asia are worth making at the outset because a number of interconnected issues ought to be considered separately.

First, distinctive business practices *are* associated with the Chinese diaspora. Some argue that a distinct form of Chinese capitalism exists, one that is associated with close family control, personal authority, small-scale enterprises, a reliance on subcontracting, and elaborate networks of personal obligation, the last being a hallmark of Chinese business organization and success in the often unforgiving social and business environments encountered in Southeast Asia (Whitley 1990). The importance of social connections, or *guanxi*, clearly has been an important part of the way business has been done among ethnically Chinese businesspeople in Southeast Asia (Cheung 2012). Also evident is that this form of business structure is not simply different from that found in the West but also offers potentially significant competitive advantages. However, potential limits and problems associated with this model are not always captured in some of the more breathless and undifferentiated accounts of Chinese business dominance.

On the one hand, the very success of Chinese business has created a new set of challenges that have undermined some of its original competitive advantages. The sheer scale of successful economic expansion has tended to undermine the usefulness of close personal ties, raised issues about family succession plans, and highlighted the possible advantages of professional management structures (Yeung 2000). This change merits emphasis because the continuing importance of ethnic ties is often overstated. As we shall see in the next chapter, personal connections and cultural ties are no doubt an important part of the political economy of Northeast Asia or "greater China," and this element helps to explain the flood of investment into the mainland. However, this conclusion is very different from saying that some sort of common Chinese perspective or purpose is at work in the region, especially its Southeast Asian component. As David Goodman (1997–1998) points out, "it is almost inconceivable that those identified as part of the Chinese Commonwealth would be likely to act together any more closely than they do at present" (14).

The behavior of some of Southeast Asia's most successful, ethnically Chinese business tycoons confirms this judgment. Many of the leading business figures in places such as Indonesia, Malaysia, the Philippines, and Thailand have succeeded by exploiting local connections—especially in politics—whatever the ethnicity of the incumbents. Indeed, one of the principal attractions of having close political ties with the indigenous Indonesian elite under Suharto, for example, was that these networks provided some form of protection against latent resentment about "Chinese" capital's dominance (Robison 2008). Studwell's analysis of business success in Southeast Asia suggests that the systemic opportunities presented by specific political economies, rather than any particular cultural variables, account for the success of businesspeople across the region (Studwell 2007). What we can say is that a powerful and enduring nexus exists between political and economic power across Southeast Asia (Gomez 2002), and that this nexus as much as any specific ethnic ties is likely to provide a conducive and familiar business environment for China's rapidly expanding ties with the region. Things could hardly have been more different as little as forty or fifty years ago.

Geopolitics and History

To understand just how much has changed in China's relations with the states of Southeast Asia,[2] and why some of those states may still be nervous about China's rise, we need to say something about the period in which the PRC was founded and the CPC consolidated its hold over power in China. The central geopolitical reality of the immediate postwar period in which the CPC emerged as the government of China was the Cold War. The "loss" of China to communism was seen as a particularly significant blow by the United States (Schaller 1979), which saw East Asia as a pivotal arena in which the existential Cold War struggle with the Soviet Union would play itself out. From a US perspective the significance of China becoming a major communist power was twofold. First, the event demonstrated that the appeal of something like Soviet-style communism was not confined to Europe: while the establishment of communism in China may have been difficult to square with some of the central precepts and expectations of Marxism-Leninism,[3] its actual existence transformed the geopolitics of East Asia. Second—and of more immediate significance for the decolonized states of Southeast Asia—the Chinese experience provided an alternative model of political and economic development in a region keen to free itself of the shackles of empire (Cronin 1996).

Unsurprisingly, the United States viewed China as a potential major threat to its vision of a region populated by pro-US, successful capitalist economies. If the United States' putative allies in Southeast Asia were also democracies, that was so much the better, but the fact that they invariably weren't was far from an insurmountable barrier to good relations. The possible hypocrisy in the United States' position, which was epitomized in its support of authoritarian regimes throughout the region, has been widely noted and critiqued by Chinese observers.[4] However, we also need to recognize that, whatever we may think of the United States' Cold War grand strategy in retrospect, China's new communist government provided ample grounds for paranoia in Washington. The "domino theory" of communist expansion may have been a fairly crude, superficial reading of the Southeast Asian region, containing a set of countries with very different histories, political systems, and intraregional relations, but the theory's flaws do not mean that it was entirely without foundation either (Kolko 1986; McMahon 1999).

In the first two decades of its existence, the PRC was an enthusiastic proponent of a Marxist ideology that was anathema to the United States' grand strategists and ideologues (van Ness 1970).[5] Of even greater significance, perhaps, the PRC backed up its Marxist rhetoric with tangible material support for would-be revolutionary movements. While on nothing like the same scale as China's commitment to North Korea (see Chapter 6), China's direct support of Ho Chi Minh's forces in Vietnam, and its encouragement of insurgent forces in the rest of Indochina as well as Malaysia, the Philippines, and Burma, only reinforced the suspicions and divisions of the Cold War period (McMahon 1999). The PRC's support for the Communist Party of Indonesia was instrumental in triggering a bloody coup that would ultimately transform Indonesian domestic politics, as well as Southeast Asia's internal and external regional relations.[6]

This briefly sketched background is important when thinking about the origins of ASEAN. ASEAN, for all its possible shortcomings (Beeson 2009a), remains the most enduring regional institution to emerge from the "developing world," and the principal expression of Southeast Asia's contemporary collective identity and political purpose. It is also seen by some Chinese scholars as the key to effective relations with the region. One of the most comprehensive and influential reports on Sino-ASEAN relations was made by the China Institute of Contemporary International Relations in 2002. In the report, the research group argued that ASEAN was a vital determinant of China's regional stability, economic development, and all-round diplomacy (Dao, Shang, and Zhai 2002). At the same time, however, ASEAN's origins also provide a reminder of why Southeast Asian states are especially sensitive about threats to their sovereignty and independence—especially from China.

Southeast Asians are preoccupied with maintaining their authority and autonomy because they have often been uncertain and under threat (Beeson 2003a). This collection of states is, after all, still relatively new, and their existence as independent entities has sometimes looked uncertain, especially in the early postwar period. That Southeast Asia had become a fulcrum of Cold War rivalries was highlighted by the "hot" war in Vietnam. Although the principal drivers of Southeast Asian cooperation may have been the desire to end intramural tensions, especially between Malaysia and Indonesia, the possible advantages of weak states banding together in a hostile geopolitical environment became compelling. The prospect that communist China might become one of the most powerful forces in the region provided an important catalyst for institutionalized cooperation for the original ASEAN members (Acharya 2001).[7]

China, therefore, has played an important role throughout Southeast Asia's short postcolonial history. The need to reach internal compromises in the face of external challenges and dangers has been woven into ASEAN's institutional DNA from its inception. The celebrated (or reviled) ASEAN way, which symbolized the desire to achieve face-saving agreements through discussion and consensus, has come to exercise an influence beyond the ASEAN grouping itself. As we shall see in subsequent chapters, the nonbinding, voluntarist style of diplomacy that became synonymous with ASEAN has provided a template for other regional institutions (Acharya 1997). This style of diplomacy is one that the Chinese government generally supports, but which has been criticized by Chinese scholars. For example, Chen Hanxi (2002) highlights ASEAN's well-documented difficulty in coordinating effective collective action and notes its limited impact on security issues and economic development. Other observers have drawn attention to the mutable nature of the ASEAN way and emphasized the uncertain status of key initiatives such as the ASEAN Charter as a consequence (see Xie and Zhang 2008; Wang and Liu 2010).

Important as China's efforts to cultivate good diplomatic relations with Southeast Asia have been, they need to be seen as part of—and facilitated by—an economic transformation that has left its smaller Southeast Asian neighbors with little choice other than to rethink their relations with their increasingly powerful neighbor. Before we consider the success of China's charm offensive, therefore, we need to say something about the underlying economic transformation that has made it possible.

Economic Engagement

As we saw in earlier chapters, economic integration within the East Asian region as a whole has increased significantly, and this movement has underpinned a growing interest in regional cooperation. Economic links between China and Southeast Asia have also expanded rapidly in line with this overall trend. Tables 5.1 and 5.2 indicate how China has become increasingly important as a trade partner for all of the (much smaller) ASEAN economies. True, the United States in particular remains a crucial export market for a number of Southeast Asian economies, especially Thailand, Vietnam, Singapore, and Malaysia, but its relative importance is beginning to decline as China's economy grows (Athukorala and Kohpaiboon 2009; Park and Shin 2011). Some of the United States' regional allies, such as Singapore, may not be especially thrilled at this turn of events, but like the region generally, they have little option other than to make the best of it.

We have become accustomed to thinking about China as a source of regional growth and development, but we need to emphasize just how novel this situation actually is. Until recently Japan, rather than China, was at the center of the regional production networks that actually determine some of the most important regional trade patterns, especially in Southeast Asia (Hatch and Yamamura 1996). As we explain in more detail in Chapter 6, this change has important implications for the relative standing of China and Japan in the region, as well as their bilateral relationship. Nevertheless, Japan is still an important trade partner for a number of individual economies in Southeast Asia, as Table 5.1 indicates, and it continues to exert an important influence over the region's political and economic development as a consequence.[8] But—as with the United States—Japan is not as important as it once was as far as Southeast Asia as a whole is concerned. The key question for the region is whether the Southeast Asian economies will be any better off if China becomes their principal trade partner than they were when Japan was. To understand how the Southeast Asian economies might be affected by China's economic rise, we need to say something about the nature of China's integration into regional and global production structures.

Regional Production Structures

When the Chinese economy was "opened" in the late 1970s and early 1980s, it began to integrate with an established, increasingly global economic order. As we have seen, one part of this process has been China's incorporation into an array of international institutions, the most important event in the economic sphere being China's accession to the WTO. These essentially political processes played a crucial role in facilitating the integration of the Chinese economy into an extant pattern of trade and production that had hitherto been dominated by the West. The scale of China's subsequent economic expansion has meant that it has begun to exert a powerful influence over the structure and organizational logic of production processes in East Asia and across the world (Dent 2008).

Table 5.1 Southeast Asia's Trade with China and Japan (US$ millions)

	Trade Volume with China								Trade Volume with Japan
	2004	2005	2006	2007	2008	2009	2010	2011	2011
Brunei	299	261	315	355	218	423	1025	1,311	5,837
Burma	1,145	1,209	1,460	2,057	2,626	2,907	4,444	6,500	1,098
Cambodia	482	563	733	933	1,133	944	1,441	2,499	513
Indonesia	13,481	16,789	19,057	24,997	31,521	28,384	42,750	60,522	51,701
Laos	114	129	218	249	416	744	1,055	1,306	175
Malaysia	26,261	30,703	37,112	46,398	53,469	51,963	74,215	90,035	49,100
Philippines	13,328	17,558	23,413	30,614	2,858	20,531	27,746	32,254	20,136
Singapore	26,684	33,149	40,854	47,153	52,436	47,863	57,058	63,482	35,811
Thailand	17,343	21,812	27,727	34,638	41,253	38,204	52,947	64,737	61,828
Vietnam	6,743	8,196	9,951	15,115	19,464	21,048	30,094	40,207	21,143

Sources: Ministry of Commerce (China), www.mofcom.gov.cn/article/tongjiziliao/fuwzn/ckqita; Ministry of Finance (Japan), www.customs.go.jp/toukei/suii/html/time_e.htm.

Table 5.2 China-ASEAN Trade Volume, 2004–2011 (US$ billions)

Year	Total Trade Volume	Export from China to ASEAN	Import from ASEAN to China	China's Trade Deficit with ASEAN
2004	105.88	42.9	62.98	20.08
2005	130.37	55.37	75	19.63
2006	160.84	71.31	89.53	18.22
2007	202.51	94.14	108.37	14.23
2008	231.12	114.14	116.97	2.83
2009	213.01	106.30	106.71	0.41
2010	292.78	138.21	154.57	16.36
2011	362.85	170.08	192.77	22.69

Source: Ministry of Commerce (China), www.mofcom.gov.cn/article/tongjiziliao/fuwzn/ckqita.

Before China's reemergence as a major regional economic actor, a number of Southeast Asian economies had benefited from precisely the same sorts of economic opportunities that have underpinned China's remarkable rise. Partly as a consequence of fortuitous geopolitical circumstances,[9] partly as a consequence of a general pattern of regional economic expansion led by Japan, a number of Southeast Asian economies, such as Malaysia and Thailand, carved out niches in an evolving, region-wide network of production dominated by foreign multinational corporations. International production networks are an increasingly ubiquitous feature of the international economy and an expression of how the production process itself has become disaggregated and dispersed across national borders. This development, more than any other, has allowed different economic spaces and actors to be incorporated into or take advantage of the new logic of global production (Sturgeon 2002; Dicken 2011).

As far as the Southeast Asian economies were concerned, they largely benefited from being in the right place at the right time—even if some did much better than others, and none could replicate the success of their Northeast Asian neighbors (Felker 2009). Only the island-state of Singapore achieved the sort of income levels associated with "first world" development. The crucial issue determining relative rewards is where an economy—or to be more accurate, an economic activity or actor—is located in the "value chain," or the various parts of the production process that add value to any given product.

It became customary—before the crisis in 1997, at least—to talk about a "Southeast Asian miracle." Even though the extent of the so-called miracle was often wildly inflated (a perception that contributed to the crisis), real development did occur and living standards did rise (Jomo 2001). The

Southeast Asian experience merits mention here because some think that China is being incorporated into the global economy in much the same way: industrialization is shallow, and the most valuable parts of the production process occur elsewhere (Steinfeld 2004; Breslin 2005). As we have seen, these claims raise important questions about the manner in which the industrialization process has unfolded in China and the state's capacity to guide the future course of upgrading (Pei 2006). From a Southeast Asian perspective, the fact that much of the economic activity currently under way in China directly competes with similar activities in their own economies is a major challenge and potential obstacle to good relations with China.

One of the abiding fears of Southeast Asian governments was that they would be overwhelmed by the sheer scale of Chinese development (Ba 2003; Ravenhill 2006; Goh 2007). A key concern was that foreign investment would inevitably pour into China to take advantage of its seemingly endless supply of cheap labor and its potential economies of scale. Being certain about the relationship between China's economic rise and its impact on its smaller neighbors is difficult: foreign direct investment (FDI) decisions and availability do not necessarily follow a zero-sum logic. However, despite the enormous rise of FDI inflows to China, Southeast Asia clearly continues to attract significant amounts of foreign capital as well (Ravenhill 2006). Chinese observers view trade and investment in Southeast Asia positively, largely because FDI flow between ASEAN and China has increased very quickly. Not only has ASEAN become an important source of FDI for China, but in 2012, China's nonfinancial sector investment in ASEAN reached US$4.419 billion—an increase of 52 percent over 2011. Xu Ningning, the executive secretary-general of the China-ASEAN Business Council, argues that a number of contributing factors explain China's expanding investment in ASEAN: the launch of the China-ASEAN Free Trade Agreement (CAFTA), trade barriers faced by Chinese exports to Europe, the region's natural resources, and the benefits that flow from supportive ASEAN policies and greater overseas experience on the part of Chinese companies (cited in Y. Xiao 2013).

Regional Trade Regimes

The role of FDI merits particular mention because governments are generally keen to attract as much of it as they can, and in Southeast Asia's case, it has often substituted for an institutionalized political architecture designed to encourage regional economic integration (Felker 2009). Indeed, one of the more noteworthy features of the institutional architecture generated in Southeast Asia is its relatively limited impact. This criticism can be applied to a number of ASEAN offshoots, such as the ARF, but this weakness is especially evident in ASEAN-sponsored initiatives designed to facilitate trade. Intraregional trade among the ASEAN states has remained at low levels, despite ASEAN's best efforts to improve them and specific initiatives such as the AFTA (Nesadurai 2003).

While AFTA has not fulfilled the hopes of its architects or significantly changed regional trade patterns (Baldwin 2006), it is important to note that one of AFTA's principal goals when it was originally proposed was as a response to the economic rise of China. This arrangement was intended to send a message to potential international investors that the ASEAN states were intent on developing a more integrated and liberalized internal market (Dent 2008), one that would be well placed to take advantage of the cross-border logic that underpinned region-wide production networks. However, while the rhetoric might have been impressive, actual implementation of tariff reductions and general trade liberalization has been less so, as noble intentions have run into the reality of powerful vested interests (Nesadurai 2003).

Against this backdrop of modest achievement and anxiety about the implications of its rapid economic development, China made one of its most surprising and important diplomatic initiatives in the region. The move indicated how China's diplomatic thinking has changed, and how it is prepared to trade off short-term economic disadvantage as part of a longer-term grand strategy. It also indicated how China has become an effective and important actor in the region's burgeoning institutional architecture.

In December 1997, Chinese president Jiang Zemin attended the first Sino-ASEAN leaders meeting. In 2002, China and ASEAN signed the Framework Agreement on Comprehensive Economic Cooperation with the intention of establishing a Sino-ASEAN free trade area in 2010. In October 2003, during the seventh Sino-ASEAN leaders meeting, Premier Wen Jiabao and ASEAN leaders signed the Joint Declaration on Strategic Partnership for Peace and Prosperity. At the same meeting China joined in the Treaty of Amity and Cooperation in Southeast Asia and became the first non-ASEAN country to sign the treaty (R. Xiao 2009). Although these developments were symbolically important and indicated just how much relations between China and Southeast Asia had improved, when China offered to give concrete expression to good intentions by initiating the CAFTA, the proposition was still something of a surprise and a departure from China's normal cautious approach to regional diplomacy.

In some ways CAFTA is a continuation of a regional trend that was well established. Many countries around the world had become increasingly skeptical about the ability of organizations such as the WTO or APEC to actually promote trade liberalization. As powerful states such as the United States looked to bilateral or "minilateral" trade agreements to facilitate trade, other states began to follow suit. Indeed, important potential benefits can be gleaned from such "North-South" trade agreements around specific industries and trade structures (Manger 2012). The Asia Pacific region proved no exception, and a self-reinforcing rash of limited-participant free trade agreements broke out across the region (Dent 2006). As far as Chinese policymakers were concerned, however, a number of reasons could be given for why the CAFTA initiative merited unusually strong support.[10]

First, China's leaders were concerned that the "China threat" (*zhongguo weixielun*) discourse had taken hold around the region.[11] As we have seen, one of the perennial questions about China's rise is how to interpret it. Many commentators in the West have emphasized the dangers, concerns that are also felt among many of the region's political elites.[12] The CAFTA initiative offered one tangible way of emphasizing the benefits that might flow from a free trade agreement between China and the ASEAN economies and generally improving perceptions of China. In this regard, CAFTA was an expression of the peaceful rise doctrine China's leaders were so keen to promote.

Second, as Chin and Stubbs (2011) note, the actual negotiation of a free trade agreement would provide invaluable "hands-on" experience for China's relatively inexperienced trade negotiators and a model for similar deals elsewhere. Finally, China's proactive stance was intended to disadvantage Japan—China's principal rival for regional leadership—in its relations with Southeast Asia in particular. In this endeavor, China succeeded brilliantly, and Japan was caught flat-footed and scrambling to make up ground with a similar initiative of its own (Sohn 2010). In this context CAFTA was, Ravenhill (2010) contends, a "diplomatic masterstroke" (200), driven by a political rather than an economic logic.

The point to emphasize here, therefore, is that Southeast Asia's importance was not primarily economic. After all, the ASEAN economies combined only accounted for something like 10 percent of China's overall trade in 2012.[13] For this reason, China could afford to make the offer of an "early harvest" to ASEAN: a unilateral reduction in tariffs with no expectation that ASEAN would immediately reciprocate. Some commentators in China are concerned that China has conceded too much to ASEAN and emphasize the economic and political costs of the new arrangements (Qiu and Cheng 2005; Y. Wang 2010). However, such analyses would seem to miss the larger point and purpose of this initiative and its importance in China's longer-term strategic perspective. As Chin and Stubbs (2011) point out, "the CAFTA has been as much about economic statecraft and geoeconomics as purely economics. It has been a component of Beijing's overall approach to stabilizing the regional environment, to ensure that China's economic growth can continue without impediment from this part of the East Asian region" (292).

In this regard, the CAFTA is an important expression of China's overall charm offensive, which—until recently, at least—had been such a central and largely effective part of its regional diplomacy in Southeast Asia. Indeed, Southeast Asia is a critical testing ground for, and indicator of, changes in China's overall approach to regional, if not global, policy. No issue highlights the possible importance of the region more than China's attitude toward the South China Sea.

China's Evolving Strategic Policy

China's policies in Southeast Asia encapsulate the tensions and contradictions at the heart of China's foreign policy more generally. On the one hand, initiatives such as CAFTA are designed to reassure regional neighbors about China's intentions and the implications of its rise—even at some cost to China's own economic position. On the other hand, China's assertion of what it considers to be its legitimate territorial claims in the South China Sea, especially when reinforced by large increases in defense spending (Hille 2012a), have many of its neighbors worried (Fravel 2011). As we saw in Chapter 4, China's more assertive policies are precipitating a major reconfiguration of strategic relations across the broadly conceived Asia Pacific region and have been instrumental in causing a pivot in US strategic policy and a renewed emphasis on Asia. Before we consider why China has apparently adopted a new strategic posture over the last couple of years, we need to say something about the policies that preceded this shift.

The Charm Offensive

In his widely cited book on China's new style of diplomacy, Joshua Kurlantzick (2007) suggests that Southeast Asia is the region in which what he calls the "charm offensive" was first deployed and most visible. As Chinese policymakers became more accustomed to operating in multilateral forums and interacting with their counterparts from around the region and the world, they inevitably became more sensitized to China's image and the manner in which China's foreign policies were perceived by other countries. Not lost on Chinese policymakers and commentators was that the United States enjoyed clear advantages in the conduct of its foreign policy.

and that China suffered clear disadvantages by comparison. Therefore, some Chinese observers emphasized the importance and efficacy of China's policies during the Asian financial crisis, when China was favorably compared with the United States (see Wu and Luo 2004).[14]

This sensitivity about external perceptions and the need to promote a positive, nonthreatening image underpinned the emergence of the peaceful rise (*heping jueqi*) discourse. As we explained in Chapter 3, this discourse's principal claim was that China's rise was not a threat to its neighbors, and contra much Western international relations theory,[15] nothing inevitable could be stated about the consequences that flowed from China's material transformation. Even more remarkable, perhaps, so sensitized had Chinese officials and commentators become about the discursive impact of Chinese policy, that even the concept of a peaceful rise was ultimately judged to be too contentious and replaced with the blander "peaceful development."

At one level, therefore, the charm offensive came about because of a heightened recognition of, and sensitivity about, the impact of Chinese foreign policy. At another level, however, China's policymakers changed diplomatic gears because they were presented with an historic opportunity to do so. Significantly, China's experimentation with new policy discourses began in the early 2000s, the heyday of US unilateralism. Whatever one may think of the presidency of George W. Bush, one can, without controversy, suggest that his administration relied rather more on the application of hard, rather than soft, power (Prestowitz 2003). Indeed, the Bush era was distinguished by dramatic falls in the numbers of foreigners who thought well of the United States and its foreign policies. In such a context, that other countries would benefit from the United States' diminished position was perhaps inevitable, but what distinguishes China's policies is the relative sophistication of the policies themselves and the new thinking that underpins them. According to the former Chinese foreign minister Yang Jiechi (2012), the new foreign policy approach developed under Hu Jintao and Wen Jiabao includes (1) a recognition that the first two decades of the twenty-first century is a period of strategic opportunity, (2) the idea that peaceful development has been confirmed as China's principal goal, (3) the promotion of mutually beneficial cooperation, (4) the development of a "harmonious world," and (5) the consolidation of multilevel diplomacy.

Therefore, an important debate is taking place within China about the nature of its possible soft power (Suzuki 2009; S. Xu 2012), and this debate is a reminder of the increasingly contested nature of the policymaking process in China and the multiple voices that are seeking to shape it. However, the principal goal, according to Kurlantzick (2007), was to "diminish fears of China's future military power" (40). In this endeavor and to achieve its overall foreign policy goals. "Beijing was displaying a type of pragmatism unthinkable to a previous generation of Chinese leaders. For past leaders, ideology defined relationships, trumping other factors. Now China would deal with any state it thought necessary to its aims" (Kurlantzick 2007: 45).

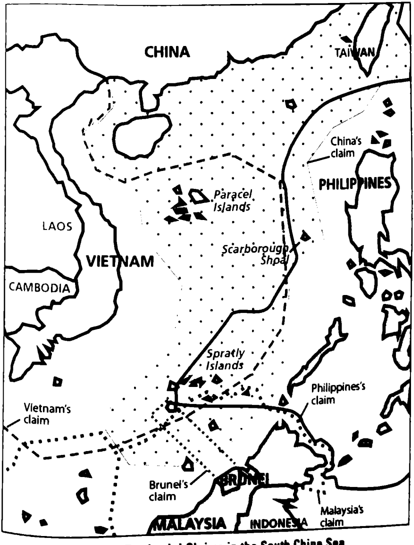
China's pragmatic approach to policymaking may come as no surprise, perhaps. The key issue now though is whether limits will be found to even China's pragmatism. In short, is Beijing's desire for amicable, nonthreatening relations with its immediate neighbors in Southeast Asia actually compatible with its other foreign and domestic policy goals? China's dilemmas in the South China Sea illustrate the potential conflicted nature of its overall foreign policy goals.

The South China Sea Conundrum

Some observers think the South China Sea will inevitably become the center of future conflict, partly because of the realist assumptions various actors make about each other and the international system in which they are embedded (Kaplan 2012). The reason is not hard to see: by some estimates, oil reserves may amount to over 200 billion barrels, an amount that would be second only to those in Saudi Arabia (Fabi and Mogato 2012). In addition extensive gas fields are thought to exist, to say nothing of the importance of significant fishing grounds. At a time when both China and many Southeast Asian states are wrestling with problems of food and energy security, the possible riches of the South China Sea are increasingly attractive. For China in particular, the South China Sea is especially important as it contains some of the world's most important sea-lanes and vital access points for supplies of energy and resources. In short, many reasons can be given about why control over the South China Sea's potential assets has become a source of unresolved competition between China and its Southeast Asian neighbors.

The principal source of tension is the conflicting territorial claims to the Paracel Islands and the Spratly Islands. In reality these islands are little more than rocky outcrops in the South China Sea, which as the accompanying Map 5.1 indicates, are generally much closer to Vietnam, Brunei, Malaysia, and especially the Philippines than they are to China. China's territorial claims are based on rather implausible and unsubstantiated historical connections with the region, which the Chinese government asserts are more important than those based on the United Nations Conference on the Law of the Sea (Ching 2011). Whatever the status of China's claims in law, they are taken very seriously by Chinese officials and commentators. For example, Foreign Minister Yang Jiechi claimed in the ARF meeting in 2012, that the Law of the Sea does not apply to questions of historical sovereignty (Anonymous 2012b). Likewise, the PLA scholars Major General Peng Guangqian and Senior Captain Li Jie argue that China should resolutely defend and protect the marine safety line, even if this defense means using military power or encouraging civilians to develop the uninhabited islands in the South China Sea (Anonymous 2011b).

One of the most important—and troubling for China's neighbors—aspects of China's approach to the issue of competing territorial claims is China's steadfast refusal to deal with these issues in multilateral forums. One might


CHINA
TAIWAN
China's claim
PHILIPPINES
Paracel Islands
LAOS
Scarborough Shoal
VIETNAM
CAMBODIA
Spratly Islands
Philippines's claim
Vietnam's claim
Brunei's claim
BRUNEI
Malaysia's claim
MALAYSIA
INDONESIA

Map 5.1 Territorial Claims in the South China Sea

expect that, given the existence of an institution that has been developed with the sole purpose of improving regional security through dialogue and confidence building, ample scope could be found for this issue to be dealt with successfully within the region. The ARF was established with precisely this sort of goal in mind. Equally important, however, was the tacit goal of socializing China into the ways of international diplomacy and conflict management (Yuzawa 2012). A measure of the inherent limitations of international institutions generally, perhaps, can be found in the fact that the ARF has been unable to address, much less deal effectively with, problems that are considered to impinge on questions of national sovereignty and security. As a result, despite containing all of the region's—be it East Asia or even the more expansive Asia Pacific—pivotal strategic actors, the ARF does not have any one of the most pressing security issues on its agenda. The ARF's activities have primarily been restricted to confidence building, while key concerns such as the South China Sea disputes, the Korean peninsula tensions, and—most sensitive of all—the future of Taiwan are left in limbo. As Chris Hughes (2005) points out, while multilateralism offers a new way for China to pursue its foreign policy goals, an underlying reality is that China's national interest remains sacrosanct; some issues are simply nonnegotiable and off-limits to meaningful external involvement. Commentary in China reinforces this point. In early 2013, Xi Jinping reiterated that China could not compromise on what it saw as its core interests. China would not allow any infringement of its sovereignty or what it saw as its security and developmental interests. In the wake of Xi's statement, the Xinhua News Agency published a commentary that reiterated that the goal of peaceful development should not be taken to imply that China would sacrifice its core interests (Qian and Liu 2013). The implications of this point were spelled out in more detail by the deputy chief of staff of the PLA (Anonymous 2013a), who emphasized the growing overall importance of maritime security for China.

China's attitude toward the South China Sea in particular, and its instrumental approach to multilateral institutions more generally, help to explain the failure of efforts to reach a settlement. After inconclusive attempts to reach a negotiated agreement in 1992, ASEAN issued the Declaration on the South China Sea, which urged restraint and repudited the use of force. Although China did not sign up, it subsequently signed ASEAN's symbolically important Treaty of Amity and Cooperation in 2003, a major part of its attempts to establish cordial relations with Southeast Asia. Yet this gesture, like the much-ballyhooed Declaration on the Conduct of Parties in the South China Sea in 2002, has been largely devoid of content and impact. Despite these initiatives, the reality has been that China has resolutely refused to be drawn into multilateral negotiations that impinge on its sovereignty and freedom of action (Wain 2011).

The failure to negotiate a peaceful resolution of the various bilateral disputes has led to occasional clashes between China and two of Southeast Asia's more important members, Vietnam and the Philippines (Collins 2003). The net effect of these minor conflicts—which tend to involve fishing boat interceptions or, in China's case, establishing outposts on disputed reefs—has not simply been to attract unwanted attention toward China's military buildup, but also to precipitate a realignment in some of the region's overarching security architecture. Most predictably, perhaps, this realignment has come in the form of renewed calls for the United States to recommit to the region. But China's increasingly assertive actions have also seen Japan taking an unusually prominent role in Southeast Asian security relations, especially since the election of the more nationalistic and assertive administration of Shinzo Abe (Fackler 2013). We explore the implications of these changes on Sino-Japanese relations in more detail in the next chapter. The point to emphasize here is that as far as Beijing is concerned, at least, much of the good work that had been done under the auspices of the charm offensive was undone by its implacable attitude to its territorial claims in the South China Sea.

Can ASEAN Influence China?

The seemingly abrupt change in China's behavior toward Southeast Asia raises important theoretical and practical questions. For scholars such as Amitav Acharya (2009a), the East Asian region generally and ASEAN in particular provide a particularly illuminating testing ground for the claim that when regional institutions are developing, norms matter "even more so than power and interest variables" (146). This argument is important for institutional development generally at a time of global crisis when Europe's problems are providing a sobering reminder of the continuing importance of national interests and sentiment. Acharya's contention is especially salient in the context of Sino-ASEAN ties because of the influence of realist thinking among China's policymaking elites.

The evidence in Southeast Asia suggests that the ability of Southeast Asian states to influence China is limited and depends to a significant degree on whether Southeast Asian and Chinese perspectives and interests coincide. The most revealing example of this possibility occurred when ASEAN was attempting to broker a resolution to the security crisis that Vietnam's invasion of Cambodia had precipitated in 1978. In retrospect, this feat is widely regarded, especially by ASEAN, as a triumph of regional diplomacy and a vindication of the ASEAN way of negotiation and consultation. Crucially, however, ASEAN's desire to resist what it saw as Vietnamese aggression received "vigorous diplomatic support" from China, something that was crucial in influencing not only Vietnam's behavior but also that of wavering ASEAN states like Thailand (Narine 2002: 47). Indeed, significant differences of opinion existed within the ASEAN grouping about the impact of the conflict, with the likes of Malaysia and Indonesia fretting about China's potentially enhanced strategic influence in the wake of a Vietnamese withdrawal.

The resolution of the Cambodian crisis was, therefore, largely dependent on the fact that it suited the interests of the major powers: the United States wanted to see the conflict resolved, and the Chinese wanted to send the Vietnamese a message that their "hegemonic" ambitions would not be tolerated (Vogel 2011). In other words, Southeast Asia's capacity to play an effective diplomatic role was largely circumscribed by the wishes of more powerful, extraregional actors. One might object that in the security arena the stakes are higher, the issues more starkly drawn, and the ability of smaller powers to influence events would necessarily be reduced. There is clearly something to such arguments, but one should note that even economic policy has tended to reflect narrowly Chinese, rather than regional, interests. We have already seen how Chinese policymakers were prepared to make sacrifices to provide ASEAN with an incentive to sign up for CAFTA. Recognizing that this policy was not unprecedented is important: China's decision to maintain the value of its currency at the height of the Asian crisis in 1997–1998 was widely applauded and did more than anything else to improve its image and standing in Southeast Asia. Importantly, however, this decision was also driven by a long-term calculation of China's national interests (H. Wang 2003), not just a concern with the plight of its smaller neighbors. Also Beijing clearly saw this moment as an opportunity to capitalize on Japan's failed attempts at providing regional leadership at the height of the crisis. Indeed, significantly, what is generally taken to be the most tangible manifestation of the push for East Asian economic cooperation—the Chiang Mai Initiative[16]—was also seen by Chinese officials as a way of increasing China's regional leadership credentials at the expense of Japan's (Grimes 2009).[17]

An even more stark indication of the evolution of Chinese thinking about its dealings with Southeast Asia was provided by then foreign minister Yang Jiechi at the 2010 meeting of the ARF, when he declared that "China is a big country and other countries are small countries and that is just a fact" (cited in Raine 2011: 76). The thinking that informs at least some senior Chinese officials could hardly have been stated with more frankness: China's remarkable economic expansion has underpinned a transformation in the nature of its material relationship with its neighbors, something China's leaders recognize and are increasingly less inhibited about using. In this endeavor they are supported by a number of key Chinese commentators who argue for a more assertive foreign policy role for China (see Cai 2009; Z. Pan 2010). To judge by recent events, such views are being taken increasingly seriously.

Caught Between Hegemons?

The situation of Southeast Asian states highlights some of the more general issues that confront modestly credentialed small powers in an era of great change in the international system. Much of this change is being precipitated by the rise of China and the possible simultaneous decline of the United States as the unchallenged hegemonic power of the era. The key question for Southeast Asia is whether China's rise represents a threat or an opportunity.

One should remember that ASEAN itself was a creation of the Cold War, a confrontation of superpowers that effectively defined the Asian region for half a century. While some limited opportunities were available to exploit the divisions between the superpowers, the overriding geopolitical imperative was adjustment to the reality of life in a region dominated by more powerful actors. In many ways, this need to adapt remains the case. True, the tensions that currently exist between the United States and China, as we saw in Chapter 4, are of a different order than those that prevailed between the United States and the Soviet Union or, for that matter, prevailed between the United States and China in the past. And yet the basic asymmetries of influence and power that characterized this earlier period continue to limit the options of the Southeast Asian states (Beeson 2010, 2013a).

Southeast Asian states are generally caught between China's growing economic importance and the traditional strategic reassurance that most have sought from the United States. ASEAN's problems in this regard are exacerbated by the fact that some states have generally strong strategic ties with the United States (the Philippines, Thailand, and Singapore in particular), while others find their ties with China are beginning to exert an increasingly powerful influence over their foreign and domestic policies. Until recently, Burma was the most obvious example of an ASEAN state whose political and economic interests had become more closely aligned with China's (Haacke 2010). Burma's pariah status and chronic underdevelopment made it particularly susceptible to China's influence, but its recent political liberalization has seen it begin to move out of China's orbit in ways that were not anticipated in China. Indeed, Chinese aspirations may have become a victim of the country's policy of noninterference and respect for national sovereignty—no matter who might be running that country. As *The Economist* (2012a) points out, "China missed vital shifts in policies, words and political thinking that they might have picked up had they listened to voices other than the government's and engaged the country at a local level." Even more gallingly, China's diminished influence has occurred as Washington's increases.

And yet China continues to exert a powerful influence over a number of Southeast Asian states. The ASEAN Summit of 2012 was noteworthy primarily as the first meeting of the Southeast Asian states that could not produce a final communiqué (Grant, Bland, and Robinson 2012). This unusual display of disunity was caused by the inability of the Southeast Asian states to agree on a common position regrading the territorial disputes in the South China Sea. Cambodia in particular was unwilling to do anything against the interests of its increasingly important economic partner, a position that dramatically highlighted the divisions between ASEAN's mainland and maritime states (Storey 2012). Overstating China's economic importance to the region is possible—as we have seen it is not *that* important for some regional economies, and some like Indonesia, the Philippines, and Vietnam are being negatively affected as a consequence of direct economic competition—but China's long-term impact on the region as a whole seems certain as it becomes the center of regional manufacturing activities (Das 2009). Chinese policymakers are becoming increasingly adept at using this leverage to achieve favorable diplomatic outcomes.

Overall, however, and despite China's growing material presence and importance, little evidence can be seen of Southeast Asian states collectively "bandwagoning" with a rising China (Goh 2008). On the contrary, signs are appearing that a number of Asian states are reinforcing their strategic ties with the United States and "hedging" against the possible threats posed by a more assertive China (Medeiros 2005–2006). Such policies have not been well received in China. China's netizens have been predictably unhappy about perceived efforts to hedge against China's rise. However, many Chinese scholars recognize the logic and impetus for the balancing strategies of ASEAN countries. Zhang Xizhen (2010), for example, believes that the relative power of ASEAN is declining, but ASEAN's weakness and attempts to hedge are in fact good for the stability of the region.

As Womack (2009) rightly observes, the Southeast Asian states want to avoid having to make a choice between the United States and China. Any attempt to force the issue on the part of the United States or China would, Womack argues, be fiercely resisted and interpreted as a sign of an attempt to establish hegemony in a region in which ASEAN likes to think it remains "in the driving seat." The idea that ASEAN is the principal determinant of regional policy is a polite fiction, but one that serves a useful purpose as far as the major powers are concerned (Goh 2011). In the absence of an undisputed regional leader, ASEAN can facilitate intra- and interregional relations in ways that all parties may find convenient when it suits them. However, also clear is that when it doesn't suit them, both China and the United States have fiercely resisted being drawn into or bound by multilateral forums. The limitations of the ASEAN-sponsored ARF are perhaps the quintessential example of this possibility.

Conclusion

China's relations with Southeast Asia highlight many of the broader issues that are coming to define Chinese foreign policy. On the one hand, China's foreign policy officials have clearly learned a good deal about effective diplomacy in the post–Cold War, nonideological environment that characterizes the international system generally and East Asia in particular. Participating in the distinctive diplomatic and normative environment that characterizes Southeast Asia plainly has had some sort of impact (Johnston 2008; Ba 2009). More than this, however, Chinese officials have taken the initiative: the charm offensive in Southeast Asia was clearly designed to build on and entrench China's position as an increasingly important regional actor, and a nonthreatening one at that. Southeast Asia has, therefore, been an important arena in which Chinese policymakers have been able to learn, experiment, and innovate.

And yet we have also seen that limits may be found to this process. Not only is a regional struggle taking place to assert rival claims over the potentially rich resources of the South China Sea, but such claims are being reinforced by an increasingly vocal community of netizens, who are piling additional pressure onto the Chinese government (Callahan 2012b). The rather predictable contest over material resources is being inflamed and ratcheted up in China by concerns about status and national pride. Policymakers fret about seeming weak and failing to protect the national interest. Academic observations about the socially constructed, inherently arbitrary nature of nationalist discourses will cut little ice in a country where many are keen to see a robust reassertion of China's historically dominant position in the region. The end result is a situation that threatens to spiral out of control and turn into actual conflict. While the prospects of inter-state conflict in Southeast Asia are still low—partly because the Southeast Asian states have little capacity to confront China collectively, let alone individually[18]—we cannot be quite so sanguine about the situation in Northeast Asia.

Notes

1. All the figures detailing "Chinese" business activity are cited in Studwell (2007).

2. Worth pointing out is that the idea of "Southeast Asia" as a region is inherently arbitrary and a product of World War II, when the British used the term to describe a military theater in the "Far East." The term is a reminder of the socially constructed and historically contingent nature of regions. See Emmerson (1984).

3. According to Marxist orthodoxy, revolution may be inevitable but only after capitalism's productive forces have been developed sufficiently to reveal their internal "contradictions." In other words, the sort of revolution that occurred in China, which was essentially still an agrarian society, was simply not expected to happen. See Bianco (1971) and C. Johnson (1962).

4. Chinese bloggers have delighted in drawing attention to the number of autocratic governments that the United States has supported (see, for example, H. Shi 2009). Numerous other scholarly articles, such as that by Zhu Lumin and Wang Yi (2008), cite the United States' relationship with the Suharto regime to demonstrate that US policy has been driven by the national interest. Many Chinese scholars are similarly skeptical about the United States' human rights credentials and argue that adherence to the norms and principles it promotes is superficial and inconsistent. See, for example, Jing Lin (1986), Wu Guangxing and Wang Chengguang (2006), and Zhang Wenxi (2000).

5. Again, we must note that many Chinese scholars are keen to emphasize the ideological nature of US policy, especially during the Cold War. See Wang Lixin (2011), Jin Weixing (2005), and Yang Guangbin (2000).

6. Interestingly, Indonesia's authoritarian leader, Suharto, who rose to power on the back of a coup against "communists," recognized the importance of Chinese businesspeople's economic contribution and sought to protect them as a consequence. Suharto's own close ties to key ethnically Chinese business cronies such as Liem Siu Liong was a key part of his own grip on power and the patronage and cronyism on which it was based. See Elson (2001).

7. The original members were Singapore, Indonesia, Malaysia, the Philippines, and Thailand. Subsequently, membership has been expanded to include Brunei, Burma, Vietnam, Laos, and Cambodia.

8. Japan has long-standing, influential political and economic ties across the region, ties it has historically reinforced with favorable trade and investment packages. Signs can be found that China is beginning to replicate some of this strategy, which is also causing Japan to reassess its own policies (Yoshimatsu and Trinidad 2010). See Chapter 6 for more detail.

9. A number of Southeast Asian states benefited from direct US aid and the stimulatory impact of the wars in Korea and especially Vietnam. See Stubbs (2005) and Beeson (2007a).

10. The following discussion draws heavily on the excellent analysis in Chin and Stubbs (2011).

11. One should note that dealing with the China threat theory has also become an important focus of discussion among Chinese scholars, too. Han Yugui and An Xiuwei (2011) have argued in favor of developing a comprehensive approach that includes solving the South China Sea disputes peacefully by strengthening cultural diplomacy and coordinating with the United States and Japan on key issues in the region, while Cheng Xiaoyong (2012) emphasizes the constructive potential of

China's soft power in traditionally perceived hard power areas—that is, by using military power and military exchanges with the regional countries and by playing a bigger role in nontraditional security issues.

12. In addition to some of the previously cited sources, some of the more noteworthy contributions include Blank (2006), Christensen (2006), Friedberg (2011), R. Ross (2005), Sutter (2006), and H. White (2008).

13. According to the official data, in 2012, China-ASEAN trade volume was US$400.09 billion, a little more than 10 percent of China's overall trade.

14. Also worth noting is that many of the analyses developed by Chinese scholars of the country's national image and soft power are in fact borrowed from the United States, as are some of the strategies for improving it. A large literature in this area now exists, but see Zhang Yuqiang (2002), Xie Xiaojuan (2004), and Han Yuan (2006) for representative samples.

15. The most influential exponent of the inevitable conflict thesis is John Mearsheimer (2001).

16. The Chiang Mai Initiative was a response to the Asian crisis that spurred the overall process of economic cooperation and institution building in East Asia by creating a series of currency swap arrangements. Despite doubts about its efficacy (Emmers and Ravenhill 2011), it remains symbolically important.

17. Many scholars such as Ye Yin (2007) suggest that China should play a leadership role in East Asia monetary cooperation, and some Chinese officials seem quite happy to oblige. A senior official in the Ministry of Finance, Zhu Guangyao, argues that East Asia finance cooperation should be viewed as a strategic tool for China to enhance its international standing and expand its influence (G. Zhu 2006).

18. The Philippines, for example, which is arguably the Southeast Asian state most directly threatened by China's territorial claims, "lacks a single fighter jet. Its navy is so weak that its biggest warship is an aging former U.S. Coast Guard cutter it acquired as surplus from the Pentagon last year" (Whitlock 2012b).

6

Northeast Asia

China's relations with Northeast Asia and Southeast Asia present a striking and revealing contrast. As we saw in the last chapter, "Southeast Asia" as a region has become synonymous with ASEAN, and it can lay claim to having developed some nascent sense of collective identity or "we-ness" that many scholars consider an important marker of regional development (Acharya 2001). Even if this sense of belonging and identity is primarily confined to the senior officials and diplomats who attend ASEAN's many meetings, it still stands in stark contrast to Northeast Asia. So underdeveloped and uninstitutionalized are the interactions between the component parts of Northeast Asia that the region has been aptly described by Gilbert Rozman (2004) as "stunted." Although some of the countries of Northeast Asia are more involved in institutions with an East Asian or even Asia Pacific identity, as we saw in Chapter 4, the prospects for similar developments in a distinct Northeast Asia region remain relatively dim. This lack of cohesion is especially vivid as a consequence of the recent, intensifying tensions between China and Japan over what they respectively call the Diaoyu and Senkaku islands (Hayashi 2012). Nevertheless, attempts have been made to establish tripartite talks among China, Japan, and South Korea, and we examine their prospects, too. At this stage, however, one can fairly say that bilateralism, rather than multilateralism, is the order of the day.

The reasons for Northeast Asia's failure to develop effective multilateral institutions are not difficult to discern, but rathermore difficult to eliminate. More than any other region in which China is directly involved—and more than any other region in the world, perhaps—the legacy of history continues to bear down on the present. Memories are long and resentments fester in ways that seem unimaginable in Europe—or they did until recently, at least. But Europe stands as a sobering reminder of how attitudes can change and old animosities can reemerge when times get tough. The paradox in Northeast Asia is that, even when the region's economies have generally been experiencing a period of unprecedented economic success, this success has not been enough to erase all of the region's historical baggage or overcome years of mistrust, resentment, and hostility.

And yet there *are* signs of hope. The PRC's relationship with its "renegade" province, Taiwan, suggests that the logic of so-called liberal interdependence may indeed be capable of ameliorating even the most fraught and seemingly nonnegotiable of bilateral ties. At the very least, the Northeast Asian region and China's various bilateral relationships provide a revealing laboratory in which to test some of the more important claims of contemporary scholarship—albeit principally its Western varieties. As we shall see, when it comes to Taiwan in particular, many Chinese are unconvinced about the impact of economic integration and wary about the implications that flow from much "liberal" thinking. Relations with Taiwan in particular and with its other Northeast Asian neighbors more generally display a surprising amount of parochialism and particularism. As a consequence, the region's frequently fraught relations present an important test of China's new foreign policy thinking. When it comes to Northeast Asia, some issues remain nonnegotiable, it seems; limits are firmly and plainly established as to how far ahead of popular nationalist sentiment China's elites are prepared to go.

We explore these issues by firstly providing a brief sketch of Northeast Asian history, which highlights the events that continue to influence the conduct of contemporary relationships. Without some sense of the region's history, we suggest, one can simply not understand why some issues remain such apparently insurmountable obstacles not just to *good* regional relations but to *any* regional relations at all. The key relationships here, of course, are those of China with Japan, Taiwan, and the two Koreas. We also look at the PRC's relationship with Hong Kong as it has played such a crucial role in the economic transformation of the mainland, and because it may yet offer a model for resolving the Taiwan issue. Finally we offer some observations about the prospects for the development of regional institutions.

The Burdens of History

For most of human history China has dominated what we now think of as Northeast Asia. The impact of Chinese civilization generally and Confucian thought and social practice in particular is especially evident in Korea and Japan (Rozman 1991). Both Korea and Japan borrowed heavily from China in an informal regional hierarchy that effectively persisted for hundreds of years. This order was invariably stable and reinforced China's sense of exceptionalism and superiority. And yet, as we have seen, this regional order eventually proved brittle and unable to withstand the impact of powerful external forces in the form of European imperialism. Crucially, Japan responded much more effectively to this challenge, further destabilizing what had become an increasingly fragile international order. The very different reactions within Northeast Asia to external challenges would have profound consequences for Japan, China, and the historical evolution of the region (Beeson 2007a).

Sino-Japanese History

The decline of the tributary system gave tangible and symbolic expression to the end of the old order, which China had dominated. Although the initial impetus for this turning point in regional and world history may have come from outside, the Meiji Restoration that turned Japan into a major industrial and military power was pivotal (Beasley 1990). While China was being "humiliated" by the violation of its sovereignty at the hands of the European powers, Japan not only remained independent but was rapidly rising. Japan adapted to the so-called Western standard of civilization with alacrity (Gong 1984), and promptly set about acquiring an empire to match its great power pretensions.

Korea became the focus of Japan's ambitions, and despite Korea's efforts to isolate itself, Japan bullied it into opening up in much the same way the United States had done to Japan. From a Chinese perspective the most aggravating aspect of Japanese expansionism was that it came at China's expense: the treaty that Japan imposed on Korea in 1876 ignored China's historical claims to suzerainty over Korea and set the scene for the Sino-Japanese War of 1894–1895.[1] A series of swift Japanese victories on land and sea not only drove China out of Korea but revealed its comparative weakness in the process, a reality that was given tangible expression in the humiliating Treaty of Shimonoseki, a document that enshrined China's diminished status in the region (S. Zhao 1998). Japan's rising status and power was, by contrast, confirmed by its subsequent defeat of Russia in 1905—the first time an Asian nation had defeated a European "great power" and a harbinger of long-term changes in the region and the world.

As part of the Treaty of Shimonoseki, Japan acquired Taiwan, an insult to China's national pride that was not redressed until the end of World War II. Before the implications of Taiwan's change of status are considered, however, mention must be made of the principal source of Chinese enmity toward Japan: Japan's initial occupation of Manchuria in 1931, followed by a full-blown invasion of China in 1937 (Young 1998). China wanted to avoid war as it was poorly placed to resist Japanese aggression as its own internal conflict rumbled on. Japanese invasion was bad enough, but the principal reason that this period continues to resonate with Chinese people is because of the conduct of Japanese troops and the failure of subsequent generations of postwar Japanese leaders to acknowledge, much less atone for, Japanese culpability (Lind 2009).

The most egregious example of Japanese wartime atrocities are associated with the Nanjing Massacre (I. Chang 1997). No one knows exactly how may people died at the hands of Japanese soldiers during the occupation, but estimates go as high as 300,000. Whatever the figure, the gratuitous brutality that was meted out by Japanese troops and the failure of Japanese leaders to offer sincere apologies—sincere enough for most Chinese, at least—really rankles and is the source of continuing animosity, and one that has been inflamed by the return to power of the Liberal Democratic Party in Japan. *The Economist* (2013) describes the administration of reinstalled Premier Shinzo Abe as "a cabinet of radical nationalists" (19), some of whom want to rescind the limited apologies that have been made for Japan's wartime atrocities. Given that a heated debate is already being held about the role the Japanese government plays in covering up its wartime activities and the notorious failure of Japanese schoolchildren to learn about Japan's shame as part of their education (see Gong 1996), tensions will all too likely increase. Chinese scholars are especially concerned about this subject. Jin Xide (2005), for example, argues that Japan refuses to offer an adequate apology for its wartime role because (1) it avoided criticism during the Cold War period, (2) conservative forces continue to dominate Japanese politics, and (3) Japanese cultural traditions and the importance of shame prevent introspective reflection. Agreeing with this analysis is not necessary to recognizing that many Chinese scholars believe that the responsibility for improving Sino-Japanese relations lies largely with Japan (see, for example, K. Li 2005; Mi 2005).[2]

The apparent failure of Japan's government to put the past behind it effectively in the same way that Germany did in the aftermath of World War II is not simply a revealing insight into comparative political cultures, but as far as Northeast Asia is concerned, it is an enduring obstacle to closer regional ties. The very tangible and ongoing territorial dispute is a product of these earlier conflicts and also a reminder of how unresolved some of them remain, as we explain later. World War II continues to cast a long shadow over China's other two principal relations in the region as well, and understanding why is important.

Taiwan and Korea

China's relationships with both Taiwan and the two Koreas illustrate just how important historical factors can be in determining current realities, but Taiwan in particular presents the most complex problems. The victory of the communists in 1949 may have ended the civil war, but the triumph was not an unalloyed one. When the nationalist forces under Chiang Kai-shek retreated to Taiwan, they created what is arguably the most difficult of China's foreign policy problems—even if mainlanders continue to think of it as a domestic issue. The PRC's official position is that Taiwan remains a "renegade province," and it has no claim to being, or status as, an independent state. Indeed, the PRC has invested a good deal of political capital in trying to ensure that other states subscribe to its view of Taiwan, something that has had major implications for its relations with the United States in particular and, by extension, for key allies such as Japan and Australia.[3] Importantly, the Chinese government is strongly supported by the Chinese population as a whole and by much academic commentary.[4]

Because nationalist sentiment is so strong and influential,[5] Taiwan's status is essentially nonnegotiable as far as successive PRC governments have been concerned. Whatever Chinese policymakers may think privately, and despite what some Chinese scholars have said,[6] the mainland government's supporting any position other than eventual unification is all but impossible. The need to be seen taking an appropriately tough stand in defense of what are seen as legitimate national interests has led different PRC governments into some high-stakes confrontations with the United States in the Taiwan Strait (Swaine 2004). The continued unresolved nature of Taiwan's status, especially during the Cold War era, has added one more obstacle to the restoration of good relations between China and its immediate neighbors.

Much the same could be said about that other artifact of the Cold War era: the divided Korean peninsula. In Korea, of course, inherent Cold War tensions led to all-out war. In the early 1950s, China was still closely aligned with the Soviet Union and its support of North Korea in this conflict needs to be seen in that context (S. Zhao 1998). Nevertheless, recognizing the great deal of ideological solidarity and sense of common purpose between China and North Korea during this epochal struggle is important (Cumings 1990). China and North Korea were famously "as close as lips and teeth" (*chunchi xiangyi*). China's support of the North also demonstrated the enormous costs Mao was prepared to bear in defense of China's allies and system—a message that was not lost on other potential adversaries. This sense of joint sacrifice and struggle is one part—albeit a decreasingly important one—of China's continuing support for the North. Even now, a number of Chinese observers argue that North Korean socialism is not without merit.[7]

The net result of the Korean War was a stalemate. Technically, the war has never ended—as the occasional bombardment from the North's erratic and unpredictable government reminds us. As we explain below, the nature of the regime in the North—a dynastic regime bolstered by a gargantuan military—makes it a difficult and dangerous interlocutor. For China's current leadership, the very real legacy of earlier conflicts presents an increasingly problematic set of foreign policy challenges as it weighs the costs and benefits of continuing to support its only ally in the region. Indeed, just how bereft of allies and friends China actually is, is striking, and this dearth may be one reason some are reluctant to give up on North Korea for all its problems. Whatever the merits of that argument, greater economic interdependency alone is plainly not sufficient to recalibrate China's foreign policies, or those of its principal trade partners. This possibility is nowhere clearer than in Northeast Asia.

The New Political Economy of Northeast Asia

One of the more enduring and influential ideas in political science—or that part of political science that takes economic issues seriously, at least—is that an important and growing link can be found between politics and economics, and this connection influences the behavior of states. We agree. In East Asia in particular, understanding the evolution of the region or its constituent parts is simply not possible without recognizing the inescapably interconnected, mutually constituting nature of political and economic outcomes, hence the term *political economy* and the implied relationship and interaction between the two.[8] Liberal interdependence theory suggests that political and economic relations in a global era are increasingly intertwined and transborder, causing scholars to develop new ways of explaining the international political economy. It has also forced policymakers to recognize that national autonomy and the sovereign state are not as assured as they once were (Vernon 1971; Keohane and Nye 1977). At its boldest, those observers most influenced by this tradition argue that something about the nature of contemporary global capitalism actually promotes peace and stability as states realize more is to be lost than gained from conflict (Gartzke 2007).

Some readers may be astounded to hear that the limited benefits of war have taken so long to be recognized. Deflating as this possibility may be, what is more important for our purposes is the reception such ideas have had in China. Significantly, a number of mainstream scholars support the idea that economic interdependence can help resolve the Taiwan problem. Kuang Yanxiang (2012), for example, emphasizes the pacifying effect of the Economic Cooperation Framework Agreement. However, we must also recognize that many more skeptical voices doubt whether economic integration will bring unification (see C. Wu 2010). Nevertheless, strikingly, the influential doctrine of a peaceful rise is very compatible with some of the underlying assumptions that have been developed in the West. Some Chinese scholars such as the team in the Center for China Studies of Tsinghua University, for example, see as essential China's integration into the international political regimes that seek to manage the international economy and that have largely been established under the auspices of US hegemony (cited in Z. Sun 2002).

The Western and Chinese literature on international political economy suggests that many observers in China and elsewhere recognize that the contemporary international political economy presents major challenges to both policymakers and scholars. If some of the more optimistic claims about the transformative impact economic change has on political practices and attitudes are correct, then the prospects for resolving apparently intractable disputes may be brighter than some fear. At the very least, some of China's problematic relationships with its Northeast Asian neighbors offer an illuminating arena in which to test some of these claims.

"Greater China"

Much of the discussion thus far has focused on *regionalism* and the foreign policy actions of Chinese officials and their counterparts around the region and the world. Now, by contrast, we want to focus more on *regionalization*, or the impact of more narrowly defined economic forces and actors. In this context, the emergence of what has been described as "Greater China" highlights another dimension of broadly conceived regional activities: the emergence of subregional "growth triangles" (Henderson and Nadvi 2011). East Asia contains a number of such areas, which have sprung up often without much government encouragement, such as the Singapore-Johor-Riau area, and sometimes (less successfully) they have come about with the support of formal agreements, such as the Greater Mekong Subregion Economic Cooperation program (Frost 2008; Fu 2009).[9] Successful or not, these transborder, subregional patterns of economic interaction and development represent potentially important drivers of integration, which have political and policy consequences (Scott and Storper 2003; Hudson 2007).

Greater China consists of Taiwan, Hong Kong, and China itself, or more specifically, those areas of the mainland that abut Guangzhou in Hong Kong's case and the area around Shanghai, in the case of Taiwan. Hong Kong in particular played a pivotal role in China's initial phase of "opening up," when special economic zones were created in Shenzhen, Shantou, Zhuhai, and Xiamen. Special economic zones had proved important magnets for investment and catalysts for development elsewhere in Asia, too (Rondinellli 1987), and so their potential was clear. Deng Xiaoping saw them as an important way of transitioning from an insular regime predicated on central planning to one in which foreign investment and market forces would play a larger role. Significantly, Deng's experiments were not without their opponents (Vogel 2011), and even now important debates continue about the precise role both Hong Kong and Taiwan should play in China's overall economic development, but a belief is growing that the fates of the "three Chinas" are bound together.[10]

Nevertheless, the shift of labor-intensive, export-oriented manufacturing from Hong Kong and especially Taiwan to the mainland has been one of the most important forces restructuring and modernizing the mainland economy. It has also established significant direct links between China and two of its most important bilateral economic partners. In Hong Kong's case any potential difficulties created by the interaction of what were formally separate national jurisdictions has been largely resolved by the reunification process that occurred in 1997, when sovereignty was transferred from Britain to the PRC (M. K. Chan 2008). Even before that, however, the common language and cultural values of the entrepreneurial Cantonese Chinese in Hong Kong and Guangzhou provided an important catalyst for closer economic integration and cooperation (Redding 1990). The success of this experiment is hardly in doubt: Shenzhen has famously been transformed from the proverbial sleepy fishing village little more than thirty years ago, to a city of over 10 million today.

Taiwan's economic integration with China has been less straightforward given its anomalous political position. Mainland authorities have been understandably sensitive about being seen to be too close to Taiwan politically or too accommodating economically. Much Taiwanese investment on the mainland has to be routed through Hong Kong, something that vastly exaggerates Hong Kong's importance as a source of FDI as a consequence (Breslin 2007). The crucial political change that allowed Taiwan to play a role in economic development on the mainland was the decision by the Standing Committee of the People's Congress in 1981, which called for peaceful reunification through negotiation and effectively acknowledged Taiwan's status as a semiautonomous capitalist economy (Sung 2005). Importantly, part of the new reunification strategy meant allowing Taiwanese business to trade with and invest in the mainland.

Unsurprisingly, perhaps, the success of growing economic ties had the effect of improving cross-strait relations, which were further enhanced by initiatives such as China's Coastal Development Strategy and Taiwan's relaxation of the "three-noes" policy.[11] Significantly, growing economic ties, from which both Taiwan and the PRC have both benefited enormously, have given political ballast to the relationship. Despite the occasional crisis over US arms sales or Taiwan's taking a too-independent political line under the leadership of Lee Teng-hui and Chen Shui-bian, the underlying economic relationship has continued to deepen.[12] Indeed, so important has Taiwanese investment become to China generally, and so prominent and numerous have Taiwanese businesspeople become in places such as Shanghai, that Robert Ross (2006) considers them to be something of a "commercial fifth column" (386). More than 1 million Taiwanese now live in China, with half that number in Shanghai alone (Richburg 2010). We consider whether these commercial ties can reconfigure the regional balance of power—or the strategic calculus of China's policymakers, at least—in more detail below. The point to emphasize at this stage is that the experiences of both Hong Kong and Taiwan appear to give some credence to the central claims of interdependence theory. Indeed, Hong Kong's successful reunification with China and its existence as a special administrative region seems to offer a possible path forward even for the more problematic relationship with Taiwan. This view is certainly the one a number of influential Chinese observers take.[13]

Recently, direct commercial flights between Taiwan and China have begun, something that further facilitates business and private links across the strait. Negotiations are also ongoing to allow the two to invest in each other's equity markets, with some observers expecting the process to accelerate (see Li and Wu 2013). Similarly, the Economic Cooperation Framework Agreement negotiated between China and Taiwan not only further enhances trade (Kwong 2011), but also continues the PRC's policy of using its economic leverage to pursue long-term strategic goals. Striking and rather encouraging as the story of China's economic integration with Hong Kong and Taiwan is, skeptics might argue that the divisions were somewhat artificial and, when seen in the long-term sweep of Chinese history, temporary aberrations, perhaps. Relations with Japan, by contrast, present a more difficult test of liberal interdependence theory's optimistic scenario. Even here, though, despite formidable historical obstacles, one can find—or perhaps, could once find—grounds for cautious optimism.

Sino-Japanese Ties

A number of points need to be kept in mind when thinking about China's relationship with Japan. First, since the nineteenth century, Japan, not China, has been in the ascendance economically (and very often politically, too) in East Asia. Japan's economic dominance for most of the twentieth century has left a tangible legacy in Korea and Taiwan, where Japanese colonialism at least had the effect of bequeathing the highly effective "developmental states" that underpinned the remarkable rise of both economies (Kohli 2004). Elsewhere in the region, a number of Southeast Asia economies were incorporated into the production structures that Japanese corporations established as they moved out of Japan in search of cheaper labor, resources, and export platforms. In short, Japanese companies had a good deal of experience in "outsourcing," "offshoring," and generally reorganizing the production process even before China began to open up (Bernard and Ravenhill 1995; Ruigrok and van Tulder 1995).

Although some surprising similarities can be found where China's and Japan's developmental experiences are concerned, especially regarding the role of the state in directing economic activity (Beeson 2009b), important differences are also apparent. Unlike Japan, which placed strict limits on inward FDI during its high-growth phase, China has welcomed it and become one of the world's biggest recipients as a consequence (Naughton 2007). Having said that, we also need to remember that China, like Japan before it, has an enormous pool of domestic savings on which to draw. As a consequence, and despite the massive inflows of foreign capital that have gathered pace since the early 1990s, FDI has only accounted for something like 5 percent of capital formation in China (Bergsten et al. 2006).

Nevertheless, FDI *has* been important, not least in introducing new ideas and technology, something that was recognized and encouraged by Deng in the first phase of China's economic opening. Not only was this catalyst important for China's economic development, but it also improved hitherto frigid bilateral ties between China and Japan (Vogel 2011). For all the possible diplomatic and even strategic benefits that might flow from improved Sino-Japanese relations, Japan's economic engagement with the region has largely and unsurprisingly reflected developments within its own domestic economy and the value of the yen.[14] As a consequence, the heyday of Japanese FDI generally, and FDI to Asia in particular, was the early 1990s, when Japanese companies moved offshore to compensate for declining competitiveness and cost pressures. Even then, Japan's investment in Asia was smaller than in Europe and especially the United States (Lincoln 2004). Despite this disparity in funds, China has rapidly become Japan's largest single trade partner and such an important and profitable part of Japan's evolving international economic profile that, according to Munakata (2006), "the 'China threat' argument has been put to rest" (138).

Until recently this judgment looked, sounded, and may yet be vindicated in the long run. And yet the increasingly strained relations between China and Japan provide a sobering reminder of just how fragile relations can be and how exposed Japanese investors are (C. Murphy 2012). Indeed, one could potentially read entirely different possibilities and prospects into the relationship. On the one hand, economic ties seem set to continue deepening and thus stabilizing the relationship. The turning point as far as Japanese investment and FDI more generally was concerned was China's accession to the WTO, something that helped consolidate China's position in a rapidly evolving regional production network (Thorbecke and Salike 2011). Indeed, Susan Shirk (2007) suggests that China's decision to join the WTO was "the best thing that ever happened to China's regional relations" (132). Perhaps so, but it may not be enough to overcome the growing nationalist sentiment that has been fueled by the territorial dispute—and not just on the Chinese side. On the contrary, an equal and opposite reaction is developing in Japan as both sides are driven on by noisy domestic forces (Hayashi 2012).

We will consider the geopolitical impact of these tensions in more detail below, but before we do, we need to recognize that—however the territorial dispute unfolds—a fundamental change has occurred in the regional economy. From being a region that was primarily driven by the Japanese economy, now two hubs and many spokes can be found in what Richard Baldwin (2008) describes as the "East Asian bicycle" (70). The rise of China has reconfigured the architecture of regional production and encouraged the sorts of trade liberalization agreements we noted with Southeast Asia in the last chapter. As a consequence of China's trade liberalization initiatives, Japan has sought to establish its own free trade agreement with ASEAN (Yoshimatsu and Trinidad 2010). While Japan's activist economic diplomacy may contribute to the overall process of "networking the region" (Dent 2003), one should note that at this stage, no similar agreement exists between China and Japan, despite their growing economic integration and the development of an investment agreement that also includes South Korea (Dickie and Oliver 2012). Of even greater potential significance are the apparently serious talks between Chinese and Japanese officials about developing an Asian currency, which will most likely be the renminbi, given China's growing interest in internationalizing its currency (Wei, Davis, and Nakamichi 2011).

Extensive economic ties are therefore forming between China and Japan, and these ties have the potential, at least, to encourage further formal agreements between the two countries—agreements that seem at odds with other aspects of the relationship. If such agreements can be realized, this raises the possibility that elements of any bilateral relationship may be compartmentalized or quarantined from more difficult issues. The other country that merits mention in our brief summary of Northeast Asia's political economy—South Korea—also gives credence to this idea. As China has become South Korea's largest trade partner and largest single destination for Korean FDI, a significant improvement has taken place in bilateral relations, one that seemed capable of weathering the occasional North Korean–induced crisis. Indeed, South Korean concerns about its growing economic dependence on China looked more likely to undermine ever closer ties (Sutter 2010). The more general question that China's steadily deepening economic relationships with all its Northeast Asian neighbors brings to the surface is, can they transform the strategic environment in the way liberals would like to believe (Goldsmith 2007)? To answer this question we need to look more closely at the security situation in Northeast Asia, which is routinely described as one of the world's most combustible "flashpoints."

Security in Northeast Asia

Northeast Asia, like the broader East Asian region of which it is a part, presents something of a strategic paradox. For decades now, a number of observers have been arguing that the region is "ripe for rivalry," to borrow Aaron Friedberg's (1993–1994) evocative phrase. And yet the most remarkable feature of East Asia and Northeast Asia in particular is that they remain essentially peaceful. True, North Korea can be relied upon to induce regular panic attacks among the region's strategic planners, and any number of confrontations have been associated with rival territorial claims, especially between China and Japan, but thus far at least, East Asia remains remarkably peaceful (Weissman 2012). This outcome is, of course, entirely in keeping with China's overarching grand strategy, which seeks to create a peaceful external environment within which its own economic development can occur (G. Liu 2006).

Many outside China, especially in the United States, think that it suits China to maintain a low profile while it is relatively weak, but China's desire to keep out of the limelight does not mean that conflict is any less likely—even inevitable—in the long term (Mearsheimer 2001; Friedberg 2011). In this regard, despite the protestations of the Chinese government to the contrary, their claims appear to be validated by the writings of some Chinese commentators. Indeed, a number of very high profile contributions have been made to the debate in China that argue that China should build up its defense capability as rapidly as possible because they, too, think that a clash with the United States is likely if not inevitable. Not all of these analyses are as scholarly or sober as we might hope. Liu Mingfu's (2010) best-selling *Zhongguomeng: Hou Meiguo Shidai de Daguo Siwei yu Zhanlue Dingwei* (China Dream: The Great Power Thinking and Strategic Positioning of China in the Post-American Age) argues that China needs to develop the world's most powerful military capacity because conflict with the United States is inevitable (see also Dai 2010).

Against this rather unpropitious backdrop, China's strategic relations with its Northeast Asian neighbors are playing themselves out. For China's foreign policy making elites, striking the right balance between competing priorities is an increasingly complicated business as they struggle to balance traditional attitudes and ties with China's increasingly prominent international profile. In this regard, being a great power is something of a double-edged sword, to borrow an appropriate cliché.

Much of the thinking about these issues in China needs to be seen in the context of a desire on the part of China's policymakers to use the Northeast Asian region to counterbalance what are seen as "containment" strategies on the part of the United States (Deng 2001). At the same time, however, a recognition exists that China needs to cooperate with the United States to address many regional issues. This paradox is reflected in the domestic debate regarding the role of the United States in Northeast Asia among many of China's leading scholars. Some, such as Yuan Peng (2007),[15] take a negative attitude toward the United States' Northeast Asian policy and argue that the strategic objectives of the United States in Northeast Asia are designed to prevent China's rise through the use of alliances and by limiting China's economic development. By contrast, scholars like Li Kaisheng[16] believe that the United States in its involvement in Northeast Asia could actually use its alliances to stabilize the regional situation. Moreover, Li Kaisheng (2007) claims that history and the consequent poor intraregional relations necessitate US involvement, especially if the North Korean nuclear issues are ever to be resolved. Indeed, the tensions and competing pressures inherent in China's contemporary foreign policy approach are nowhere more dramatically highlighted than in its relationship with North Korea.

North Korea: With Friends Like These . . .

North Korea, or the Democratic People's Republic of Korea, to give it its proper title, has become a byword for unpredictability and uncertainty. Even the few specialists who work on North Korean politics cannot be sure how the regime's complex internal politics play out, or quite what drives some of its more high-profile, inherently risky strategic decisions, such as the unprovoked attacks on South Korean vessels and islands. Given that the regime founded by Kim Il-sung has now become a dynasty, with his son (Kim Jong-il) and youthful, relatively untested grandson (Kim Jong-un) assuming the leadership in turn, one might wonder why China continues to support North

Korea. Why would China want to be associated with a regime that is primarily renowned for being unstable, impoverishing its own people, and attempting to blackmail and intimidate the "international community"[17] generally and South Korea and the United States in particular?

While some in China still regard North Korea as an important historical ally,[18] significantly, in the aftermath of Kim Jong-il's death and Kim Jong-un's ascension to the leadership, many in China's blogosphere and increasingly outspoken civil society questioned China's continuing support (Hille 2012b). However, despite all of the negative criticism directed at North Korea itself, and at China's leadership for continuing to support it, Chinese strategists, as Rozman (2010) points out, "continue to regard the North as an asset" (177). The calculations that inform this judgment may not be attractive or morally defensible given the nature of the regime, but they are entirely in keeping with a broadly realist reading of regional relations and China's place in them. They also reflect the long-term, essentially stable relationships that have dominated the Korean peninsula, in which loyalty to either the United States or China has been an enduring and important cornerstone (Chung 2005). Apart from the not unimportant fact that China has few friends or allies, the collapse of the North Korean government would have unforeseeable and potentially disastrous consequences for China—or for the leadership of the PRC, at least.

Not only would the abrupt demise or death throes of the North Korean regime be likely to trigger a potentially massive outflow of refugees into China, but it would inevitably and profoundly reconfigure the strategic balance on the Korean peninsula and across the region more widely. At best, the North would be economically and eventually socially absorbed by the South, creating a new, potentially much more powerful state on China's doorstep. Of even greater concern from a Chinese perspective, such an eventuality might also put US troops on China's immediate border, unless an agreement could be reached about their withdrawal. As far as China's policymaking elites and commentators are concerned,[19] therefore, compelling reasons can be found for continuing to support the North despite its unpredictability and general pariah status, not the least being the fact that some prominent observers in China think the talks have been a comparatively successful opportunity for China to exercise diplomatic leadership (Y. Shi 2005).

Becoming clear, however, is that Chinese analysts are growing more aware that China's pragmatic or realist reputation is beginning to undermine its claims to being a good international citizen. Indeed, Chinese scholars are increasingly aware of China's image overseas, but some feel that the government needs to work harder to overcome Western bias and stereotyping (see A. Li 2008; Qu, Su, and Li 2012). The accusations of neocolonialism have been leveled against China in Africa and elsewhere (Kleine-Ahlbrandt and Small 2008; Alden and Hughes 2009), and these accusations have proved embarrassing and are generating an interesting debate in China. Li Anshan (2006), for example, describes four contradictions in Chinese policy, firstly between China's national interests and the interests of Chinese companies; secondly, between Chinese companies and African companies; thirdly, between China's African interests and those of the West; and lastly, between China's energy strategy and its concerns about environmental sustainability. Overcoming these contradictions, Li argues, will greatly improve China's international image. By contrast, Liu Naiya (2006) believes that the Western accusations of Chinese neocolonialism are unjustified because China's aid to Africa comes without political conditions and offers a new developmental paradigm that is mutually beneficial.

One of the ways that China has sought to offset the possible damage to its reputation caused by its continuing support of the North is by playing a key role in the Six-Party Talks, which are designed to negotiate a denuclearization agreement (Horowitz and Ye 2006). In addition to the two Koreas and China, the talks include the United States, Japan, and Russia. At one level, the talks offer China the opportunity to demonstrate its new status as an important, influential member of the international community, one that is uniquely placed to broker deals that have hitherto proved elusive. And yet the breakdown of the talks in 2009 demonstrated the limits of China's policy options as it was unwilling to cooperate with the other four states to implement United Nations Security Council sanctions against the North in the aftermath of a second nuclear weapons test (Rozman 2012).

The failure to resolve the continuing crisis on the Korean peninsula is not simply China's fault—something Chinese commentators are quick to point out. According to a number of Chinese observers, the principal problems with the negotiations are to do with institutional design and limited authority (F. Zhu 2009; L. Zhang 2010). Potential organizational shortcomings have been exacerbated by a number of US administrations demonstrating differing degrees of inconsistency, uncertainty, and belligerence at times, something that has contributed to a good deal of mutual incomprehension and suspicion (Bleiker 2005; Mazarr 2007). But for China the stakes are higher than they are for the United States. Korea is, after all, one of China's immediate neighbors and a test case of its ability to both manage its own border and play a larger role on the world stage. The record thus far, as even Chinese commentators concede, is rather mixed (K. Li 2007).

Japan

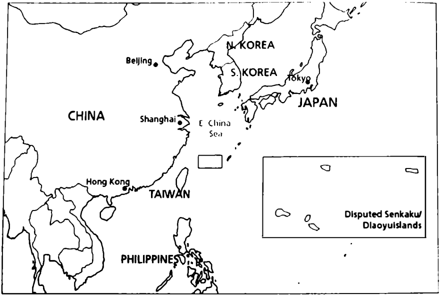
Given the recent history between Japan and China, we might be forgiven for thinking that security issues would be difficult to manage. After all, not that long ago—when seen from a Chinese perspective, at least—Northeast Asia's two most important states were actually at war. More recently, China and Japan were on opposite sides of the Cold War, a period that made any kind of genuine regionalism in Northeast or East Asia impossible. Even now, Japan's seemingly unshakable strategic alliance with the United States adds an additional layer of complexity to Sino-Japanese ties given China's continuing misgivings about US hegemonism and the United States' recent determination to reassert itself in the region (Deng 2001; B. Yang 2012). Indeed, despite China's historical concern with border security and its importance as part of China's overall developmental strategy, remarkably, China has been more likely to compromise than use force when resolving border disputes (Fravel 2008b). China's turn toward peace was partly why many informed observers outside the region remain largely upbeat about the prospects for Sino-Japanese ties (Mochizuki 2005). Of late, however, much of the earlier optimism has given way to high anxiety—especially in the Sino-Japanese relations.

Although grounds can still be found for cautious optimism, reasons also exist for justified caution. Doubts are growing about whether the deepening economic interdependence between the two countries can overcome years of mistrust and even outright conflict (Spegele, Barnes, and Hayashi 2012), and not just among the more extreme nationalist elements on both sides. For example, Ren Liming and Fan Guoping (2010) argue that the economic interdependence may not always lead to peace and may not be able to undermine the influence of Japan's nationalists. In Japan, concerns remain regarding the "hollowing out" of Japanese industry and the export of jobs to China, fears encapsulated in the "China economic threat theory" that was prominent in the 1990s (Samuels 2007: 144). This issue is an especially sensitive one in Japan because for most of the postwar period, it has been the largest economy and principal driving force of regional economic integration. Now, by contrast, Japan's own economy is mired in a decades-long downturn, and it has been overtaken by China as the world's second-largest economy (McCurry and Kollewe 2011). One should also remember that China and Japan are locked in a long-running competition for regional preeminence. Japan's attempts to provide regional leadership may not always have been terribly effective, but they were motivated primarily by a desire to counteract those of China (Y. Sohn 2010).

This background of regional rivalry and historical animosity might suggest few reasons can be given for supposing that the strategic architecture inherited from the Cold War and underpinned by US military presence in Japan is likely to change. And yet we need to recognize that some voices within Japan and China are not content with the status quo. Some Japanese analysts worry that Japan's strategic subordination to the United States has effectively given that country a blank check when deciding security policy in the region—an issue that assumes a particular prominence in debates about policy toward China in the event of a conflict over Taiwan (George-Mulgan 2006). A growing number of voices in Japan are trying to influence policy, by promoting a more independent line and even supporting closer ties with China (Sunohara 2010). Unsurprisingly, perhaps, many in China have similar concerns, albeit for slightly different reasons. Zhang Jingquan (2006) argues that the strengthening of the US-Japanese alliance will trigger large-scale confrontation, block the development of a cooperative and mutual beneficial economic order, and ultimately contain the rise of China. Sun Junjian (2005) stresses the role of the US-Japanese alliance in helping Japan to become a "normal state" and warns of the danger of Japan's playing a role in any conflict with Taiwan. Likewise, Shu Biquan (2011) emphasizes the negative impact that the US-Japan alliance could have on China's territorial claims.

Consequently, and despite some potential areas of common interest, Japanese policy toward China remains ambivalent, and this ambivalence is making life difficult for Beijing. On the one hand, Japan is giving off signs of a new willingness to establish closer, more collaborative defense ties with China (Dawson 2011). On the other hand, however, China's increasingly heavy-handed and assertive maneuvers around the disputed Diaoyu/Senkaku islands in the East China Sea, which are controlled by Japan but claimed by China (see Map. 6.1), presents a continuing and apparently insurmountable obstacle to more cordial ties (Dickie and Hille 2012).[20] The danger is that the relationship will be further undermined by the increasingly strident rhetoric of nationalists in both countries. A lack of political legitimacy means that policymakers in China and Japan are especially vulnerable to accusations of weakness. A real danger exists in such circumstances of miscalculation or accident. Even more alarmingly, perhaps, if the United States wants to remain a credible regional security guarantor and ally, it would have little option other than to support Japan in any conflict with China, a point reiterated by US defense secretary Leon Panetta (Barnes and Spegele 2012).

Such a nightmarish prospect remains unlikely, but not as inconceivable as it once was. Paradoxically, if alliances fail to deter conflict, they could actually make it far worse: World War I remains a depressing reminder of how allied states can blunder unintentionally into catastrophic war. This possibility is still remote but made slightly more likely by the nonnegotiable nature of some of the national interests in play. China's conflicted policy position in Northeast Asia stems in part from the same sources as it does in Southeast



Map 6.1 Northeast Asia's Unresolved Territorial Dispute

Asia: the seemingly irreconcilable goals of simultaneously reassuring nervous neighbors about its benign intentions while attempting to guarantee its long-term resource security. In Northeast Asia, however, China's historically toxic relationship with Japan adds an additional layer of complexity and uncertainty as "national honor" comes into play.

For both China and Japan one of the most difficult challenges is reconciling domestic politics with long-term strategic goals. While a good deal of "realism" influences the relationship and the need to maintain stability in both countries, powerful nationalist forces are also at work. In China's case they are increasingly influential and vocal, and China's domestic audience is equally vocal and potentially implacable when it comes to Taiwan, which presents another stern test for liberal optimists.

Taiwan: A Domestic or a Foreign Policy Problem?

Taiwan presents China's leaders with some of their most difficult policy challenges. Given that Chinese leaders and commentators still largely regard Taiwan as a renegade province, whether or not the question of Taiwan's independence is a foreign policy problem at all is debatable from a Chinese perspective. But as a foreign or domestic issue, Taiwan's status clearly has profound foreign policy implications, at the very least. Ever since the first crisis over Taiwan in 1954–1955, that China's opposition to possible Taiwanese independence would lead Chinese governments to take enormous risks and flirt with outright war in order to protect what are seen as vital national interests and domestic sovereignty has been evident. The stakes in the United States were equally high: during the second Taiwan crisis in 1958, the possibility of using nuclear weapons against the mainland was openly discussed (Yahuda 2004). While tensions remain in the three-way relationship between China, Taiwan, and the United States, with some US and Chinese observers still seeing conflict in the straits as a likely catalyst for conflict (X. Yan 2001; Freidberg 2009; W. Wang 2010), the overall situation has improved markedly since the darkest days of the Cold War. Much of this improvement can be attributed, once again, to the dramatic growth in economic ties (S. Chan 2009; Kwong 2011).

At one level, this outcome may seem unsurprising: both sides would seem to have much to gain from maintaining good relations and not jeopardizing the increasingly important economic relationship. However, like any economic relationship, the nation as a whole does not necessarily benefit, but instead primarily business elites and specific sectors of the economy. At another level, therefore, the discourse surrounding the status of Taiwan on both sides of the strait continues to be overlaid with nationalist rhetoric. Such rhetoric has been most evident on the mainland, where a range of voices continues to push for reunification. Indeed, this issue is one of the most important forces for national unity in a country increasingly characterized by disparate voice. As Liu Xingren (2010) points out, reunification with Taiwan is a touchstone issue for many Chinese because of its association with China's humiliation at the hands of Western powers. As Roy (2009) observes, not only are many mainland Chinese still clearly prepared to bear the cost of war, but "a mobilised Chinese public could force Beijing to act against the government's own cold-blooded calculations, putting a seemingly 'irrational' course of action back on the table, perhaps unbeknownst to foreign analysts attempting to anticipate contingent Chinese behaviour" (35). In other words, the same sorts of potentially destabilizing forces are at work in relations with Taiwan as they are with Japan. The incalculable, unpredictable nature of cross-strait relations makes them dangerous and inherently difficult to manage for the PRC. Not only is the pressure to protect China's perceived national interests arguably increased by a more vocal civil society, but the example of a successful Chinese democracy so close to home gives lie to the argument that some innate incompatability exists between Chinese culture and democratic reform.

And yet for all Taiwan's success in consolidating democratic politics, the relationship with China presents major difficulties and strategic consequences for its leaders, even if they arguably enjoy greater legitimacy. The island's politics are sharply divided between those that favor closer ties with the mainland and those who push for greater independence (Chu 2004). As a result, Taiwan also faces the challenge of balancing its commercial and strategic interests. Significantly, however, under the leadership of Ma Ying-jeou in particular, defense spending has been reduced and the perennial problem of arms sales from the United States has become less of an issue (Page 2011).[21] The principal mechanism for maintaining stability as far as the PRC is concerned is that all parties recognize and abide by the "one China principle," which assumes that Taiwan will ultimately be reunified with the mainland. Whatever the merits of this arrangement as far as stability is concerned, Taiwanese independence remains an essentially *political* rather than *strategic* issue (Bush 2005). Short of outright war, which most think China could not win, the Taiwan issue is consequently not a traditional security problem. Nevertheless, even though increased Chinese defense spending may not be designed, or even give it the capacity, to win a conflict with the United States, some fear it will raise the stakes sufficiently to make the United States less willing to support Taiwan and thus accelerate its retreat from Asia (Kaplan 2010b; Friedberg 2011). Significantly, influential Chinese observers, such as Zhao Xiaozhuo (2005) from the PLA Academy of Military Science, also believe that the United States may be unwilling to support Taiwan in a possible cross-strait conflict.

Conclusion

The key question that emerges from this discussion is what the overall consequences of China's economic rise are likely to be: are the realists right to fret about China's ability to modernize its military and change the balance of power, or will economic interdependence work its magic and transform the perception and the substance of bilateral ties? For some observers, such as Robert Ross (2006), the underlying reality is that "dominant economic power alone is insufficient to compel accommodation by secondary states, and that military power trumps economic power in determining secondary state alignment" (393). In other words, China's foreign policy makers cannot be confident that economic integration alone will prove sufficient to transform its relations with its neighbors. If true, the implication of this rather sobering conclusion is, of course, that both China and the United States ought to keep up military spending if they want to maintain their relative positions.

Whatever the merits of realist claims about the continuing importance of military might, a number of points need to be kept in mind. First, as we saw in Chapter 4, the ability of the current hegemon to maintain its military dominance is in question, not least because it is so reliant on China to provide the financial wherewithal to underpin its hegemonic ambitions. The implications of this unprecedented economic interdependence between a rising and declining power are uncertain, but at the very least the situation makes any "rational" calculation of material advantage, much less the ability to triumph in any possible conflict, increasingly difficult. Unfortunately, this uncertainty does not mean that conflict is, therefore, impossible. China's relations with Northeast Asia generally and with Japan and Taiwan in particular provide a sobering reminder that foreign policy is not always an elite-level exercise carried out by dispassionate specialists. On the contrary, even in the United States, foreign policy can become hostage to domestic politics. Indeed, *all* politics in the United States is famously influenced by domestic forces. We should not be surprised, therefore, that as China's people look to their policymakers to right historical wrongs and reestablish China at the center of regional, and perhaps world, affairs, foreign relations might come to reflect powerful nationalist undercurrents. The question is, can they be managed and can China become—or even remain—a force for regional stability? Our next case study presents a rather more optimistic prospect.

Notes

1. Also important to note is that Japan's actions in Korea were divisive and destructive and became one of the reasons why relations between Japan and Korea have also been difficult over the years. See Beasley (1987).

2. He Ciyi (2003) offers an interesting textual analysis that examines the specific words used by the Japanese government. According to He, *meiwaku, hansei,* and *ikan,* which are frequently used in the Japanese documents, are not genuine words of apology. The appropriate words, He argues, are *owabi* and *shazai,* but they are not in any official documents that discuss the conflict with China.

3. The complex network of strategic alliances that is dominated by the United States and that many think ensures stability in the region implies that US partners will support it in the event of any conflict over Taiwan—something that has caused great discomfort for Australia in particular as we explain in Chapter 8.

4. Yu Keli, director of the Institute of Taiwan Studies, Chinese Academy of Social Sciences, states that on the issue of Taiwan, the Chinese government and the Chinese are united. Yu argues that the Taiwan problem is China's most important foreign policy issue and that China simply will not tolerate Taiwanese independence. Similarly, Sun Shengliang from the same institute believes that most of the Taiwan experts in China think that many issues can be solved by consultation, but only if the Taiwanese do not push for independence. (See the interview transcript by the Xinhua News Agency, Xinhuanet 2004.)

5. Premier Wen Jiabao even said that "Taiwan is part of China . . . [and] that is more important than our life" (cited in B. Yuan 2004). The nationalist sentiment is most powerfully expressed on Internet forums. Chinese netizens, especially the so-called angry youth of China, urge the government to use military means to regain Taiwan. See for example the forum on Xinhuanet (2004).

6. For public figures, doing anything other than supporting unification is difficult. However, some different opinions appear on the Internet and some prodemocracy activists also support independence for Taiwan. See, for example, the famous dissident Wei Jingsheng's (2002) blog article.

7. Some leftists in China still sympathize with North Korea–style socialism and even support the government's decision to develop nuclear weapons. (See Y. Zhao 2010.)

8. An important and growing literature analyzes these issues from a political economy perspective. See Strange (1994) and Underhill (2001). Important differences can also be found between British and US variants, which reveal as much about national academic cultures as they do about the way the world works. See Cohen (2007) and Higgott and Watson (2008).

9. The program, which was launched in 1992 and led by the Asian Development Bank, is an interesting example of China's new foreign policy initiatives. The aims of such cooperation are ostensibly to strengthen the economic connections among the subregional countries, increase competitiveness, and promote the economic and social development of the region as a whole. This subregional cooperative project is the first that China has been involved in and is the most developed cooperative mechanism in East Asia thus far. The program has six member states: China, Vietnam, Laos, Cambodia, Burma, and Thailand. The subregion covers 2.57 million square kilometers (992,000 square miles) and has a population of 326 million. China provides 86.8 percent of the governmental investment for the thirty-four loan projects of the program. Many Chinese policymakers see such cooperative mechanisms as an effective way to engage with the region and something in which China can play a constructive role. The program also offers another way of physically reinforcing the centrality of China in the region's economy. However, China's development in the Greater Mekong river region is also controversial. Take the dam construction for example: countries along the downstream of the Mekong complain that China's massive dam construction has changed the ecological environment of the river. The ensuing conflict over water became more and more serious in the region, providing a sobering reminder of the material limits to, and constraints on, regional cooperation.

10. For example, Zhou Bo, the deputy director of the Hong Kong and Macau Affairs Office once claimed that Hong Kong, Taiwan, and the mainland will face the challenges of the international financial crisis together (Anonymous 2011a).

11. Under the three-noes policy devised by former president Chiang Ching-kuo in the 1980s, Taiwan's leaders vowed no contact, no negotiation, and no compromise (*bu jiechu, bu tanpan, bu tuoxie*) with China. See Li Songlin's (2008) book on the later life of Chiang Ching-kuo and his three-noes policy.

12. Both Lee and Chen pushed for greater autonomy if not independence from the mainland, and yet their insistence was not enough to derail the intensification of economic relations despite the occasional tensions. See S. Chan (2009).

13. According to China's official policy, Taiwan can follow Hong Kong's example, namely the "one country, two systems" approach. This model was first initiated

by Deng Xiaoping as a way of addressing the Taiwan problem (see L. Wu 2003). According to the Chinese government, Taiwan has the potential to enjoy even greater autonomy than Hong Kong, and even retain its own armed forces. A number of Chinese scholars support this policy (see Sun and Hou 1999; H. Wang 2011), as do some important Taiwanese political and academic figures such as the president of the Alliance for the Reunification of China, Ji Xin (2007).

14. The single biggest factor influencing the outward migration of Japanese corporations and the spike in FDI was the so-called Plaza Accord in which Japan was bullied by the United States into allowing its currency to appreciate (see Beeson 2007a). Chinese policymakers and commentators have absorbed the lessons of this period of Japanese history, and they undoubtedly influence attitudes toward the current—remarkably similar—debate about the value of the renminbi. For example, Liu Chao and Yang Hongyan (2005) argue that China must learn lessons from the Japanese experience and adopt a cautious attitude about the possible impact of the appreciation of renminbi on China's progress (see also Xia and Liu 2007). However, others such as Fan Xingli and Wang Jing (2003) argue that the real reason for Japan's economic malaise is its poor economic policies. As a result, the Plaza Accord has little comparative significance for China.

15. Yuan Peng is the director of the Institute of American Studies at the China Institutes of Contemporary International Relations.

16. Li Kaisheng is an associate professor of Xiangtan University and a very influential commentator on international affairs.

17. This phrase is another one that is rather carelessly invoked, without its meaning—much less its existence—actually being clear. This point is not a trivial "academic" one: the phrase not only assumes that an effective international community exists that is capable of acting, but also serves to marginalize or implicitly criticize those that are not part of it. See David (2009).

18. For example, Liu Yuzhi (2013) believes that China should not give up on North Korea because China has few friends, and allies can have disagreements, as the relationship between the United States and Israel demonstrates. Likewise, Chen Guangwen (2013) argues that North Korea's policies are a result of China's failure to provide adequate support. Li Kaisheng (2009) believes that if China can underwrite North Korea's security, the latter may abandon its nuclear strategy.

19. Some Chinese scholars argue that because the North continues to feel threatened by the United States, the pursuit of weapons of mass destruction is understandable. In this view, both the United States and North Korea are to blame. (See Wang and Song 2011; Ni 2005.)

20. One should note that Japan's leaders have also been responsible for poisoning relations between the two countries at times and have stirred up the nationalist sentiment in China in the process. Former prime minster Koizumi Junichiro's repeated visits to the Yasukuni Shrine, which, according to the Shinto religion, houses the spirits of Japanese war criminals, regularly infuriated Chinese people and officials. See Sato (2009).

21. The 2012 budget was the first time defense spending had been increased under Ma's leadership and came in the wake of China's announcement of a 12.7 percent rise in its own defense spending (Anonymous 2012a).

7

India, Russia, and Central Asia

Of all the regions with which China has immediate borders, its formal relations with Central and South Asia have in many ways been the least developed, especially in South Asia, where India—its great long-term potential rival for Asian hegemony—is the dominant actor. Significantly, South Asia has limited institutional development at the regional level, and few formal mechanisms exist with which to conduct interregional relations (Dash 2012). In Central Asia, by contrast, more progress has been made in developing regional institutions, largely as a consequence of Chinese initiatives, but China's leaders must also deal with Russia, the established great power of the region. As a consequence, even in Central Asia, some observers think the region's architecture and identity remains more "virtual" than real, the primary purpose of which is to shore up domestic sovereignty in the face of external challenges and pressures (Allison 2008). Either way, considering South and Central Asia together makes sense because they share important characteristics, not the least of which is as arenas for the conduct of traditional geopolitics and great power contestation. Indeed, the importance of Central Asia's energy resources and its status as a site of great power rivalry between India, Russia, and China means that disentangling these "regions," if that is, indeed, what they actually are, is not easy.

In the first part of this chapter, we sketch the historically fraught relationships between India and China on the one hand and Russia and China on the other. These relationships are potentially pivotal parts of not only Asian but also global geopolitics: even if none of these states can realize some of the more inflated claims that are made about their future prospects, they have already helped to overturn the extant international order. Nothing captures the possibility that we are witnessing the emergence of a new international order more dramatically than the recent creation of BRICS.[1]

Even if some of the claims that are made about the synergistic potential of "Chindia" are fanciful and unlikely to be easily realized (Sharma 2010), the actions of countries such as India and China will have profound implications for their smaller and less powerful neighbors. Likewise, the evolving relationship between China and Russia has profound implications for both Central Asia and for China itself as it tries to shape a region that has traditionally been seen as part of Russia's sphere of influence.

In the second half of this chapter therefore, we look at the (re)emergence of Central Asia as a major source of competition between the region's great powers. As far as Chinese policymakers are concerned, despite—or, perhaps, because of—Central Asia's relatively limited institutional development, the region represents a critical test of the efficacy of Chinese diplomacy in its own backyard in the face of sustained geopolitical competition. Success here could presage further positive outcomes in other more institutionally dense and contested international arenas.

Regional Rivals

The Central and South Asian regions contain some of China's longest borders and some of its most difficult potential challenges. Not only has the very nature of these historical borders often been contested and imprecise, but they are shared with potentially significant rivals. The relationship with Russia, especially during its period as the Soviet Union, has been a profoundly important influence on the course of modern China's development since World War II. Even now it remains important, especially in the context of Central Asia, which is the principal focus of this chapter. Significantly, however, an equally profound reconfiguring of the bilateral relationship between the two former stalwarts of international socialism has taken place: whereas the Soviet Union has disintegrated along with its status as a superpower, China's rise has proved unstoppable thus far—a secular change that has transformed the basis of the two-way relationship. China's relationship with India, by contrast, although not as consequential historically, has a very different and increasingly important dynamic: both China and India are unambiguously rising powers, and their simulataneous development has important consequences for both the bilateral relationship and for Central and South Asia more generally. However, before we consider what impact these newly reascendant powers are having on the region, we need to consider China's relationship with Russia, which despite its relative decline remains a pivotally important regional influence, especially in Central Asia, where China's new diplomatic initiatives are most fully developed.

Of Bears and Dragons

Employing zoological analogies seems almost obligatory when talking about Asia, a region replete with tiger economies and flying geese, to say nothing of the occasional lame duck. In China and Russia's case, however, the analogies are threadbare but apt: the Russian bear does seem rather lumbering compared with the fire-breathing and—thus far, at least—soaring Chinese dragon. The serious point to emphasize here is that a significant recalibration has occurred in the bilateral relationship between Russia and China in which the master has been overtaken by the apprentice in ways that have profound implications for the long-term evolution of the international order more generally. The key elements of this transformation are well enough known but merit brief recapitulation because they help us to understand the forces that are facilitating and constraining Chinese policy in Central Asia in particular.

Throughout history Chinese leaders have been preoccupied with the threat from the north. Given that China and Russia share the world's longest land border, that Russia and the Soviet Union have been seen as sources of potential threat and insecurity in China is hardly surprising. Even during the "communist era," when the bonds of international socialism might have been expected to transcend historical animosities and national rivalries, the reality was often rather different as the eventual split between Moscow and Beijing in the late 1950s reminds us (Griffith 1972). However, one should recognize that many of the "third generation" of Chinese leaders, such as Jiang Zemin, were often partly educated in Russia, spoke the language, and had broad ideological sympathies with the Soviet Union, even if these factors were not enough to transcend national interests and the subject of bitter doctrinal disputes as the relationship deteriorated. As a consequence of this shared but often fractious history, mixed views can be found about the historical importance of the relationship in China today.

Scholars such as Wang Qi (2003) believe that during the 1950s, the help of the Soviet Union was critical for China's early industrial modernization by providing technology and expertise. Moreover, many of the students who studied in the Soviet Union during this period eventually became China's leaders in the 1980s and 1990s. More than 200 such students became the fellows of the Chinese Academy of Sciences and the Chinese Academy of Engineering. Many of them became leading figures in China's nuclear weapons development and China's aerospace industry (S. Zhou 2012). However, the Chinese government and many Chinese scholars remain of the view that the help provided by the Soviet Union was not given for anything other than pragmatic reasons, intended to keep China as a key ally in its hegemonic competition with the United States (F. Ma 2009). However, we should also recognize that some observers argue that China was primarily responsible for the split with the Soviet Union. As Liu Keming (2000) argues, China overemphasized ideological differences and made a rapprochement increasingly difficult.

The breakdown of the alliance between China and the Soviet Union is, therefore, a reminder of the continuing importance of national interests. Ultimately, these clashing interests and China's unwillingness to continue playing a subordinate role to the Soviet Union have completely reshaped the regional balance of power in Asia. Although important factors within the bilateral relationship fueled the split, such as the Soviet Union's reluctance to assist China's push for nuclear weapons, both countries were also preoccupied with the position of the United States—a situation that remains largely unchanged to this day. Both the Soviets and the Chinese wanted to reach an accommodation with the United States that would either defuse superpower tensions or, in China's case, allow them to concentrate on economic development at home. As Norling (2007) rather caustically observes, the bottom line then, as now, was that "both China and Russia know that either would betray one another for a healthy relationship with the United States" (40).

The United States was at this time preoccupied with Vietnam, blinkered by the ideological rhetoric of the Cold War, and incapable of recognizing just how important the split between China and the Soviet Union actually was (Schaller 1979). Michael Yahuda (2004) suggests that the subsequent ideological disputes and divisions between the Soviet Union and China ultimately fed into China's domestic politics, fueling the social crisis that culminated in the Cultural Revolution. Clearly, the bitter divisions between the former communist allies ultimately paved the way for the rapprochement between the United States and China—something that in turn eventually led to the economic and political transformation that underpins contemporary China's remarkable rise.

Russia's fortunes have been something of a mirror image of China's, most dramatically symbolized by the dissolution of the Soviet Union and its empire (Crawshaw 1992). As far as China is concerned, two aspects of the Soviet Union's collapse are especially consequential. First, and most tangibly, the strategic threat posed by Russia has been significantly diminished, allowing China greater potential freedom of action. Second, China's leaders took careful note of the way Russia's leaders mismanaged the reform process and made sure the sequence of events in China would be rather different: economic reform first and (possible) political liberalization later, rather than vice versa (Jin and Haynes 1997). Significantly, the Russian experience continues to inform a substantial literature and commentary in China.[2]

Ironically enough, however, in the ideology-free environment that distinguished post-Soviet Russia, and partly as a consequence of China's post-Tiananmen isolation, China and Russia developed a pragmatic relationship that endures to this day. In contrast to India, China's border demarcation disputes with Russia are effectively resolved, paving the way for a more productive, less existentially fraught relationship. The "strategic cooperation partnership" first proposed by Boris Yeltsin in 1994 became the basis for stronger ties between the former foes, leading some to claim that the relationship between China and Russia has never been better. In this endeavor they were undoubtedly assisted by their own relative lack of close allies and their shared concern about the continuing influence and strength of US hegemonism (Dittmer 2009). We do not wish to suggest that no areas of potential conflict exist between China and Russia, because there plainly are, especially in the latter's far flung eastern provinces where Russia's demographic decline is raising fears about an incipient threat of Chinese expansion. However, Vladimir Putin's most recent visit to China reinforced the impression that relations between the two great powers are essentially cordial and stable—markedly different from the situation a couple of decades ago.[3]

Barring some unforeseen event, this situation may well continue. After all, both states are united by an overwhelming desire to maintain domestic stability, insulate themselves from unwanted external criticisms, and entrench the sort of state capitalism and authoritarianism that are features of some of the world's most important rising powers (Zakaria 2003; Gat 2007). This continuing realignment and stabilization of intraregional politics are having two especially important consequences as far as Chinese foreign policy is concerned. First, as we explain in more detail below, Russia and China are crucial parts of an institutional innovation and development in Central Asia, in ways that seemed unlikely little more than a decade ago. Indeed, as Karrar (2009) points out, China's policy in Central Asia built upon and was facilitated by its improved relations with Russia. Second, talk can be heard of the emergence of a new "strategic triangle" in Asia, this time one that involves India, rather than the United States, as its third leg (Ferdinand 2007). To see what the prospects are for this last initiative in particular, one needs to understand something about China's new regional rivalry and the historical context that is likely to shape it.

China and India in Context

For all the attention that has been given to Japan as a potential rival for regional leadership, India is arguably a more substantial challenge, and not just at the regional level. Not only is India potentially less inhibited by the sorts of the strategic constraints that have limited Japan's ambitions, but if some of the more optimistic readings of India's future development are to be believed. India is also a potential world power with the capacity to directly challenge China (Bahl 2010). Although we are more skeptical about India's prospects,[4] especially relative to China's, India is an important regional actor and one that sees itself, like China, as the embodiment of a major civilization with similarly great expectations about its place in the international system. It is also a country with which China has not always enjoyed good relations, to say the least.

In many ways the relationship with India epitomizes many of the problems China's policymakers have to grapple with when trying secure China's place in a series of stable regional relationships. It is not simply the sheer number of countries with which China shares a border that makes the conduct of foreign policy so challenging; it is also the uncertain nature of the borders themselves that make relations fraught. We have already seen how problematic this relationship can be in the South China Sea where the very nature of maritime boundaries and the historically contested nature of territorial claims are making for difficult diplomacy. In the case of China's border with India, the fact that the two nations share a land border has not made relations any easier. On the contrary, the two Asian giants have fought a bloody war within living memory, and the border remains a disputed source of tension between the two sides.

Sino-Indian rivalry is a function not just of geographic propinquity, but of historical contingency, too. The beginnings of the modern relationship were developed as a consequence of the malign impact of British imperialism—something with which China is only too familiar. The British used India as a base from which to attack China during the Opium Wars, which largely precipitated the "one hundred years of shame" and which continue to inform Chinese perceptions of its place in the international order. Most of the troops that did the actual fighting in China were from India, and India was also the source of the opium that formed the backbone of Britain's trade relationship with China in the nineteenth century. British imperialism was instrumental in establishing a series of borders that ultimately proved problematic and, in some places, remain contested. Whereas India "zealously adhered to the legacy of colonially bequeathed borders" (Ganguly 2004: 105), China did not. On the contrary, in the aftermath of World War II, a reunited, revolutionary, Marxist-inspired China was keen to recover the territory and international standing lost during the colonial era.

The potential for conflict between China and India was, therefore, real and not long in coming. A key potential flashpoint then, as now, was Tibet, which China occupied in 1950. Although China argues that it has an historical claim over Tibet, having exercised suzerainty over it since the Qing dynasty. Tibetan independence was cut short by the Chinese invasion. Surprisingly enough, the Indian government under Prime Minister Jawaharlal Nehru took no action, despite the fact that thousands of refugees fled to India. Subsequently, China reinforced its control of Tibet by crushing an uprising in 1959. As a consequence, Tibet's spiritual leader, the Dalai Lama, also escaped to India, complicating the bilateral relationship in ways that continue to resonate to this day. The most immediate significance of China's occupation of Tibet as far as the bilateral relationship was concerned was to create an immediate—but contested and imprecise—border between India and China.

The uncertain status of the border ultimately led to the war of 1962 and India's military humiliation by China. Not only did Nehru misjudge China's willingness to use force to achieve its goals, but the inadequate nature of India's military capabilities compared to China's also became painfully apparent to India. China under Mao Zedong's leadership was able to take advantage of the United States' preoccupation with the Cuban missile crisis to inflict a rapid, traumatizing military defeat on India, which continues to haunt India's strategic thinking to this day. One of the most important consequences of this conflict for the region as a whole was the development of closer relations between India and the Soviet Union, both of which were keen to try and contain any Chinese expansionism (Sieff 2009). The possibility of being encircled by hostile neighbors, of course, has been a perennial concern in China and one that is still discussed in relation to India.

Chinese strategists may not see India as an ally, but they generally do not see it as an enemy either. India is considered a potential partner for China in shaping a new international order. Zhang Wenmu (2010) argues that Indian security actually depends on China's continuing development: China attracts most of the attention from the Western powers, but if it is contained, India will be the West's next target. Consequently, India's development in the Indian Ocean is actually seen as a potential benefit to China as it may help offset US power. Therefore, India and China have common interests in contesting the West's current naval supremacy, the argument goes. Tang Shiping (2000) also believes that China's strategy toward India should not be about containment, but about ensuring that India's leadership of South Asia does not threaten China's national interests. In the report of a seminar about India's foreign policy adjustment and the Sino-Indian relationship held by the China Institutes of Contemporary International Relations in 2003, Hu Shisheng (see Dao et al. 2003) is even more positive and suggests that India and China have no conflicting strategic interests but have space for cooperation. More specifically, Dao Shulin argues that economic cooperation should be the first priority (Dao et al. 2003). Overall, sentiment among strategic thinkers and the academic community is surprisingly positive given that many in the West see China and India as inevitable rivals (Emmott 2008; Kaplan 2010a).

Since the early 1990s relations between China and India have improved, and significant attempts have been made to reduce tensions by demilitarizing the border. While troop numbers in the immediate vicinity of the border have been reduced, and sustained efforts at confidence building between the two sides have taken place, simultaneous upgrading and modernizing of Chinese forces in Chengdu and Lanzhou, which abut the border region, have occurred. But as Holslag (2009) points out, such developments also need to be seen in the broader context of both a general process of military modernization in China and the proximity of Xinjiang—China's restive Western province and arguably a source of much greater concern for China's leaders, as we shall see. Indeed, we should recognize that Chinese leaders have generally taken India a good deal less seriously than the Indians have taken China—something that helps to explain the respective amount of attention both sides give to the relationship (Shirk 2004).

Understanding why India might take China very seriously is not hard. Not only do Indian policymakers have direct experience of a humiliating military defeat at the hands of the Chinese, but Chinese foreign policy has a direct impact on India's immediate neighborhood in South Asia. As part of China's own efforts to avoid encirclement, it has developed close ties with Pakistan, India's principal source of strategic uncertainty. As far as India is concerned, one of the most important consequences of China's relationship with Pakistan was the fact that the Chinese supplied nuclear technology to India's principal adversary. One must remember that China had been a member of the nuclear club since 1964—something India would not achieve for another decade. And yet not only was India notionally vulnerable to China in the intervening period, but its own advantage over Pakistan was eventually undermined when Pakistan in turn acquired nuclear weapons. Although the details are unclear, evidence suggests that China assisted in the development of Pakistan's nuclear weapons program—in part, at least, as a way of balancing India's power and stopping it from achieving regional hegemony in South Asia (Perkovich 2004). While this strategy may look like a way for avoiding encirclement from a Chinese perspective, it looks like precisely the opposite from India's, of course.

In many ways, therefore, Sino-Indian relations look like an example of traditional great power politics and a classic example of a security dilemma in which strategic uncertainty and concern about the behavior of other states paradoxically leads to greater insecurity (Booth and Wheeler 2008). Not only has the bilateral relationship been punctuated by actual conflict in the relatively recent past, but it continues to be driven by the sort of geopolitical maneuvering characteristic of the Cold War or even nineteenth-century Europe. Many may be unsurprised at this outcome—certainly not in China, at least. And yet signs can be found that in some respects, at least, even Sino-Indian relations are being transformed by wider changes in the international system.

A Change in Perceptions?

For all their differences, the two Asian giants have experienced some striking parallels in their developmental trajectories. Despite their historical importance and latent potential, both experienced long periods of marginalization in international affairs as a consequence of the impact of European imperialism. Both had an important relationship with the former Soviet Union as they attempted to carve out new identities and positions on the world stage. And both have ultimately achieved their recent status as potential regional (if not global) growth engines as a consequence of their increasingly successful integration into an international political economy that is still overwhelming associated with US hegemony. For both India and China, therefore, the new world order in which they both increasingly play prominent parts offers the opportunity to take up very different and consequential roles to those they assumed for most of the nineteenth and twentieth centuries. We might expect such changes would also influence the conduct of their bilateral and regional relations, and to some extent they have.

One important difference in their recent historical experiences is that India's deeper integration into the new international economic order has occurred a good deal later than China's, and this delay has entrenched China's material lead and advantage over India—something that is a source of revealing commentary in China.[5] Also noteworthy is that while India's influence during the 1980s was undermined by domestic political crises and an inability or unwillingness to impose effective market-oriented reforms, China was beginning a process of rapid economic takeoff that has yet to end. Not only did India have to adjust to the collapse of the Soviet Union and Pakistan's growing influence in Afghanistan—the latter being directly supported by the United States—but China's own rise was dramatically reconfiguring the balance of power in Asia as a whole. Significantly, Indian politicians took longer to shake off their visceral anti-US sentiment than did their counterparts in Beijing. For all Chinese elites' long-running concerns about US hegemonism, a famously pragmatic attitude to policy meant that China benefited from an open international economy far more than India did. Now, however, as part of the United States' pivot back to Asia and a more general realignment of regional geopolitics, relations between India and the United States have become much closer. The reason is not difficult to discern. As *The Economist* (2012b) points out, "the unstated logic in both America and India behind the drive for closer relations is as a warning to China not to overreach itself and drive them into a fully fledged military alliance" (28).

Closer ties between the United States and India are especially challenging for China as, somewhat belatedly, the Indian economy has been increasingly liberalized since 1991 when the government of Manmohan Singh and his finance minister Narasimha Rao embarked on a series of major economic reforms. This change presents threats and opportunities for China. True, India is becoming a more powerful and influential regional power, but the growth of the Indian economy means that despite their very different histories and political systems, some observers argue an important convergence of interests is occurring between China and India as a consequence of their respective economic transformations (Holslag 2010). Both countries increasingly see themselves as major trading states, and as a result, there has been "a clear linkage between economic priorities and shifts in foreign affairs" (Holslag 2010: 33). When Rao became prime minister, he worked to entrench the importance of economic priorities in Indian foreign policy in much the same way as Deng had in China a generation before.

As a consequence of this growing emphasis on economic development in both countries, much talk has occurred of "Chindia," or closer economic cooperation and integration between the Chinese and Indian economies. The possibility that China and India might enjoy mutually beneficial economic ties was given particular prominence as a consequence of Chinese premier Wen Jiabao's visit to India when he suggested that the two economies had complementary strengths in software and hardware.[6] As we have suggested in earlier chapters, whether thinking of national economies as discrete entities actually makes sense is a moot point. True, the discourse of international diplomacy is rather different from academic analysis, but the limitations of this sort of methodological nationalism are apparent even to the casual observer. Neither China's nor India's economies are exclusively based on manufacturing or the service sector. Even if they were, the task of integrating their very different business and political cultures is far from straightforward. However, one area in which efforts at policy coordination have been surprisingly productive, and in which the framework of explicit national interests remains central, has been the area of energy cooperation.

Some observers argue that Central Asia is a major "new 'hunting ground' for energy resources and geopolitical influence," in which India and China in particular are seen as the principal protagonists (Huchet 2010: 97). Energy security is no doubt becoming more important for China, and this increased pressure is having a larger influence on its overall foreign policies, as we explain in the context of Central Asia. The somewhat surprising point to make here, though, is that some evidence suggests that China and India are willing to at least explore the potential for cooperating on energy-related issues (Müller-Kraenner 2008; Qin and Yang 2011). If Asia's two giant economies and energy consumers could actually come up with a joint position on energy matters, this agreement would be a very significant development, of course. Whether such good intentions and lofty ambitions can overcome such a fundamental, nonnegotiable determinant of Chinese foreign policy is a moot point, however, especially when we remember that "Beijing's energy security policies are more a collection of ad hoc initiatives—some coordinated, some not, and some state driven, others market and commercially driven" (Lieberthal and Herberg 2006: 17). In other words, despite a significant improvement in China's overall relationship with India, national interests remain central for both countries, setting limits to what can be achieved or conceded through negotiation.

Having said that, we must go on to point out that arguably China's greatest foreign policy achievement anywhere is based—in principle, at least—on encouraging international cooperation and institutionalizing collective interests. True, the Shanghai Cooperation Organisation (SCO) does not include India as a formal member, but India now has "observer" status, and Russia, like China, is a founding member. The success of the SCO is a potentially important measure of China's and Central Asia's capacity to effectively manage critical regional security and political issues. As such it merits detailed analysis.

Central Asia and the Shanghai Cooperation Organisation

As we have repeatedly emphasized, the key overarching goal of Chinese foreign policy generally and toward its regions in particular is securing its borders. Given China's history and the extent of those borders, one does not have trouble seeing why. The preoccupation with border security is especially pertinent in the case of Central Asia: not only is Central Asia important in its own right as a site of geopolitical contestation and potential resource security, but one of the key border areas is the province of Xinjiang. Xinjiang's problematic status has made Chinese authorities even more concerned to ensure regional stability; the fact that Central Asia is also associated with significant oil and gas reserves simply enhances its potential importance. As a result, the region has been at the center of some of China's most energetic and innovative attempts to institutionalize and stabilize regional relations. The principal mechanism for putting this policy in place has been the SCO. One of China's most prominent security experts concludes that the SCO has effectively secured China's borders in the north and northwest, allowing it to focus more on East Asia and Taiwan (G. Pan 2011). Whether one agrees with this analysis or not, it gives some indication of the potential strategic importance attached to the SCO in China.

The inauguration of the SCO is arguably the most significant manifestation of China's embrace of multilateralism and one that fulfills all of the key goals this shift encompasses. Wu and Lansdowne (2008) argue that China has been drawn to multilateral mechanisms because they offer a way of promoting economic development, they can offset hegemonic power, they promote China's image as a responsible stakeholder in international society, and they provide an effective venue in which to address security issues, especially at the regional level. Indeed, one needs to recognize that—at this stage, at least—"Chinese multilateralism is more regional than global" (Wu and Lansdowne 2008: 11). Also China's multilateralism clearly has important domestic drivers, and the separation between domestic and international policy is becoming increasingly blurred and complex as a result.[7] For many Chinese commentators the SCO is the embodiment of a "new security concept" (with mutual trust and common security as the key features), a new type of international relations (which establishes partnerships but not alliances, which promotes openness and transparency, and which is not aimed at any other country or regional organization), and a new model of regional cooperation characterized by equal partnerships and consensus building that can promote security and mutually beneficial cooperation (Sheng 2006).

Xinjiang and the Origins of the SCO

The collapse of the Soviet Union in 1991 sent shock waves around the world. Even though the demise of the Soviet Union was actually surprisingly peaceful, its disappearance had a profound impact in Central Asia. China had to come to terms with the existence of a series of newly independent republics where it had formerly only had to deal with one superpower. Despite the occasional misunderstandings between the two giant neighbors, the Soviet Union imposed a degree of stability and predictability on Central Asia. Its abrupt, largely unforeseen demise left what Chinese observers considered to be a power vacuum in its wake, one which China was anxious to fill. Significantly, China exhibited deft diplomacy in demonstrating "considerable respect" for Russia's traditional position in Central Asia (J. Cheng 2011: 641)—despite its diminished status—something that facilitated Russia's subsequent participation in the SCO initiative. Russia's participation was an important "balancing" mechanism and helped to offset the smaller Central Asian states' traditional concerns about China's potential dominance and proximity (Allison 2008).

In an effort to stabilize the region and its position in it following the collapse of the Soviet Union, China immediately recognized the Russian Federation and its constituent republics and dispatched Premier Li Peng on a tour of Uzbekistan, Turkmenistan, Kyrgyzstan, Kazakhstan, and Mongolia. One of the key goals of these visits was to articulate what China considered to be the principles upon which future relations would be based. J. Y. S. Cheng (2011) summarizes these as "to maintain good-neighbourly relations and peaceful co-existence; to promote equality and mutually beneficial co-operation in pursuit of common prosperity; to respect the sovereignty and independence of the peoples of Central Asia through a policy of non-interference in their internal affairs; and to seek and preserve stability in the region" (634).

Importantly, not just the stability of the Central Asian states concerned China's leaders, although this uncertainty was worrying enough in itself. The even more alarming prospect was that Xinjiang might be "infected" by the virus of militant Islam, which appeared to be spreading in Central Asia. At present, many of Xinjiang's indigenous Uyghur population identify more readily with Central Asia than they do with the rest of China (Bhattacharji 2012), and one of China's first goals was to ensure that its new, suddenly independent neighbors recognized Xinjiang's borders and status as part of China (Cabestan 2010). This goal was especially important given that the PRC government has come under sustained criticism from indigenous activists for its political and religious repression in the region.[8] For this reason, one of the key components in the series of bilateral agreements that China established with the Central Asian republics was not just a predictable pledge to avoid mutual hostility, but also to oppose any form of ethnic separatism. To understand why Chinese authorities were so concerned about instability on its borders generally and in Xinjiang in particular we need to remember how important this province is to China and yet how it continues to be a source of instability and concern.

Xinjiang represents about one-sixth of China's overall territory yet is inhabited by only one-sixtieth of its population. It has a crucial strategic importance, not just as China's western border but as a source of energy reserves and a transit point for piped oil imports from Kazakhstan (Kleveman 2003). Unfortunately for Chinese authorities, its people are also fiercely independently minded and ethnically distinct. Xinjiang's history and its place at the center of the "great game" of geopolitics have made it the site of prolonged struggles for control by successive Chinese dynasties, Russia, local warlords, and sundry groups bent on greater independence. Significantly, it came under PRC control only in 1949, and its current status as one of China's "autonomous regions" was settled as recently as 1955. One of the strategies for attempting to entrench the central PRC government's control over Xinjiang has been by flooding the region with new Han Chinese migrants (Howell and Fan 2011). As a result, the ethnic balance in Xinjiang has shifted dramatically, to a point where the indigenous Uyghur population and the Han have nearly become balanced.

Despite recent attempts to revitalize what was until recently a relatively neglected and underdeveloped province, the reality is that the policies of the central government have actually "sharpened the ethnic divide" and exacerbated underlying social tensions (Shan and Weng 2010: 60). Han immigrants dominate the administrative and business sectors of the Xinjiang political economy, and their privileged position has fueled resentment among the indigenous population, who feel marginalized as a consequence. A significant difference in terms of economic development can be found between the north and south of the province, with the highest levels of Uyghurs being concentrated in the poorer south. As a result, despite double-digit growth levels, unemployed young men from the Uyghur population have played a prominent role in the riots that periodically erupt in Xinjiang (*The Economist* 2011). The great fear of Chinese authorities is that this underlying social unrest will become increasingly politicized and fused with religious fundamentalism and ethnic separatism. Such concerns have informed the development of the SCO, which is seen by some in China as potentially encouraging economic development in Xinjiang in particular (X. Zhao 2005), consequently providing a powerful domestic driver for what is China's most ambitious attempt to assume international leadership (Kerr and Swinton 2008).

The Inauguration of the SCO

Despite the fact that the SCO represents what is arguably China's most ambitious attempt to foster institutional development, some have suggested that Beijing initially lacked a clear strategy for operationalizing its goals. As a result, J. Wang (2008) suggests, "multilateralism in this area is more the unintended result of practice rather than of design" (105). Be that as it may, the formal inauguration of the SCO in June 2001 was an important watershed both for China's proactive foreign policy in Central Asia and for regional diplomacy more generally. After all, this part of the world was distinguished primarily by an absence of regional institutions and an historical tradition of mistrustful, sometimes brutal geopolitics and interstate relations. In such a context, any institutional development might be regarded as not insignificant progress. But as prominent SCO expert Pan Guang (2011) argues, for only the first time in history, China, Russia, and Central Asia have been included in any single community, let alone one that is intended to develop common interests and resolve conflicts.

The first meeting of the SCO was in fact the sixth summit of the founding members of what had been until that stage essentially confidence-building exercises among China, Russia, and the important former Soviet republics, Kazakhstan, Kyrgyzstan, and Tajikistan. Unsurprisingly, given the region's checkered history and the newly independent status of the former Soviet states, security was initially the first priority of the nascent organization. This focus on security was enshrined in the Declaration of the Shanghai Cooperation Organisation in 2001, which was signed by the original "Shanghai Five" grouping in addition to Uzbekistan, which became the sixth member of the SCO. In 2002 the SCO Charter was unveiled, which also emphasizes the "maintenance of peace and security" and identifies the "three evils" that threaten the stability of the region: terrorism, extremism, and separatism (Aris 2011: 28). In effect, as Allison (2008) points out, national discretion about precisely how such policies should be implemented in the absence of any commitment to democracy or self-determination meant that SCO states could "act as they wish against general forms of domestic political opposition and dissent" (196).

However, since 2007, economic issues have become more prominent as the SCO has developed a greater institutional capacity and ambition. The growing prominence of economic issues also reflects and promotes Chinese interests. As Jing-dong Yuan (2010) points out, "the most promising prospect of expanding and consolidating Sino–Central Asian relations, from Beijing's perspective, is the potential for gaining access to the region's vast energy resources" (859). However, this potential took some time to realize because China initially lacked both the expertise and the economic presence in the shape of resource-oriented SOEs to actually operate effectively in Central Asia (J. Cheng 2011). This situation is not entirely surprising: apart from Central Asia's potential importance as a source of energy, its economic potential is far more limited, so its lack of domestic infrastructure and limited consumer markets have meant that the region has not received much attention from China's burgeoning business community (J. Wang 2008). This problem is a reflection of, and exacerbated by, the intraregional trade patterns of the Central Asian states, which demonstrate a very limited degree of economic integration (Libman and Vinokurov 2011).

As a consequence, Chinese policymakers confront a very different set of circumstances than they do in Southeast Asia, where successful economic development and growing levels of cross-border integration, which is increasingly oriented toward China itself, create major opportunities for the exercise of economic leverage on China's part. Nevertheless, encouraging greater economic integration has become a more prominent goal of the SCO, too, not least for normative reasons. In reality, however, and despite the enthusiasm of some Chinese observers about the SCO's "great" economic potential (Z. Sun 2004), thus far energy has been the principal focus of trade and investment activity across the region, a process in which China is playing an increasingly prominent part.

The Politics of Energy

In many ways energy policy provides the ultimate test of China's evolving approach to foreign relations everywhere, but especially in Central Asia, where much of the region's importance hinges on its oil and gas reserves in particular. Energy is an issue like no other and presents particular challenges for China as it tries to reconcile potential competing domestic interests and international obligations.[9] On the one hand, energy security is a potential critical aspect of overall economic development and stability and thus a foundation for the "performance legitimacy" of the Chinese government itself (Gilley 2008; Y. Zhu 2011). Creating the conditions in which China's growth can continue and social stability can be maintained is simply a nonnegotiable domestic priority for China's leaders. On the other hand, however, Chinese foreign policy elites are attempting to position themselves as responsible stakeholders and good international citizens. Indeed, in some ways, the entire SCO project can be seen as an attempt to give expression to the desire to play a constructive role as a force for institutionalized cooperation. The question is whether these very different domestic and international goals are actually reconcilable.

For some US observers the answer is unambiguously "no." Stephen Blank has established a reputation as a somewhat hawkish and outspoken critic of Chinese foreign policy, especially as it applies in Central Asia. Blank (2009) argues that China has actually rejected multilateral approaches when pursuing energy security, preferring to use its bilateral leverage in an attempt to lock in supplies and insulate itself from price fluctuations in volatile energy markets. Even though Blank suggests that this policy has not achieved the goal of managing price volatility, he highlights what is perhaps most important about China's approach to energy security: it is predominantly bilateral and "reflects [China's] persisting belief that it cannot rely upon the market to deliver energy" (437). Moreover, many commentators and policymakers in China continue to believe that other countries accord energy issues a pivotal importance, too. Accordingly, many think the United States' invasion of Iraq was motivated by a desire to control its oil, rather than its alleged weapons of mass destruction (see, for example, Feng and Zhang 2003). Other Chinese commentators go further and argue that "the country which can control natural resources will own the future" (H. Shi 2009).

Such views are not uncommon in China and help to explain the overall policy approach to energy, one that is predicated on the fundamental assumption that energy security is "too important to be left to the markets" (Lieberthal and Herberg 2006: 13).[10] This view of the limited efficacy of markets is widely shared by some of the other rising powers who subscribe to the same sort of "state capitalist" practices (Gat 2007). The somewhat ironic point to emphasize here, however, is that traditional geopolitical considerations and historical rivalries are actually complicating China's policy options, particularly in the context of Central Asia and the SCO. As Petersen and Barysch (2011) point out, from a Russian perspective, "Moscow fears that by supplying raw materials to China it could become an 'accessory' of the country's ascent. Wedded to zero-sum thinking, many Russian policymakers and experts fear that China's economic growth and geopolitical strength might come at Russia's expense" (14).

In this context of lingering distrust and geopolitical rivalry, the energy resources of the less powerful Central Asian states become more attractive and consequential as far as China's policymakers are concerned. Compared to Russia, which is unambiguously the world's energy superpower, the Central Asian states' reserves are relatively modest, but far from insignificant, as Table 7.1 indicates.

Table 7.1 Caspian Oil and Gas Reserves and Production

	Oil Reserves[a] (billion barrels)	Oil Production[b] (million barrels per day)	Gas Reserves[a] (trillion cubic meters)	Gas Production[b] (billion cubic meters per year)
Azerbaijan	18.2	1.1	4.1	17
Kazakhstan	68.9	1.6	5.8	36
Turkmenistan	15.9	0.2	11.9	41
Uzbekistan	4.3	0.1	3.7	66
Other Caspian countries/republics[c]	1.3	0.0	0.3	0.1
Total	108.6	2.9	25.8	159
Share of world total (percentage)	4.7	3.5	6.9	5.1

Source: A. Petersen and K. Barysch, *Russia, China and the Geopolitics of Energy in Central Asia* (London: Centre for European Reform, 2011), p 23.

Notes: a. "Reserves" are the remaining recoverable reserves as defined in note 17 in this chapter.

b. Output figures are from 2009.

c. Armenia, Georgia, Kyrgyzstan, and Tajikistan.

As far as China is concerned, establishing cordial ties with its Central Asian neighbors not only helps to secure its own borders but also offers the possibility of addressing what is fast becoming one of China's most implacable and urgent public policy problems. We should remember that as recently as 1993, China was actually an exporter of oil. Now that picture has been completely overturned. China is already the second-biggest importer of oil after the United States, and its energy consumption continues to grow dramatically. Klare (2006) puts this turnaround in stark perspective when he notes that "in 1990, China consumed less than half as much energy as the Western European nations; by 2025 it is projected to consume 44 percent *more* energy than all of those nations combined" (181, emphasis in original). Although China has significant energy resources of its own, they are overwhelmingly in coal, especially of the "dirty," highly polluting variety, which still provides at least 70 percent of total energy for electricity generation (Fallows 2010). As a result, China's policymakers find themselves caught between potentially irreconcilable pressures: China's rapid economic development is creating ever more demand for energy, but satisfying this demand from domestic sources is taking an increasingly unsustainable toll on its natural environment—to a point where some informed observers think China's "environmental problems now have the potential to bring the country to its knees economically" (Economy 2004: 25).[11]

China's policymakers are not unaware of these problems. That China has now become the world's biggest investor in renewable forms of "green" energy is remarkable and noteworthy (Hook and Crooks 2011). Despite this trend, China's insatiable, rapidly growing demand for resources and energy means it must pursue a multidimensional strategy to satisfy its needs—part of which is a rather old-fashioned-looking geopolitical calculus that involves the direct application of economic and political leverage. Some suggest that geopolitical rivalries between Russia and China offer the Central Asian states an opportunity to play one off the other (Garrison and Abdurahmonov 2011), but this assessment may be overly optimistic. In reality, China has used strikingly similar strategies to those employed by Japan in its earlier efforts to ensure resource security following the oil shocks of the 1970s and 1980s (Nester 1992). China is using integrated aid and investment strategies to consolidate its influence in capital-poor, resource-rich states such as Kazakhstan (Blank 2009), in what S. Zhao (2008) describes as an "essentially neo-mercantilist approach to energy security" (208).

An even more tangible expression of China's priorities, perhaps, can be seen in the struggles to develop regional infrastructure for the supply of energy in Central Asia. Significantly, the emerging network of pipelines China is helping to develop seems designed in part, at least, to assuage concerns about energy security by reducing its dependence on Russia. "Pipeline politics" remain a very tangible manifestation of regional relations,[12] along with being a topic of great importance to Chinese officials and commentators. Xiao Yang (2011), for example, emphasizes the geopolitical context in which pipeline politics play out and the concomitant necessity of resisting US containment strategies designed to thwart China's cooperation with Central Asian states. He also emphasizes that Russia continues to exploit its diplomatic presence to China's potential disadvantage. In this context, especially striking is that for all the superficially cordial relations that exist between Russia and China, they have yet to finalize an agreement on the delivery of gas to China (Perlez 2012). Meanwhile, China has developed a number of its own pipelines, the most important of which runs from the Tarim Basin in Xinjiang to Shanghai. China has also built a pipeline from Kazakhstan to exploit the Chinese National Petroleum Company's major investments there. Significantly, this pipeline will not only reduce China's possible dependence on Russia, but also terminate in Xinjiang, reinforcing the province's overall strategic importance to China's leadership (Kleveman 2003).

The vital importance of energy, the finite nature of supplies, and the history of sometimes brutal geopolitical competition in Central Asia are all providing a major challenge for the region's nascent institutional architecture. For all of the talk about the "Shanghai spirit" of equality, trust, and confidence building (Aris 2011), being too sanguine about the SCO's ability to manage serious intraregional tensions at times of crisis is hard. After all, as far as the Central Asian states, Russia, and especially China are concerned, these are good times: economic development has been highly successful in China, and this success has done more than anything to restore the fortunes of a resource superpower like Russia, as well as improve the prospects for the newly independent states of the region. If regional stability and cooperation are not feasible under such circumstances, they are never likely to be.[13]

The big question for China's policymakers, therefore, is what happens in the all-too-likely event of a major economic or political crisis in the region. Will the SCO, in which China's leaders have invested much political capital and effort, rise to the challenge? Critics argue that the SCO's annual meetings "bring together heads of state who produce declamatory statements of intent but rarely any significant policy or institutional development that would bind its members to a particular course of action" (Kerr 2010: 146). Is the SCO more appearance than substance as critics claim, little more than a form of "protective integration" that confers "vicarious legitimacy and solidarity on its members" (Allison 2008: 198), but which is incapable of action in the event of a crisis? Such an outcome would have profound practical implications and reputational costs for China.

Still the Great Game?

Central Asia is the quintessential historical example of the so-called great game, and seeing why is not hard. The region is associated with significant resource wealth, but also with rather brittle authoritarian regimes that have struggled to maintain stability and territorial integrity. In such circumstances, the attempts of the great powers to exert an influence over the region and its assets are unsurprising. China is no different in this regard. China's geographical location and the desire to secure borders that have historically been a source of threat and uncertainty give the region a particular importance. Indeed, some observers claim that "Chinese attempts to dominate the region look like a new version of classical vassal relations and China has worked hard to bring Central Asia once more under its economic and political influence" (Swanström 2005: 581). Even if this claim may be something of an exaggeration, China's efforts to assert its influence in the region are an entirely understandable expression of its overall foreign policy goals given the region's historical importance—not least as a potential source of insecurity. What is more surprising, perhaps, is that China is increasingly trying to accomplish its aims and embed its influence through the auspices of new regional institutions, rather than the sort of direct political and economic leverage that has historically tended to characterize great power behavior in the region.

Having said that, we must recognize the limits to both the SCO's influence and its status as a harbinger of a new international order replete with new norms of collaboration and cooperation. While one can reasonably claim that institutionalized intraregional relations and regular meetings between regional leaders are making a discernible contribution to overall confidence building, China has also been assiduously applying bilateral leverage where it can. This sort of two-level game is a feature of the contemporary international system and one played by other great powers such as the United States.[14] Indeed, in many ways US foreign policy has defined this sort of international diplomacy as it has managed to combine a complex mix of bilateral strategic alliances and economic relationships within an overarching institutional architecture that is associated with liberalism and multilateralism (Beeson and Higgott 2005; Mastanduno 2009). Notably, bilateralism has actually become a central part of economic relations and cooperation in the Asia Pacific region (Dent 2010), so in this context Central Asia is not an outlier.

What makes relations with Central Asia especially complex for Chinese policymakers, however, is the region's continuing position as a focus of great power rivalry generally and of US grand strategy in particular. In the aftermath of the September 11 attacks on the United States, US foreign policy has been preoccupied with Central Asia and the Middle East. The conflict in Afghanistan, which was such a prominent expression of George W. Bush's "war on terror," presented a particular challenge for China, as it effectively brought a US military presence to China's immediate backyard. As part of its overall strategy to combat terrorism in South and Central Asia the United States established military bases in Kazakhstan, only 200 kilometers (125 miles) from the Chinese border. For many Chinese commentators, this move represented a direct threat to China's western regions and an extension of a policy of containment on the part of the United States (He et al. 2002). Given that many prominent US commentators advocated using US power to secure US interests during the Bush era in particular,[15] such views are understandable, perhaps. As former national security adviser Zbigniew Brzezinski (1997) put it with characteristic candor, "the three grand imperatives of imperial geostrategy are to prevent collusion and maintain security dependence among the vassals, to keep tributaries pliant and protected, and to keep the barbarians from coming together" (40).

Chinese policymakers are not the only ones concerned about the possible long-term implications of US foreign policy and what are considered to be its principal goals of pursuing resource security (Fouskas and Gokay 2005). As a consequence, an increasingly high-stakes competition is taking place between China and the United States for influence in places such as Kazakhstan along with a struggle to determine the routes through which the region's energy resources will ultimately be exported.[16] This issue is of particular concern to Chinese observers. For example, Tong Shiqun (2004) points out that the United States has tried to prevent the development of the pipeline between Kazakhstan and China. From a Chinese perspective, the pipeline has the potential to relieve the so-called Malacca Dilemma, or the vulnerability of energy supply routes in Southeast Asia. The significance the United States attached to this development can be gauged from the fact that it used its political, economic, and aid leverage to pressure Kazakhstan and tried to persuade international financial organizations not to fund the project. Some observers of US foreign policy in the region claim that such initiatives are part of a longer-term ambition to exercise strategic influence and secure future energy supplies. Emre Iseri (2009), for example suggests that,

> The US finds it necessary to establish control over energy resources and their transportation routes in the Eurasian landmass. Therefore, from the US's point of view, the dependence of the Eurasian industrial economies on the security umbrella provided by the United States should be sustained. To put it clearly, US objectives and policies in the wider Caspian region are part of a larger "grand strategy" to underpin and strengthen its regional hegemony and thereby become the global hegemon in the twenty-first century. (35)

Plainly, US foreign policy is not the same as it was during the Bush era at the height of unipolarity. But neither is the Obama administration as different from its predecessor as we might have expected given the initial rhetoric about the importance of multilateralism and the rule of law (Harris 2012). Although the United States' continuing determination to maintain regional influence may have had the effect of giving common cause to China and Russia in the face of US hegemonism (Wilhelmsen and Geir 2011), any benefits that might accrue to China are offset by the impact of US policy elsewhere. In this regard, one of the most problematic aspects of the United States' continuing desire to shore up its position in Central and South Asia has been its rapprochement with India. Kelly (2011) argues that India is now seen as an integral and explicit part of the United States' overall strategy for containing the rise of China.

Under such circumstances, Chinese foreign policy officials may be forgiven for feeling slightly paranoid, perhaps. Given the historic sense of vulnerability and the increased reliance on external supplies of energy, China's policymakers are, rather unsurprisingly, devoting much attention to the Central Asian region.[17] Likewise, one can more easily understand why China's strategic analysts might think that the construction of a credible blue-water navy with which to protect its still vitally important trade routes from the Middle East is a vital national priority.[18] Such concerns may arguably have regional origins, but China's newfound status as a rising power, if not superpower, means that what may have originally been relatively parochial concerns now take on international ramifications. Indeed, if Central Asia presents multiple new (and old) challenges that overlap and intersect in ways that defy easy options, they look relatively straightforward compared to the global arena, where China's new status and power present it with an even more pressing array of challenges.

Conclusion

If there is a new great game in Central Asia, not only is China a serious player, but some observers think that "if we had to declare a winner in the new Central Asian contest, China is clearly the candidate ahead on points" (Colley 2012: 165). Given China's relatively recent reemergence into the international system as a major player, this claim is still somewhat surprising and counterintuitive. And yet the SCO in particular—in which China remains the principal driving force—no doubt has been an effective forum within which Chinese policymakers have stabilized their regional relations and pursued national goals. This development is all the more remarkable when we consider that it has happened with the cooperation of Russia and despite the continuing presence of the United States in the region. Whether China will continue managing its interests remains to be seen, of course—especially in a region with a history of instability and shifting alliances. Nevertheless, the fact that China has pursued what it takes to be its national interests through multilateral auspices is significant and a measure of just how much has changed in the thinking behind and practice of Chinese foreign policy. One might think that the management of bilateral relations would be comparatively straightforward. But as China's relations with India remind us, this is not necessarily the case. On the contrary, the deeper bilateral ties become, the more difficult they may be to manage—especially in the context of wider regional and even global relationships. No relationship illustrates this possibility more clearly than China's ties with Australia.

Notes

1. The BRIC economies, about which we say more in the final chapter, include Brazil, Russia, India, China, and South Africa. See Armijo (2007).

2. Chinese research on the Soviet Union's collapse is very extensive, and some of the most important contributions are government sponsored, such as the important edited collection by Li Shenming and Chen Zhihua (2011). In this book, Li and his team explore the reasons for the collapse of the Soviet Union, arguing that it resulted from the weakening of the ideology and the corruption of ruling elites. However, other influential scholars, such as Huang Weiding (2011), argue that an excessive concentration of power and a lack of democracy were the primary causes of the Communist Party's downfall. Either way, the implications of such analyses for China's leadership are sobering.

3. Despite all the superficial cordiality at this meeting, the two great powers have not reached an agreement on delivering natural gas from Russia to China (Perlez 2012). However, in a more encouraging long-term development, the Industrial and Commercial Bank of China agreed to finance the construction of a major power plant in Russia, a deal that could herald an important new synergistic relationship (Sender 2012).

4. As *The Economist* (2012c) points out, India has a long way to go in reforming a corrupt and inefficient political system before it can realize its potential. While China also shares a problem with corruption, it continues to register higher growth rates and is consequently still pulling away from its South Asian rival, economically at least.

5. Chinese scholars often compare the national development trajectories of India and China. Some scholars such as Huang Mingwei (2009) argue that the "socialist" system in China is superior to the capitalist system in India. China's "strong" government and policy execution is compared favorably with India's inefficient democracy. Others highlight the wisdom of China's government in promoting early economic opening and emphasizing manufacturing ahead of India, which has concentrated on the service sector and the software industry in particular (see L. Zuo 2005). Wei Sen (2005) highlights the sociocultural differences between the two countries and argues that a lack of entrepreneurial spirit accounts for the slow development of the Indian economy.

6. During his official visit to India in 2010, Wen Jiabao argued that the twenty-first century was the Asian century and that India and China would play very important roles in shaping it (Q. Chen 2010). Then Indian ambassador to China S. Jaishankar agreed, arguing that China can help India in infrastructure construction and India can also become an important partner for China in the information technology industry and pharmaceutical industry (Hou 2010).

7. This possibility has become an increasingly prominent subject of international relations scholarship thanks to pioneering analyses by the likes of James Rosenau (1997). It is also increasingly recognized and discussed in China's burgeoning international relations literature. See Liu Jun (2010a, 2010b).

8. Prominent activist Rebiya Kadeer has been a continuing thorn in the side of the Chinese government and drawn unwelcome international attention to the region's unresolved social and political problems. See, for example, Kadeer (2010).

9. A large literature has developed on the politics of energy, but the principal point to emphasize is that countries such as China take a "strategic" or even "neo-mercantilist" approach to energy security (see Carmody and Owusu 2007; Kennedy 2010; Wu, Goh and Hajela 2011). This approach not only sets up the conditions for a potential clash between rival systems but may culminate in "resource wars" if new sources of energy cannot be found. See Klare (2002).

10. See also S. Zhao (2008) and Moran (2010).

11. The losses from pollution and ecological damage are estimated to have ranged from between 7 percent to 20 percent of China's gross domestic product every year for the last twenty years (Liu and Diamond 2005), a remarkable figure and one that highlights the difficulty of achieving sustainable development.

12. In December 2006, the Chinese-owned crude oil pipeline linking Kazakhstan and China was established. China paid 85 percent of the initial development costs, which already looks like a good investment: by 2010, imports had reached 73.3 million barrels per year, and estimates are that imports will reach 146.7 million barrels per year by 2013. By 2011, the oil of Kazakhstan made up 15 percent of China's crude oil imports (Garrison and Abdurahmonov 2011). In December 2009, China opened a gas pipeline connected with Turkmenistan, Kazakhstan, and Uzbekistan (H. Wang 2010).

13. We need to emphasize just what a double-edged sword resource prices are in this context. Although the apparent end of the so-called commodity supercycle might be expected to be a good thing for a resource-hungry economy like China's, some of China's strategic investments in the energy sector may prove liabilities, too. China's prominent sovereign wealth fund, the China Investment Corporation, has invested at least $12 billion in foreign resource companies over a three-year period, investments that are widely expected to lose money in the event of declining commodity prices. See Gopalan (2012).

14. The phrase "two-level game" is associated principally with Robert Putnam (1988), who used it to describe the different domestic and international audiences and dynamics with which policymakers must contend. For our purposes, this broad brush description still has merit, despite the blurring of boundaries. However, this depiction needs to be complemented with a discrete regional-level focus.

15. Among the more important and contentious contributions in favor of the application of US power were Krauthammer (1990–1991) and Boot (2001). For a useful assessment of the Bush era and its underlying logic, see Bacevich (2002).

16. According to the Energy Information Administration (2012).

The Kazakhstan-China oil pipeline spans 1,384 miles, running from Atyrau port in northwestern Kazakhstan to Alashankou in China's northwest Xinjiang region, and has a capacity of 240,000 bbl/d of crude. The pipeline is currently being expanded, which would increase its capacity to 400,000 bbl/d. The additional capacity will be used to transport at least some Kashagan oil. The pipeline is a joint venture between CNPC [China National Petroleum Company] and KMG [KazMunayGas]. The pipeline was built in segments. The most recently completed segment, the 492-mile Kenkiyak-Kumkol (Phase 3) started commercial operations on October 6, 2009, and connects the Kenkiyak-Atyrau pipeline (Phase 1) to the Atasu-Alashankou pipeline (Phase 2), has been online since 2006. The cross-border section connects to CNPC/PetroChina's crude oil pipeline system in northwest China. Phase 1, the Kenkiyak-Atyrau pipeline, was the first oil pipeline built in Kazakhstan after independence. This line was tied into the Kazakhstan-China pipeline and its direction of flow was reversed, now running from Atyrau to Kenkiyak.

17. Currently, 77 percent of China's imported oil goes through the Strait of Malacca (Z. Zhang 2011). China sees this transportation route as quite vulnerable, as the United States and its allies exercise a powerful presence in this area. In the event of any conflict between China and the United States, the prospect of being cut off from energy supplies poses a major danger for China. In order to resolve this dilemma China has actively developed its blue-water navy forces, such as refurbishing an aircraft carrier and actively participating in the Gulf of Aden peacekeeping activities to practice its long-range projection capabilities. At the same time, China is actively searching for a substitute energy transportation route (You 2007). Transporting oil and gas resources from the Middle East through the Central Asia pipeline would be an effective way of improving China's energy transportation security (Liao 2006).

18. One of the ironies of the current geopolitical situation is that the United States is becoming significantly more independent as far as energy is concerned as a consequence of the unexpected "fracking" boom (Gonzales 2012). China, by contrast, is increasingly concerned about its dependence on the volatile Middle East and vulnerable supply routes through the Strait of Malacca's choke points. These concerns have been heightened by the US pivot to the Asia Pacific and help to explain China's desire for a greater naval capability. See K. Johnson (2012).

8

Sino-Australian Relations

This chapter is slightly different from the previous ones in that, in it, we focus primarily on a single bilateral relationship rather than a region. The principal reason for this change of emphasis is that China's relationship with Australia highlights in greater detail all of the key issues that we have been considering in relation to China's evolving regional policies more generally. The Sino-Australian relationship is part of Asia Pacific rather than East Asia and as such highlights the contested and uncertain nature of the region itself. The relationship also dramatically illustrates China's potentially divergent economic and strategic goals, especially in the pivotally important area of resource security. As we shall see, differences in politics, economics, and even culture present major challenges for China's elites in managing a relationship with an inherently unlikely partner. The dissimilarity between the two countries might present enough of a challenge on its own, but it is further complicated by Australia's historically close relationship with the United States. The key question facing China's elites is whether they can cultivate good relations with states such as Australia that are concerned about the strategic implications of its dramatic rise. In short, the relationship with Australia provides a definitive test of the efficacy of China's—and Australia's, for that matter—foreign policy. If China's policymakers can get this relationship right, they have every reason to think their goal of becoming a regional power with secure borders and stable relations is feasible. If they cannot, then more will be in doubt than simply their goal of resource security.

In the first part of the chapter, we provide a brief overview of Sino-Australian ties to illustrate just how much has changed about China's place in the region, as well as in the attitudes of Australian policymakers. In the second part of the chapter, we provide some detail of the contemporary economic relationship as its growing importance more than anything else accounts for the change in attitudes on both sides. Simply put, China's rapid economic expansion might not have happened in quite the same way or at quite the same pace without access to Australia's abundant resource wealth. Likewise, Australia's recent resource boom and relative immunity from a series of global economic crises would not have been possible without China's seemingly insatiable demand. In much the same way that China and the United States are locked together in an interdependent relationship, so too, are China and Australia. The difference, of course, is that Australia is geographically part of China's region in a way that the United States is not—all the claims about the nature of Asia Pacific notwithstanding. Even more importantly, perhaps, China might hope to influence Australia's foreign policy behavior in a way that it cannot with the United States. Therefore, the strategic relationship between Australia and the United States is a pivotal part of intraregional relations, and the very definition of the region itself assumes such importance. In the final part of this chapter, we revisit some of the debates about regional identity and institutional development and consider Australia's prominent contribution to these debates.

Hobbled by History?

That China's present is profoundly influenced by its past is a commonplace observation. However, this same observation is not made as frequently about Australia, but it is equally true. Contemporary Australia is an unlikely accident of history that owes its existence to European imperialism. The single most important strategic legacy of Australia's early history was a sense of isolation and vulnerability. From a Chinese perspective, surrounded as it is by states that are either unstable or potentially threatening, Australia's position as an island-continent might seem enviably secure.[1] This view is not that of generations of Australian strategic thinkers, however. On the contrary, Australian leaders have been perennially anxious about their physical location, seeing themselves as a long way from the "mother country" or other potential Western allies (Walker 1999).

This sense of isolation and vulnerability in the minds of Australian policymakers has one profoundly important consequence: to try and ensure a security environment that seemed beyond the capacity and resources of a small population on a massive continent, Australians have looked to what former prime minster Robert Menzies famously called "great and powerful friends" to guarantee national security. As a result, first Britain—Australia's colonial parent—and latterly the United States have been seen as the bedrock of Australian security (Burke 2001). In this context, Asia generally and China in particular were an alien and threatening presence on the horizon. The realization of this threat during World War II triggered the change of allegiance that defines Australian security policy to this day.

The shift from Britain to the United States was traumatic, but it was achieved with a remarkable rapidity and a surprising lack of sentiment (Millar 1978). The apparently real threat of invasion by Japan following Britain's humiliating expulsion from Southeast Asia during World War II shocked and profoundly affected Australians. The events of World War II and the reordering of the international system it caused left an indelible impression on the minds of policymakers for generations. The most tangible consequence of this period was the formalization of the new strategic relationship with the United States in the form of the Australia, New Zealand, United States Security Treaty (or, more simply, ANZUS). Despite the fact that New Zealand is no longer an effective member, and the original threats the agreement was designed to counter having long since dissipated, ANZUS remains the cornerstone of Australia's overall strategic posture. It also enjoys widespread public support, something that makes the remarkable levels of commitment to the treaty more politically feasible (Hanson 2011).

No other country can claim to have been as reliable a strategic partner as Australia as far as the United States is concerned, and this close bond presents a formidable challenge for Chinese policymakers seeking to increase their influence over their counterparts in Australia. Since World War II, Australia has participated in the wars in Korea and Vietnam and in both Iraq wars, as well as in the continuing conflict in Afghanistan. The reason for this loyalty is not difficult to discern: despite the fact that Australia's security has never been directly threatened by any of these conflicts, successive Australian leaders from both sides of that country's political spectrum have felt duty bound to demonstrate their commitment to the alliance in the hope the United States would do likewise. Whatever the merits of this policy and the logic that informs it, the net effect has been to lock Australia into supporting US policy, whatever the consequences that policy may have been for Australia's other relationships (Beeson 2003b, 2007b).

The potentially negative consequences of this unstinting loyalty on the part of Australia were especially clear during the Cold War. Australia found it difficult to have normal or effective relationships with countries on the other side of the ideological divide, something that characterized the region more generally in this period (Cumings 1997). Relations between China and Australia were difficult and not normalized until former prime minister Gough Whitlam made what was then seen as a daring and unprecedented visit to China to restore relations. However, even this landmark in Sino-Australian relations occurred after Richard Nixon's visit, a sequence of events that puts the actions of one of Australia's more radical prime ministers into perspective. Nevertheless, this visit was an important turning point and marked the beginning of much improved bilateral relations.

We can, perhaps, possibly ascribe some of these earlier problems in Sino-Australian relations to the Cold War environment, which made relations between many countries difficult, and which effectively divided the entire East Asian region along ideological lines. What is most striking about Australia foreign policy, however, is that it continues to be shaped by this overlay of geopolitical concerns and relationships. The recent decision to station US troops in Darwin—part of the pivot in US foreign policy we discussed in Chapter 4—was understandably greeted with some alarm and disappointment in China,[2] but Australian acquiescence becomes more understandable when seen in the context of that country's unique strategic history. The reality is that Australian policymakers are still anxious about their overall strategic environment and still keen to keep the United States actively engaged in the region. The logic underpinning this action was made clear in the Australian government's recent defense white paper, which named China as a specific long-term threat to regional stability (Department of Defence 2009).

As we saw in early chapters, whatever the motivation for the recent shift in Chinese policy may have been, it has heightened the fears of those who worry about China's growing military might and the potential for conflict, especially in the South China Sea (Kaplan 2011). While Australia may be something of an outlier in the extent of its commitment to the United States, other countries like the Philippines and Vietnam are also trying to encourage greater strategic engagement on the part of the United States in the region, as we saw in Chapter 5. Whatever Chinese observers think of the merits of such fears or the associated criticism of China's policy, the reality is that geopolitical concerns are playing an increasingly large part in the strategic thinking of its neighbors. Australia is no exception in this regard. The danger for both China and Australia is that the increasingly important commercial relationship will be more difficult to manage as a consequence of wider shifts in the geopolitical context—developments that may be manifest in changing domestic policy and sentiment. Before we consider how this might occur or be avoided, we should spell out just how important the bilateral economic relationship has become to Australia and the impact it is having on the domestic economy.

Expanding Economic Relationship

When China replaced Japan as Australia's single most important export market in 2007 (Uren 2007), the change was an expression of a wider regional trend, but one with especially portentous implications for Australia. As with Australia's earlier relationship with Japan, the Sino-Australian trade relationship is something of a mirror image. Australia exports resources and commodities, and China reciprocates with electronic goods, clothing, and simple manufactures (Department of Foreign Affairs and Trade 2012). Significantly, with the exception of iron ore exports, the trade is far more important to Australia than it is to China when measured as a proportion of overall trade. This position is one Australia shares with a number of other regional economies, but in Australia's case the iron ore trade has grown in importance as a result of a remarkable increase in commodity prices. Australia's terms of trade have reflected changes in the very resource investments they are encouraging and have until recently been "at historically unprecedented levels" (Gregory and Sheehan 2011: 2).[3] The economic impact of China's rise on Australia has been unambiguous and profound: China's sheer size and the epic scale of its demand for resources in particular has grown rapidly in a remarkably short space of time, and these events are forcing a major process of economic adjustment in Australia. This problem may be a good one to have, and one many countries might gladly have, but it *is* creating problems, nevertheless, and they are not just economic ones.

Before considering the process of structural adjustment in any detail,[4] two consequences of the resource price spike noted above are worth emphasizing. First, the Australian dollar is strongly linked—in the minds of currency traders, at least—with commodity prices and consequently acts as a proxy for resource price movements. The rapid escalation of commodity prices has meant that the Australian dollar has also risen dramatically. History suggests that such valuations may prove unsustainable, but while the dollar is at its highest levels since being "floated" by the Hawke-Keating government of the 1980s, the dollar's high value is creating a "two-speed economy." Manufacturing, which was already suffering a process of long-term decline in Australia, has been badly hit as it finds itself unable to compete in a region with greater economies of scale and lower labor costs. Likewise tourism and education have been adversely affected, a process that further entrenches the importance and influence of the mining sector (Hume 2012).

For the Australian Labor Party in particular this change presents an acute policy dilemma that has a resonance beyond Australia: How do political parties with traditional allegiances to blue-collar industries that are in decline and unable to compete protect both their own electoral base while diversifying a national economy? Policymakers in Australia are aware of the reality that the resource boom may not be sustainable and that resources are ultimately an unambiguously finite asset. As the government's treasury secretary Martin Parkinson (2011) points out, not only is the China-led boom "the most significant external shock Australia has ever experienced" and one that is causing a "difficult adjustment process" as a consequence (19), but a critical public policy question needs to be addressed about what to do with the windfall profits that accrue. At one level, this debate is about domestic politics: How should the wealth generated by the resource boom be distributed? This question has led to a contentious and inconclusive struggle between the mining sector and the government, in which prominent members of the government have accused "vested interests" of trying to use their power to shape public debate (Swan 2012). At another level, the policy debate sparked by the resource boom has major international consequences, which have made relations with China especially fraught at times.

At the center of these tensions is investment in the highly lucrative resource trade, which is increasingly important to both China and Australia. As resource prices have risen and demand has increased, investment in the resource sector relative to other sectors of the economy has taken off dramatically. Investment in the mining industry rose from $10 billion (1.4 percent of Australia's gross domestic product) at the start of the decade to around $58 billion (4.2 percent) more recently (Connolly and Orsmond 2011). The minerals and energy sector has been by far the largest recipient of foreign investment of the past few years (Australian Bureau of Statistics 2011), a situation that has been reinforced by China despite a recent slowing in the Chinese economy (Garvey 2013). Given that much of this investment is responding to Chinese demand, Australia will increasingly rely on a single market. Somewhat ironically, where Chinese investment has diversified out of the minerals sector, the change has proved no less contentious: attempts to buy agricultural property have triggered divisions within the conservative side of Australian politics.[5]

Dealing with State Capitalists

As with many other countries, the Australian government's relationship with China is complicated by a paradox: "globalization" is making the pursuit of the national interest and the definition of national economic space more difficult, but this conflict is partly because the processes synonymous with globalization have not gone as far as some think. Somewhat paradoxically, this possibility is reflected in the growing Chinese scholarship on the globalization phenomenon: as with Chinese policymakers, most Chinese scholars remain focused on the potential threat globalization poses to state sovereignty, rather than trying to develop some novel or Sino-centric reading of the globalization process per se. Even at a theoretical level, then, Chinese thinking often reflects a realist tradition that has been a prominent feature of policy thinking and is reflected in public policy practice.

Although realist-inspired thinking about international relations and international political economy continues to be a prominent feature of Chinese policy, conceptualizing the Sino-Australian relationship simply in terms of trade between two discrete national economies does not begin to capture the complexity of contemporary transnational economic relations. Economic activity now is frequently disaggregated and dispersed across national boundaries by independent, footloose corporations that may have no obvious national allegiance or identity (Dicken 2011; Carney 2012). This phenomenon is particularly true in manufacturing, but the global resource trade is not immune, and it is dominated by companies like BHP. BHP at one time liked to style itself as "the big Australian," but it now has a complex, multinational ownership structure that has overturned any simple identity between economic and political space. Whatever one may think of the merits of foreign versus local ownership, as far as the Australian government is concerned, firms such as BHP and Rio Tinto, which dominate Australia's resource trade, and which are overwhelmingly foreign owned, at least have the merit of being familiar, profit-oriented, market-driven, independent commercial entities. No such assumption can be made about the increasingly active, state-owned and -directed enterprises that are becoming a prominent part of China's "going-out" strategy (Beeson, Soko, and Yong 2011).

At another level, therefore, globalization has not gone nearly as far as some of the more breathless accounts of its development might have us believe (Ohmae 1996). Far from disappearing, the state continues to exert a profound influence over the course of economic development in China, and other parts of the region, too, for that matter (Stubbs 2009). In China's case, though, continuing state control over strategically important parts of the economy is, as we have seen, essentially part of a distinct style of political rule (Bremmer 2010). Far from abandoning state control, Chinese economic planners are actually attempting to develop "national champions" in areas deemed strategically important. Szamosszegi and Kyle (2011) estimate that as much as half of China's economic output continues to be generated by state-owned or -controlled enterprises. Even more importantly, their exhaustive analysis of the SOE sector concluded that "SOE investments and actions also reflect the long-term vision of their controlling shareholder (the Chinese government), and thus short-term profits are not necessarily their highest priority. . . . The top Chinese leadership has stated that SOEs will continue to be the main actors in China's *going out policy*, and that China will use its massive foreign exchange reserves to fuel this overseas expansion, especially targeting energy and natural resources" (89). This strategy has plainly been in evidence in Australia. As Jeffrey Wilson (2011) points out, the investment policies of Chinese resource companies have a number of interrelated goals. First, by using investment to increase resource production in Australia and elsewhere, Chinese companies hope to put general downward pressure on resource prices worldwide. Second, they hope to achieve "the stated goal of developing 'captive mines' owned by Chinese firms, with the intention of diluting the bargaining strength of the Big-3 miners in annual price negotiations" (295).

Thanks to WikiLeaks, we now know that the Australian government is also increasingly concerned about the possible impact of Chinese investment and more alert than its predecessors were about a similar Japanese strategy in the 1980s and 1990s (Beeson 1999). The Australian Foreign Investment Review Board, which is charged with ensuring that investments are in the national interest, has suddenly become concerned about the possible strategic implications of investments by Chinese entities. Australia's treasurer Wayne Swan provided the board with new guidelines and "a stricter policy aimed squarely at China's growing influence in Australia's resources sector" (Dorling 2011). Tighter controls have been placed on foreigners wishing to take out minority shareholdings in smaller, Australia-based companies.

Given Australian policymakers' normally relaxed, even enthusiastic attitude toward foreign investment, this sudden concern about some investment proposals is especially noteworthy, but in keeping with recent history. Perhaps no incident highlighted the complexity, sensitivity, and potential for misunderstanding in the bilateral relationship more than Chinese state-backed holding company Chinalco's abortive bid for a stake in Rio Tinto. Following its poorly judged and expensive takeover of Canadian aluminum producer Alcan, a heavily indebted Rio Tinto invited Chinalco to invest in the company in order to save it from a possible hostile takeover from BHP. Despite Chinalco's enthusiastic response, the deal eventually collapsed. Chinalco and Chinese observers more generally were convinced that the deal had been killed off following the undisclosed intervention of the Australian government (Garnaut 2009). Such a possibility should not have surprised Chinese policymakers given that Prime Minister Kevin Rudd and Treasurer Wayne Swan convened a secret meeting with Chinalco representatives to inform them that they would not be allowed to take control of Rio Tinto (Uren 2012).

Whatever the specific content of the equally secret discussions between Swan, Rudd, the Foreign Investment Review Board, and Rio Tinto, as Jenifer Hewett (2009) points out, "the basic message was that Australia was concerned about the prospect of China, a leading customer of its resources, having too much influence or control over those resources. The implication was that Australia didn't want China Inc to be able to influence pricing and production." Given the subsequent willingness of an overwhelmingly foreign-owned mining sector to use its economic and political leverage to shape the public debate generally and taxation policy in particular (Maiden 2010), a certain irony and inconsistency can be found in the government's position: not only did the Australian government manage to offend and confuse its most important trading partner, but it also displayed a certain naivety about the potential loyalty of an industry that was almost wholly foreign owned. Any lingering illusions about the possibility that large, mobile, multinational corporations might be more likely to cooperate with government were shattered by the resource sector's response to proposed changes to fiscal policy.

Australia and the Resource Curse

Australia's relationship with China highlights potential problems that confront all smaller bilateral partners, especially those with a limited economic profile. Usually assumed is that the perils of the "resource curse" are primarily associated with developing economies such as Sierra Leone or Middle Eastern authoritarian regimes such as Saudi Arabia (M. Ross 1999; Auty 2001). In these and similar cases, the importance of a single commodity can distort economic development and consolidate the political position of any group that controls its production. Through patronage and rent-seeking activities, privileged insiders and the politically powerful can use their access to resource-generated wealth to entrench the position of what are invariably nondemocratic, repressive regimes. Such regimes are, it is worth emphasizing, very different from the developmental regimes of East Asia, the authoritarian heritage of the latter notwithstanding (Evans 1995).

For developed economies and democratic polities such as Australia's, the resource curse might seem irrelevant. However, the structure of Australia's economy has been profoundly influenced by the growth of the resource trade. Although this trade is currently dominated by China, concerns about the possible negative impact of high resource prices and the concomitant appreciation of the Australian dollar on the overall structure and content of economic activity are long standing in Australia (Gregory 1976). As in less developed economies, currency appreciation has had an adverse impact on other industries, narrowing the industrial base and economic profile and making the economy as a whole much more vulnerable to shifts in commodity prices, which are notoriously volatile and now increasingly dependent on changes in the Chinese economy (Pleven 2011). The negative impact of structural change in Australia has been exacerbated by the fact that the mining sector is a relatively small employer and a comparatively modest contributor to the national tax base.[6] Economic development in Australia as a whole consequently became increasingly hostage to the needs of the mining sector, its demands for labor, and its domination of national investment patterns. The risks inherent in such an overreliance on one section of the economy have been revealed as a familiar historical pattern repeats itself and the resource boom threatens to turn into a bust (Bowring 2012: Variantperception 2012).

However, what is becoming more apparent is that the mining sector's power is not confined to its economic influence: increasingly, the mining sector is exerting a *political* influence that mirrors its economic weight and reminds us that the possible consequences of the resource curse are not confined to the developing world or the economic sphere. Paul Cleary (2011) argues that because Australia's resource sector is in reality overwhelmingly foreign owned, decisions about investment and production are generally made by multinational corporations driven by a global organizational logic that may be at odds with putative national interest. In many ways Cleary's analysis echoes earlier critiques of Australian policy following the 1970s resource boom (Crough and Wheelwright 1982). Both Cleary and an earlier generation of radical critics might be accused of "methodological nationalism" and a relatively unproblematic acceptance of some notion of a distinct "national interest" (Agnew 1994). Indeed, some may rightly object that any Australian private sector actor will also make decisions and take action in what it considers to be its interests and those of its shareholders rather than those of some imagined community of Australians. However, this argument does not detract from one of Cleary's central conclusions. As he points out, the growing economic and political significance of the resource sector in Australia means that it has been able to influence government policy in Australia in ways that reflect narrow corporate interests rather than any sense of more broadly based national benefit.

The possibility that a mining industry empowered by the wealth that the resource trade with China has generated might act in ways that served sectional rather than national interests was dramatically highlighted in the intense political struggle that emerged over tax policy during the administration of Kevin Rudd. The mining lobby collectively underwrote a highly effective campaign to oppose the Rudd government's proposed tax on "superprofits." By investing AU$22 million in a high-profile advertising blitz, the mining companies saved an estimated AU$60 billion in tax revenues over ten years (Irvine 2011). As Cleary (2011) points out, "the success of multinational miners in securing these concessions, and in beating voters to the punch, reveals the perverse world order in which we live: an advanced country can possess enormous riches but lack the capacity to do what is clearly in its own long-term interest" (79).

While the inability of a democratically elected government to compete with the financial firepower and even political skills of a powerful set of vested interests is arguably revealing and troubling,[7] of even greater concern was the fact that the mining lobby's highly successful campaign was instrumental in bringing about the downfall of Australia's then prime minister. True, Kevin Rudd had famously alienated many in his own party and was highly dependent on his public popularity to maintain authority within a notoriously faction-ridden, tribal, and brutal party machine (Carney 2010), but his political problems do not detract from the central point: not only was a democratically elected government unable to implement what were arguably socially and economically desirable changes to fiscal policy, but the prime minister of the day was effectively brought down by what had become the most powerful and politically influential sector of the economy.

Importantly as far as Sino-Australian relations are concerned, the dramatic expansion of the resource—an expansion driven by economic links with China—provided the impetus for this change in Australia's domestic political alignments. The fact that the resource industry is overwhelmingly foreign owned and its profits, as Australia's central bank governor acknowledges (Stevens 2011), largely flow offshore, only adds to the perception of a country whose political and economic independence have been profoundly affected by major structural change. Crucially, such changes have brought major economic *and* political consequences in their wake.

Although we have focused primarily on the major structural changes that China's economic rise has generated in smaller economies such as Australia's—and most of China's other trade partners, too, for that matter—people and personalities matter as well. Chinese observers are perhaps more familiar with dialectics than their Australian counterparts, but in the interaction between structure and agency, the latter can make a profound difference, which has clearly been the case in Australia's relationship with China over the past few years. We have already mentioned the profoundly important role played by Gough Whitlam in reestablishing relations with China in the 1970s. Importantly, this process was pushed forward by the governments of Bob Hawke and Paul Keating in the 1980s and 1990s as part of their "Asian engagement" strategy. Even John Howard, although something of a social and political conservative and ambivalent about the value (or even the possibility) of close cultural ties with Asia, paradoxically developed a good working relationship with his Chinese counterparts and pragmatically oversaw the further intensification of trade ties with China (Wesley 2007).

By contrast, one of the great contradictions or ironies of Australia's recent interaction with China is that ties arguably reached their contemporary nadir under the leadership of Mandarin-speaking China expert Kevin Rudd. Rudd's missteps in the relationship have been well documented: whether it was offering the Chinese gratuitous advice on human rights at a very public forum in China, or encouraging the military establishments of Australia and the United States to take a more assertive line in response to the challenge of a rising China. Rudd's fate is a reminder of just what a difference national leadership on both sides of the relationship can make (Callick 2010a). Ironically enough, for all the criticism that has been made of Australia's failure to develop "Asia expertise" (FitzGerald 1997), its most qualified leader found himself facing the greatest problems. Most of these difficulties flowed from Rudd's self-confessed position as a "brutal realist" when it came to relations with China.[8] And yet in many ways, Rudd's views appear to have become the new orthodoxy. As we shall see, despite both Rudd's departure as Australia's leader and the overwhelming importance of the economic relationship with China, Australian policymakers continue to move ever closer to the United States and play a greater role in that country's recent pivot back to Asia Pacific. To see why, we need to unpack the changing strategic context that is exerting a powerful influence over policy in Australia and a number of China's other most important regional relations.

Geopolitics and Security

Australia may be especially preoccupied with security, but in the context of the region—be it East Asia or the more expansive Asia Pacific—Australia's concerns are far from unique. What sets Australia apart historically has been the closeness of its postwar relationship with the United States. For much of the last sixty years or so, the possibility of Australia having close ties with China has been effectively foreclosed as a consequence of geopolitical rivalries and alliances. Although such divisions were most obvious and insurmountable during the Cold War, even now rivalry between China and the United States continues to constrain the policy options available to policymakers in Australia and elsewhere. To be more precise, policy options are circumscribed by the way policymakers *perceive* the relationship and the strategic calculus that underpins it, and in this regard the actions of Chinese policymakers are influential—as they are in other parts of the region, too. In this regard, however, the supposed logic of economic interdependence at the center of Australia's relationship with China has not brought about the ideational shift some might have expected.[9] Despite the importance of the economic ties detailed above, Australian policymakers remain nervous about the possible strategic implications of China's rise.[10] This lingering anxiety may be a perennial feature of Australian security policy, but it is one with significant implications. It suggests that China's capacity to influence even its most closely connected neighbors remains limited, which is why China and Australia's relationship is potentially such an illuminating case study.

As with the rest of the region, Australia's trade with China occurs within a complex strategic environment. Australia's situation is particularly complicated by the fact that, as many commentators have noted, Australia's largest economic partner and principal strategic ally are geopolitical rivals (Manicom and O'Neil 2010). The key policy challenge confronting the current generation of Australian policymakers is the need to manage two pivotally important relationships at a time of rapid change in their own relative standing, as we saw in Chapter 4. The simple material reality is that no matter how much cultural and historical affinity may exist between the Australian and American people, China's economy is exerting an irresistible gravitational pull that is reshaping the Australian economy and making any calculation of "the national interest" increasingly problematic. Like many of its neighbors, Australia must try to craft a policy that allows it to fulfill potentially incompatible and contradictory goals.

Under such circumstances one might expect policymakers to engage in the usual obfuscations and circumlocutions that characterize unpalatable policy options. Remarkably enough, however, the government of Kevin Rudd produced a defense white paper (Department of Defence 2009) that explicitly named China as a potential strategic threat in East Asia. Even more remarkable is the existence of a "secret" chapter of the white paper that was judged too sensitive for publication, but which apparently detailed the sorts of threats Australia was thought to face and the type of defense force that would be required to meet them (Uren 2012). Significantly, and in keeping with our general point about the potential importance of political leadership in defining the relationship, the white paper was the subject of a divisive debate within Australia's key intelligence agencies (Stewart and Walters 2009)—a political reality that provides an important reminder of just how contentious defining even the most fundamental aspects of protecting national interest can be.

With the intelligence community divided in their assessment about what China's rise might actually mean in strategic terms, Rudd's realist-inspired intervention in the policy discussion proved decisive. Australia illustrates precisely the same sort of difficulties that confront its Southeast Asian neighbors as they struggle to assess and deal with China's growing presence and importance. What makes Australia especially significant in this context is that, despite its relatively benign security environment and distance from potential flashpoints, it has gone further than any other country in the region in trying to define the region's strategic and institutional architecture.[11]

The principal manifestation of Australia's strategic commitment to the ANZUS alliance can be seen in the recent decision to establish a joint facility in Darwin so that US troops can be stationed in Australia's north on a continuing basis. This high-profile commitment plainly sent a powerful message to China about Australia's strategic priorities, its continuing strategic relationship with the United States, and growing concerns about how the rise of China is viewed in Australia. Predictably enough, Chinese military officials were not impressed and accused Australian and US officials of suffering from a "Cold War mentality" (Spegele 2011). Not only Chinese officials question the wisdom and benefits of this initiative, however. Senior military and political figures in Australia have also drawn attention to both the potential costs and the fact that Australia will be locked into US strategic policy (Fraser 2012; Leahy 2012). The question, therefore, is why at least some Australian foreign policy makers consider such a significant commitment as warranted given the potential damage it might do to relations with China.

The Ties That Bind

At one level, Australian policy is the product of its own unique history and the distinctive security culture and anxieties this history has generated. In this context, the Australian exemplar may have limited relevance for other Asian neighbors.[12] At another level, however, important comparative points are to be gleaned when thinking about the impact of China's regional policy.

Even some of the more sophisticated analyses of Chinese policy in East Asia conclude that China's long-term possible objective is the creation of a Sino-centric version of the Monroe Doctrine (Dupont and Hintze 2011). Such an interpretation is not outlandish given that it has actually been explicitly advocated by some Chinese analysts (Kai 2012). Yan Xuetong from Tsinghua University, for example, has famously argued that China should abandon its policy of nonalignment. Yan believes that among China's regional neighbors, at least twelve countries are potential allies of China (Deng and Huang 2011). Whatever one makes of such optimistic claims, they are strikingly reminiscent of the Cold War era (F. Zhang 2012). No matter what Chinese policymakers or commentators may think about such reactions or the legitimacy of the policies themselves, therefore, the reality is that China itself has given ample grounds for concern among those analysts and policymakers who are arguing that China's growing economic power will inevitably translate into growing military power and ambition.[13] The increasingly strident rhetoric coming from senior PLA commanders and the apparent growing influence of the military in China's domestic debate are giving additional weight to such views (Lam 2012). The question for China's neighbors and trade partners is, what sort of response is appropriate and proportional in such circumstances?

The most fundamental point to make about Australia's position is that its direct military contribution can make no real difference to the military balance between the United States and China (Thomson 2012). Historically, Australia's principal contribution has been as a geographically pivotal location for the "joint facilities" or—less euphemistically—the "spy bases" that form such a key part of the United States' war-fighting and intelligence-gathering capabilities (Ball 1980). Now this commitment is to be literally and metaphorically reinforced by the establishment of permanent bases for US troops in Australia. Despite this commitment, Australia's contribution to the alliance and the United States' pivot is significant primarily for its symbolic importance. As Dupont and Hintze (2011) point out, "given the firepower at the disposal of China and the United States, a handful of Australian submarines—even nuclear powered—would make little strategic difference" (7). Nevertheless, close ties with the United States and the security guarantee that implies continue to enjoy widespread popular support in Australia,[14] and this support helps to explain why generations of Australian policymakers have felt it necessary to "pay the insurance premium" by participating in the Korean, Vietnam, and two Gulf wars and the continuing conflict in Afghanistan. As David Uren (2012) has pointed out, the United States has often reminded Australian leaders in fairly brutal and direct terms just what is expected of them, particularly in any possible conflict with China over Taiwan.

Although occasional missteps have been made, and some leaders have been more enthusiastic about close ties with the United States than others, the general commitment to the relationship has been overwhelming and needed little cultivation by the United States. On the contrary, Australian leaders have often gone to extraordinary lengths to reassure the United States of their continuing fealty—a tradition recent prime minister Julia Gillard has done nothing to change. On the contrary, Gillard (2011) made a point of fulsomely reassuring the United States of the importance she attaches to the alliance and continuing close ties. One of the most significant consequences of this relationship as far as Chinese policymakers are concerned is not simply its strategic consequences—tangible and alarming as they might seem to be—but the importance that Australian leaders have attached to having the United States *institutionally* engaged in the region. This pattern shows no sign of diminishing and is one that has major implications for China.

Shaping the Region

Australia is famously a country that sees itself as "punching above its weight" in foreign policy terms. Former Australian Labor Party foreign minister Gareth Evans is, perhaps, the most prominent advocate of this view (Evans and Grant 1991), and it was certainly a feature of his and the Hawke-Keating Australian Labor Party governments' periods in office. The contrast with China in this regard, then and now, is striking. Although Australia is plainly a "middle power" with a limited capacity to influence the wider international environment, its policymakers have played a surprisingly prominent role in shaping the region's institutional architecture (Cooper, Higgott, and Nossal 1993). In this case, of course, the region in question is Asia Pacific because, despite Gareth Evans's best efforts to redefine the very nature of the region and Australia's place in it,[15] Australia is simply not part of East Asia. This underlying, inescapable geographical reality helps to explain the continuing importance many Australian policymakers have attached to developing an inclusive Asia Pacific institutional architecture in which Australia would have a legitimate part (Camilleri 2005).

Australian policymakers have a longer tradition than their Chinese counterparts of being part of the international institutional infrastructure, but such caveats notwithstanding, their relative contribution to institution building in Asia Pacific is quite remarkable. For example, Gareth Evans in collaboration with his Canadian counterpart, Joe Clark, initially suggested establishing an Asia Pacific conference on security and cooperation at the ASEAN Post-Ministerial Conference in 1992. This proposal was taken up and eventually culminated in the establishment of the ARF. As Emmers (2003) points out, establishing a body like the ARF was potentially appealing for ASEAN's leaders because a subregional approach to security seemed outdated in a post–Cold War context, and—more importantly for our purposes—because it seemed to offer a way of engaging with China and possibly managing its rise. The point to emphasize here is that Australian officials played a crucial entrepreneurial role in helping to develop what is still the region's most important regional security forum, despite all its well-known shortcomings (Beeson 2009a; Emmers and Tan 2011).

This organization was not the only one in which Australian policymakers played a prominent role, nor was it the only one that had a direct impact on China. As we saw in Chapter 3, APEC emerged from a long process of international interaction in which Australian officials, businesspeople, and even academics played a large part. Indeed, prominent academics such as Peter Drysdale and Ross Garnaut (1989, 1993) did more than most to lay out a market-oriented blueprint for regional integration, even if it was one that often fell on deaf ears (Higgott 1993). What was of greatest significance about Australia's subsequent APEC initiative from a Chinese perspective was that the putative organization also included both Hong Kong and, even more controversially, Taiwan—even if the latter was included as "Chinese Taipei" to accommodate sensitivities on the mainland. APEC has provided an important venue for China's diplomats to become accustomed to operating in multilateral forums. Moreover, from APEC's inception, a number of influential Chinese scholars recognized its potential for securing market access in North America and generally embedding China in the regional economy.

Despite APEC's rather modest record of actual achievement, and a proliferation of proposals for other institutional initiatives around the region, Australian policymakers have continued to try and influence the direction of regional development. The most ambitious recent effort in this context was former prime minister Kevin Rudd's proposal for an organization called the Asia Pacific Community. Although his proposal has failed to gain traction in a region that jealously guards its independence and claims to leadership (Callick 2010b), Rudd's initiative is significant and revealing in the context of Sino-Australian relations. The key feature of the Asia Pacific Community as far as Rudd was concerned was the inclusion of the United States. Not only would US inclusion give the region a more expansive Asia Pacific identity, but it would keep the United States institutionally and, by implication, strategically engaged in the region. Rudd has played a major role in championing this sort of institutional engagement as part of a renewed commitment on the part of the United States to the Asia region (Sheridan 2011). At the very least, Australian policymakers can claim to have encouraged their US counterparts to rethink their priorities and the amount of attention they give to East Asia. This development is squarely aimed at China, despite some of the predictable protestations to the contrary. With friends like these, some Chinese officials may be forgiven for thinking, who needs enemies?

Chinese Perspectives of Australia

Bilateral relationships necessarily have influences and consequences on both sides. As the resource trade has grown between Australia and China, Australian scholars and policymakers have not been the only ones to take a greater interest in the relationship. In China, too, interest is growing in the relationship as a consequence of its security implications, both resource security and the more traditional variety with which Australians have tended to be preoccupied. Despite this growing interest, one can fairly say that the relationship is not always well understood in China, and this misunderstanding has created possibly avoidable problems at times. Certainly, among the general public a perception can be found that Australia benefits disproportionately from the relationship and little appreciation exists of the fact that the resource trade is actually dominated by foreign multinational corporations (Beeson, Soko, and Yong 2011). Within the scholarly and policymaking communities, a predictably wide range of views are represented.

Generally speaking, most of the Chinese public and non-Australian studies specialists are quite puzzled with Australia's behavior and its subordinate role to the United States.[16] Chinese commentators believe that the unresolved tensions between Australia's security alliance with the United States and its economic partnership with China in particular are damaging Australia's national interests rather than preserving them (Zhan 2011). As a result, many Chinese scholars have concluded that Australia does not actually have an independent foreign policy. This conclusion may also explain why Australian studies remain on the margins of the research agenda of Chinese academia. What we can say is that some of the hopes and expectations that were associated with the initial inauguration of Kevin Rudd have faded. The idea that the Sino-Australian relationship might stand as a model of the way countries with different systems might manage their relations has not been realized. On the contrary, many Chinese experts have reverted to a more realist stance when thinking about the Sino-Australian relationship and its future prospects (C. Gao 2013).

Conclusion

Perhaps the most striking conclusion to draw from the evolving Sino-Australian relationship is one that has relevance and implications for all China's regional relationships: China's growing economic importance to Australia has not in and of itself been of sufficient importance to change Australia's traditional foreign policy settings. True, the relationship between China and Australia is taken a good deal more seriously by both sides than it ever has been before, but this is not saying a great deal. Until surprisingly recently, Australian policymakers were so wedded to the ideological rigidities of the Cold War that the idea of "normal" relations with China was simply unthinkable. Even now many of Australia's policymakers have difficulty separating Australian national interests from those of the United States. But as

Australian academic Hugh White (2010) has pointed out in an influential, perceptive, but not universally well received essay, "the alliance will only survive for as long as the US role in Asia serves our interests, and that is something we can no longer take for granted" (53).

Such views are still seen as heretical by many commentators, but they reflect a growing recognition that China's continuing rise—especially at a time of what looks like at least relative US decline—will inevitably change the strategic context within which Sino-Australian ties are embedded. At a time when a seemingly permanent decline has also taken place in the incidence of interstate warfare, questioning the utility of alliances forged in an earlier, more geopolitically fraught era is no longer unthinkable. In such circumstances, one might expect that China's charm offensive might have begun to do its work and convince Australia's policymakers and public alike that they really have less to fear from a newly ascendant China. Up to a point it has. Public opinion about China is increasingly favorable, even if widespread support still exists for the Australian-US alliance, too.[17] And yet China's recent actions in the region, especially the South China Sea, have undone much of the positive impact of earlier diplomatic efforts. Many strategic analysts feel vindicated, and China's actions have encouraged those who argue that Australia must look to its own defensive capabilities if it is to ensure its continuing strategic independence.

For our purposes the finer points of the debate over Australia's security posture are of less significance than is China's role in fueling the various camps within the Australian debate. This book is, after all, about *Chinese* foreign policy, and Australia's place in this context is what is really significant here. As a growing number of Chinese observers are coming to realize, China's regional policies can have negative consequences and actually make pursuing perceived national interests more difficult. Plainly, China would like the United States to have a less prominent and substantial military presence in its immediate neighborhood. And yet Chinese policy has brought about precisely the opposite and encouraged countries such as Australia—or influential voices within the policymaking establishment, at least—to take a much more hawkish attitude and to reinforce its ANZUS commitments as a consequence. What is true in Australia is also true of many—perhaps most—of China's other bilateral partners in the region. If China cannot get this relationship right given its overwhelming economic importance to Australia, which relations can it manage successfully? If it cannot manage bilateral relations, what hope is there for China on the global stage where it is increasingly having to play a role in keeping with its growing economic and strategic presence? It is to this question that we now turn.

Notes

This chapterdraws on Beeson and Li (2012b) and Beeson and Bong (2012).

1. For Chinese views of Australian foreign policy history, see Wang Shiming (2003) and Zhang Qiusheng (2002)

2. For example, the vice president of the China National Committee for Pacific Economic Cooperation Wu Zhenglong (2012) suggested that the stationing of US troops in Australia was simply an inappropriate throwback to a bygone era.

3. Currently a major debate is raging in Australia about whether—and why—the investment surge may have declined. See Chambers and Tasker (2012).

4. "Structural adjustment" is a shorthand for "changes in the way goods and services are being developed, designed, produced and distributed" (Ruigrok and van Tulder 1995: 2). We would also add "changes in the mix of goods and services within any economy." Either way, the point to stress is that while much of this process is determined by independent firms within the private sector in a country like Australia, this process also has major political ramifications for leaders who must attempt to manage the social consequences of such changes.

5. Attempts by a consortium of Chinese investors to buy Cubbie Station, a massive cotton farm with major water entitlements, sparked a heated debate about Australia's national interest and control of vital resources. See L. Wilson (2012).

6. The mining sector only employs a litte more than 2 percent of the workforce and pays an effective tax rate of about 14 percent on the industry's gross operating surplus, compared to the theoretical company rate of 30 percent (Richardson and Denniss 2011).

7. Notably, Australia's treasurerWayne Swan (2012) accused powerful "vested interests" in the mining sector of hijacking the debate over taxation policy in particular. In a related development, mining magnate Gina Rinehart has attempted to gain control over prominent media outlets, prompting fears that the mining sector would use its wealth to shape the public debate in ways that might damage democracy in Australia. See Gratton and Simpson (2012).

8. Significantly, this position has been endorsed by some of Australia's most influential foreign policy commentators. See Sheridan (2010).

9. Interestingly, more evidence of such a shift and the benefits of interdependence can seem to be found in China's relationship with Taiwan. See S. Chan (2009).

10. We should note that such concerns are not confined to the more obvious military aspects of this process, either. Partly as a consequence of advice from the United States, the Australian government refused permission for the Chinese company Huawei to participate in the rollout of the multibillion-dollar national broadband network, because of fears about cyber-espionage (Maley and Bingemann 2012).

11. Not only has Australia been at the forefront of trying to develop new regional economic organizations, such as APEC, but it has also played a key role in developing regional security organizations such as the ARF. See Emmers (2003).

12. Japan is the most important exception in this regard as it shares both a close strategic relationship with the United States and similar uncertainties about its place in the region. See Beeson and Yoshimatsu (2007).

13. China's official policy position is that China will never seek hegemony or a Chinese sphere of influence. See Information Office of the State Council (2011).

14. Seventy-four percent of Australians support the establishment of a permanent base in Darwin, part of a more general pattern of support for the alliance. See Hanson (2012).

15. Evans suggested that thinking of Australia as being at the center of an East Asian hemisphere would be more appropriate, and he literally tried to redraw the map to achieve this end. See Hiebert (1995).

16. During the authors' fieldwork in China in late 2011, questions about the motivation and intent of Australian foreign policy after the US pivot were ubiquitous.

17. Seventy-five percent of Australians think China's rise has been beneficial for Australia economically, but 65 percent also think China seeks to "dominate Asia." Australians are evenly divided about whether Australia should attempt to cooperate with other countries to contain China's influence and about whether the United States should "give China a larger say in regional affairs" (Hanson 2011: 10).

9

A Regional or Global Power?

In this book, we have been primarily concerned with exploring China's relations with those countries with which it shares an immediate border or where its territorial claims overlap with those of other states. In essence this focus has led us to look at China as an Asian or a regional power. However, the reality is that China has rapidly become so powerful that its sheer material weight and the growing ambitions of its foreign policy elites mean that it increasingly sees itself as a global power, even if its foreign policy officials are sometimes somewhat bashful about actually saying so. By contrast, much of the scholarship and popular commentary that has emerged from China recently is preoccupied with China's growing international role and what this role may mean for its place in the world.

The new generation of Chinese leaders has become more confident about promoting a Chinese vision of the future domestic and international order. Xi Jinping and his new Politburo Standing Committee colleagues visited the symbolically important National Museum of China in late November 2012 during which Xi made a speech about China's long-term goals. According to him, rejuvenating the Chinese nation remains the overarching goal, and patriotism is the key to achieving it. Though Xi's speech was primarily for domestic consumption, the significance of the "Chinese dream" is that it is indicative of China's growing ambitions and desire to assume a higher international profile. Similarly capturing this mood of expansive national renewal and assertion, Wang Yiwei (2013) writes in the *Global Times* that as a world power, China not only needs to realize its modernization, but also needs to help other less developed countries to realize theirs; China's peaceful development thus takes on global significance.

Writing in the CPC's official news website Renminwang, Liu Jingbei (2010c) claims that China has already made the transition from regional to world power. China, the argument goes, is already recognized as such because of its presence in key institutions such as the United Nations, the strength of its economy, and the growing influence of its culture and economic practices. Liu believes that within thirty years time, China will dominate the world system. Of course, not everyone shares this view. The famous liberal economist Mao Yushi (2012) suggests that China is not qualified to be a global power because its politics remains authoritarian, because it has made no recent contribution to global civilization of note, and because its system is not as widely admired as Liu claims.[1] The key point to make, perhaps, is that although domestic views about China's significance are inevitably changing as a result of its material transformation, the nature of such views is far from uniform or predictable. Analysts such as ourselves who represent internal and external perspectives have an equal challenge coming to any definitive statement about China's future prospects.

Although our principal focus in this book has been on China's regional role, as we saw when we discussed Asia Pacific and the role of the United States, thinking of such policies in isolation is simply not possible. Even if considering China's policies toward Southeast or Central Asia, for example, as separate and distinct in some ways, and driven by subtly different priorities and dynamics, may still make sense, policies toward all regions are clearly overlaid by a wider set of international relationships (Buzan and Waever 2003). Whether we are discussing great power rivalry in Central Asia or the role of the South China Sea in reconfiguring Southeast Asia's relationships with the United States, we can see that regions are plainly susceptible to global influences at times. Consequently, in this concluding chapter, we give more explicit consideration to the wider context in which specific regional relationships are embedded and consider what this global context may mean for China's overall foreign policy position. One of the questions to consider here is whether an inherent tension exists between China's regional goals and the increasingly global role it is seeking or being expected to play. The answers to such questions are necessarily tentative and speculative but given their importance and potential to feed back into regional and even domestic policies, they demand everyone's attention.

China's Growing Global Presence

Clearly, one of the most important influences on China's recent development has been its engagement with the international system. More specifically, China's political, economic, and even social structures have been profoundly reconfigured by the growing integration with external forces that is often subsumed under the all-encompassing rubric of "globalization."[2] Unsatisfactory as this term is, it does capture something important about the contemporary era and the degree of transborder interconnectedness that seems to characterize the contemporary global political economy. While it may be true that the degree of economic interdependence that exists today may not be entirely unprecedented or necessarily guaranteed to survive either repeated financial crises or escalating geopolitical tensions (Hirst and Thompson 1996; James 2001), modern China's involvement in such processes *is* unprecedented and continues to exert a palpable influence. The starting point for thinking about China's future role in the international system, therefore, is one that recognizes just how profound an influence global forces have exerted on China's domestic sphere.

We should remember that China's reemergence as a pivotal part of the global economy has been primarily a consequence—initially, at least—of its own actions. More specifically, the critical decisions and initiatives of a number of individuals—in particular Deng Xiaoping—led to the integration of the Chinese economy with the wider world. In the age-old debate about the relative importance of structure and agency in driving development (Underhill and Zhang 2005), therefore, agency still clearly counts for a lot. Decisions may be made in a constrained, historically contingent institutional environment, but at particular moments individuals can play a critical role in shaping national responses to changing circumstances (Campbell 2004; S. Bell 2011). In this context, one can hardly overstate the importance of Deng's influence and his determination to push on with a reform process that would have profound domestic *and* international implications.

Although no one could have foreseen quite how rapid or consequential the changes unleashed by China's opening-up would actually be, Deng's heirs must not only deal with the undoubted benefits of global integration but also the profound challenges such processes bring. Some of the problems China faces are universal: How can states manage economic development and adjustment in an era when the capacity of the state is apparently being undermined by economic processes and regulatory arrangements that are increasingly transnational in nature (Cerny 1995, 2010)? This problem is one all states face as they struggle to deal with the practicality of governance at a time when the internal architecture of the state itself may be partially reconfigured by the exigencies of transnational cooperation (Jayasuriya 2001; Brenner 2004). China's accession to the WTO was, perhaps, the most important illustration of the costs and benefits of international integration and cooperation. In order to gain admission to the WTO, the Chinese government, without doubt, had to make major concessions and changes to its internal political practices and governance structures. As we now know, the payoff has been immense: not only did WTO accession consolidate China's position as a major trade hub and investment target, but it helped to snuff out residual domestic opposition to the larger reform process.

And yet as the rise and fall of former Chongqing party secretary and politburo aspirant Bo Xilai reminds us, the evolution of the political process in China remains complex and uncertain (Anderlini 2012). While we may never know the complete story of Bo's sudden fall from the pinnacle of power, politics clearly remains contested, and even ideology can still play a part in China's internal struggles. The apparently growing presence of the "New Left" in China serves as a reminder that not everyone in the People's Republic is happy with the direction of economic and political change (Spegele 2012). True, some of this unhappiness may be manipulated by those seeking personal political advancement, but it is a revealing crack in the generally monolithic political façade, nevertheless. The key question for China's governing elites is whether they can continue to manage an enormously complex process of structural change in the economy, especially in the face of a potentially severe domestic or global economic slowdown.

Of course, knowing what course China's economic development will follow in the future is impossible, but a number of points are worth making. First, whatever problems China may currently be experiencing, its achievements remain historically unparalleled in their scale and speed; this unambiguous material reality will remain the most important structural change in the global economy for the foreseeable future. China has famously become the world's second-biggest economy, its largest exporter, and its single biggest manufacturer in the space of a few decades; these acheivements remain astounding, even set against all of world history (World Bank/Development Research Center of the State Council 2012). Even if it all goes wrong and worries about overinvestment, real-estate bubbles, and financial fragility prove to be well founded (Walter and Howie 2011), China is not going back to being a peripheral agrarian economy with little impact on, or significance for, the rest of the world. On the contrary, for better or worse, China's economy will exert a growing influence over the rest of the world and the economic prospects of all its citizens. The question is, of course, how will this influence manifest itself and what will China's leaders seek to do with it?

Putting Its Mouth Where Its Money Is?

As we have seen in our discussions of China's regional relations, the challenge for all China's neighbors has been coming to terms with a state that has always been historically significant in one way or another, but which has suddenly become a key determinant of national economic well-being. As we explained in the preceding chapter, no country better illustrates just how difficult accommodating China's rapid rise and the transformation of the region's political economy can be than Australia. Certainly, increased Chinese demand is a good problem to have in some ways, and no doubt Australia in particular has until recently been relatively immune to global economic downturns as a result, but structural change can obviously precipitate political realignments, too. Even in a mature democracy such as Australia, a dramatic shift in the relative importance of particular sectors of the economy has been responsible for a concomitant reordering of political power and influence. If Australian politics can be affected by China's rise so dramatically, how much more significant is the potential impact likely to be on countries with more brittle political structures? This question is especially important when we consider that in the future, China's impact will possibly—even likely, all other things being equal—not be confined to its immediate region.

Thus far, China's efforts to exploit its latent economic and political influence have been rather circumscribed. For much of the last several decades, China's leaders have been preoccupied with reassuring their neighbors and the world that the implications of China's rise are entirely benign. Recently, however, things have begun to change. The most visible and dramatic expression of this shift in national sentiment and strategic thinking in China has been seen in the maritime disputes that threaten to destabilize the entire East Asian region. Japanese nationalists are no less impassioned and difficult to control than their Chinese counterparts, but more sober observers in Japan also recognize the enormous potential damage that might be done to the investments in China of major corporations such as Toyota and Sony. The tensions have been made more dangerous and difficult to resolve by the weakness of the political class in both countries as they struggle with leadership transition, contestation, and questions of legitimacy (Spegele, Barnes, and Hayashi 2012).

Also becoming evident is that China's desire to be taken seriously as an international actor remains hostage to domestic politics and nationalist forces. This possibility was evident when senior Chinese officials felt unable to attend a major meeting with IMF and World Bank officials on international financial management in Tokyo. Despite the potential importance of this event, which occurred in the midst of a drawn-out international financial crisis, key Chinese officials such as China's central bank governor Zhou Xiaochuan felt they could not participate (Back and Davis 2012). The inability of China's leading policymakers to separate domestic constraints from their growing international responsibilities was widely seen as damaging the country's long-term leadership aspirations and credibility.

While China's relationship with Japan is perhaps the most volatile and difficult of any on the current geopolitical horizon, the relationship with the United States remains the most important and emblematic of the shift to a more global posture on China's part. Optimists might argue that both sides in this relationship recognize how much they actually benefit from the growing interdependence that locks the United States and China in such an unlikely embrace. And yet "China bashing" never goes out of fashion in the United States: Mitt Romney's campaign pledge to declare China a "currency manipulator" on his first day in office was just one of the more extreme versions of a well-worn electoral trope (Luce 2012). However, many in China think the United States has the most enduring record of currency manipulation. Whether by unilaterally abandoning the extant international regime in the 1970s, by compelling other states such as Japan to accede to its wishes in the 1980s, or by more recently adopting a policy of "quantitative easing," which many see as a way of putting downward pressure on the US dollar if not deliberately stoking debt-reducing inflation, Washington is culpable according to many Chinese observers.[3]

China's leaders are also increasingly conscious of their exposure to the US economy and the decisions of US policymakers. Chinese premier Wen Jiabao's withering critique of the US subprime mortgage crisis is a glaring reminder of just how much has changed in the international political economy. Wen claimed that the crisis had been caused by "excessive expansion of financial institutions in blind pursuit of profit, lack of self-discipline among financial institutions and rating agencies [and] the failure of financial supervision and regulation to keep up with financial innovations which allowed the risks of financial derivatives to build and spread" (quoted in Tett and Edgecliffe-Johnson 2009, online version).

Many of China's growing army of netizens are equally critical of their own government's policies for supporting what they see as irresponsible US policies that have a negative impact on China. Critics in China have been quick to admonish the government for allowing loss-making US investments to occur when many in China remain far from wealthy (Anderlini 2009). Indeed, in one of the great paradoxes of Sino-US ties, what is still in some ways a developing country is lending money to one of the world's richest so that it may put off what many consider to be an overdue, inescapable process of adjustment to its changed circumstances. And yet despite this dramatic transformation in the relative standing of both China and the United States, the continuing reality is that China's policymakers have limits to what they can do when either is exercising an influence over the international system or radically changing the constituent parts that were established under US auspices and that arguably still work to further broadly conceived US interests (Konings 2009).

Some important indicators of possible change are visible in the key institutions that approximate "global governance." China's increased share of the vote in the World Bank and the IMF, and the appointment of Justin Yifu Lin as chief economist at the World Bank were both important signs of China's growing influence. Significantly, however, the top jobs at the Bank and the IMF have continued to go to Americans and Europeans as they have traditionally done, and the BRICS nations have thus far displayed only a limited capacity to turn their new grouping into either a tangible expression of a new international order or to develop a significantly different policy agenda that marks a deviation from "Western" orthodoxy (Blackden 2012). True, the Washington consensus may not exercise anything like the influence it once did as a consequence of repeated economic crises in the heartlands of neoliberal capitalism, but as we have seen in earlier chapters, China's ability to translate its growing material weight into real influence, let alone "soft power," is still a work in progress at best.

Can Rivals Cooperate?

Many observers—especially in the United States—think that, if current economic trends continue, China will inevitably become more influential and trigger a growing competition with the United States as it goes into further relative decline. Even more pointedly, perhaps, Aaron Friedberg (2011) argues that "the notion that China's participation in international institutions is helping to 'socialise' its elites and to bring them around to what are essentially Western liberal internationalist ways of thinking about world politics smacks of self-congratulation, if not self-delusion" (54). Friedberg is one of the more pessimistic commentators on Sino-US ties, but he is far from alone, nor are such views confined to the United States. On the contrary, one can find similar views being expressed in China itself. Although the official view is that US-China relations contain features of both cooperation and competition (X. Chen 2010; H. Yang 2012), other observers, such as Yan Xuetong of Tsinghua University, believe that with the narrowing of the power differences between China and the United States in the next ten years, conflict and confrontation are inevitable. In this reading, China and the United States have to give up the illusion that they can build a cooperative relationship based on trust (Yan and Qi 2012.).[4]

Despite the low levels of trust that exist between the United States and China (Lieberthal and Wang 2012), the good news is that a growing number of institutionalized points of contact are developing between the two countries, which—in theory, at least—should stabilize the relationship and minimize misunderstandings. The bad news is that mutual suspicion and a growing number of points of friction are ramping up tensions between the two strategic rivals. Whether it is potentially explosive, seemingly irreconcilable territorial claims, fears about economic practices or industrial espionage, or concern about the impact of China's rise on liberal values, competition between two such different states is generating widespread anxiety and misunderstanding. For some influential US observers, no substitute can be accepted for US leadership if democratic traditions are to be preserved at an international level, let alone expanded (Kagan 2012).

Whatever one thinks about the continuing claims of US exceptionalism—or its Chinese equivalent, for that matter—the management of the Sino-US relationship is critical for the rest of the world, too. The significance of this pairing, which some have dubbed the G2 (Bergsten 2008), is arguably most evident in the struggle to respond to that most implacable of all international threats: climate change. The United Nations–sponsored climate change negotiations that took place in Copenhagen in 2009 have come to symbolize the difficulty of achieving agreement, much less action, to tackle what is arguably the most important common challenge facing the world today. No matter how lofty the intentions and the preceding rhetoric may have been, the reality at Copenhagen was that the response of individual states remained determined, in different ways and to different degrees, by their domestic institutional, economic, and political circumstances and the resistance of national actors to global requirements and international trends (Christoff 2010). China was hardly unique in this regard, but it was widely seen as responsible for blocking any agreement. While China's obduracy may have had more to do with the rather cumbersome and inflexible nature of its foreign policy making and engagement processes (Conrad 2012), the overall message was clear: in the contemporary international system little of substance is likely to happen if China is not in agreement.

The implications of this possibility have been on display in other arenas, too. China's unwillingness to support any action against the murderous regime of Bashir al-Assad in Syria has seen it widely condemned and reinforced the fears of those who claim that China's rise will be detrimental for international cooperation, democracy, and normative suasion (Ignatieff 2012). Having said that, we have to remember that the United States has not always been a champion of liberal values, either, especially where they clashed with its geopolitical interests. As we have suggested in earlier chapters, the entire history of East Asian development cannot be understood without recognizing the historical importance of US support for authoritarian regimes across East Asia in particular. We should not necessarily expect China to subscribe to a more demanding international moral order, especially where its norms and values are not even aligned with its own domestic values. Indeed, some argue that for both China and the United States, the importance of their mutual ties will come to outweigh other considerations, including "global normative frameworks" (Foot and Walter 2011: 294).

Others take a more pragmatic view and argue that cooperation between the United States and China is possible and will be achieved by satisfying China's desire for status. As Schweller and Pu (2011) put it, "the United States will gladly offer China more prestige. In return, however, Washington will expect Beijing to shoulder greater international responsibilities and obligations. This 'prestige at a price' trade-off is, in our view, key to understanding the relationship of a rising power and a declining hegemon" (68).

Whether China will prove willing or able to take on such responsibilities remains to be seen, but the omens are not good at this stage. Tensions over unresolved territorial claims are not all that continue to blight China's foreign policy; contradictory economic pressures are complicating the policy calculus, too. As we have seen, the need to maintain employment levels and domestic stability in China's trade-exposed economic sectors leaves China little room to maneuver as far as the value of its currency is concerned (Blanchard 2011). Even the incumbent hegemon has struggled to balance competing domestic pressures and international obligations. How much harder will finding this balance be for a state with little experience in such a role and with a domestic population that is still clamoring for domestic development?

Can China Lead?

Our focus in this book has primarily been on China's regional policies, and here is where we should look for indicators about its capacity to play a leadership role (Beeson 2013b). The reality is tough: even if we put to one side combustible issues such as the territorial disputes that at best threaten to derail efforts to develop East Asia cooperation, at worst plunge the region into outright conflict, China's leadership credentials look rather modest. Certainly some advances have taken place in Central Asia, and overseas investment is helping entrench Chinese influence in Africa in particular,[5] but the extent of China's global influence remains limited.

One of the most significant hurdles China's policymakers face in translating foreign policy ambitions into actual influence is the absence of close friends and allies. Leaders need followers. However history judges the period of US hegemony, one thing is clear: the United States was not short of allies, even friends. True, many of these alliances were the product of a bygone era when the very continuing existence of independent capitalist states seemed in question in some parts of the world. And clearly, the behavior of many states is radically at odds with what much mainstream international relations scholarship would have us believe: "bandwagoning" has frequently proved far more attractive than balancing (Beeson 2007b). But whether one ascribes a greater willingness to ally with the United States to the trustworthy nature of US dominance, the emergence of more subtle forms of balancing, or simply an eye to the main geopolitical chance at a time of declining interstate conflict, one thing is clear: the United States' domination of the international system has been based upon far more than simple material predominance, no matter how indispensible that may ultimately be. As we saw in the case of Australia, some of China's most important neighbors have been prepared to go to extraordinary lengths to ensure that alliances persist, no matter how remote the dangers may be. In this regard, the United States needs little encouragement: the recent pivot suggests not only that China's rise will be contested and constrained by the United States, but that US policymakers are determined to maintain their primacy for as long as they can. The fact that the United States may need to borrow the money to underpin its hegemonic ambitions may mean that its allies will be expected to make an even greater contribution to maintaining the status quo.

China, by contrast, can boast no such devoted followers. Yes, China always has North Korea, but even Chinese commentators increasingly recognize that this relationship is more of a liability than an asset (J. Shi 2012; J. Yang 2013). The recent decision to support sanctions against the North Korean regime suggests Chinese patience may be wearing out (Dyer 2013). However, before we jump to conclusions about China's prospects, we should consider three things. First, while some of the more excitable claims about China's influence and soft power may be overstated, without doubt China *is* exerting some influence and a growing number of countries *are* looking to China to assist in their own development (Jiang 2009)—even if the "China model" itself may not be easily transferrable. Indeed, many commentators point to China's growing importance to the entire world economy, not just its "emerging" parts (Wang and Zheng 2010), as evidence of its new significance. Paradoxically, no country illustrates this suggestion more clearly than the United States itself.

Second, China's regional role, let alone any global position, is still very much a work in progress. After all, little more than three decades have gone by since China's economic revolution began; the United States took far longer to even recognize its own importance to the international system, let alone assume a position in keeping with its international status. China's leaders are still coming to terms with their new position and the expectations—

both inside and outside the country—about what they will do with all the power China has accumulated. As we have taken pains to stress, no easy answers can be given to the questions confronting Chinese policymakers. Not only is China's position as a genuine world power unprecedented, but also an increasingly vociferous and varied chorus of opinion is arising about what China should do. Reconciling these competing domestic interests and opinions is a challenge in any country, but especially so in a country with limited modern experience of international leadership, little accountability and transparency, and increasingly unsatisfactory mechanisms for determining who leads China itself (Pei 2006; C. Li 2012).

Compounding these domestic tensions are uncertainties about what role China could or should play at the international level. Some observers argue that Chinese views of governance remain fundamentally at odds with the current international order, and that "as soon as China feels confident enough in its status as a great power, it may no longer feel totally obliged to comply with the established norms and rules of Western-dominated international institutions" (Chan, Lee, and Chan 2012: 39). Similarly, Wade (2011) argues that the "rise of the rest" with China in the vanguard may inaugurate an era of "'multipolarity without multilateralism,' as newly empowered states go their own way. Respect for the dissenting views of the now more numerous players may shrink the scope of cooperative solutions to global issues and tend toward stalemate" (349). Given the problems confronting the world and China's growing engagement with the international order, the failure to manage, much less resolve, pressing international problems may feed into, and exacerbate, domestic problems and tensions, making international cooperation even more difficult.

Finally, however, we might ask whether we actually need leadership of the sort that has traditionally been associated with the United States' period of dominance. Whatever we may think about the merits and impact of US power, the United States has plainly been the central actor in the international system for more than half a century. If this period of unrivaled dominance is, indeed, coming to an end, inevitably we will begin to speculate about what might replace it. In this context, we should remember that "hegemony"—or hegemonic dominance by one nation, at least—has been the exception rather than the rule in human history. That hegemony is the only, much less the best, way of trying to manage an increasingly integrated and interdependent international system is not at all obvious.

A number of scholars have raised the possibility of establishing a European-style "concert of powers" in East Asia as one way of trying to manage the simultaneous rise of China, possible US decline, and general problem of maintaining stability in a region with a checkered history and growing geopolitical tensions (Shirk 1997; Acharya 1999; C. Bell 2005; H White 2012). This idea has attracted attention in China. Zheng Xianwu (2012), for example, argues that a concert of powers should be considered because no effective multilateral mechanisms have been developed to deal with crises in the region, in part because competition between the United States and China means they cannot provide effective leadership. Interestingly, Zheng argues that the ASEAN way could provide the normative basis for cooperative security and open regionalism, and we could build the mechanism step by step. Zheng suggests that given the different political dynamics that exist in Northeast and Southeast Asia, initially developing a concert of powers among China, the United States, Japan, and Russia, and subsequently expanding to the larger region make sense.[6]

Many obstacles will have to be overcome for such an outcome to be achieved. Plainly, nineteenth-century Europe was a very different place to twenty-first century Asia, not least in the absence of the sort of broadly comparable great powers that populated the earlier era. India has the potential to become a significant player eventually, but Japan's continuing strategic dependence on the United States undermines the possibility of a fluid constellation of independent balancing powers acting to maintain stability. The role of ASEAN presents a particular problem as the organization jealously guards its leadership position, even if its influence is highly dependent on a suitable conjunction of circumstances. And the United States itself, of course, is not really part of the region at all, even if parallels can be found with Britain's earlier role as an "offshore balancer" (S. Zhao 2012).

The parallels are, therefore, inexact and the obstacles are not inconsequential. Nevertheless, thinking about what the alternatives might be is worthwhile. As we have seen, East Asia does not possess anything like the sort of institutional architecture that has—until recently, at least—maintained order and stability in Western Europe. ARF in particular has not proved capable of dealing with some of the more difficult regional issues such as the status of Taiwan, security on the Korean peninsula, and rival territorial claims. In the absence of effective, constraining, institutionalized interactions, regional relations may fall back on cruder manifestations of national power to determine balance and order. We cannot be certain such relations will remain peaceful.

Although China is currently seen as the source of many of the region's most pressing problems, especially in the context of unresolved territorial claims, the recent efforts of Chinese diplomats in Central Asia suggest grounds for cautious optimism. Not only were border disputes there successfully resolved, but China has generally played a stabilizing role in what has historically been a geopolitically contested and volatile region. If China can play a leadership role there, one might ask, why not elsewhere?

However, the uncertainties imposed by sheer geography remain especially challenging in Southeast Asia and Northeast Asia. Resolving them will involve all parties recognizing that they must compromise and negotiate if they are to achieve peaceful resolution of competing claims. Any such an agreement will involve China giving up some of its more extravagant and implausible claims, but it will also mean that such agreements are likely to be determined through multilateral auspices. Although China's diplomats may be increasingly familiar and even comfortable operating in such an institutional environment, it is one over which they necessarily have less control. Rather like the administration of US president George W. Bush, the Chinese continue to demonstrate a preference for bilateral negotiations, especially where issues of national sovereignty are at stake. Such an approach inevitably limits the role China can play at a regional level.

The much more visible and institutionally engaged presence of the United States and its allies means that China's regional role in Asia Pacific is likely to be further circumscribed, especially compared to Central Asia, where it faces less significant opposition. In such circumstances some sort of great power concert, especially one in which China can play a prominent, institutionalized role, may actually be an increasingly attractive option. Participation in such a high-level agreement would, after all, be yet another important step in China's long-term reascent to the center of world affairs. China's regional relations have provided a crucial testing ground for its evolving global ambitions. The learning curve has been steep and the record is mixed. Given modern China's revolutionary origins, the formidable challenge of development, and its belated entrance onto the world stage, the wonder is, perhaps, that things have generally gone as well as they have. We must hope they continue to go well. For better or worse, coming to terms with China will be one of the most important challenges for the region's and the world's policymakers for the foreseeable future.

Notes

1. The *Global Times* surveyed residents of seven cities including Beijing and Shanghai and discovered that over 80 percent of respondents did not think of China as a global power. However, 54 percent of the interviewees did think that China would become a global power in the future.

2. The literature in this area is now vast, but a useful overview is provided by Held and colleagues (1999). For our purposes, globalization stands as a convenient shorthand for a range of economic and—to a lesser extent—political processes that transcend national borders and increase interdependence between state and nonstate actors.

3. Liang Tuqiang (2013), for example, argues that the positive effects of quantitative easing policy have declined even as it has contributed to the so-called cur-

rency wars. Similarly, Xie Guozhong (2010) believes that the United States is transferring its problems to other countries via quantitative easing. Sun Jie (cited in Anonymous 2013b) from the Chinese Academy of Social Sciences also criticizes US policy and believes that it risks creating an all-out trade war. However, some Chinese commentators support US policy or are, at least, not against it. For example, the famous independent commentator Niu Dao (2013) argues that, contra the Chinese media position, China is also guilty of printing too many renminbi with serious risks for the Chinese and global economy.

4. Similarly, Song Luzheng (2012) also believes that the US-China confrontation cannot be avoided for four reasons. Firstly, the religiosity of the United States is at odds with the very different values associated with Chinese civilization. Secondly, the United States has a history of expansion, which is part of a Western tradition and reinforced by US nationalism. Thirdly, political institutions in the United States have been captured by the industrial-military complex. And finally, the success of the Chinese model of development will undermine the dollar's role as the top international currency, creating major economic and political problems for the United States.

5. Even in Africa the picture is mixed, and Chinese companies have been accused of neocolonialism in their relations with a number of African states. See Alden and Hughes (2009).

6. Similarly, Zhu Tingchang (2010) argues that the concert-of-powers mechanism will decide the international order in the twenty-first century because such alliances provide a mechanism for great powers to cooperate in addressing global and regional political issues. Consequently, Zhu suggests that China should take an active role in building such international relationships. Similar approaches and ideas are gaining influence in Australia. See B. He (2012).

Acronyms

AFTA	ASEAN Free Trade Area
ANZUS	Australia, New Zealand, United States Security Treaty
APEC	Asia Pacific Economic Cooperation
APT	ASEAN Plus Three
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
CAFTA	China-ASEAN Free Trade Agreement
CPC	Communist Party of China
EAS	East Asia Summit
EU	European Union
FDI	foreign direct investment
IMF	International Monetary Fund
MFA	Ministry of Foreign Affairs
PLA	People's Liberation Army
PRC	People's Republic of China
PSC	Politburo Standing Committee
SCO	Shanghai Cooperation Organisation
SOE	state-owned enterprise
TPP	Trans-Pacific Partnership
WTO	World Trade Organization

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About the Book

Has China's much-discussed "charm offensive" come to an end? Are fears about the country's more assertive foreign policies justified? How will a rising China interact with its regional neighbors? Mark Beeson and Fujian Li address these questions by comprehensively exploring the nature, effectiveness, and implications of China's foreign policy strategy in Asia and Australia.

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