

MULTILATERAL APPROACH IN CHINA'S FOREIGN POLICY

Joseph Yu-shek Cheng



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This book is dedicated to my wife, Grace

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Preface

As I am now in retirement from academic life, I decide to consolidate what I had written on multilateralism in Chinese foreign policy so as to present a comprehensive analysis on the topic. It involved substantial re-thinking, updating and re-writing — and this book is the result. The book hopefully offers a useful, informative and stimulating background for a better understanding of multilateralism in China's foreign policy in the era of reforms and opening to the outside world.

China traditionally followed an orthodox bilateral approach in its conduct of foreign policy. It began to accept the multilateral approach with some hesitation through taking part in the ASEAN Regional Forum in 1994. Soon it took the initiative to organize the “Shanghai Five” group which formally became the Shanghai Cooperation Organization in 2001. The Shanghai Cooperation Organization was the first regional organization promoted by China, and its institutional-building represented the learning, experimentation and substantial efforts on the part of the Chinese leadership.

The China–Africa Cooperation Forum approach then emerged in 2000. It represented an economical way of approaching the over-fifty countries in the African continent. The innovation worked and the model then spread to, among others, Latin America, the Gulf region, Central and Eastern Europe. At times, these mechanisms have not been very effective, but the experiments have proved their value.

In the Shanghai Cooperation and the BRICS group, while exploring China's superior financial strength, its leaders have been prudent to respect the interests of the other major powers involved. This prudence has been a significant factor for the survival and development of these two groups. In sum, the study of China's multilateral approach enables a student of foreign policy to go through its leadership's learning processes in the era of reforms and opening to the external world. China's efforts to establish and enhance international influence may be carefully examined; its limitations and frustrations are amply present.

As a researcher of Chinese foreign policy for 40 years and more, I value opportunities of ideas exchange with people sharing my academic interest. I believe writing and publishing is the principal way of participating in this enjoyable exchange; and this very thought gives me the motivation to produce this volume.

I would like to take this opportunity to thank all those who have assisted me in my academic career, and especially my wife Grace who has been helping me in so many ways, so that I can have more time to do research and write. She has given me the much-needed support when I came under pressure, including that from my then line manager and the City University of Hong Kong, for my political activities in the pro-democracy movement in Hong Kong.

Joseph Yu-Shek Cheng
July 2017

About the Author

Joseph Yu-Shek Cheng is a retired Professor of Political Science and was the Coordinator of the Contemporary China Research Project, City University of Hong Kong. He is the founding editor of the *Hong Kong Journal of Social Sciences* and the *Journal of Comparative Asian Development*. He has published widely on the political development in China and Hong Kong, Chinese foreign policy and local government in southern China. His recent publications include *China's Japan Policy — Adjusting to New Challenges* (2015), *The Use of Mao and the Chongqing Model* (2015) and *China's Foreign Policy — Challenges and Prospects* (2016). He serves as the Convener of the Alliance for True Democracy in Hong Kong from 2013 till now, and is a trustee of the Justice Defence Fund in Hong Kong.

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Chapter 1

Multilateralism — Theoretical Issues and China's Approach in Foreign Policy

Joseph Yu-Shek Cheng

Introduction

John Ruggie and colleagues argued that multilateralism mattered in 1993 or so,¹ and that was around the time when the Chinese leadership indicated its agreement and decided to participate in the ASEAN Regional Forum (ARF) in 1994. It probably led to a more active approach along the line articulated by Robert Cox that “Multilateralism is not just a passive, dependent activity. It can appear in another aspect as an active force shaping world order”.² In 2001, China took the initiative and formed the Shanghai Cooperation Organization (SCO).

Robert O. Keohane defines multilateralism as “the practice of coordinating national policies in groups of three or more states, through *ad*

¹ John G. Ruggie (ed.), *Multilateralism Matters: The Theory and Praxis of an Institutional Form* (New York: Columbia University Press, 1993).

² Robert W. Cox and Timothy J. Sinclair, *Approaches to World Order* (Cambridge: Cambridge University Press, 1996), p. 494.

hoc arrangements or by means of institutions”.³ John Ruggie demanded more and emphasized a “qualitative dimension”; and he chose to consider that multilateralism meant “co-ordinating relations among three or more states ... in accordance with certain principles” that ordered relations among them. It therefore involved a “generic institutional form”.⁴ James Caporaso sets even higher standards, and he perceives multilateral cooperation as being regulated by certain general norms and indivisibility of values.⁵ Finally, John Duffield observes that the highest level of multilateral institutionalization involves clear rules, compliance, commitment and an institutionalized third-party mediator.⁶

Liberal institutionalists believe that multilateralism brings stability, reciprocity in relationships and regularity in behavior. It is seen to be essential because all states encounter mutual vulnerabilities in an increasingly interdependent world, and they all intend to share public goods. Multilateralism can become a source of both international and domestic legitimacy. A government which attempts to work together with other governments is naturally in a better position to argue that it is not in pursuit of particularistic national interests but common interests. At the same time, leadership and status in multilateral institutions may also enable a government to enhance its domestic appeal and support.⁷

Realism and neo-realism international relations theorists tend to believe that international institutions have little influence on world

³ Robert O. Keohane, “Multilateralism: An Agenda for Research”, *International Journal*, Vol. 45, No. 4 (January 1990), pp. 731–764.

⁴ John G. Ruggie, “Multilateralism: The Anatomy of an Institution”, *International Organization*, Vol. 46, No. 3 (Summer 1992), p. 564 [pp. 561–598].

⁵ James A. Caporaso, “International Relations Theory and Multilateralism: The Search for Foundations”, in Ruggie (ed.), *op. cit.*, p. 53.

⁶ John Duffield, “Asia Pacific Security Institutions in Comparative Perspective”, in Muthiah Alagappa (ed.), *Asian Security Practice: Material and Ideational Influences* (Stanford, California: Stanford University Press, 1998), pp. 243–270.

⁷ Arthur A. Stein, “Incentive Compatibility and Global Governance: Existential Multilateralism, a Weakly Confederal World, and Hegemony”, in A. S. Alexandroff (ed.), *Can the World be Governed? Possibilities for Effective Multilateralism* (Waterloo, Canada: Wilfrid Laurier University Press, 2008), pp. 47–49.

politics, even on “low politics” issues such as human rights and the economy. John Mearsheimer bluntly states: “My central conclusion is that institutions have minimal influence on stated behavior, and thus hold little promise for promoting stability in the post-Cold War world”.⁸ In contrast, Amitav Acharya argues that multilateralism assumes five important roles in the promotion of normative changes in international politics: increased global and economic interdependence; emergence of new transnational challenges; changes in the global distribution of power, generation of opportunities for new roles for multilateral institutions; global spread of democracy, offering a more conducive climate for multilateral organizations to initiate changes in member countries; and the global spread of civil society among leading international norm entrepreneurs.⁹

It is therefore important to raise the issue of effective governance. Jochen Prantl attempts to analyze the problem of international cooperation through the analytical framework of governance — formal and informal processes and institutions — that generates authority to promote collective action, enforce specific lines of collective action outcomes and make those outcomes acceptable to a wider international community.¹⁰

In the 1990s, when multilateralism began to spread in the Asia-Pacific region (Asia-Pacific Economic Cooperation (APEC) was formed in 1989, and China participated in it in 1991), the international community shared a sense of acceptance of liberalism, and the U.S. was seen as the sole superpower which would work hard to establish a “liberal global order”. With the benefit of hindsight, however, it was a decade of huge normative ambition generating relatively

⁸ John Mearsheimer, “The False Promise of International Institutions”, *International Security*, Vol. 19, No. 3 (Winter 1994–1995), p. 3.

⁹ Amitav Acharya, “Multilateralism, Sovereignty and Normative Change in World Politics”, in E. Newman, R. Thakur and J. Tirman (eds.), *Multilateralism under Challenge? Power, International Order and Structural Change* (Tokyo: United Nations University Press, 2006), pp. 105–107.

¹⁰ Jochen Prantl, “Introduction: International Cooperation under Order Transition”, in Jochen Prantl (ed.), *Effective Multilateralism: Through the Looking Glass of East Asia* (Basingstoke, Hampshire and New York: Palgrave Macmillan, 2013), p. 4.

weak institutionalization. The emerging states and rising powers too wanted to challenge the basic norms of the system or to revise its foundational principles.¹¹

From a pragmatic point of view, governments do not want to choose between bilateralism and multilateralism, especially in the Asia-Pacific region. Brendan Taylor analyzes the options available. According to him, there is the “bilateral or multilateral” approach which treats either of them as mutually exclusive modes of international cooperation, and this line of thinking has a tendency to assume a dichotomous and zero-sum attitude toward the bilateral–multilateral nexus. Taylor thinks that the pronouncements of Chinese leaders are good examples. The “bilateral–multilateral” approach, however, accepts the potential synergies between the bilateral and multilateral modes of international cooperation and attempts to strengthen bilateral cooperation through the multilateral route. The annual Shangri-La Dialogue is given as an illustration. The “multilateral–bilateral” approach considers multilateralism as the final objective and believes that bilateralism is a constructive “stepping stone” or “building block” for realizing the ultimate goal. Finally, the fourth approach suggests that these two modes can coexist peacefully.¹²

Most governments at this stage probably accept the fourth approach without studying Brendan Taylor’s framework and accord a distinct priority to bilateralism. Kishan Rana, a former Indian diplomat, observed that in 1999 the “great majority of ambassadors on full-time assignments resident abroad engage in classic diplomacy, at bilateral posts”; he further stated that in the same year, there were

¹¹ Andrew Hurrell, “Effective Multilateralism and Global Order”, in Prantl (ed.), *op. cit.*, p. 25.

¹² Brendan Taylor, “Conceptualizing the Bilateral–Multilateral Security Nexus”, in William T. Tow and Brendan Taylor (eds.), *Bilateralism, Multilateralism and Asia-Pacific Security* (London and New York: Routledge, 2013), pp. 8–17.

about 7,700 resident ambassadors, “an average of 41 ambassadors in each of the world’s capitals”.¹³

In recent years, research on multilateralism has spread to cover the issues of global governance and regional cooperation. Climate change has often been selected as an important case study. Framing climate change as a global governance issue is an attempt to consider the significance of inclusive and flexible decision-making, involving the roles of leadership and institutions, as well as the locus of authority and the issues of equity and justice. It is commonly recognized that states alone cannot resolve the immense question of climate change which is fragmented and highly politicized.¹⁴ In relation to multilateralism, Frank Bierman has adopted the term “global governance architecture”, which is defined as “the overarching system of public and private institutions that are valid or active in a given area of world politics. This system comprises organizations, regimes and other forms of principles, norms, regulations and decision-making procedures”.¹⁵

Multilateralism in the Asia-Pacific Region

Some international relations scholars have argued that future developments in Asia may well be seriously affected by the region’s ability to construct effective multilateral institutions for integration and cooperation.¹⁶ Bates Gill and Michael J. Green observe that since the late 1990s, multilateralism in Asia has been increasingly characterized by

¹³Kishan S. Rana, *Asian Diplomacy: The Foreign Ministries of China, India, Japan, Singapore and Thailand* (Msida, Malta: Diplo-Foundation, 2007), p. 37.

¹⁴Katherine Morton, “Responding to Climate Change in the Region: New Partnerships and Chinese Leadership”, in Prantl (ed.), *op. cit.*, pp. 254–256.

¹⁵Frank Biermann, P. Pattberg, H. V. Asselt and F. Zelli, “The Fragmentation of Global Governance Architecture: A Framework for Analysis”, *Global Environmental Politics*, Vol. 9, No. 4 (November 2009), p. 15 [pp. 14–40].

¹⁶Bates Gill and Michael J. Green, “Unbundling Asia’s New Multilateralism”, in Michael J. Green and Bates Gill (eds.), *Asia’s New Multilateralism: Co-operation, Competition, and the Search for Community* (New York: Columbia University Press, 2009), p. 1.

its “Asianization” and the pursuit of an “East Asian community”. Further, it has also witnessed the growth of “ad hoc” multilateralism and the so-called minilaterals.¹⁷

Hatoyama Yukio, the first Prime Minister of the Democratic Party of Japan (DPJ)-led government elected in August 2009, articulated his vision of an East Asian community soon after his election. He declared that the era of U.S. unipolarity was coming to an end and that the age of Asian multipolarity had arrived.¹⁸ Earlier in 2008, Australian Prime Minister Kevin Rudd also articulated the idea of an “Asia-Pacific Community” which would embrace “the entire Asia-Pacific region — including the United States, Japan, China, India, Indonesia and other states of the region”. Rudd believed that there was a strong need for a multilateral Asia-Pacific institution to “underpin an open, peaceful, stable, prosperous and sustainable region”.¹⁹

These two proposals, however, did not attract a favorable response; they were largely criticized as impractical. Critics tended to treat the proposals as repetition of the “ASEAN way”, i.e., informal, discussion-club approach that seldom leads to concrete results. They wanted to see a European Union approach to Asia-Pacific multilateralism, which was obviously not possible at this stage. The U.S. has substantial reservations concerning Asian community building, and it wants to promote an inclusive multilateral approach to ensure its major role in the region. Though it has not openly opposed the establishment of organizations like the ASEAN Plus Three (APT) and SCO, it would presumably closely monitor their activities to ensure that its interests would not be compromised.

¹⁷ *Ibid.*, pp. 8 and 10.

¹⁸ Hatoyama Yukio, “Japan’s New Commitment to Asia: Toward the Realization of an East Asian Community”, Address by H. E. Dr. Yukio Hatoyama, Prime Minister of Japan, Singapore, 15 November 2009. Available at http://www.kantei.go.jp/foreign/hatoyama/statement/200911/15singapore_e.html. Accessed 15 January 2016.

¹⁹ Kevin Rudd, “Prime Minister Rudd’s ‘Asia Pacific Community’ Proposal: Mr. Rudd’s Speech on 4 June 2008”, in Frank Frost, *Australia’s Proposal for an ‘Asia Pacific Community: Issues and Prospects*, Australia Parliamentary Library Research Paper, December 1, 2009, No. 13. Available at <https://www.aph.gov.au/binaries/library/pubs/rp/2009-10/10rp13.pdf>. Accessed 15 January 2016.

The ad hoc or minilateral approach may well be illustrated by the mechanisms aroused by the North Korean crisis. In 1995, the U.S., Japan, South Korea and the European Union formed the Korean Peninsula Energy Development Organization to offer Pyongyang fuel oil and light water reactors so as to persuade it to abandon its nuclear weapons program. Subsequently Beijing initiated the four-party talks involving the U.S., South Korea and North Korea in negotiations to tackle the nuclear crisis in the Korean peninsula between December 1997 and August 1999. The negotiations were expanded in August 2003 to include Russia and Japan as well.

In the early years of twenty-first century, the U.S., in response to the exclusionary tendencies in Asian multilateralism, started to form “coalitions of the willing” — examples included the Container Security Initiative and the Proliferation Security Initiative as part of its counterterrorism strategy in the first years of this century.

As reflected by the joint statements from the APEC forum and the East Asia Summit (EAS), Asia-Pacific countries tend to embrace an “open and inclusive” regional architecture. The U.S. would like to strengthen this Asia-Pacific or trans-Pacific orientation and contain the Asian regionalism approach. While engaging in the promotion of ad hoc multilateralism, it has to consider its balance versus institutionalization too. Finally, the future role of its traditional bilateral alliances in Asia needs to be reassessed in the context of developing multilateralism. The keen competition between the Trans-Pacific Partnership (TPP) promoted by the U.S. Obama administration and the Regional Comprehensive Economic Partnership (RCEP) articulated by China in recent years seems to suggest that the U.S. has given up its previous “wait and see” attitude and has been engaging in more active competition with China.

Japan has the ambition of assuming a leadership role in multilateral cooperation in the Asia-Pacific region too. Fukushima Akiko argues that Japan is not interested in a top-down, institutionalized integration; it prefers a continuous process of *de facto* regionalization supported by deepening interdependence. Expansion of intraregional trade is perceived to be a significant factor. It considers that

the future regional architecture should promote healthy cooperation and competition.²⁰

Japanese officials interviewed by Fukushima considered that it is wise for Japan to let ASEAN assume leadership in East Asian regionalism so as to avoid rivalry with China and that Japan has been promoting ASEAN's governorship of regionalism at the EAS.²¹ In fact, all major powers in the region realize that it is difficult for anyone of them to secure strong leadership in the region, and they all accept ASEAN leadership as the best arrangement or a compromise. This position is probably stronger for China and Japan.

Mutual distrust or rivalry between China and Japan has probably been the most serious obstacle in regional cooperation in the Asia-Pacific region. In view of rising nationalism in both countries and the deteriorating territorial dispute, it is not expected that the bilateral relationship will improve in any significant way in the foreseeable future, which means that neither regional cooperation nor community building in the Asia-Pacific can achieve any significant breakthrough. Worse still, in the summer of 2014, there was a certain tendency for Japan not only to strengthen its alliance with the U.S., but also to improve ties with North Korea, while China and South Korea both became closer partly because of their further alienation from Japan.

While trying to be more active in its leadership role in regional cooperation and institutionalization, ASEAN attempts to avoid the dominance of Southeast Asia or even of Asia by a single major power through an inclusive balance-of-power strategy. It appears that the ASEAN states have accepted U.S. military dominance of the Pacific, including Southeast Asia. In view of China's increasing assertiveness in its territorial disputes with the Philippines, Vietnam, etc. since 2010, this acceptance has become an eagerness to facilitate a strong military presence of the U.S. in the region. In the eyes of most ASEAN states, with the exception of those which are friendly with China, like Laos, Cambodia and Myanmar, the U.S. is perceived as a "benign"

²⁰ Fukushima Akiko, "Japan's Perspectives on Asian Regionalism", in Green and Gill (eds.), *op. cit.*, p. 117.

²¹ *Ibid.*, p. 119.

superpower and an offshore balancer. China, Japan and India, on the other hand, would not be acceptable in assuming this role.²²

ASEAN strongly supports the principle of open and non-exclusionary regionalism so as to retain its leadership role, but like China, it insists on non-interference in the domestic affairs of other states. It embraces the concept of cooperative security, that is, “security with” rather than “security against” the potential adversaries. For all these reasons, ASEAN is likely to remain the center of Asian regionalism in the foreseeable future. However, its soft institutionalism approach may arouse some impatience among those that are eager to promote a stronger mode of multilateralism; the U.S. and Australia had informally articulated this impatience before the end of the previous century.

There has been a bipartisan consensus in Australian foreign policy regarding reinforced Asian engagement. The Tony Abbott Coalition government elected in 2013, however, would further strengthen Australia's strong alliance with the U.S.; for example, it would probably adopt a more clear-cut position on the East China Sea situation, as expressed in the Australian–U.S. Ministerial Consultations held in November 2013.

In May 2013, the previous Labour government led by Julia Gillard released a Defence White Paper which for the first time introduced the “Indo-Pacific” concept. The White Paper reveals the perception of a global shift of the center of gravity from the West, including North America and Europe, to the East, a broad region covering the Indian Ocean through Southeast Asia and East Asia to the Pacific Ocean. This foreign and security policy orientation was obviously in line with the “Asian Century” perception which the Gillard government had adopted as one of its principal foreign policy parameters.²³

²² Amitav Acharya, “The Strong in the World of the Weak: Southeast Asia in Asia's Regional Structure”, in Green and Gill (eds.), *op. cit.*, p. 183.

²³ Australian Government Department of Defence, *Defence White Paper 2013*, Canberra ACT, 2013. Available at http://www.defence.gov.au/whitepaper/2013/docs/wp_2013_web.pdf. Accessed 20 April 2016; The National Institute for Defense Studies, Japan, *East Asian Strategic Review 2014* (Tokyo: The Japan Times Ltd., 2014), pp. 175–177.

The White Paper indicates two perspectives which would have a significant impact on the development of multilateralism in the Asia-Pacific region. Australia perceives the regional order moving toward a “complicated and competitive” system in view of the rise of China and India and the relative decline of the U.S. Furthermore, the White Paper articulates that it “does not believe that Australia must choose between its longstanding Alliance with the United States and its expanding relationship with China”.²⁴ These two perspectives seem to be prevalent in the Asia-Pacific region today. Regarding the latter, there has been a debate in Australia in recent years among relevant experts whether Australia would “have to choose” between a rising China and its most important ally, the U.S., if relations between the two should worsen. Obviously, the wise decision is to ensure the avoidance of such a scenario, and this consideration will impact multilateral institution-building in the region at this stage.

Despite the change of government, Australia's foreign policy line has not been altered much. In August 2014, the U.S.–Australia Force Posture Agreement was signed, providing a policy and legal framework and the financial principles for the implementation of the force posture initiatives in Australia. These subjects, including the rotational deployment of the U.S. Marine Corps in Darwin, have been discussed between the two governments since 2011.²⁵

In response to China's rise, the U.S. strategy so far avoids a simple dichotomy of engagement versus containment. Instead, it has been inducing China to develop in a way which is compatible with American interests through encouragement and incentives as well as making certain options extremely costly. This has been the consistent orientation of the U.S.'s China policy in the past two or three decades, and it has been largely successful so far. Since 2009, the Barack Obama administration's rebalancing toward Asia and pivoting are designed to demonstrate its commitment to maintain its predominant

²⁴ *Ibid.*, pp. 178–180.

²⁵ Australian Government Department of Defence, Defence White Paper 2016, Canberra ACT, 2016. Available at: <http://www.defence.gov.au/whitepaper/Docs/2016-Defence-White-Paper.pdf>. Accessed 20 April 2016.

position in the Asia-Pacific region, and to confront China if necessary.²⁶

The U.S. has not been the only country exercising constraints on China. The Soviet Union had a very significant impact on China's foreign and defense policies in the late 1960s and 1970s. Today, India and Japan are important security players in the region. The opposition from the U.S. and Japan to the lifting of the European arms sale ban on China reflects that Europe is also a factor in the East Asian military balance. But China certainly wants to maintain a peaceful international environment to concentrate on its modernization and has no intention to confront the U.S. nor provoke the establishment of an anti-China coalition in the region.²⁷

South Korea, as a major trading nation, desires Asian regional integration as a building block for global trade liberalization and economic integration. Like Australia, it does not want to have to choose between the U.S. and China. While the conservative administrations of Lee Myong-bak and Park Geun-hye intend to strengthen the U.S.–South Korea alliance, the liberal administration of Roh Moo-hyun in its initial years advocated a balancer role in the region. Rising nationalism in the country creates difficulties in Seoul's relations with Japan and even with the U.S., especially during the era of liberal administrations. In view of the deep mistrust between China and Japan and the keener Sino-American competition in regional multilateral institution-building, South Korea's role has become more constrained.²⁸

²⁶Ming Wan, *The China Model and Global Political Economy: Comparison, Impact, and Interaction* (London and New York: Routledge, 2014), pp. 144–146.

²⁷The National Institute for Defense Studies, Japan, “The United States: Challenges for the Global Power”, in *East Asian Strategic Review* (Tokyo: The Japan Times Ltd., 2015), pp. 251–260.

²⁸The National Institute for Defense Studies, Japan, “The Korean Peninsula: A consolidated Kim Jong Un Dictatorship and South Korea's Delicate Diplomatic Wobbling between the United States and China”, in *East Asia Strategic Review* (Tokyo: The Japan Times Ltd., 2015), pp. 75–80; Byong Moo Hwang, “Maneuvering in the Geopolitical Middle: South Korea's Strategic Posture”, *Global Asia*, Vol. 9, No. 3 (Fall 2014), pp. 38–43.

India has limited confidence in collective security arrangements because of its experience with the United Nations (UN) with regard to its handling of the Kashmir question. It repeatedly rejected Soviet proposals regarding collective security in Asia when it was in a *de facto* alliance with Moscow in most parts of the Cold War era. In the recent decade, India is probably assertive enough to frame its foreign policy in terms of a balance of power. In 2005, Indian Defense Minister Pranab Mukherjee declared two basic principles: first, the maintenance of an equitable strategic balance and the prevention of regional rivalries from destabilizing the region; second, India would engage all players both bilaterally and collectively through various institutions.²⁹

While India would like to bring China “within the discipline of a mutually agreed security paradigm for this region” to which both the U.S. and India can contribute, India does not intend to abandon its tradition of nonalignment and its strict concept of national sovereignty.³⁰ C. Raja Mohan argues that the stronger India becomes, the more eager it will be to establish a new balance-of-power system for Asia; and Indian leaders probably hold the attitude of “multilateralism where convenient, and unilateralism where necessary”.³¹

China's Position on Multilateralism

According to Chien-peng Chung, the Chinese authorities' attitude toward regional security and economic multilateral organizations changed from suspicion, to cautiousness, and to supportiveness,

²⁹ Pranab Mukherjee, *Concluding Address at the 7th Asian Security Conference*, Institute for Defence and Analyses, New Delhi, 29 January 2005. Available at <http://www.idsa.in/node/1554>. Accessed 15 January 2016.

³⁰ Shyam Saran, “Address by the Foreign Secretary at the India Economic Summit, New Delhi, November 28, 2005” in Avtar Singh Bhasin (ed.), *India's Foreign Relations, 2005: Documents* (New Delhi: Geetika Publishers, 2005), pp. 139–143. Available at http://mea.gov.in/Uploads/PublicationDocs/186_foreign-relations-2005.pdf. Accessed 15 January 2016.

³¹ C. Raja Mohan, “India and the Asian Security Architecture”, in Green and Gill (eds.), *op. cit.*, pp. 144 and 148.

coinciding with the respective periods — before 1996, from 1996 to 2000 and after 2000. Chung also observes that in various multilateral forums and institutions, China is much more eager to promote further institutionalization when the organization's distribution of power favors China and when issues dealt with by the organization are significant for China.³²

In the wake of the Tiananmen incident in June 1989, China gradually recovered from its severe diplomatic setback. It established diplomatic relations with Indonesia and Singapore in 1990, ended the Japanese sanctions in 1991 with a visit to Beijing by the Japanese prime minister, and then established diplomatic relations with South Korea and Saudi Arabia in the following year. Meanwhile, China joined the APEC forum in 1991, with the intention of using it as a platform to secure membership of the General Agreement on Tariffs and Trade (GATT), the predecessor of the World Trade Organization (WTO). China's role within APEC was defined as "active participation and adroit guidance of its development".³³

A considerably tougher test came in 1994 with the establishment of the ARF. China's first concern while considering to join the ARF was whether the U.S., Japan and even Southeast Asian countries might exploit the ARF to contain China; apparently, the Chinese leadership had in mind the Southeast Asia Treaty Organization. The Chinese leaders were also worried about the potential internationalization of the territorial disputes in the South China Sea.³⁴

Beijing finally agreed to join because it acutely felt the need to establish its image and credentials as a responsible actor, a force for peace and a good neighbor. It realized that its absence in a pioneering regional security organization would eventually be counterproductive; a better strategy would be to take part and influence its

³²Chien-peng Chung, *China's Multilateral Co-operation in Asia and the Pacific* (Abingdon, Oxon and New York: Routledge, 2010), p. 2.

³³Han Zhiqiang, "Dui APEC de Jidian Renshi yu Sikao (Some Understanding and Thoughts on APEC)", *Guoji Wenti Yanjiu (International Studies)*, No. 2 (2003), p. 32.

³⁴Wu Xinbo, "Chinese Perspectives on Building an East Asian Community in the Twenty-First Century", in Green and Gill (eds.), *op. cit.*, pp. 56–57.

development. As observed by Chien-peng Chung, China's role has been passive or even obstructionist, and the ARF's development has slowed down and drifted.³⁵

China's Multilateral Approach in Asia-Pacific

During the Asian financial crisis in 1997–1998, China managed to convince its Asian neighbors that it was a responsible and helpful power rather than a threat. To reduce the pressure from the crisis, the Chinese authorities refrained from depreciating its currency to generate a trade surplus. To do so probably would generate a further round of competitive currency devaluations damaging all countries concerned. They further offered substantial loans to the countries in difficulties, like Thailand and Indonesia. In contrast, the U.S. as well as the International Monetary Fund and the World Bank dominated by the Western countries did not appear to be helpful, and there was considerable resentment against them in the region. Even Japan felt the need to propose an Asian Monetary Fund, though it was strongly opposed by the U.S. and had to be dropped.

The Asian financial crisis introduced much momentum to institution-building in the region. There was a better understanding that a regional approach was essential in meeting challenges such as a financial crisis, as the region had the resources as well as distinct interests to protect. The dissatisfaction with the inaction and criticisms from the Western countries and the international financial institutions helped to build a regional spirit and a sense of common interests. In the wake of the financial crisis, APT and ASEAN Plus China emerged as potentially significant regional mechanisms. Regional appreciation of China's role in turn encouraged China to play a more active role in regional multilateral institutions and offered considerable promise for China to enhance its regional influence in the Asia-Pacific.

In 2001, China joined the WTO, symbolizing its sincere embrace of globalization and its determination to engage in worldwide competition to secure its place in the front ranks among

³⁵ Chung, *op. cit.*, pp. 48–49.

developed countries. Membership of the WTO also implies China's acceptance of the existing international economic order and its willingness to concede in terms of its almost absolutist conception of state sovereignty in compliance with WTO rules.

China's economic rise and its WTO membership represent a new type of threat to the Southeast Asian countries. China as the "world's factory" and a foreign investment "black hole" may well reduce the ASEAN share, if not the absolute amount, of the foreign direct investment flowing into Asia and the ASEAN share of the consumer-products market in the developed countries. At the 2001 ASEAN Plus China summit meeting, Premier Zhu Rongji proposed the creation of a China-ASEAN Free Trade Area (FTA), and the agreement was signed in the following year. The China-ASEAN FTA involving the original six ASEAN members was implemented in 2010 and was extended to cover all the 10 ASEAN states in 2015. The FTA proposal was intended to mitigate ASEAN's concerns about China's rise and reveal China's readiness to spread its prosperity to the region. The idea was that China's expanding middle class would generate consumer demand for the region's exports and would be an important source of tourism income for the region.

APT certainly helped to establish a distinct regional identity of an East Asian Community. Intraregional trade within the group was <35% of their total foreign trade in 1980; but in 2004, the share already exceeded 54%. By April 2005, 16 bilateral currency swap arrangements had been concluded within the framework of the Chiang Mai Initiative, amounting to US\$ 37.5 billion. Later in 2008, the APT governments consolidated their bilateral currency swap arrangements into one multilateral one amounting to US\$ 80 billion; the fund was then further expanded to US\$ 120 billion in February 2009, with China and Japan each contributing 32%, and South Korea and ASEAN contributing 16% and 20%, respectively.³⁶

In 1978, China's trade with the original five ASEAN countries was only US\$ 859 million; in 2008, 30 years later, China-ASEAN

³⁶ Chung, *op. cit.*, p. 74.

trade amounted to US\$ 231.1 billion. By then, ASEAN emerged as the fourth largest export market for China.³⁷ Today, ASEAN has surpassed Japan to become China's third largest trade partner, after the European Union and the U.S. This economic interdependence ensures that ASEAN countries do not want to have to choose between China and the U.S.

In the Korean Peninsula, China also engaged in multilateral diplomatic work. From December 1997 to August 1998, it participated in four-party talks with the U.S. and the two Koreas. It was the first time that China took part in a multilateral mechanism on the Korean Peninsula, and its participation was welcomed by the U.S. and South Korea. In April 2003, after the exposure of North Korea's nuclear weapon ambitions, China sponsored the three-party talks involving the U.S. and North Korea. These negotiations later expanded to become the six-party talks, with the participation of South Korea, Japan and Russia as well. China subsequently emerged as probably the most important facilitator in the six-party talks, though the negotiations at present have been in a state of impasse. When the negotiations made some progress in the final years of 2000s, there were some optimistic speculations that they might become more institutionalized into a permanent mechanism for security consultations on Northeast Asia.

China's multilateral diplomatic work in the South Pacific has often been neglected. The Pacific Islands Forum (PIF) is the most important regional organization; its predecessor was the South Pacific Forum formed in 1971, and the name PIF was adopted in 2000. Besides Australia and New Zealand, the PIF has 14 member states: 8 have formal diplomatic relations with China, and 6 recognize Taiwan. Before 2008, there was keen diplomatic competition between Beijing and Taipei for formal diplomatic recognition in the region, allowing leaders of the Pacific Island countries to play one-off against another and benefit from their "chequebook diplomacy".³⁸ Since the election

³⁷ Xinhua, "China-ASEAN free trade area to be completed on schedule", *China Daily*, www.chinadaily.com.cn/bizchina/2009-08/07/content_8541098.htm.

³⁸ Ron Crocombe, *Asia in the Pacific Islands: Replacing the West* (Suva: IPS Publications, University of the South Pacific, 2007), pp. 255–267.

of President Ma Ying-jeou in Taiwan in 2008, relations across the Taiwan Strait have much improved, and the diplomatic competition as well as the associated “chequebook diplomacy” was stopped as a gesture of goodwill.

The Chinese authorities were reluctant to share the stage with Taiwan at the post-PIF dialogues as equal dialogue partners, as China has always been keen to avoid any connotation of “Two Chinas”. In April 2006, in view of its recognition of the increasing significance of the Pacific Island countries, China initiated its own multilateral forum called China–Pacific Island Countries Economic Development and Cooperation Forum (CPIC Forum) to be held alternatively in China and a Pacific Island country once every 4 years at the heads of government level. The Forum involves China and the eight Pacific Island countries which have formal diplomatic relations with Beijing. The first CPIC Forum was held in Suva, Fiji, in April 2006, and China was represented by the then Premier Wen Jiabao.³⁹

China's economic development support was concrete and generous. In the 4 years from 2006 onward, China offered US\$ 375 million of preferential loans to promote cooperation in natural resources development, agriculture, fisheries construction and tourism. Beginning from mid-2006, the Chinese authorities granted tariff-free treatment for many products from Samoa and Vanuatu, waived their debts owing to the amount of RMB 170 million and agreed to a moratorium on interest-free loans to Fiji and Papua New Guinea due at the end of 2005.⁴⁰

Other than direct financial assistance, China also offered free anti-malaria medicine to Papua New Guinea and other countries, Approved Destination Status for the eight Pacific Island Countries for Chinese tourists, and training courses and program for 2,000

³⁹ Chung, *op. cit.*, pp. 101–102.

⁴⁰ “Aid package announced for South Pacific states”, *China Daily*, 5 April 2006, p. 1; and People's Republic of China, Ministry of Commerce, “Remarks by Chen Deming, Minister of Commerce at the Investment, Trade and Tourism Ministerial Conference of the China-Pacific Island Countries Economic Development and Cooperation Forum, 2008-9-16”. Available at <http://cpicforumenglish.mofcom.gov.cn/aarticle/za/200809/20080905784156.html>. Accessed 15 January 2016.

government officials and technical staff for the countries concerned in the following 3 years.⁴¹ The last two initiatives are almost standard gestures of goodwill for developing countries.

In this regional multilateral approach, China understands and respects the perception of Australia and New Zealand that the South Pacific is their “backyard”. The two countries however follow the Western principles of promoting good governance and economic liberalization through their aid programs. In contrast, as a Chinese diplomat in Fiji declared, “China doesn’t try to change the recipient countries’ systems. [It is] always based on equality and mutual respect”.⁴² According to Philippa Brant, the more Western officials and commentators voice their worries about China’s strategic interests in the region, the more they are brushed aside by the local communities.⁴³

It is observed that China’s total aid to the region is almost equivalent to that from Japan, New Zealand and the European Commission, but considerably less than that from Australia. In 2009, 58% of China’s regional aid went to Papua New Guinea, reflecting its rich natural resources and investment opportunities.⁴⁴

At this stage, there is still no evidence that resource contracts are obvious considerations of Chinese foreign aid in the South Pacific. The connections between aid and investment as well as between state and commercial interests in China’s aid programs seem to pose challenges to the traditional donors in the region though.⁴⁵ From the Pacific Island Countries’ point of view, development assistance from China helps to generate competition and raise the interest of the traditional donors to the former’s benefit.

⁴¹ Leora Moldofsky, “China Vows Aid Package for South Pacific Allies”, *Financial Times*, 6 April 2006, p. 5.

⁴² Philippa Brant, “Chinese Aid in the South Pacific: Linked to Resources?”, *Asian Studies Review*, Vol. 37, No. 2 (June 2013), p. 166 [pp. 158–177].

⁴³ *Ibid.*

⁴⁴ Fergus Hanson and Mary Fifita, “China in the Pacific: the New Banker in Town”, *Policy Brief*, Lowy Institute for International Policy, April 2011. Available at <http://www.lowyinstitute.org/publications/china-pacific-new-banker-town>. Accessed 15 January 2016.

⁴⁵ Brant, *op. cit.*, pp. 173–174.

The Shanghai Cooperation Organization (SCO)

In the 1990s, China's diplomacy tended to concentrate on relations with the major powers, especially the U.S. By the turn of the century, its increasing emphasis on relations with its neighbors was reflected by its move from the traditional *mulin you hao* (good-neighborliness and friendship) approach to a more proactive one of *youlin, anlin, fulin*, that is, contributing to the friendly environment, stability and peace, and prosperity of China's neighboring countries.

There were two negative factors supporting this active approach too. Chinese leaders were concerned about security and stability along China's periphery, and with the arrival of the George W. Bush administration, there was an expectation that it would strengthen political and security ties with some of China's neighbors as part of their mutual hedging strategy *vis-à-vis* China. China's perception of the three evil forces in Central Asia, namely, terrorism, separatism and extremism, posing security threats to Xinjian and China's northwestern region prompted its initiative to establish the SCO in June 2001.

The SCO was a breakthrough in China's approach to multilateralism because it was the first and only multilateral institution that China initiated and sponsored. Since then, China has been its driving force, demonstrating sophisticated proposals for its gradual institutionalization and providing strong funding support to develop its new orientation as a regional organization for economic cooperation.⁴⁶

Despite China's historical relative passivity in regional organizations, Chinese leaders have been skillful in the development of SCO's institutional framework, and they seem to be getting value for the resources spent. They demonstrated considerable patience when the SCO's development encountered setbacks. The initiatives in regional institutional building have been a successful example of China's development of its soft power. Yet, China has to bear the risk of supporting

⁴⁶ Joseph Y. S. Cheng, "The Shanghai Co-operation Organization: China's Initiative in Regional Institutional Building", *Journal of Contemporary Asia*, Vol. 41, No. 4 (November 2011), pp. 632–656.

unstable authoritarian regimes, whose collapse may severely undermine its influence in the region.

The real challenge to SCO's development has been the inadequate commitment to regional solidarity on the part of its members. Russia is more interested in the promotion of the CIS CSTO and the Eurasian Economic Community/Eurasian Union; while the central Asian countries are mainly concerned with the maintenance of their respective autonomy and diplomatic options, China seems to be the most enthusiastic member and has been more willing to promote regional economic cooperation with its financial resources. The initiatives of an SCO Development Bank, a SCO Development Fund and the Silk Road Economic Belt are perhaps the best examples.⁴⁷ Yet, the rise of China has often been looked upon with suspicion.

The Afghanistan situation exacerbates the common threat, and the Afghanistan issue has been an important agenda item in all the bilateral and multilateral dialogues that China has engaged within the SCO. The "shale revolution" on the other hand strengthens the incentive for cooperation in the energy sector. Economic growth supported by trade and investment contributes to domestic stability, and therefore economic cooperation and the cooperation in the combat of terrorism go hand in hand within the SCO.

On this basis, the SCO survives and somewhat manages to overcome its inadequacies. The survival has even attracted neighboring countries to join, and China's efforts in supporting the SCO both in economic cooperation and those in the combat of terrorism have largely paid off in terms of China's influence within the SCO. With the alert that the security situation in Afghanistan has visibly

⁴⁷Fang Yang, "SCO Should Accelerate Trade, Investment Facilitation: Expert", *People's Daily Online*, 19 April 2013. Available at <http://english.peopledaily.com.cn/90883/8214475.html>.

deteriorated with the military drawdown at the end of 2014,⁴⁸ it is less certain that the engagement in dialogues within the SCO will lead to a clear-cut and concrete plan to combat terrorism and ensure stability in Afghanistan and the surrounding region.

China's Multilateral Approach to the Gulf Cooperation Council (GCC) States

China's approach toward the GCC states is an interesting case study as it reflects the challenges of China's foreign policy in its emergence as a major power. Its policy toward the GCC states has to be defined in a complex regional context, which involves local rivalries and enmeshes serious major power competition. Chinese leaders obviously intend to maintain a balance among several interests which sometimes may be in conflict.

In view of China's limited power projection capability and the desire to restrict its commitment of resources and reduce risks, the Chinese authorities have developed several policy mechanisms that have proven to be relatively cost-effective. China's basic positions on the core issues and conflicts in the region have been well received by the GCC states and their neighbors, but it has neither the carrots nor the sticks to exert adequate pressure on the parties concerned to arrive at its desired outcomes. Hence, Chinese leaders are aware that China is not perceived as a committed and influential actor in the region, and China's official think tank experts are ready to admit their relative inexperience and inadequacy.

China's status and relative influence in the region, however, have been much helped by the following three factors: (1) China's substantial and expanding trade with the GCC states; (2) the latter's welcome of China to assume a more significant role in the region to hedge against the U.S. and enhance their diplomatic maneuverability and (3) the inhibitions of the U.S. to intervene militarily in the region,

⁴⁸Chinese Academy of Social Sciences Institute of Russian, Eastern European and Central Asian Studies, *2014 Annual Report on Development of Central Asia (Yellow Book of Central Asia)* (Beijing: Social Sciences Academic Press China, 2014).

like a surgical strike to punish Syria for its use of chemical weapons or one to wipe out Iran's nuclear facilities.

Meanwhile, Chinese leaders are devoting more efforts and resources on the GCC states as reflected by "China's Arab Policy Paper" and President Xi Jinping's visit to Saudi Arabia, Egypt and Iran in January 2016. The Gulf region has also been included in China's Silk Road Economic Belt and 21st Century Maritime Silk Road schemes. The higher priority accorded to the region in the Chinese foreign policy framework calls for more serious study and a more sophisticated and nuanced approach.

BRICS: Working With Other Major Powers

China's approach to BRICS reveals its foreign policy considerations from the perspectives of realism, liberalism/institutionalism and constructivism. As reflected by China's academic publications on the BRICS group, China's international relations experts consider that the group has emerged as a significant international actor. While international media tended to emphasize its economic potential and influence in its initial years, China's experts expected that the BRICS member countries had to continue to deepen cooperation and enhance their collective influence. There was a recognition that their cooperation in the political and security arenas only stayed at the level of principles at the early stage, but there was an optimistic expectation in Beijing that concrete cooperation would come in the future, and that strengthening comprehensive cooperation would eventually lead to significant development of the group. When doubts and pessimism concerning the BRICS group emerged in the middle of the decade, Chinese leaders' optimism and serious efforts have not been weakened.

Realism dominates the Chinese leadership's BRICS policy in China's pursuit of major power status and influence in the international community, exploiting the group as a significant platform. Institution-building, however, has been essential to strengthen the group's solidarity in order for the group to act effectively through enhancing common interests and containing bilateral conflicts and

disputes. The group as a whole also realizes the importance of formulating a discourse to legitimize its demands for reforming the international economic and political order, while China and other member countries are eager to coordinate their respective discourses with the group's common discourse.

There is an obvious neglect of an important domestic–international linkage too. When Chinese leaders appeal for the democratization of international relations in various international forums, the international community cannot help noticing that there is not much democracy in China, in contrast to India, Brazil and South Africa. China's lack of respect for human rights domestically tarnishes its international image and weakens its appeal for a harmonious world. Genuine political reforms in China are essential to China's successful promotion of a harmonious world and a new international political order.

In the intermediate and long term, the BRICS group can retain and enhance its weight in the international community only through maintaining its hitherto impressive economic growth rates. In 2014, doubts had emerged as China's economic growth rate fell to 7.7% in 2013, India to below 5% and Brazil to 3%.⁴⁹ They all have to work hard to improve their quality of economic development. Chinese leaders have demonstrated an awareness and have made efforts to secure a more balanced development pattern. Progress in this area will strengthen its soft power appeal within the group as well as in the international community. But the challenge ahead will be severe.

In recent years, the BRICS group has been attempting to evolve from a dialogue forum to a full-fledged coordination mechanism, as well as from a focus on economic governance to both political and economic governance. This evolution takes place when four of the member economies are slowing down and two are in recession. At the same time, the Western countries' relations with Russia have been deteriorating because of the Ukrainian crisis, and their suspicions

⁴⁹Eric Follath and Martin Hesse, "Troubled Times: Developing Economies Hit a BRICS Wall", *Spiegel Online International*, 7 February 2014. Available at <http://www.spiegel.de/international/world/economy-slows-in-brics-countries-as-worries-mount-a-951453.html>.

against China have been worsening because of its assertiveness in handling its territorial disputes. This is thus a challenging period for the group.

China's New Multilateral Approach to Latin America

In view of China's economic growth and rising international status, Latin American countries will accord increasing priority to their relations with the Asian giant. The impressive development of trade, investment and joint ventures across the Pacific now provides a solid foundation for closer Sino-Latin American relations in the years ahead. There is a view that China's approach to Latin America is similar to Japan's "resources diplomacy" in the years after the Yom Kippur War in 1973. But while the expansion in Sino-Latin American trade and investment activities does reflect "resources diplomacy" considerations, Chinese leaders tend to consider that China's developing ties with Latin America demonstrate a global reach corresponding to the improvements in China's economic strength as well as international status and influence.

The vast distance between China and Latin America generates difficulties in transportation and mutual understanding, but it also means that both parties have no serious conflicts of strategic and political interests. Their "Third World" orientations in diplomacy contributed to an impressive 95% concurrence in their votes in the UN.⁵⁰ These broad agreements are expected to be maintained in WTO, APEC and similar multilateral organizations. As China is prepared to assume a more active role in Third World issues in cooperation with the leading Third World countries, there will be more diplomatic coordination between China and the major Latin American countries as demonstrated by the activities of the BRICS group and UN climate change negotiations, though progress will be slow as this is not of high priority to the parties concerned.

⁵⁰ Latin American Research Group, China Institute of Contemporary International Relations, "Zhongguo dui Lating Meizhou Zhengce Yanjiu Baogao" (Research Report on China's Policy towards Latin America), *Xiandai Guoji Guanxi*, Vol. 4 (2004), p. 5.

Regional cooperation in Latin America has been improving in recent years. In 2011, the Community of Latin American and Caribbean States (CELAC) was established. In January 2014, CELAC met in Cuba and adopted a statement announcing the establishment of a China–CELAC Forum.⁵¹ Following the example of Sino-African relations, the first ministerial conference of the forum was held in Beijing in early January 2015, and this was presided by the Chinese Foreign Minister Wang Yi, and attended by the presidents of China, Costa Rica, Ecuador and Venezuela and the premier of Panama, together with the foreign ministers and government representatives from 30 members states of CELAC.

The conference released a Beijing Declaration and the China and Latin American and Caribbean States Cooperation Programme (2015–2019). President Xi Jinping indicated his expectation that the bilateral trade would almost double over the next decade to US\$ 500 billion, and pledged to invest US\$ 250 billion in the region in the same time frame. Trade between China and CELAC had grown from US\$ 126 billion in 2000 to US\$ 261.5 billion in 2013. Earlier in his visit to the region, Xi stated that the “three major engines” for China–CELAC cooperation would be trade, investment and financial cooperation, and the “six major areas” for cooperation would be energy and natural resources, infrastructural construction, agriculture, manufacturing industries, scientific and technological innovation, and information technology.⁵²

China's Multilateral Approach in Africa

China's multilateral approach is not limited to Asia and the Pacific. It established the Forum on China–Africa Cooperation (FOCAC) in

⁵¹Shannon Tiezzi, “China's Push into ‘America's Backyard’”, *The Diplomat*, 8 February 2014. Available at <http://thediplomat.com/2014/02/china-push-into-americas-backyard/>.

⁵²Ji Zhiye (eds.), *op. cit.*, Chapter 17, pp. 376–380; “China courts CELAC with multi-billion investments”, *DW*, January 8, 2015. Available at <http://www.dw.com/en/china-courts-celac-with-multi-billion-investments/a-18177089>.

2000, in the context of its impressive trade expansion with Sub-Saharan Africa, which rose from US\$ 663 million in 1978 to US\$ 78.4 billion in 2008 and around US\$ 280 billion in 2015. Investment too increased substantially since 2000 in terms of China's cumulative investment in Africa: it rose from US\$ 9.33 billion in 1993 to US\$ 26 billion in 2014.⁵³ Africa has been an important target in China's "resources diplomacy" since the 1990s. China, as a major power, has assumed a greater role in providing aid to the developing world, and Africa has become a significant recipient.

The first ministerial meeting of FOCAC was held in Beijing in 2000 at the initiative of the then Chinese President Jiang Zemin. In contrast with the previous Third World meetings which were heavily political in orientation, this forum was business-oriented, with the Chinese Minister of Foreign Trade and Economic Cooperation (now Minister of Commerce) Shi Guangsheng as the honorary president. The forum focused on two topics: how to push ahead with the establishment of a new international political and economic order that is fair and just in the twenty-first century, and how to promote Sino-African economic and trade cooperation.⁵⁴

The second ministerial meeting of FOCAC took place in Addis Ababa, Ethiopia, in 2003. It concentrated mainly on the implementation of the Beijing Declaration and the program for China–Africa cooperation in economic and social development, the two programs that were adopted in the first ministerial meeting. It was noteworthy that a China–Africa business conference was held during this forum to facilitate exchanges among entrepreneurs, and between entrepreneurs and officials. The new foci in this ministerial meeting were China–Africa cooperation in human resources development,

⁵³ International Monetary Fund, *Direction of Trade Statistics Yearbook* (Washington, D.C.: IMF, various years).

⁵⁴ "The First Ministerial Conference", in Forum on China-Africa Cooperation Archives. Available at <http://www.focac.org/eng/lttda/dyjbzjhy/>. Accessed 15 January 2016.

promotion of African exports to China and increases in exchanges in the fields of tourism and culture.⁵⁵

In September 2005, President Hu Jintao announced a package of aid measures in support of developing governments in a fund-raising conference of the UN Africa was the main beneficiary of these aid programs, reflecting China's enhanced input to Sino-African ties. As a symbolic gesture demonstrating the significance China attaches to Africa, since 1989, China's foreign minister has been visiting African countries in his first foreign visit every year. In 2005, the Ministry of Foreign Affairs organized its first open day for the public on the themes of Africa and the promotion of understanding of Africa and Sino-African relations.

The year 2006 marked the 50th anniversary of the beginning of China's diplomatic relations with Africa; on 12 January 2006, the Ministry of Foreign Affairs formally released a document on "China's African Policy".⁵⁶ This was the first document of its kind, and the Chinese Assistant Foreign Minister Lui Guozeng stated: "Our objective is to show the international community the importance China accords to Africa, and to demonstrate China's strong will to develop friendly relations with African countries".⁵⁷ The document is divided into six sections: Africa's position and role, China's relations with Africa, China's African policy, the enhancement of all-round cooperation between China and Africa, FOCAC and its follow-up actions, and China's relations with African regional organizations.

⁵⁵ "The Second Ministerial Conference", in Forum on China-Africa Cooperation Archives. Available at <http://www.focac.org/eng/ltada/dejbzjhy/>; "Things to Know about Past Achievements of FOCAC Mechanism", *China Daily*, updated 4 December 2015. Available at http://www.chinadaily.com.cn/world/XiattendsParisclimateconference/2015-12/04/content_22631086.htm. Accessed 15 January 2016.

⁵⁶ People's Republic of China Ministry of Foreign Affairs, "China's African Policy", January 12, 2006. Available at <http://www.fmprc.gov.cn/eng/zxxx/t230615.htm>. Accessed 15 January 2016.

⁵⁷ Y. W. Zhang and R. W. Huang, *2006 Zhongguo Guoji Diwei Baogao (China's International Status Report 2006)* (Beijing: Renmin Chubanshe, 2006), p. 284.

The document “China’s African Policy” states that China will establish and develop a new type of strategic partnership with Africa, featuring political equality and mutual trust, economic “win-win” cooperation and cultural exchanges. Several measures were proposed to strengthen Sino-African economic cooperation, including: the setting up of a China–Africa Joint Chamber of Commerce and Industry; the initiation of negotiations for free-trade agreements with African countries and African regional organizations; the provision of preferential loans and buyer credits to encourage Chinese investment and business in Africa; the conclusion of agreements on bilateral facilitation and protection of investment and agreements on avoidance of double taxation with African countries; agricultural cooperation in technology, training courses and the formulation of a China–Africa Agricultural Cooperation Programme; cooperation in transportation, communication, water conservation, electricity and other infrastructural projects; resources cooperation; human resources development through Beijing’s African Human Resources Development Foundation and an increase in the number of government scholarships to promote student exchange; science and technology cooperation; and medical and health cooperation.⁵⁸

The theme of the summit and the Sixth Ministerial Conference of the FOCAC held in Johannesburg, South Africa, in December 2015 was “China–Africa Progressing Together: Win-Win Cooperation for Common Development”. The emphasis on win-win cooperation and common development reflected Beijing’s awareness of Africa’s complaints and grievances.⁵⁹ The Declaration of the summit pledges commitment to the principles of multilateralism and efforts to increase the voice of China and African countries in the international financial institutions and the international monetary system. The BRICS New Development Bank would set up its African Regional Centre in South Africa, and China indicated that it would strengthen cooperation with

⁵⁸ People’s Republic of China Ministry of Foreign Affairs, “China’s African Policy”, *op. cit.*

⁵⁹ Sara Hsu, “China Prepares for Africa Summit”, *The Diplomat*, 1 December 2015. Available at <http://thediplomat.com/2015/12/china-prepares-for-africa-summit/>.

the regional economic communities in Africa and the African Development Bank. China also promised to enhance collaboration in the development of industrial production capabilities and value addition by establishing parks and clusters, technology parks, special economic zones and engineering centers providing training for engineering and technical personnel and managers. Beijing naturally wants these projects to be linked to its Silk Road Economic Belt and 21st Century Maritime Silk Road schemes.⁶⁰

China's multilateral approach in Africa obviously has been enjoying the benefits of the economy of scale. The alternative of cultivating ties with over 50 African countries is considerably more costly in terms of diplomatic resources and less effective for publicity purpose. China's rising economic status means that it has more resources at its disposal to ensure success in its African policy. In turn, many African countries perceive political and economic ties with China an important asset which strengthens their international bargaining power, especially with Western governments.

China is well aware that some aspects of its economic ties with Africa have been criticized as neo-colonial because of their emphasis on natural resource exploitation and neglect of labor rights and environmental protection. Serious efforts have been made at the governmental level to address these complaints, though not necessarily at the enterprise level.

Chinese leaders have no intention of engaging in diplomatic and strategic competition with the U.S. and the European Union in Africa, but they certainly will not cooperate with the Western governments in helping Africa because they want to push for multipolarity and ensure a reliable supply of resources from Africa in support of China's economic development. They intend to pursue an independent policy in the continent reflecting their definition of China's

⁶⁰Declaration of the Johannesburg Summit of the Forum on China–Africa Cooperation, 11 December 2015. Combined version of China and Africa by the South African government. Available at <http://www.gov.za/speeches/declaration-johannesburg-summit-forum-china-africa-cooperation-5-dec-2015-0000>.

distinct strategic and economic interests. This is a fundamental dilemma of China's African policy which exacerbates its risks.

China's Multilateral Subregional Approach

At the beginning of the twenty-first century, China's leadership had probably been convinced that multilateral and regional organizations were important mechanisms for articulating its interests, enhancing its influence and promoting multipolarity. China had moved from a passive and defensive participant to an active organizer with a well-defined set of agenda items and strategies. Later, Chinese leaders considered that participation in subregional economic cooperation projects along its borders would be useful in its pursuit of these objectives. It would further allow a relatively low profile while asserting leadership and reducing external pressures. This approach has been in line with the Chinese economic strategy of "going out" launched in 2000 to enhance economic security through investment to secure the supplies of resources in order to support its economic growth and markets for its expanding exports. In the case of China's relations with the less-developed ASEAN countries, China has in mind the additional considerations of reducing China's aid commitments and accelerating the development of China's central and western provinces bordering them.

In 1992, the Asian Development Bank (ADB) proposed cooperation to develop the so-called Greater Mekong Subregion (GMS), but China's involvement was insignificant until the end of the previous century. In March 2008, the third leaders' meeting on GMS economic cooperation was held in Vientiane, and a Leaders' Declaration was signed reflecting China's keen interest and commitment to the project.⁶¹ At the same time, the Chinese government officially established the "Guangxi Beibu Gulf Economic Development Zone" as

⁶¹ REG, Greater Mekong Subregion Economic Cooperation Program, Joint Summit Declaration: 3rd GMS Summit of Leaders, Vientiane, Lao People's Democratic Republic, 30–31 March 2008 (Asian Development Bank, 2008). Available at <http://www.adb.org/sites/default/files/page/42450/3rd-summit-joint-declaration-greater-mekong-subregion-gms.pdf>. Accessed 15 January 2016.

part of its Western development strategy and its national development strategy.⁶² The Pan-Beibu Gulf Area (PBGA) is the focus of another subregional economic cooperation project between China and some ASEAN countries, with technical assistance support from the Asian Development Bank.⁶³

The GMS and the PBGA projects allow overlaps with other sub-regional and even regional economic cooperation arrangements. From the perspective of the Chinese government, even though these subregional economic cooperation projects are open to the U.S., its participation is not always effective, and it is understood that the U.S. will maintain its influence through the advocacy of larger regional organizations. For China, it is felt that, despite the U.S.'s formidable economic power and international influence, subregional economic cooperation projects, which depend much more on geographical proximity and close transport networks, would better allow China to exploit its comparative advantages.

Further, while subregional projects are mainly economic in orientation, they usually also include non-traditional security cooperation such as the prevention and the combat of cross-border crime, campaigns against drug trafficking and protection of animal and plant diversity, which are all in conformity with the mainstream Western values but do not involve military or security cooperation. Hence, subregional arrangements tend not to be sensitive for the governments of the U.S., Japan and other Western countries. China hopes too that this cooperation may spill over and enhance interdependence in the political and security arenas. For example, in the case of the

⁶² Asian Development Bank Guangxi Foreign Loan Projects Management Office, PRC: *Guangxi Beibu Gulf Cities Development Project Environmental Monitoring Report*, August 2015. Available at <http://www.adb.org/sites/default/files/project-document/175299/43023-013-emr-02.pdf>. Accessed 15 January 2016.

⁶³ "Pan-Beibu Gulf members ink port agreements", *China Daily*, 13 August 2010. Available at http://www.chinadaily.com.cn/bizchina/2010-08/13/content_11151026.htm. Accessed 15 January 2016; Asian Development Bank, *Support for Pan-Beibu Gulf Economic Cooperation*, ADB project data sheet, 15 December 2015. Available at <http://www.adb.org/projects/45002-001/main>. Accessed 15 January 2016.

PBGA project, Guangxi has been active in offering initiatives without attracting any particular suspicions from the U.S. and Japan.

The Chinese authorities hope that subregional economic cooperation projects will contribute to the strengthening of mutual trust. Economically, ASEAN countries, especially the less developed ones, hope to exploit the opportunities generated by China's growth, but they remain worried that China's investment in natural resources may damage their environment and that the manufacturing operations from China may challenge their competitive edge in the export of labor-intensive products. Subregional economic cooperation projects, however, limit China's advantage in terms of economy of scale as only some of its provinces are involved. But they are said to have facilitated China's neighbors to take part on a more equal basis. For example, in the case of the GMS and PBGA projects, China's participation is largely limited to the two bordering provincial units of Guangxi and Yunnan. These are relatively backward provinces, and their competitiveness is far less threatening in the eyes of the ASEAN countries concerned; certainly, the amounts of trade and investment involved would remain limited for a considerable period of time.

China's foreign policy experts argue that subregional economic cooperation has distinct advantages. It is based on border areas where there may be conflicts arising from the already frequent interactions and flow of goods and people. Hence, economic cooperation in the border areas may help to strengthen mutual understanding, build trust, enhance mutual prosperity and reduce friction. Further, subnational cooperation between the respective border areas can broaden the networks of cooperation involving both the public and private sectors. Finally, Chinese leaders consider that subnational cooperation involves few concessions in contrast to, for example, state-to-state or regional free-trade agreements, allowing China to more easily avoid sensitive sovereignty issues and territorial disputes.⁶⁴

⁶⁴Chen Zhiming, *Ciguojia Zhengfu yu Duiwai Shiwu (Sub-national Governments and External Affairs)* (Beijing: Changzheng Chubanshe, 2001), pp. 148 and 151.

China's Multilateral Approach: Strengths and Weaknesses

In various multilateral mechanisms and organizations which China has participated, its economic weight has probably been its most important asset. China's trade volume rose 187.3 times from 1978 to 2012, and its share of international trade increased from 0.76% in 1978 to 10.7% in 2011. Hence, China becomes an important trade partner of members of the multilateral institutions in which it has taken part. China became the world's largest exporter in 2009, and the largest trading nation in 2012.⁶⁵

China emerged as a significant source of foreign investment only by the turn of the century. In 2011, its foreign direct investment (FDI) outflow was only US\$ 65 billion, 3.8% of the global total. The Chinese authorities' own estimate was that, at the end of 2010, China had an outward direct investment stock amounting to US\$ 280 billion, ranking 15th in the world and third among developing countries.⁶⁶ Though this foreign investment outflow is not yet very significant at this stage, it is obvious that with substantial foreign exchange reserves (US\$ 3.3 trillion at the end of 2012) supporting China's "going out" strategy, China's foreign investment outflow is expected to continue at a respectable scale.

The Chinese authorities have been promoting the internationalization of its currency, the yuan, and its participation in multilateral mechanisms like the BRICS group and the APT has facilitated this process. By the end of 2012, China concluded settlement agreements with 18 countries and regions amounting to 1.6 trillion yuan. In the same year, China's yuan-denominated cross-border trade settlement rose to 2.94 trillion yuan, and its yuan-denominated investment settlement exceeded 280 billion yuan. Starting in 2003, the People's Bank of China launched

⁶⁵ For data on China's trade, see Chinese Ministry of Commerce, online. Available at <http://zhs.mofcom.gov.cn/tongji.shtml>; International Monetary Fund, *op. cit.* and Wan, *op. cit.*, p. 110.

⁶⁶ China News Agency, 2 November 2010. Available at <http://www.chinanews.com.cn/cj/2010/11-02/2628880.shtml>; Wan, *op. cit.*, p. 111.

individual cross-border settlement in yuan.⁶⁷ Apparently, China would like to promote the emergence of yuan blocs in Central Asia, Southeast Asia, Africa, etc., and the use of the yuan as a reference currency.

China's influence in various regions may be enhanced by two significant assets: migrants and students, whose influence, especially in the long term, is yet difficult to assess. In contrast to the Western countries and Japan, China's trade and investment flows have been accompanied by movements of people. These movements in turn channel small businesses whose cumulative impact may be substantial. These new business networks are somewhat different from the traditional overseas Chinese communities.⁶⁸ One estimate indicates that about 18 million people have migrated from Mainland China since the beginning of economic reforms and opening to the external world, thus doubling the original Chinese diaspora. The International Organization for Migration reveals that China had 5.8 million migrants as of 2000, compared to 9.1 million from India and 6.8 million from Bangladesh.⁶⁹

In view of China's large population, its expanding middle class and the priority accorded to children's education in families, it is not surprising that China is now the largest source country of international students, reaching about 2.5 million between 1978 and 2011. This rise has been especially steep since 2000.⁷⁰ More than 60% of

⁶⁷Wang X., "Global Use of Yuan to See 'Major Leap' in 2013", *China Daily*, 17 January 2013. Available at http://usa.chinadaily.com.cn/business/2013-01/17/content_16130737.htm.

⁶⁸D. Lary, *Chinese Migrations: The Movement of People, Goods, and Ideas over Four Millennia* (Lanham, MD: Rowman & Littlefield, 2012); M. W. Charney, B.S.A. Yeoh and T. C. Kiong (eds.), *Chinese Migrants Abroad: Cultural, Educational, and Social Dimensions of the Chinese Diaspora* (Singapore: World Scientific, 2011); J. Kao, "The Worldwide Web of Chinese Business", *Harvard Business Review*, Vol. 71, No. 2 (March–April 1993), pp. 2–11.

⁶⁹International Organization for Migration, *World Migration Report 2010*, pp. 115–116.

⁷⁰China News Agency, 4 September 2012. Available at http://news.xinhuanet.com/hr/2012-09/04/c_123669293.htm; Chuguo.com.cn, 2 January 2013. Available at <http://www.chuguo.cn/news/215013.xhtml>.

these students have stayed after graduation, and the others have gone back to China. These students, in view of their educational qualifications and international exposures, are naturally very mobile internationally, cultivating contacts between China and the world.

In its participation in multilateral organizations, China seems to be well aware of the need to limit its ambitions. In the case of ASEAN, China obviously preferred the APT approach and had wanted to exclude the U.S. from the East Asia Summit, but it accepted the different position of the countries concerned. It has been willing to support ASEAN to assume the leadership role in regional cooperation and has demonstrated an understanding that it is not expected to seek a predominant role in the region. While increasing Sino-American competition has emerged by the turn of the decade, Beijing has been cautious to contain this competition. It appreciates that countries in the region do not want to have to choose between China and the U.S., and it is ready to reinforce this orientation.

Similarly, in the case of the SCO, China respects Russian interests in the region and defers to the Russian attempts to enhance its regional influence through developing the Eurasian Economic Community and the Collective Security Treaty Organization which have been excluding China. At the same time, China has been quite forthcoming in providing funding support for the SCO's programs. China's respect for Russia's vital interests in Central Asia probably has been an important factor in maintaining the SCO.

China's economic ties with the developing countries, especially those with Africa, in the recent decade have attracted much criticism from the Western countries and the international media as neo-colonialism. The financing arrangement based on "natural resource-backed loans and lines of credit" known as the "Angola Mode" for its initial use by China in Angola has been strongly condemned by Western donors and governments.⁷¹ But, in many ways, China has simply repeated the activities of Western powers and Japan before it.

⁷¹Johanna Jansson, "The Sicomines Agreement: Change and Continuity in the Democratic Republic of Congo's International Relations", Occasional Paper No. 97 (Johannesburg, South Africa: South Africa Institute of International Affairs, 2011).

There is also ample evidence that China's acquisition of natural resources has a fundamental positive impact on the economic growth of the exporting developing countries, and it has helped to improve the latter's terms of trade globally.⁷²

Many of China's resource and infrastructural projects in developing countries have neglected their adverse impact on the environment and the livelihood on the local communities affected. Very often, the Chinese enterprises concerned try to suppress wages as well as ignore safety and working conditions. To deal with the emergence of the "ugly Chinese" syndrome as seen in the exploitative aspects of China's trade and investment activities, Beijing's limited aid program may not be enough. The Chinese authorities, while directing their state-owned enterprises (SOEs) to expand and invest internationally, have not directed them to operate as "model business partners". However, Chinese experts assert that some of China's aid money could go to the SOEs so that they will be able to behave as "model employers" and contribute to community projects. This requires effective coordination at the central government level, and new mechanisms have to be built to achieve the desirable outcomes.

Some Chinese experts consider that China can be an important source of intermediate technology, which is cost-effective and appropriate for the stage of development of the developing countries. China has yet to demonstrate that it can serve as a generous and effective source of technology transfer for them in household electrical appliance industries, textiles and apparel industries, infrastructural construction and so on.⁷³ These should be important elements in China's participation in various multilateral organizations in the immediate future.

⁷²Wei G., Tao R. and Lu Y., "Ziyuan Zuzhou yu Zhongguo Yuansu Yuan Zi 135ge Fazhanzhong Guojia de Zhengju (Resources Curse and the China Factor: Evidence from 135 Developing Countries)", *Shijie Jingji (World Economics)*, No. 388 (2010), pp. 48–46.

⁷³Edward Friedman, "How Economic Superpower China Could transform Africa", *Journal of Chinese Political Science*, Vol. 14, No. 1 (March 2009), pp. 1–20.

The Chinese leadership is obviously aware of the existing adverse publicity and has been trying to reverse the trend. This is one of the major challenges to the Chinese leadership's attempt to enhance China's appeal and good image in the international community. A recent project of the Chinese Academy of Social Sciences, for example, examines neighboring countries' views of China. It observes that at this stage, countries like Pakistan, Russia, Malaysia and Indonesia have positive images of China, whereas those such as Japan, South Korea and India have negative images of China. It also reports that for countries like Mongolia and Myanmar, their governments maintain good relations with China, but their people have negative attitudes or resentment against China.⁷⁴ Projects of this kind reflect that the Chinese authorities are aware of the problems and are trying to formulate solutions.

Apparently, the Chinese authorities understand that the development of multilateral organizations demand an increasing supply of public goods, and China's expanding role and influence in these organizations in turn will depend on its ability and willingness to offer public goods on a regional and global basis. Through its aid programs, China has demonstrated its readiness to assume a greater responsibility in this area, but it has been reluctant to commit itself as it still often claims to be a developing country.

Conclusion

The Chinese authorities, since the mid-1990s, have gradually come to embrace multilateralism to realize its basic foreign policy objectives from maintaining a peaceful international environment to concentrate on its modernization program to the enhancement of its international status and influence. It seems, however, that this embrace is largely based on realism considerations. There is no denial, however, that

⁷⁴ Xu Liping, "Dangdai Zhoubian Fuza er Maodun de Zhongguo Guan (Contemporary Neighbouring Countries' Complicated and Contradictory Views of China)", in Xu Liping (ed.), *Dangdai Zhoubian Guojia de Zhongguo Guan (Contemporary Neighbouring Countries' View of China)* (Beijing: Social Sciences Academic Press (China), 2013), pp. 1–10.

elements of liberalism and constructivism gradually enter into the considerations of Chinese leaders. For example, Chinese leaders accept that non-traditional security issues such as terrorism, transnational crime, humanitarian assistance and disaster relief, epidemics and infectious diseases, etc. can only be tackled through well-defined multilateralism. In order to promote China's participation in multilateral organizations and mechanisms, Chinese leaders have to develop their own discourses.

China's peaceful rise demands its higher degree of participation in multilateralism, but its peaceful rise in turn generates obstacles and difficulties in this participation. In the first place, the strengthening of the "China threat" perception makes members of the concerned multilateral organizations suspicious of China's intentions and may even prompt them to adopt hedging strategies. The absence of a Sino-American *modus vivendi* and increasing competition between them do not provide a good environment for the development of multilateral organizations involving them. The competition between the TPP spearheaded by the U.S. and the RCEP supported by China does not facilitate East Asian regional economic cooperation.

With the inauguration of the Donald Trump administration, the U.S.'s withdrawal from the TPP much weakens the economic partnership. Earlier in 2016, it already became clear that the European Union had abandoned the TTIP initiative. Pressures on China from being isolated in the global trade and investment rule-making processes have thus been much reduced. China is not expected to show substantial soft power in this area as it is aware of its inadequacies. But it is now more confident that its economic ties with its neighbors will allow it to further improve its international economic status and influence, especially with the gradual implementation of the "One Belt, One Road" schemes.

In the foreseeable future, it is anticipated that China will continue to adopt an increasingly active approach to multilateralism as it accepts that this is an inevitable trend, and this active participation is essential to an improvement of its international status and influence eagerly pursued by the present Chinese leadership. This in turn means

that the resources placed by the latter on multilateral organizations will only increase, especially in terms of foreign aid programs. Meanwhile, China's expanding trade and investment flows will ensure that it is almost impossible to exclude it from significant global multilateral mechanisms and those in the Asia-Pacific region.

In the recent decade or so, China has cultivated more expertise in multilateral organizations of various kinds, and Chinese personnel have been able to join the international civil service at the highest levels, as in the cases of the World Bank, IMF and World Health Organization. China's initiatives in institution-building have become more prominent; the SCO is perhaps a good example. But there are no indications that the Chinese authorities have been trying hard to seek leadership or promote the Chinese model in various multilateral organizations.⁷⁵ They seem to be satisfied with opportunities to articulate their positions and to influence the agendas with formal and informal veto powers; the best example of the former is the UN Security Council. The above trends seem likely to be maintained in the foreseeable future.

The presence of China in international multilateral organizations has at least allowed small countries and developing countries a better chance to maintain a balance of power, avoiding domination by the U.S. and the Western countries. Since China basically accepts the existing rules of the game and has no ambitious plans to transform the existing international political and economic order, China's increasingly enthusiastic participation in multilateralism will likely be accepted by the international community.

⁷⁵Wan, *op. cit.*

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Part I

China in Asia

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Chapter 2

China's Asian Policy: Adjusting to Its Increasing Strength

Joseph Yu-Shek Cheng

Introduction

In this survey of China's Asian policy, Chinese leaders' foreign policy framework appears to be an evolving one, responding to emerging opportunities and setbacks. Sometimes, the implementation may become disorderly, making the framework confusing and indistinct. China's "soft power" remains limited today. Its potential weaknesses, such as economic downturns or political instability, also cause worries among its neighbors and may adversely affect their perceptions of and relations with China. While trying to secure recognition as a major power, China has yet to convince the world of the purpose and the contribution of its pursuit.

Since the early twenty-first century, Chinese leaders believe that China is a major power, and they expect that its interests as a major power be respected.¹ This is especially so in Asia because it has the most

¹Angang Hu, *Zhongguo Jueqi zhi Lu* (*Roadmap of China's Rising*) (Beijing: Peking University Press, 2007); Shenming Li, *Zhongguo Heping Fazhan yu Guoji Zhanlue* (*China's Peaceful Development and International Strategy*) (Beijing: Zhongguo Shehui Kexue Chubanshe, 2007).

immediate bearing on China's desire to maintain a peaceful international environment to concentrate on its modernization, and because Asia is where China's power projection capability is strongest. While Chinese leaders pursue their Asian policy from a position of strength, they are also aware of the adverse impact of the perception of the "China threat". Hence, in the recent decade, Chinese leaders have been articulating the theme of China's "peaceful rise" or "peaceful development".² China's Asian neighbors no longer worry about the export of revolution by the Communist Party of China (CPC), but they are concerned with the potential of China's expansionism, that is, when it becomes economically and militarily strong in the future decades. At this stage, China's roles as "the workshop of the world" and "the black hole for foreign investment" pose severe challenges to the developing countries, especially those in Asia. Hence, Chinese leaders are keen to convince not only the U.S. leadership but their Asian counterparts as well that China intends to be "a responsible stakeholder" in the international community, and that China's economic growth will be mutually beneficial. China now practices multilateral diplomacy as a norm, and has been increasingly active in international organizations.

In the past, Chinese leaders formulated China's foreign policy according to their worldview and analysis of global contradictions. There was a neglect of a coherent regional policy. This omission began to be remedied in the 1990s, given the Chinese leadership's recognition of the increasing significance of economic regionalism and regional trading blocs.

In 1991, China became a dialogue partner of the Association of Southeast Asian Nations (ASEAN) and a member of the Asia-Pacific Economic Cooperation (APEC) forum, and expressed support for the Malaysian proposal for an East Asian Economic Caucus excluding the U.S.³ Directions for institutional frameworks strengthening cooperation among East and Southeast Asian countries were still

² Bijian Zheng, *China's Peaceful Rise — Speeches of Zheng Bijian, 1997–2005* (Washington, D.C.: Brookings Institution Press, 2005).

³ Michael Yahuda, "Deng Xiaoping: the Statesman", *The China Quarterly*, No. 135 (1993), pp. 565–566.

fluid, and China believed that it could not afford to be left out in shaping these institutional frameworks, though its position was yet unclear. In the beginning of this century, however, China was ahead of Japan, South Korea and India in the establishment of a free trade area (FTA) with ASEAN.

This hesitant acceptance of multilateral diplomacy and regional organizations began in the wake of the severe setbacks in China's foreign relations due to the Tiananmen incident in June 1989.⁴ In the two or three years after the incident, Germany reunified; the former East European satellites of the Soviet Union abandoned socialism and opted for independence; and, finally, the Soviet Union disintegrated. These developments, plus the impressive victory of the Western countries in the Gulf War, seemed to indicate that the U.S. had become the sole superpower in the world. There was a view in China in these years that as the remaining major socialist country, China would become the next main target for the "peaceful evolution" strategy of the West.

By 1992–1993, Chinese leaders became more relaxed with both the domestic and international fronts. Deng Xiaoping toured southern China in early 1992 to generate new impetus for further reforms and opening to the outside world. Chinese leaders appreciated that the legitimacy of the Communist regime would depend on its ability to deliver the goods. This would be the most important guarantee against a repetition of what had happened in Eastern Europe and the Soviet Union. In contrast to their counterparts in these countries, Chinese leaders concentrated on economic reforms first and were able to significantly improve the people's living standards. They considered that international competition in the coming decades would be on the basis of "comprehensive national power" and that China had wasted much precious time already. In the twenty-first century, there are more emphases on achieving sustainable development and setting

⁴ Joseph Y. S. Cheng, "China's Post-Tiananmen Diplomacy", in George Hicks (ed.), *The Broken Mirror: China after Tiananmen* (Harlow: Longman, 1990), pp. 401–416.

up a satisfactory social security system to ensure that economic inequalities would not affect domestic political stability.

In the aftermath of the Tiananmen incident, Deng Xiaoping released a number of guidelines for Chinese foreign policy. They were often quoted by Chinese foreign policy researchers in the official think tanks, though less so in recent years. In a talk with leading members of the Party Central Committee on 4 September 1989, Deng stated: "Of course, that will put the developed countries all the more on guard against us. Notwithstanding, we should maintain friendly exchanges with them. We should keep them as friends but also have a clear understanding of what they are doing. We should not criticize or condemn other countries without good reason or go to extremes in our words and deeds".⁵

Further, in another talk with the leading members of the Party Central Committee on 3 March 1990, Deng said: "As for the two great issues of peace and development, the first has not yet been resolved, and the second is even more pressing than before".⁶ The main themes were obvious. China needs a peaceful international environment to concentrate on development, and it hopes to maintain good relations with all major powers and its neighbors.⁷

Multipolarity and Partnerships

Sino-Russian Relations and Strategic Partnership

Typically when Sino-American relations deteriorated, China turns to Russia and the Third World, a natural response to seek a more favorable balance. This was China's response in view of the sanctions

⁵ Xiaoping Deng, "With Stable Policies of Reform and Opening to the Outside World, China Can Have Great Hopes for the Future", in *Selected Works of Deng Xiaoping*, Vol. III (1982–1992), ed. Xiaoping Deng (Beijing: Foreign Languages Press, 1994), p. 310.

⁶ Xiaoping Deng, "The International Situation and Economic Problems", in *Selected Works of Deng Xiaoping*, Vol. III (1982–1992), ed. Xiaoping Deng (Beijing: Foreign Languages Press, 1994), p. 341.

⁷ Avery Goldstein, *Rising to the Challenge: China's Grand Strategy and International Security* (Stanford, CA: Stanford University Press, 2005).

imposed by the U.S. and the West after the Tiananmen incident. In the 1990s, Sino-Russian relations developed from the initial normalization of relations to a relationship of good-neighborliness and friendship, then from a constructive partnership to a strategic cooperative partnership in April 1996. Undeniably, the progress was satisfactory.⁸ Since then, China has begun to establish various types of partnerships with other major powers.

In April 1997, then President Jiang Zemin returned to Russia for a state visit, and the two heads of state released a declaration on global multipolarity and the establishment of a new international political and economic order. They too articulated their opposition to attempts to achieve global unipolarity and political hegemony. At the same time, China, Russia, Kazakhstan, Tajikistan and Kyrgyzstan also reached agreement on reducing troop levels along their common border of over 7,000 km to about 260,000 soldiers.⁹ In November 1998, the leaders of both countries held an informal summit in Russia. They concluded a joint statement on the border issue; by then, the marking of the common land border had basically been completed.¹⁰

It appeared that China's motivations for the strategic cooperative partnership included the following elements. In the first place, China wants to secure a peaceful, stable international environment to pursue its modernization. On 28 August 1998, Jiang Zemin indicated in his speech at the ninth ambassadorial conference held by the Ministry of Foreign Affairs that Chinese foreign policy straddling across the next century "should work hard to generate a better environment along

⁸ Joseph Y. S. Cheng, "Challenges to China's Russian Policy in Early 21st Century", *Journal of Contemporary Asia*, Vol. 34, No. 4 (2004), pp. 480–502.

⁹ Joseph Y. S. Cheng and Zhifu Shi, "Zhongguo yu Duliанти Guojia, Dongou Guojia Guanxi de Queli he Fazhan (The Establishment of Relations and Subsequent Developments between China and the Countries of the Commonwealth of Independent States and Eastern Europe)", in Joseph Y. S. Cheng and Zhifu Shi (eds.), *Zhonghua Renmin Gongheguo Duiwai Guanxi Shigao (A Draft History of the Foreign Relations of the People's Republic of China)*, Vol. 4, 1989–1999 (Hong Kong: Cosmos Books, 2000), pp. 133–172.

¹⁰ Stephen Blank, "Which Way for Sino-Russian Relations?", *Orbis*, Vol. 42, No. 3 (1998), pp. 345–360.

China's periphery and internationally to realize the strategic objective of China's socialist modernization construction".¹¹ A stable international environment includes the global environment, the regional environment and especially the environment along one's borders.

Second, Chinese leaders want to promote global multipolarization and seek due recognition of China's status as an important pole in a multipolar world. In March 1990, Deng Xiaoping made the following observation in his discussions with some leading cadres: "The situation in which the United States and the Soviet Union dominated all international affairs is changing. Nevertheless, in future when the world becomes three-polar, four-polar or five-polar, the Soviet Union, no matter how weakened it may be and even if some of its republics withdraw from it, will still be one pole. In the so-called multipolar world, China will be counted as a pole".¹² In August 1998, in his speech to the ninth ambassadorial conference mentioned above, Jiang Zemin indicated that the world structure would be developing in the direction of multipolarity.¹³ Chinese leaders believe that China's pursuit of multipolarity in the international political and economic order is only natural in view of its position as a major power with considerable influence, as the largest developing country and as a member of the Third World.¹⁴ In the first years of the twenty-first century before

¹¹ *Renmin Ribao* (Beijing), 29 August 1998.

¹² Deng, *op. cit.*, p. 341.

¹³ *Renmin Ribao* (Beijing), 29 August 1998.

¹⁴ Xuetong Yan, "Study Report on China's Foreign Relations in 1997-98: International Security Environment for China's Rise", in China Society for Strategy and Management Research (ed.), *Study Reports on International Situation 1997-1998* (Beijing: China Society for Strategy and Management Research, 1998), pp. 81-91; Joseph Y. S. Cheng, "Jiushi Niandai Zhongguo de Dongmeng Zhengce: Tuidong Diqu Duojihua (China's ASEAN Policy in the 1990s: Pushing for Multipolarity in the Regional Context)", in Joseph Y. S. Cheng (ed.), *Houlengzhan Shiqi de Zhongguo Waijiao* (Chinese Foreign Policy in the Post-Cold War Era) (Hong Kong: Cosmos Books, 1999), pp. 170-210; Wankun Zhang, "Houlengzhan Shiqi Zhongguo Junshi Zhanlue Fenxi (An Analysis of China's Balance of Power Strategy in the Post-cold War Era)", in Joseph Y. S. Cheng (ed.), *Houlengzhan Shiqi de Zhongguo Waijiao* (Chinese Foreign Policy in the Post-Cold War Era) (Hong Kong: Cosmos Books, 1999), pp. 100-130.

the global financial crisis in 2008–2009, the U.S. economic and military predominance had probably been strengthening. The world was perhaps even more unipolar. But multipolarity remains a long-term objective of Chinese foreign policy. The strength of the U.S. simply means that maintaining cordial Sino-American relations must be accorded priority for the pursuit of multipolarity.

Finally, the Chinese leadership has been engaging in developing new strategic thinking and ideological positions in support of China's emergence as a major power in the twenty-first century. The emergence of a major power relies not only on "hardware" such as economic power, military force, etc., but it also depends on "software" including an international strategy, values and so on.¹⁵ As argued by Paul Kennedy, the wisdom of the governments concerned will be a crucial factor determining the outcome of the competition among the U.S., Russia, China, Japan and the European Union.¹⁶ Some Chinese scholars consider that the correctness of the international strategy is a fundamental factor contributing to the rise and fall of a country.¹⁷

In contrast to the two re-establishments of an international order after the two world wars,¹⁸ China for the first time in recent history feels that it has the opportunity to take part in the rebuilding of an international order under favorable conditions in view of it being

¹⁵ Andrew J. Nathan and Robert S. Ross, *The Great Wall and the Empty Fortress: China's Search for Security* (New York: W.W. Norton, 1977), p. 18; Joseph S. Nye, Jr., *Bound to Lead: The Changing Nature of American Power* (New York: Basic Books, 1990).

¹⁶ Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987), p. 540.

¹⁷ Guili Bo, *Guojia Zhanlue Lun (On National Strategy)* (Beijing: China Economic Press, 1994), pp. 8–9; Shuofeng Huang, *Guojia Shengshuai Lun (On the Rise and Fall of States)* (Changsha: Human Press, 1996), pp. 1–5.

¹⁸ The first two rebuildings of the international order in the twentieth century refer to the ones after the First World War and the Second World War. After the First World War, China, although a victorious country, still could not resist the decision of Western powers detrimental to its interests. By the end of the Second World War, although China was treated nominally as one of the Five Great Powers, China's national interests were still compromised by the secret treaty concluded by the U.S.A., the U.K. and the Soviet Union.

recognized as a major power in the post-Cold War era.¹⁹ Chinese leaders consider that they have a genuine opportunity to exert some positive influence in shaping the new world order. During the Cold War, China was probably the largest and strongest country outside the two camps; but this position meant that China basically could only attempt to block other major powers' designs without any chance of realizing its own blueprint.²⁰

Though Beijing and Moscow have been eager to declare that their strategic cooperative partnership is not directed against any third country, it cannot be denied that it is directed against the U.S. as well as its pressures on and containment of China and Russia.²¹ Chinese leaders believe that the global strategy of the U.S. depreciates the international status and influence of China and Russia, and thus damages their national interests. In the post-Cold War era, the U.S., on the basis of its superior economic and military capabilities, has been pursuing an ambitious strategy of unipolarity. Its fundamental objectives are: to maintain its status as the sole superpower in the world, to ensure its leadership in international affairs, to continue to expand the community of states upholding democracy and the market economy, to maintain its lead in military capabilities and to prevent new challenges to its predominant position from emerging. Regarding the latter objective, the U.S. naturally targets against China and Russia.²²

¹⁹Nathan and Ross, *op. cit.*, pp. 13–14.

²⁰*Ibid.*

²¹Fengshu Ma, "Zhongge Guanxi zhong de Meiguo Yinsu (*The American Factor in Sino-Russian Relations*)", *Dangdai Shijie Shehui Zhuyi Wenti (Issues of Socialism in the Contemporary World)*, No. 72 (2002), pp. 90–97.

²²Zhengliang Yu, *Daguo Zhanlue Yanjiu (A Study of the Strategies of Major Powers)* (Beijing: Zhongyang Bianyi Chubanshe, 1998); Jisi Wang (ed.), *Gaochu Bushenghan — Lengzhan Hou Meiguo de Quanguo Zhanlue he Shijie Diwei (Unbearable Coldness in Scaling the Heights — the Global Strategy and International Status of the United States in the Post-Cold War Era)* (Beijing: Shijie Zhishi Chubanshe, 1999), pp. 363–364; Shulong Chu, *Lengzhan Hou Zhongmei Guanxi de Zouxiang (Directions for Sino-American Relations in the Post-Cold War Era)* (Beijing: Zhongguo Shehui Kexue Chubanshe, 2001); Yunling Zhang (ed.), *Huoban Haishi Duishou — Tiaozheng Zhong de Zhongmeirier Gguanxi (Partners or Competitors — Relations among China, the United States, Japan and Russia in Adjustment)* (Beijing: Shehui Kexue Wenxian Chubanshe, 2001), p. 26.

Further, the U.S. regional security strategies also constitute serious threats to China and Russia, including the North Atlantic Treaty Organization (NATO)'s eastward expansion, the strengthening of the U.S.'s bilateral and multilateral military alliances in the Asia-Pacific region, the increase in arms sales to Taiwan, etc. This naturally promotes mutual support and coordination between the two countries in countering the pressures and containment from the U.S. Chinese leaders believe that both China and Russia accord a high priority to their respective major power status and diplomatic traditions; but, they too have to maintain cordial relations with Western countries, especially the U.S. Hence, Beijing and Moscow do not require an alliance relationship to promote their mutual interests, and on many occasions they did not even have to engage in joint action. Although the bilateral strategic cooperative partnership does not clearly define their commitments and obligations, the arrangement would avoid explicitly antagonizing the U.S., especially the Congress and public opinion. It would also facilitate the involvement of other countries. For example, when China and France established a comprehensive partnership in May 1997, the two governments stated in the joint declaration released that: "The two parties have decided to foster the march towards multipolarity . . . to contribute to a new political and economic international order that is both just and rational and opposes any attempt at domination in international affairs".²³

At the same time, Chinese leaders also recognize the limitations of the Sino-Russian strategic cooperative partnership. Regarding NATO's eastward expansion, China's support for Russia is largely symbolic. Similarly, on the strengthening of the U.S.-Japan defense cooperation, U.S. arms sales to Taiwan, etc., Russia can do no more than articulate its support for the Chinese position and condemn the U.S. actions.

From China's point of view, the most significant setback in Sino-Russian relations in recent years was the reversal of Moscow's position in opposing the George W. Bush administration's plan to establish a National Missile Defense (NMD) program. In June 2002, when the "Shanghai Five" was formally organized as the Shanghai Cooperation

²³ For the text of the Sino-French Joint Declaration, see *Renmin Ribao*, 15 May 1997.

Organization (SCO), Vladimir Putin and Jiang Zemin still openly opposed the development of a missile defense system by the U.S. But one month afterward, when the two countries concluded a Treaty of Good-Neighborliness, Friendship and Cooperation in Moscow, Putin indicated that "Russia has no plan to adopt joint action with any country, including China", in opposing the U.S. NMD program.²⁴ The agreement between the U.S. and Russia exposed the discrepancy in interests between China and Russia on the question of nuclear weapons. China at that time only had about 30 intercontinental ballistic missiles (ICBMs) which could reach the U.S.; hence, a small-scale NMD program may, to a considerable extent, neutralize its nuclear deterrence. Russia's strategic nuclear weapons, on the other hand, are comparable to those of the U.S. quantitatively and qualitatively. The U.S. NMD program will not be able to affect Russia's nuclear deterrence in a significant way for quite some time.

In the wake of the September 11 incident, the Putin administration strongly backed the U.S., including encouraging the Central Asian republics to provide military facilities for the U.S., increasing its assistance to the Northern Alliance in Afghanistan to fight the Taliban regime, etc. The conservative mainstream in the U.S. then had a very positive perception of the Putin administration; it included Russia into the democratic camp and promoted the cultivation of Russia and India to "contain" China.²⁵ Economically, it also appealed to Russia to abandon its dreams of reviving "the Russian Empire" and pushing for multipolarity, and to engage in market reforms and be prepared to integrate with Europe instead.

Russia's common stand with France and Germany in opposing the U.S. military campaign against Iraq was probably a surprise for the Bush administration. Russian officials blamed the latter for neglecting Russian interests and treating Russia as a junior partner of the U.S. as if Russia had no choice but to support the U.S. Further, after the "Rose

²⁴ See *Pravda.ru*, 19 July 2001, <http://english.pravda.ru>.

²⁵ John W. Garver, "The China-India-U.S. Triangle: Strategic Relations in the Post-Cold War Era", *The National Bureau of Asian Research (NBR) Analysis*, Vol. 13, No. 5 (2002), pp. 5-56.

Revolution” in Georgia in 2004, followed in turn by the “color revolutions” in Ukraine and Kyrgyzstan, as well as a rebellion in Uzbekistan, there were strong suspicions that the Bush administration, supported by some Western governments, had been trying to overthrow the region’s traditional authoritarian and pro-Russian regimes. Chinese leaders were certainly pleased that in the joint declaration released after the SCO summit in July 2005, it was demanded that the international coalition against terrorism led by the U.S. should “decide on the deadline for the use of the temporary infrastructure and for their military contingents’ presence” in the Central Asian countries.²⁶ China and Russia again shared common strategic interests in Central Asia.

In recent years, Russia is no longer perceived as a democracy by the Western world in view of the authoritarian orientations of the Putin administration.²⁷ Russia’s economic growth based on its oil resources had enabled it to strengthen its military capabilities. Conflicts with NATO ranging from issues regarding human rights, NATO expansion and the independence of Kosovo had sharpened. Chinese leaders feel reassured that Russia will not likely be cultivated to exert pressure on China. They also consider that their position of refraining from criticisms of Russian actions in violation of Chinese interests pays off. Regarding the frustration over the Russian oil pipeline project linking Daqing in China’s Northeast, Beijing considered the Russian authorities’ hard bargaining as an attempt to maximize economic returns rather than an indicator of the weakening of the strategic partnership.

As the rise of China and the strengthening authoritarian orientation of the Putin administration have exacerbated the mutual distrust in Sino-American and U.S.–Russian relations, China and Russia consider that they have stronger common interests. On the 60th anniversary of the establishment of Sino-Russian relations in 2009, then President Hu Jintao indicated that mutual political trust between the

²⁶ *South China Morning Post*, 8 July 2005; see also Melinda Liu, “The Empire Strikes Back”, *Newsweek*, Vol. 146, No. 11 (12 September 2005), p. 45.

²⁷ Robert G. Sutter, *Chinese Foreign Relations: Power and Policy since the Cold War* (Lanham, MD: Rowman & Littlefield, 2008), pp. 338–339.

two countries had reached an unprecedentedly high level.²⁸ In 2012, President Vladimir Putin echoed the same sentiments between the two leaderships, and considered that the two countries had resolved all their important political issues including the boundary question.²⁹

In February 2013, the Putin administration released a document defining its vision on Russian foreign policy. It considered that the matching of principles and standpoints between China and Russia on key international issues a fundamental element for regional and global stability, and stated that Russia would develop diplomatic cooperation with China in various directions.³⁰ In the following month, President Xi Jinping visited Russia in his first foreign visit as the new leader in China.

This political mutual interest and strategic cooperation have probably been best reflected in the military arena. In 2013, the two countries conducted two large-scale joint military exercises. In March of the same year, they agreed to build four Lada-class advanced air-independent propulsion (AIP) submarines for sale to China; the latter also bought 24 Su-35 fighters. This was the first significant armaments purchase from Russia by China in almost a decade; Moscow's reluctance to enhance China's military capabilities and its concern about competition from China in military sales to the Third World were brushed aside.

Bilateral trade had been affected by the global financial crisis in 2008–2009, and it was only in 2011 that it surpassed the 2008 level. In 2013, a number of major energy deals were concluded. This reflected the weakening of Russia's bargaining power in view of the shale revolution which led to the expansion of global oil and gas supply, and the European Union's intention to reduce its energy dependence on Russia because of its worry about Russian strategic ambitions

²⁸ Xiaobo Wang, "Zhong E Guanxi de Lishi yu Redian Wenti (The History and Hot Issues in Sino-Russian Relations)", in Xiaobo Wang and Lixin Zhao (eds.) *Dongbeiyi Geguo Guanxi Gailun (Introduction to International Relations in Northeast Asia)* (Beijing: Social Sciences Academic Press (China), 2015), pp. 45–68, especially 59.

²⁹ *Ibid.*, pp. 59–60.

³⁰ The National Institute for Defense Studies, Japan, "Russia: The Second Putin Administration's Stance toward China and Focus on Asia", in *East Asian Strategic Review 2013*, ed. The National Institute for Defense Studies, Japan (Tokyo: The Japan Times Ltd., 2013), pp. 241–297.

symbolized by the Russian annexation of the Crimea and its intervention in the Ukraine.

The above factors will likely contribute to a continuous cordial bilateral relationship in the foreseeable future as both Beijing and Moscow perceive more difficulties in their respective ties with the U.S. Mutual trust still has to be improved though, and Chinese leaders have been careful in deferring to Russian leadership and interests in the SCO and the BRICS group.

Sino-American Relations: From Strategic Partners, Strategic Competitors to Responsible Stakeholders

Sino-American relations are the most significant and probably the most complicated among China's relations with the major powers in the post-Cold War era. The Tiananmen incident and the significant changes in Eastern Europe and the Soviet Union made a great impact on Sino-American relations. With the breakup of the Soviet Union, the strategic foundation of Sino-American relations in the Cold War era — a coordinated deterrence of the Soviet threat — disappeared; the Tiananmen crackdown also dramatically altered the China policy agenda in American domestic politics.³¹ At the same time, China's spectacular economic growth supported its emergence as a major power with superpower potential in the post-Cold War era. Its unique international position as the largest socialist country, its promotion of multipolarity and Third World interests, its arms sales and military technology transfer programs as well as the Taiwan question have also introduced new elements of geopolitical confrontation into their bilateral relationship, in addition to the ideological clashes which continue into the post-Cold War era.³² In the recent two decades and

³¹ Nathan and Ross, *op. cit.*, pp. 7–8.

³² Guogang Wu, “Zai Zhanlue Chongtu xia Duihua: Bianhua zhong de Zhongmei Guanxi (Dialogue in Strategic Conflict: Sino-American Relations in Transition)”, in Kam-ye Law (ed.), *Zhongguo Pinglun 1997 (China Review 1997)* (Hong Kong: The Chinese University Press, 1998), pp. 51–78; Xuetong Yan, *Zhongguo yu Yatai Anquan: Lengzhan hou Yatai Guojia de Anquan Zhanlue Zouxiang (China and Security in the Asia-Pacific Region: The Trends of the Asia-Pacific Countries' Security Strategies in the Post-Cold War Era)* (Beijing: The Current Affairs Press, 1998), pp. 251–278.

more, Sino-American relations have experienced significant ups and downs, partly because of the above factors.³³

When President George W. Bush assumed office in January 2001, he made it clear that he viewed China as a “strategic competitor” rather than a “strategic partner”. Such a perception renewed China’s fear that the U.S. did not want to see a strong China and that it would try to contain China. The Chinese foreign policy establishment was suspicious of the initial foreign policy team of the Bush administration. Despite severe criticisms of unilateralism and arrogance in American foreign policy inside and outside China, China’s experts, however, did not expect the Bush administration to reject the multilateral approach altogether. The U.S. was still looked upon as the guiding force behind almost all important international organizations, including the United Nations, the World Bank, the International Monetary Fund (IMF) and the World Trade Organization (WTO), as well as various arms control and disarmament treaties and agencies.

Even before the terrorist attacks on 11 September 2001, China’s international affairs experts believed that some significant trends had already been emerging in the foreign policy orientations of the Bush administration. In the first place, military security had reestablished its priority in international security concerns. There was a bit of initial optimism among some of China’s experts on the U.S. that the terrorist attacks in September 2001 might help to discredit the value of an NMD program, but they were subsequently disappointed. The then President Jiang Zemin’s visits to Libya and Iran in April 2002 were clearly meant to be a message to the U.S. that Beijing would be against any Bush administration’s attempt to sanction and attack sovereign states labeled as part of an “axis of evil” *viz.* Iran, Iraq and North Korea, as well as other states accused by the U.S. of sponsoring

³³ See Deborah Lutterbeck, Bruce Gilley and Andrew Sherry, “Riders on the Storm”, *Far Eastern Economic Review*, Vol. 161, No. 25 (1998), pp. 10–12. The then American Ambassador to China, James Sasser, also mentioned this point when he attended a meeting in New York on 1 May 1999; see *Tu Kung Pao* (Hong Kong), 3 May 1999.

terrorism.³⁴ Both Iran and Libya had been acquiring military technology from China, and in February 2002, President George W. Bush, in his visit to China, failed to obtain a guarantee from his host not to export weapons technology to nations hostile to the U.S. The visits of Jiang Zemin were also an attempt to pose China as a potential powerful ally of the Islamic world, particularly of those parts which do not see eye-to-eye with the U.S.

There is a consensus in China's foreign policy establishment that global terrorism is not only an enemy of the international community in the twenty-first century, but it is a significant threat to China too. The Chinese leadership, however, is concerned about China's major power status and its good relations with the Islamic world. Hence, a delicate balance has to be maintained among combating global terrorism and various separatist forces, the opposition to hegemonism and power politics, and the avoidance of damage to China's traditional good relations with the Islamic world. Hence, when the Western world led by the U.S. launched retaliatory campaigns against Afghanistan, Iraq and other countries, Chinese leaders believed that they had to remain cool, maintain close ties with various parties concerned, engage in consultation with most countries of the world and insist on authorization by the United Nations Security Council for major military action. Chinese leaders also consider close coordination and consultation among the five permanent members of the United Nations Security Council essential, since China has a veto in the Security Council; they certainly see the United Nations as a significant instrument to curb U.S. unilateralism.

In the first months of the Bush administration, two rather different views emerged in Beijing regarding the prospects of Sino-American relations in the Bush era. The first view held that the Bush administration would overhaul the China policy of the U.S., treat China as the principal potential adversary and step up the "containment" of China. The Chinese leadership therefore had to be prepared to respond, and Beijing must not be seen to be weak in confronting the Bush administration's hostility. The second view considered that the basic

³⁴ *South China Morning Post*, 20 April 2002.

premises of the bilateral relationship had not been changed. A new U.S. president adjusting the China policy of his predecessor was nothing special; there was no need to prepare for a crisis. Overreaction might even lead to a vicious circle in the interaction between Beijing and Washington.³⁵ Those who held the latter view often referred to the examples of President Ronald Reagan and President Bill Clinton. It is possible that the same process may be repeated in Beijing after the U.S. president election in November 2016.

The September 11 incident obviously provided a good opportunity to improve Sino-American relations, and those who held the latter view tended to be proven correct. The Bush administration had to enlist China's support to combat global terrorism so as to present a truly international united front, and Chinese leaders responded readily because the maintenance of a peaceful international environment for China's modernization requires a cordial Sino-American relationship. Bush attended the informal APEC summit in Shanghai in October 2001, and then returned to Beijing the following February for a working visit. The two governments reached a consensus on the establishment of cooperative mechanisms to combat terrorism on an intermediate and long-term basis, and this strengthened their relationship. While the Bush administration rejected the idea of a "strategic partnership" with China, it did not mention China as a "strategic competitor" any more. Instead, the two governments emphasized their constructive and cooperative relationship. In September 2005, then Deputy Secretary of State Robert Zoellick warned China not to "manoeuvre toward a predominance of power" in Asia, and encouraged it to become a "responsible stakeholder" in the international community.³⁶ It appeared that the Chinese leadership happily accepted

³⁵ Xianhong Jin, "Nanyi Chijiu de Zhengce — Zhongmei Guanxi Fenghui Luzhuan (An Unsustainable Policy — Twists and Turns in Sino-American Relations)", in Shixiong Ni and Yongtao Liu (eds.) *Meiguo Wenti Yanjiu (American Issues Studies)*, Vol. 1 (Beijing: Shishi Chubanshe, 2001), pp. 49–51.

³⁶ Robert B. Zoellick, "Whither China: From Membership to Responsibility?", Remarks to National Committee on U.S.–China Relations, New York City, 21 September 2005. Available at <https://2001-2009.state.gov/s/d/former/zoellick/rem/53682.htm>.

this role for China, and subsequently often emphasizes its “responsible position” on global issues and that this is in line with China’s “peaceful development road”.³⁷

The Chinese leadership continues to work hard to maintain good relations with the U.S., at least to avoid a sharp deterioration in their bilateral relationship. Jiang Zemin, for example, was often criticized by the Chinese intelligentsia for being too weak in dealing with the U.S. and Japan. Chinese leaders’ strategy has been simple: China will not provoke the U.S., so that it will not actively implement a policy of containment against China. It will promote common interests between the two countries, highlighting the contributions China can make to the international order shaped by the U.S., including support for the U.S. in the global combat of terrorism, respect for the U.S. bottomline regarding the proliferation of weapons of mass destruction, limitation of the short-term objective of its Taiwan policy to the deterrence of Taiwan independence, avoidance of open confrontation as in the case of the U.S. invasion of Iraq, efforts to achieve a multilateral, peaceful settlement of the dispute concerning the nuclear weapons program of North Korea, etc. A deterioration in Sino-American relations therefore will be costly for the U.S. While China will attempt to improve its position in the international balance of power, which is perceived to be a long-term process, the above strategy will likely be maintained in the foreseeable future.

Chinese leaders were well aware of the Bush administration’s strategy in Asia to support the strengthening of friendly countries which would limit China’s attempt to seek hegemony and support the U.S. role as the predominant strategic actor in the continent.³⁸ The Bush administration encouraged Japan to become the “Great Britain of the East”,³⁹ and the then Deputy Secretary of State Richard

³⁷ People’s Republic of China State Council Information Office, “China’s Peaceful Development Road”, *People’s Daily Online*, 22 December 2005.

³⁸ Daniel Twining, “America’s Grand Design in Asia”, *The Washington Quarterly*, Vol. 30, No. 3 (2007), pp. 79–94.

³⁹ Institute for National Strategic Studies, National Defense University, *The United States and Japan: Advancing toward a Mature Partnership* (Washington, D.C.: Institute for National Strategic Studies, 2000).

Armitage repeatedly called on Japan to revise Article IX of its constitution, describing it as an “obstacle” to and “constraint” on alliance cooperation.⁴⁰ In March 2005, the Bush administration announced that it would “help India become a major world power in the twenty-first century” and that it fully understood the military implications of this policy⁴¹; it believed that the two countries would share the same interest in managing Chinese power. Similarly, Washington has been quietly shaping security in Southeast Asia by contracting new partnerships with Indonesia and Vietnam.

China has been responding to this U.S. diplomatic design by strengthening relations with its Asian neighbors to make sure that they will respect China's vital interests. The *Straits Times* of Singapore considered an October 2006 summit between Chinese and ASEAN leaders as Beijing's effort to make it “difficult for the United States to seek to contain China by drawing the region's countries to its side”.⁴² In 2007, through the efforts of the then Japanese Prime Minister Abe Shinzo, Australia, India, Japan and the U.S. held their first formal security dialogue. Exploiting the change of government in Australia, the Chinese Foreign Minister Yang Jiechi visited Canberra in February 2008 for the first annual bilateral ministerial dialogue with his Australian counterpart. Yang was successful in persuading the Kevin Rudd government to withdraw from the above four-nation security dialogue.⁴³ It is expected that this subtle diplomatic competition will continue in the years to come.

The Obama administration intended to adjust from the preoccupation with the global combat of terrorism and the unilateralism and arrogance of its predecessor, and it also wanted to demonstrate that

⁴⁰ “Why Now, They Ask: Armitage's Remarks Puzzle Lawmakers”, *Asahi Shimbun*, 26 July 2004.

⁴¹ Office of the Spokesman, US Department of State, “Background Briefing by Administration Officials on U.S.–South Asia Relations”, Washington, D.C., 25 March 2005. Available at <http://www.state.gov/r/pa/prs/ps/2005/43853.htm>.

⁴² Chin-Hao Huang and Robert G. Sutter, “China–Southeast Asia Relations: Summitry at Home and Abroad”, *Centre for Strategic and International Studies*, Vol. 1, No. 1 (2007). Available at http://csis.org/files/media/csis/pubs/0604qchina_seasia.pdf.

⁴³ *South China Morning Post*, 12 February 2008.

more priority would be accorded to the Asia-Pacific region to alter the latter's perception of neglect by the U.S. in the past eight years. The global financial crisis in 2008–2009 meant that close cooperation with China had to be maintained, and in fact some concessions had to be made for this cooperation and support in terms of, for example, voting rights in the World Bank and the IMF.

The Obama administration in its first term, however, announced its policies of “rebalancing” and “pivoting” toward Asia which were generally interpreted by Beijing as directed against China's rise in status and influence in the wake of the global financial crisis. Meanwhile, China's increasing assertiveness regarding its territorial disputes since 2010 or so has encouraged its neighbors to strengthen their respective hedging strategies, which mainly consist of enhancing their security ties with the U.S. and improving their defense capabilities. These hedging strategies have been exploited by the Obama administration to raise its presence in the Asia-Pacific region.

These developments have exacerbated the worry about a coming Sino-American confrontation, as depicted by John Mearsheimer.⁴⁴ Apparently, both Beijing and Washington have been aware of this danger and the need to strengthen mutual strategic trust, as demonstrated by the two informal summits between President Xi Jinping and President Barack Obama in California in June 2013 and in Beijing in November 2014. Bilateral military exchanges have been expanded in the years of the Xi Jinping administration too.

While trade and economic ties have been the strongest common interest between the two countries, experts in China have been concerned with the Trans-Pacific Partnership (TPP) and Trans-Atlantic Trade and Investment Partnership (TTIP) negotiations promoted by the Obama administration. These negotiations have been perceived by them as U.S. attempts to define the new international trade and economic structure without the participation of China. The TPP negotiations have at least diluted Beijing's efforts to push the Regional Comprehensive Economic Partnership (RCEP) with ASEAN

⁴⁴John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton, 2001).

and China, Japan and South Korea as the center. This competition will likely result in the limited progress of both the TPP and the RCEP negotiations.

China's rise and the relative decline of the U.S. are unmistakable trends of the first decades of the twenty-first century. In the context of multilateralism, this changing political landscape has inspired many acronyms for identifying cohorts of powers, including G-2, G-3, the BRICS and the G-20.⁴⁵ Despite various forecasts, the U.S. global primacy in economic and political affairs as well as within global institutions remains considerably strong, and this is well appreciated by the Chinese leadership and China's international relations experts. This appreciation is demonstrated by the caution taken by the Chinese authorities not to provoke the U.S. At the same time, there is an understanding in both countries that new efforts of mutual accommodation are called for,⁴⁶ which are symbolized by the informal summits between President Barack Obama and President Xi Jinping in California in mid-2013 and in Beijing in November 2014. This understanding is largely based on the accumulation of expertise on each other in both countries, but it has not been able to remove ideological and emotional biases among the two nations.

In the case of China, the leadership has been handicapped by strong nationalist sentiments, and it realized that it cannot afford to be seen to be weak in dealing with the U.S. and Japan. At the ordinary people's level, there is also a strong perception that the U.S. does not want to accept China's rise; worse still, there is even an emotional minority who believes that war with Japan and the U.S. may well be unavoidable.

On the part of the U.S., there is a common perception that China is a strategic competitor, or at least it would become one eventually. The fact that China is not a democracy and its poor human rights record remain serious obstacles to the development of mutual trust

⁴⁵ See, for example, Jing Men and Wei Shen (eds.), *The EU, the US and China — Towards a New International Order?* (Cheltenham, U.K.: Edward Elgar, 2014).

⁴⁶ See, for example, Steve Chan, *Looking for Balance — China, the United States, and Power Balancing in East Asia* (Stanford: Stanford University Press, 2012).

and goodwill. Hence, there is a frequent tendency to cultivate Japan, India and even Russia to balance against China. Due to the major differences between the two countries in terms of political systems, values and histories, most Americans consider that there are severe limitations to the extent that engagement will bring about convergence.

The future success of Sino-American mutual accommodation will depend on their perceptions of the distributive and procedural fairness of global normative frameworks.⁴⁷ As the chief architect of these frameworks, the U.S. would only reluctantly accept gradual and minor adjustments. Will these adjustments be able to satisfy China? Probably so. At the rhetorical level, China has been demanding for the establishment of a new international political and economic order since the mid-1970s, but at the practical level, the existing frameworks have so far allowed China's peaceful rise, and it has been able to secure gradual though minor adjustments. As the emerging developing countries represented by the BRICS group share China's values and interests, this adjustment process may well slightly accelerate, and China's tolerance may be enhanced by its relative optimism.

In the near term future, there is a concern that China's domestic problems and deteriorating external environment may prompt its leadership to become more assertive. In the intermediate and long-term future, the development of civil society in China may generate greater pressure for democratization, thus raising new questions in the U.S. regarding its obligation to support democracy and its assessment of political stability in China.

At this stage, the U.S. domestic economic problems, its budget deficits and the national tendency of looking inward and reducing overseas commitments may well adversely affect its allies' confidence and its diplomatic competition with China. In the longer term, its economic health may well be the most significant factor in the mutual accommodation process.

⁴⁷ See Rosemary Foot and Andrew Walter, *China, the United States, and Global Order* (Cambridge and New York: Cambridge University Press, 2011), especially the Conclusion.

This process of mutual accommodation is premised on the realization that war is unthinkable and that the two economies are increasingly interdependent. This is inevitable as China's economy continues to grow, though restructuring and upgrading may generate more conflicts. This process is a long-term one, which offers adequate time for the essential learning process, while the rise of China and the decline of the U.S. are relative and far from absolute in an increasingly multipolar world. The various exchanges between the U.S. and China exceed those between any two major powers in history. It appears that this accommodation process with its unique features will define the bilateral relationship in the years to come.

Sino-Japanese Relations: Rising Nationalism

In response to the Taiwan Straits crisis in 1995 and 1996 in the wake of Lee Teng-hui's informal visit to the U.S., the Clinton administration stepped up defense cooperation with Japan. President Bill Clinton visited Japan in April 1996, and both governments agreed to strengthen the bilateral security alliance, with Japan assuming additional responsibilities. In September 1997, they announced the revised U.S.-Japan defense cooperation guidelines, expanding the scope of defense cooperation to include Japan's "surrounding areas". A number of Japanese cabinet ministers and politicians have since stated that the "surrounding areas" of Japan would naturally include Taiwan. When pressed for clarification by the Chinese authorities, the Japanese government's official response has been that "emergencies in the surrounding areas" of Japan are not a geographical concept, but a state of affairs. The Chinese authorities naturally think that the Japanese government is avoiding the question, because while emergencies may be a state of affairs, "surrounding areas" must have a territorial boundary. In April 1999, the Japanese House of Councillors passed the related legislation concerning the implementation of the guidelines, thus completing the domestic legislative process. According to the revised guidelines, U.S. forces based in Japan have been granted greater access to airports and port facilities in the country. At

the same time, Japan's Self-Defense Force has received authorization to back up U.S. troops by carrying out search-and-rescue missions, evacuations and mine-sweeping.

It was actually the North Korean threat which provided the impetus for Japan's military modernization in the 1990s. In the eyes of Beijing, however, the North Korean threat was only an excuse used by the Japanese government. Beijing considers Japan's military modernization to have been directed against China. The Chinese leadership is particularly concerned about the Theatre Missile Defense (TMD) system based on the U.S.-acquired destroyers equipped with the missile-hunting Aegis radar system. The deployment of a TMD system by Japan has forced China to upgrade its tactical missiles, and this may well lead to a small-scale arms race. Chinese leaders perceive such pressures as a conspiracy to slow down China's economic growth by prompting the diversion of resources to military modernization. The above developments have adversely affected Sino-Japanese relations. Both governments, as a result, have failed to muster the political will to exploit the potentially positive aspects of their bilateral relationship. Both China and Japan are interested in promoting multipolarity in international relations. Within the Asia-Pacific region, Japan is perceived to be pursuing a multilateral balance to maintain a regional strategic equilibrium and stability so as to create more room for maneuver for Japan and to facilitate Japan to assume the role of a major political power. This involves the rejection of a subordinate role in the alliance with the U.S. and the establishment of an equal partnership in the bilateral relationship. This is in line with the Chinese leadership's promotion of multipolarity and support for Japan's attempts to reduce control by the U.S., to strengthen its relations with Europe and to adopt a "return to Asia" posture.

The Sino-Japanese common interest in promoting multipolarity, however, has been compromised by the following considerations, according to the analysis of China's Japan experts. In the first place, while Japan would like to have a more mature and stable relationship with China from a strategic point of view, it has been interfering in China's democratization process and human rights issues, which

reflects an ideological confrontation. Second, while Japan supports China's economic reforms and opening to the outside world through the provision of economic and technological assistance, it is worried about the emergence of a strong China, and therefore sets various limits on such assistance. Finally, while Japan hopes China would exert its influence as a major power participating fully in international mediation and reconciliation mechanisms, it also adopts various measures to restrain China's influence.

Hence, Chinese foreign policy researchers perceive the following characteristics in Japan's China policy. In the first place, Japan's China policy largely serves its broad diplomatic strategies in handling its relations with the major powers of the world; Japan also attempts to exploit the bilateral relationship to enhance its influence in the Asia-Pacific region and in international affairs in general. Further, in the past quarter century, Japan's China policy has shifted from an emphasis on economic issues to an emphasis on both economic and political issues; it is even willing to make economic concessions to other countries in exchange for political support to serve its ambition to become a major political power. Finally, the Japanese government and its political elites have been trying to downgrade the significance of the historical legacy in the bilateral relationship, that is, Japan's past aggression against China.

Undeniably, mutual distrust between China and Japan has been increasing since the Koizumi Junichiro administration, and especially since the second Abe Shinzo administration, and it has been exacerbated by the Taiwan issue, the failure to resolve the historical aggression from Japan before and during the Second World War and the subsequent territorial disputes. Japan is already an economic power with formidable military strength; China's economy and military capabilities will continue to develop. How a powerful China lives with a powerful Japan poses a question never experienced by the two countries in their modern history. This adjustment process has been made all the more difficult by the lack of a satisfactory settlement of the Sino-Japanese historical legacy. The Chinese nation considers that the Japanese authorities have yet to make a formal apology to China concerning Japan's aggression against China in the Second World War,

and the Chinese intelligentsia often criticizes the Chinese authorities for being weak in dealing with Japan. The spontaneous anti-Japanese protests in several Chinese cities in April 2005 probably caught the Chinese leadership by surprise,⁴⁸ and it in turn feels the pressure to stand firm in dealings with Japan.

Since the split of the Liberal Democratic Party (LDP) in 1993, the left-wing political parties in Japan soon lost much of their influence. The new party system also calls for stronger leadership from the prime minister in foreign policy and more consultation among the conservative parties which believe that the promotion of nationalism would strengthen their respective political appeals.⁴⁹ The LDP and the conservatives in the Democratic Party of Japan have been successful in pushing for turning Japan into a “normal state”. Several pieces of legislation since the mid-1990s have gradually facilitated the dispatch of Japanese troops overseas, including service in the combat zone in Iraq after the U.S.-led coalition’s military victory.

Rising nationalism in both countries has made Sino-Japanese relations very difficult to manage. There was no exchange of formal state visits from 1998 to the end of the Koizumi Junichiro administration in 2006. Worse still, the deteriorating atmosphere exacerbated mutual suspicions of each other’s military modernization plans. Various types of “conspiracy theories” easily emerge concerning Japan’s attempts at constitutional revision and support for Taiwan. Prime Minister Koizumi Junichiro’s annual visit to the Yasukuni Shrine in the 2001–2006 period became a serious controversy, as leaders on both sides could not afford to back down. Both countries’ exploration of energy resources in the disputed areas in the East China Sea continued to generate tensions and minor confrontations. Chinese leaders have not given up the chance to express their desire to improve the bilateral relationship even in the most difficult times. Their sincerity should not be doubted as China has been attempting to cultivate Japan since 1972. Friendly relations with Japan are naturally an important part of

⁴⁸ *South China Morning Post*, 17 and 18 April 2005.

⁴⁹ Robert Pekkanen and Ellis S. Krauss, “Japan’s ‘Coalition of the Willing’ on Security Policies”, *Orbis*, Vol. 49, No. 3 (2005), pp. 429–444.

China's strategy to secure a peaceful international environment to concentrate on modernization, and Beijing wants to prevent Japan from going nuclear or engaging in massive rearmament. At the same time, the Chinese authorities hope to see an independent Japan pushing for multipolarity, instead of developing closer security ties with the U.S. After all, Sino-Japanese relations have generally been considered a failure in Chinese foreign policy in the new century.

In contrast to the difficulties in the political relationship, Sino-Japanese economic exchanges had progressed well before the global financial crisis in 2008–2009. Bilateral trade increased from US\$ 20.3 billion in 1991, to US\$ 87.7 billion in 2001, and to US\$ 342.8 billion in 2011. Japan's foreign direct investment (FDI) in China increased from US\$ 0.6 billion to US\$ 4.35 billion in 2001. At the end of November 2006, cumulative actual investment of Japan in China reached US\$ 57.45 billion, just behind Hong Kong and the U.S. (see Tables 1 and 2).

Japan's FDI in China has many favorable characteristics: the ratio of actual investment to contractual investment is very high comparatively; the proportion of investment in the manufacturing sector is high; and the operations of most investment projects have been satisfactory. According to the experts in Japan, in the manufacturing machinery, electrical machinery and transportation machinery sectors, technology exports almost reached 50% of the total investment. This shows that FDI had been a significant vehicle for technology transfer, and FDI from Japanese enterprises had contributed to the raising of the technology level of China's manufacturing industries.⁵⁰ Certainly, Japan's FDI in China has been a very important factor promoting the bilateral trade as China's cheap labor and skilled labor, cheap land and improving investment environment have provided strong incentives for Japanese enterprises to integrate their manufacturing operations in China into their international production chains with the final products aimed at the markets in the U.S. and the European Union.

⁵⁰ Zhaokui Feng and Chang Lin, *Zhongri Guanxi Baogao (A Report on China-Japan Relations)* (Beijing: Shishi Chubanshe, 2007), p. 163.

Table 1. Trade Among the Major Countries/Regions Involved with East Asia (US\$ million)

	1991				2001			
	Exports from China to	Imports of China from	Total	% of China's Trade	Exports from China to	Imports of China from	Total	% of China's Trade
ASEAN	4,456.17	3943.81	8399.98	6.19	18,376.09	23,214.69	41,590.78	8.16
India	144.48	120.34	264.82	0.20	1895.83	1699.09	3594.92	0.71
Japan	10,219.11	10,031.55	20,250.66	14.93	44,940.52	42,787.31	87,727.83	17.21
Mongolia	25.96	20.07	46.03	0.03	122.85	239.50	362.35	0.07
North Korea	524.78	85.67	610.45	0.45	573.10	166.74	739.84	0.15
Russia	1,823.38 ^a	2080.87 ^a	3904.25 ^a	2.88 ^a	2710.47	7958.80	10,669.27	2.09
South Korea	2,178.71	1066.17	3244.88	2.39	12,518.78	23,376.95	35,895.73	7.04
Taiwan	594.84	3639.01	4233.85	3.12	4999.60	27,338.76	32,338.36	6.35
U.S.	6,158.51	8007.83	14,166.34	10.44	54,279.51	26,199.94	80,479.45	15.79

(Continued)

Table 1. (Continued)

	2011				2014			
	Exports from China to	Imports of China from	Total	% of China's Trade	Exports from China to	Imports of China from	Total	% of China's Trade
ASEAN	170070.61	193018.09	363088.70	9.97	272045.67	208240.47	480286.14	11.17
India	50537.09	23371.15	73908.24	2.03	54217.42	16358.69	70576.11	1.64
Japan	148270.49	194563.52	342834.01	9.41	149391.34	162920.51	312311.85	7.26
Mongolia	2731.64	3701.07	6432.71	0.18	2216.38	5102.09	7318.47	0.17
North Korea	3164.73	2476.77	5641.49	0.15	3519.65	2867.93	6387.58	0.15
Russia	38903.52	40369.87	79273.39	2.18	53676.94	41593.51	95270.45	2.21
South Korea	82920.06	162706.29	245626.35	6.74	100333.45	190108.77	290442.22	6.75
Taiwan	35108.94	124908.66	160017.61	4.39	46276.62	152007.13	198283.75	4.61
U.S.	324453.36	122128.91	446582.27	12.26	396062.55	159061	555123.55	12.91

Notes: *Figures of the Soviet Union have been used since Russia was included in the Soviet Union in 1991 and before.

Figures may not add up to the totals due to rounding up.

Source: State Statistical Bureau, People's Republic of China (comp.), *China Statistical Yearbook* (Beijing: China Statistics Press), 1993, 2003, 2012 and 2015 issues.

Table 2. Foreign Direct Investment Flows Among the Major Countries/Regions Involved in East Asia (US\$ million)

<i>A. Investment Inflow to China (US\$ million)</i>				
From	1991	2001	2011	2014
ASEAN	87.93 (1.88%)	2,983.95 (6.37%)	7,004.87 (6.04%)	6,299.76 (5.27%)
India	—	11.97 (0.03%)	42.17 (0.04%)	50.75 (0.04%)
Japan	609.52 (13.06%)	4,348.42 (9.28%)	6,329.63 (5.46%)	4,325.3 (3.62%)
Mongolia	1.66 (0.04%)	0.10 (0.0002%)	—	0.16 (0.00013%)
North Korea	0.04 (0.0009%)	1.58 (0.003%)	0.84 (0.00072%)	0.29 (0.00024%)
Russia	—	29.76 (0.06%)	31.02 (0.03%)	40.88 (0.03%)
South Korea	—	2,151.78 (4.59%)	2,551.07 (2.20%)	3,965.64 (3.32%)
Taiwan	471.89 (10.11%)	2,979.94 (6.36%)	2,183.43 (1.88%)	2,018.12 (1.69%)
U.S.	113.33 (2.43%)	4,433.22 (9.46%)	2,369.32 (2.04%)	2,370.74 (1.98%)
<i>B. Investment Outflow from China (US\$ million)</i>				
To	1991	2001	2011	2014
ASEAN	—	60.80	5,905.24 (7.91%)	7,809.27 (6.34%)
India	—	—	180.08 (0.24%)	317.18 (0.26%)
Japan	2.69	3.59	149.42 (0.20%)	394.45 (0.32%)
Mongolia	0.10	44.07 ^a	451.04 (0.60%)	502.61 (0.41%)
North Korea	—	—	55.95 (0.07%)	51.94 (0.51%)

(Continued)

Table 2. (Continued)

To	1991	2001	2011	2014
Russia	—	—	715.81 (0.96%)	633.56 (0.51%)
South Korea	—	70.42	341.72 (0.46%)	548.87 (0.45%)
Taiwan	—	—	11.08 (0.01%)	183.7 (0.15%)
U.S.	—	—	1,811.42 (2.43%)	7,596.13 (6.17%)

Notes: ^aData in 2000 are used instead due to the unavailability of the data in 2001.

(1) Investment inflow refers to investment from the nine countries/regions, and investment outflow refers to investment going to the nine countries/regions. Percentages in parentheses indicate the percentages of the respective totals based on China's investment amounts. The total investment outflows in China in 1991 and 2001 are not available. (2) "—" indicates that the figure is unavailable, unknown or negligible.

Sources: State Statistical Bureau, People's Republic of China (comp), *China Statistical Yearbook* (Beijing: China Statistics Press), 1993, 2003, 2012 and 2015 issues; Association of Southeast Asian Nations, *ASEAN Statistical Yearbook 2004*, <http://www.aseansec.org/syb2004.htm>; Ministry of Commerce, Industry and Energy, Korea, http://www.mocie.go.kr/language/eng/glance/news_list.jsp?tab=E_03_02&ctx=Foreign%20Direct%20Investment&depth2_tms=11&depth2=2; "Foreign Direct Investment (Inward) — By Country", http://152.99.129.89/eng/statistics/default/statistics_view.asp?num=0412&page=1; Ministry of Finance, Japan, "Foreign Direct Investment", <http://www.mof.go.jp/english/e1c008.htm>; Institute of Developing Economies, Japan External Trade Organization, "Foreign Direct Investment Inflows (country/year)", http://www.ide.go.jp/English/Publish/Apec/pdf/apec13_fdi_mon_in.pdf.

A turning point finally arrived with Abe Shinzo's succession of Koizumi Junichiro as Prime Minister in September 2006. Despite his earlier position on China,⁵¹ Abe visited China and South Korea in his first foreign visit in October 2006. The Chinese leadership warmly responded to this "icebreaking" trip,⁵² and Premier Wen Jiabao vis-

⁵¹ For an analysis of Abe Shinzo's position on China before he became Prime Minister, see Jiangyong Liu, *Zhongguo yu Riben: Bianhuazhong de 'Zhengleng Jingre' Guanxi* (China and Japan: The Changing Relationship of 'Political Coolness and Economic Warmth') (Beijing: Renmin Chubanshe, 2007), pp. 352–371.

⁵² For the text of the Sino-Japanese joint press communiqué released during Abe's visit, see *Renmin Ribao* (Beijing), 9 October 2006.

ited Japan in the following April. Abe had to step down in September 2007, taking responsibility for the LDP's severe loss in the House of Councillors elections and the scandals of several of his cabinet ministers. Abe was succeeded by Fukuda Yasuo, who was perceived to be a political leader more friendly toward China. Among various gestures, he promised that he would not visit the Yasukuni Shrine. The Chinese leadership did not see the changes of prime ministers in Japan as having a significant impact on Sino-Japanese relations. After all, Koizumi, Abe and Fukuda all came from the same faction with Kishi Nobusuke as the leader in the 1950s. As reflected by the publications of the Japan experts in China, Beijing's main concern has been the rising influence of the right-wing forces in Japan, which it perceives as the major factor leading to the deterioration in the bilateral relationship in this century.

Chinese leaders, however, perceived no alternative to making good use of the thaw in the bilateral relationship emerging at the end of the Koizumi administration, to contain deterioration and to improve the political atmosphere to build the foundation for more significant improvement in the relationship with Japan in the near future. Fukuda Yasuo visited China at the end of 2007; Hu Jintao visited Japan in May 2008, the first Chinese head of state arriving at Japan in a decade. There were reports that a solution would be likely concerning the bilateral disputes on the exploitation of oil and gas fields in the East China Sea.⁵³ Obviously both governments then were making serious efforts to enhance mutual trust.

Fukuda Yasuo was soon succeeded by Aso Taro in September 2008. Aso was not perceived as friendly toward China because he had proposed the "are of freedom and prosperity" aimed at strengthening relations with democratic countries at China's periphery, and implicitly limiting China's influence. The Aso administration, as a weak

⁵³ Zhongguo Tongxunshe (Hong Kong China News Agency) dispatch from Hong Kong, 19 January 2008; from *BBC Monitoring Asia Pacific — Political*, 20 January 2008. Available at http://www.lexisnexis.com/us/lnacademic/results/docview/docview.do?risb=21_T3110355614&format=GNBFI&sort=RELEVANCE&startDocNo=1&resultsUrlKey=29_T3110355617&cisb=22_T3110355616&treeMax=true&treeWidth=0&csi=10962&docNo=1.

government, was preoccupied by domestic issues and the global financial tsunami. During his tenure as Prime Minister, there were no major disputes in Sino-Japanese relations.

At the end of August 2009, the Democratic Party of Japan (DPJ) soundly defeated the LDP in the general election. Hatoyama Yukio became Prime Minister, and the new DPJ government reconsidered Japan's relations with the U.S. and Asia.⁵⁴ In the policy documents released in July 2009, the DPJ indicated that it considered China an "extremely important neighboring country" and that Japan should further promote their relationship of friendship and cooperation. To this end, Japan's leaders should continuously strive to build a relationship of trust with their counterparts in China, and to arrive at constructive agreements with China to resolve issues of food security, human rights, environment, military transparency, energy — including oil and natural gas exploration — and development in the East China Sea, etc. The DPJ was also willing to strengthen exchanges with the Chinese Communist Party (CCP).⁵⁵

Japan experts in China generally believed that the DPJ government would accord a higher priority to Japan's relations with China, in the broad strategic context of adjusting its relations with the U.S. These experts recognized that given the history of the DPJ, there were many groups and leaders within the party with diverse views on China. They often identified Okada Katsuya, the first Foreign Minister of the DPJ government, as a party leader friendly toward China; and Machara Seiji, the second Foreign Minister of the DPJ government, as a party leader adopting a hard line on China. These Japan experts appreciated the proposals of Hatoyama Yukio, the first Prime Minister of the DPJ government, for suggesting a unified Asian currency and an East Asian Community to be promoted by Japan, China and South Korea.⁵⁶

⁵⁴ David Arase, "Japan in 2009 — A Historic Election Year", *Asian Survey*, Vol. 50, No. 1 (2010), pp. 50–52.

⁵⁵ "Foreign Affairs, Defence", in *Collection of Democratic Party of Japan Policy Documents, INDEX 2009*, available at <http://www.dpj.or.jp/news/files/INDEX2009.pdf/>.

⁵⁶ Yukio Hatoyama, "Watashi no Seiji Tetsuzaku (Political Philosophy)", *Voice* (a political magazine in Tokyo), No. 381 (2009), pp. 132–141.

Some Japan experts in China argued that the DPJ government would adopt a more positive and clear-cut position in dealing with historical issues and historical legacies because the DPJ was free of the straitjacket of the past. The focus on the broad political trends in Japanese society, however, convinced the Chinese foreign-policy establishment that the scope for compromises remained limited in Japanese public opinion, and that the Japanese people had become even more conservative in foreign-policy orientation in view of the decline in Japan's international status. This implied that it would be difficult for the DPJ government to engineer a major adjustment in Japan's China policy, as it had to follow public opinion trends carefully.

Most Japan experts from China argued that the U.S. would continue to exert considerable influence on the DPJ government. The DPJ's foreign policy platform certainly placed greater emphasis on Asia, but it still considered strengthening the U.S. alliance as the foundation of Japan's foreign policy, which was also supported by a majority of the Japanese people. These considerations and caution proved to be correct with the replacement of Hatoyama Yukio by Kan Naoto as premier in June 2010. The Kan Naoto administration's foreign policy adjustments were even larger than expected by most Japan experts in China.⁵⁷

Regarding the Kan administration's approach to China, Kan first cancelled his visit to the Shanghai Expo scheduled for 12 June 2010. Then, on 10 September, the cabinet approved the 2010 edition of the Defence White Paper, which included even harsher commentaries on the Chinese military than those statements made by previous LDP governments.⁵⁸ Then came the emotional detention of a Fujian fishing boat and its captain in early September 2010 for "violating Japan's territorial sea" in the vicinity of the Diaoyu/Senkaku Islands.

⁵⁷ Jinan Wu, "Ribei Minzhudang Waijiaozhengce Tiaozheng de Dongyin Jiqi Zhanwan (The Reasons and Prospects of the Adjustments in the DPJ's Foreign Policy) (I)", *Guoji Guancha (International Review)*, No. 6 (2010), pp. 1–4.

⁵⁸ *Defense of Japan 2010*, Ministry of Defense, Japan. Available at http://www.mod.go.jp/e/publ/w_paper/2010.html.

Typically, China's Japan experts considered the adjustments in the Kan administration's foreign policy were mainly due to pressure from the U.S. As the Obama administration accorded a high priority to its "return to Asia", it had little tolerance for the Hatoyama administration to seek equal authority and status as the U.S. In contrast to Hatoyama, Kan Naoto on the second day of his premiership indicated to President Obama that Japan would implement the bilateral agreement on the relocation of the Futenma base. When the U.S.–Japan relations were at an impasse over the Futenma base issue, Hatoyama came under severe attacks by the LDP, the media and many public opinion leaders who criticized Hatoyama's position as wavering, thus losing the trust of the U.S. and causing a serious diplomatic failure.

The electoral victory of the LDP in December 2012 brought back the second Abe Shinzo administration. The LDP's subsequent electoral victories led by Abe meant that he would be a strong Premier until 2018. Abe's hard-line policy also implies that it is difficult to expect significant breakthroughs in Sino-Japanese relations, though by the middle of the decade, channels of communications and high-level diplomatic contacts have been re-established, demonstrating that both governments are keen to avoid further escalation of tensions after the Noda Yoshihiko administration's decision to purchase the Diaoyu/Senkaku Islands in September 2012.

In contrast to his first administration, Abe felt no need to accommodate China, and he was confident to seek substantial changes in Japan's national security policy including the ultimate objective of revising Article 9 of the Constitution. These changes initially included the establishment of the National Security Council, formulation of the National Security Strategy, enactment of the Information Protection Law, formulation of new National Defense Program Guidelines and reconstruction of the legal basis for security.

On 1 July 2014, the Abe cabinet announced its decision to revise the hitherto interpretation of Article 9 of the Constitution, and the decision now allows the government's authorization to exercise of the right of collective self-defense. Meanwhile, Japan and the U.S. are in the process of revising the Guidelines for Japan–U.S. Defense

Cooperation. A decision to revise the document was made at the Japan–U.S. Security Consultative Committee held in October 2013; and in October the following year, an interim report was released on the outcome of the discussions. The revision of the guidelines will be the first since 1997.

Given the deterioration in political ties, economic cooperation projects at the government level have been adversely affected. Some Japanese corporations began to consider the “political risks” of their investment in China; and in the first half of 2014, Japan’s actual investment in China fell by 48.8% compared with the corresponding period in the previous year. The difficulties in the global economy and domestic economic structural adjustments in both countries also hit the bilateral trade. It declined in 2012 and 2013, and only rose by 3.4% in the first half of 2014⁵⁹ (see also Tables 1 and 2).

There is usually no lack of intermediaries in Sino-Japanese relations. In the early years of the second Abe administration, former premier Fukuda Yasuo, Dietmen from various parties and business community leaders visited China in an attempt to improve the bilateral relationship. At the APEC informal summit in Beijing in November 2014, Abe finally managed to meet Chinese President Xi Jinping and reached a “four principles consensus”. Subsequently, various dialogues have managed to proceed, like the bilateral finance ministers meeting, the Sino-Japanese Mekong River Policy Consultative Conference, the Sino-Japanese Friendship twenty-first Century Committee plenary conference and the like.

Both sides lack the political will to seek breakthroughs and have been constrained by the respective domestic nationalism not to be seen to be weak in handling the bilateral relationship; but leaders in Beijing and Tokyo have been careful to avoid its serious deteriorations. At the same time, both sides have been engaging in diplomatic offensives to limit each other’s influence in the Asia-Pacific region.

⁵⁹ Xiaoju Fan, “Ribben: ‘Anbei tizhi’ panshan qianhang (Japan: ‘the Abe System’ Stumble Along)”, in China Contemporary International Relations Institute (ed.), *Guoji Zhanlue yu Anquan Xingshi Pinggu 2014/2015 (Strategic and Security Review 2014/15)* (Beijing: Shishi Chubanshe, 2015), p. 479.

Sino-Indian Relations: Limited Progress

Besides the U.S. military presence in the Asia-Pacific, the Chinese leadership also perceives the military cooperation between the U.S. and India as a worrying trend. Since the late 1980s, Beijing has hoped to improve relations with both India and Pakistan, abandoning the Cold War balance-of-power strategy of relying on close relations with Pakistan to counter the pseudo-alliance between India and the Soviet Union. The border issue remains the major sticking point. There have been incidents brought about by overzealous patrolling and soldiers straying into disputed territories. Some progress had been achieved though, especially in June 2001, when both governments exchanged maps for the so-called "middle sector" covering 2,000 sq km. This sector was considered by experts to be the easiest to resolve, since ethnic and cultural factors could be cited to support the respective claims, unlike in the western and eastern sectors. But, the Afghanistan crisis had put a temporary hold on the border negotiations, official visits and other initiatives.⁶⁰

Meanwhile, the U.S. and India managed to hold their first joint military exercises in 39 years in May 2002. These were generally interpreted as an indicator of the Bush administration's eagerness to engage India as a regional partner. In fact, a report in *India Today* in November 2001 claimed that documents in its possession revealed that it was a serious understatement to say that the U.S. wanted greater military cooperation with India. The magazine stated bluntly: "What the Bush administration had in mind is a full-fledged alliance that is calculated to make India the U.S.'s foremost military ally in Asia, with a relationship akin to that of the United States and NATO".⁶¹ The Bush administration clearly intended to capitalize on India's importance to "create a strategically stable Asia".⁶²

⁶⁰Peter Kammerer, "Afghan Crisis Delays Sino-Indian Progress", *South China Morning Post*, 20 November 2001.

⁶¹Amrit Dhillon, "US Troops Cement Indian Alliance", *South China Morning Post*, 14 May 2002.

⁶²"National Security Strategy of the United States of America", September 2002, pp. 9 and 27. Available at <http://www.whitehouse.gov/nsc/nss.pdf>.

Chinese leaders understand the implications well, and they have been trying to improve Sino-Indian relations. In June 2003, the Indian Prime Minister, Shri Atal Bihari Vajpayee, visited China, and concluded the Declaration on Principles for Relations and Comprehensive Cooperation. The two governments agreed “to explore . . . the framework of a boundary settlement” in negotiations between India’s national security advisor and China’s senior vice foreign minister. The visit marked an increase in bilateral trade to about US\$ 7.6 billion in 2003. The change of government in New Delhi as a result of the parliamentary elections in spring 2004 did not affect the bilateral relationship, though the visits to India by Premier Wen Jiabao in 2005 and President Hu Jintao in 2006 made no significant breakthroughs.⁶³ The traditional Silk Route at Nathu La Pass on the border between India’s Sikkim and China’s Tibet was reopened at the end of 2005, and it became the first direct trade link between the two countries since the 1962 border war.⁶⁴

In 2003, the two countries held their first joint naval exercises, and in the following year, India’s army chief made the first trip to China in a decade.⁶⁵ There were suggestions that the two countries might try to work together to buy oil and gas assets globally to meet the needs of their fast-expanding economies. India’s petroleum minister, Mani Shankar Aiyar, visited Beijing in January 2006 and signed agreements to jointly bid for energy exploration and production rights in third countries by the state-owned companies of the two countries. The national energy companies of China and India have been engaging in joint investments in Sudan, and this model can theoretically be applied to Iran, Sub-Saharan Africa, Central Africa and Latin America.⁶⁶ In contrast, such cooperation does not exist between China and Japan.

⁶³Robert G. Sutter, *Chinese Foreign Relations: Power and Policy since the Cold War* (Lanham, MD: Rowman & Littlefield, 2008), pp. 306–308.

⁶⁴S.N.M. Abdi, “Indian Navy Sinks Chinese Speedboat Sale”, *South China Morning Post*, 30 August 2005.

⁶⁵*Ibid.*

⁶⁶Michael Richardson, “Oil Fuels Regional Rivalry”, *South China Morning Post*, 2 September 2005.

Both China and India want to avoid confrontation and promote common interests through a settlement of the border dispute and an expansion in trade. But mutual suspicions remain, especially on the part of New Delhi. So far, the border negotiations have yielded no significant results. Though there are attempts to cooperate in overseas joint energy projects, keen competition still dominates. In August 2005, China National Petroleum Corporation outbid the offshore subsidiary of India's largest oil producer, Oil and Natural Gas Corporation, by offering almost US\$ 4.2 billion for the Kazakhstan oil and refining interests of the Canadian-controlled firm, PetroKazakhstan.⁶⁷ Trade and investment encounter political barriers too. The Indian Defense Ministry vetoed the purchase of Chinese-made speedboats by the state-owned Oil and Natural Gas Corporation on grounds of national security. The proposal of Huawei Telecommunications India, a subsidiary of the Chinese military-related telecom firm, Huawei Technologies, to invest US\$ 60 million in India was not cleared by the Indian government. Even Huawei's application for visas for its engineers to visit India had been denied.⁶⁸ It is difficult to realize the advantage of linking India's software expertise to China's hardware edge in the computer/telecommunications sector if such suspicions cannot be overcome.

Besides the four-nation security dialogue mentioned above, India was invited to join the East Asia Summit exactly because some ASEAN members and Japan wanted to ensure that China would not be too dominant in the summit meetings in the initial absence of the U.S. This of course was in line with New Delhi's "Look East" policy.⁶⁹ In response, China and India initiated a strategic dialogue in 2005, and the two countries became strategic partners in the same year. Bilateral trade reached US\$ 24.86 billion in 2006, with a new target set at US\$ 40 billion in 2010. China is now the second largest trade partner of India, while the latter is the 10 largest trade partner of

⁶⁷ *Ibid.*

⁶⁸ Feng and Lin, *op. cit.*

⁶⁹ Vijay Sakhuja, "India's Growing Profile in Southeast Asia", in Deepak Nair and Poh Onn Lee (eds.), *Regional Outlook: Southeast Asia 2008–2009* (Singapore: Institute of Southeast Asian Studies, 2008), pp. 15–18.

China. Beijing's strategy continues to expand common interests and contain conflicts.

In view of its growing power, India has been expanding its influence within the region and in the global arena. Indian leaders have been striving to bridge the gap between what the nation perceives is its rightful place in the international community and its actual status. Its rising nationalism tends to be directed against China too. Beijing therefore has to demonstrate respect for the country's aspirations.

In 2001, India quietly revised its traditional nonalignment policy and shifted to engagement with the U.S., leading to atomic energy cooperation and the procurement of military equipment from the U.S. In its *Quadrennial Defense Review Report* released in 2010, it was stated that "India will contribute to Asia as a net provider of security".⁷⁰ But India also wants to maintain a balance between engagement with the U.S. and autonomy. A symbolic decision was the failure of the Boeing F/A — 18 E/F and Lockheed Martin F-16IN to be selected in April 2011 for the Indian purchase of 126 medium multirole combat aircraft.

The prospect of the U.S.–India relationship evolving from a strategic partnership into a *de facto* alliance seems unlikely, and this is reassuring for Chinese leaders. In February 2012, a prestigious panel released a policy report entitled *Nonalignment 2.0*. In the Jaipur Declaration adopted by the All India Congress Committee Jaipur Convention in January 2013, "nonalignment principles" was revived as a long-term guideline for foreign and security policy.

The ruling Congress Party was defeated by the Bharatiya Janata Party (BJP) in the general election in April–May 2014. Embracing the ideals of Hindu nationalism, the Narendra Modi government declared that the aim of its foreign policy is to build "a strong, self-reliant and self-confident India",⁷¹ with the top three security policy agendas being internal security, border disputes and defense reform. The BJP had obviously taken a harder line against China than the Congress Party.

⁷⁰The National Institute for Defense Studies, Japan, *East Asian Strategic Review* 2013, p. 29.

⁷¹BJP, *Election Manifesto*, p. 40. See also *ibid.*, 172–185.

During his tenure as the chief minister of Gujarat, Modi distanced himself from BJP's foreign-policy line, and he visited China several times to study China's economic systems and to attract investment. During his visit to China in 2011, he was even offered state-guest-class treatment.⁷² When Chinese President Xi Jinping visited India in September 2014, Modi, in turn, breached normal diplomatic protocol by receiving Xi at the Gujarat capital of Ahmedabad.

The two leaders released a joint declaration pledging US\$ 20 billion worth of Chinese investment in India over a five-year-period, concentrating in the infrastructure and manufacturing sectors. The joint declaration also referred to efforts toward rectifying the substantial trade surplus enjoyed by China. Modi coined the phrase "Inch towards Miles", meaning that India and China should move toward a "millennium of Exceptional Synergy".

The Modi government is expected to enhance economic relations between the two countries and cooperation on global issues along the lines of the previous Manmohan Singh government. It supported the New Development Bank (BRICS Development Bank) initiative from China, but refused to allow China to become the largest shareholder.

It would, however, adopt a strong position on border issues. In October 2014, Indian Home Minister Rajnath Singh announced that 54 new border posts would be established for the Indo-Tibetan Border Police, and that 1.75 billion rupees would be allocated from the national budget for the construction of infrastructure, such as roads, along the Arunachal Pradesh border.⁷³

The Modi government is expected to continue to modernize the Indian navy in response to China's enhancement of its naval capabilities. During the visit to India by Vietnamese Prime Minister Nguyen Tan Dung in October 2014, Modi pledged to offer a maximum credit line of US\$ 100 million to Vietnam for the purchase of patrol boats.⁷⁴

⁷² *South China Morning Post* (Hong Kong), 16 May 2014.

⁷³ *Times of India*, 24 October 2014.

⁷⁴ Media Statement by Prime Minister of India and Prime Minister of Vietnam in New Delhi, 28 October 2014; see also The National Institute for Defense Studies, Japan, *East Asian Strategic Review 2015*, p. 185.

In addition, a memorandum of understanding was signed between India's State Oil and National Gas Corporation and Vietnam's Petro-Vietnam for the joint exploration of oil and gas in two additional blocks in the South China Sea.

Regionalism and Multilateral Diplomacy

In the 1990s, Chinese leaders gradually accepted that regionalism had become an inevitable trend. As a result, China had to be prepared to actively participate in regional organizations and engage in multilateral diplomacy. Obviously, the regional organizations most important to China are those in Asia, and perhaps ASEAN, the SCO and the six-party talks on the nuclear program in North Korea are significant examples.

ASEAN and the ASEAN Regional Forum

In terms of publicity, the Chinese leadership indicates its hope that the emergence of regional powers and regional organizations in the developing world will help to bring about a multipolarity different from the traditional one dominated by a small number of major powers. It is envisaged that this new type of multipolarity will better preserve peace and democratize international relations, thus contributing to the establishment of a new international political and economic order. In this context, the Latin American countries' boycott of U.S. sanctions against Cuba, ASEAN's admission of Myanmar against the objections of the West and the Arab countries' opposition to U.S. military actions against Iraq were some international issues that were seen as enhancing the evolution toward multipolarity.

Chinese leaders accept that regional cooperation is an important element in global economic development and in the evolution of the contemporary international power configuration. As the largest developing country in the Asia-Pacific region, China has to participate in and promote regional economic cooperation enthusiastically in order to strengthen its influence in the region. This activism since the 1990s has been in sharp contrast to the aloofness and the lack of a regional

policy in the 1970s and before. The Chinese authorities understand that only through active participation will China be able to benefit from the regional economic cooperation process and direct the flows of capital, technology and commodities in directions favorable to China's development. They certainly hope to influence the orientation and development of the organizations for regional cooperation, and at the same time enhance China's position to oppose hostile blocs and organizations. It has been with such intentions that China participates in the APEC, Pacific Economic Cooperation Council (PECC), ARF and so on. It is hoped that such participation would promote common interests and indirectly reduce the perception of the "China threat".

In the past three decades, China and the countries of Southeast Asia have been concentrating on strengthening their economic base. In their pursuit of economic development and prosperity, economic linkages between them in the areas of trade, investment, finance and technology have been strengthening. At the same time, China and ASEAN share very similar stands on issues like Asian values. The consensus on Asian values between China and ASEAN was best symbolized by the Bangkok Declaration, which embodied their agreement on the common human rights position to be articulated at the World Conference on Human Rights held in June 1993 in Vienna. The Bangkok Declaration emphasized economic growth, community interests, non-interference in other countries' domestic affairs and respect for each other's different socioeconomic, historical and cultural backgrounds.⁷⁵

In the early 1990s, when China was attempting to improve relations with its neighbors to ensure that it would enjoy a peaceful international environment, the ASEAN states were also considering how to meet the challenge of integrating China into the Asia-Pacific community by offering it a reasonable stake and a constructive role in the region. In this mutual engagement process, both parties broadened their respective concepts of security to include not only the military,

⁷⁵ Leonard C. Sebastian, "Southeast Asian Perceptions of China: The Challenge of Achieving a New Strategic Accommodation", in Dereck da Cunha (ed.), *Southeast Asian Perspectives on Security* (Singapore: Institute of Southeast Asian Studies, 2000), pp. 158–182.

but also the political and economic aspects. Chinese leaders appreciated that they had to demonstrate an awareness of the needs of the ASEAN states and endorse their idea of security equilibrium and the promotion of regional economic integration.

The strengthening of dialogue and mutual trust between China and the ASEAN states established a good foundation for the parties concerned to avoid the territorial disputes over the Spratly Islands from seriously damaging their relations.⁷⁶ Chinese leaders quickly attempted to defuse the Mischief Reef incident in early 1995. Both China and the concerned ASEAN states do not expect their territorial disputes over the Spratly Islands to be resolved in the foreseeable future. However, they believe that they share a common interest in maintaining a peaceful, stable environment in the region, so that they can all concentrate on economic development. The Chinese government's limited concessions, promising that it would abide by international law and allowing the issue to be brought up in a multilateral forum, however, have not been able to put the ASEAN states entirely at ease. There is still a serious concern about what is perceived as China's policy of gradual expansion in the South China Sea. This policy has been depicted as "creeping assertiveness" and as "talk and take" by the then Philippine Defense Secretary.⁷⁷ The perception of "creeping assertiveness" is related to that of the China threat.

Those in ASEAN who are concerned with China's "creeping assertiveness" and the China threat naturally welcome the renewed American efforts to revitalize bilateral security ties with Japan, South Korea, Australia, Thailand and the Philippines, as well as a more conspicuous forward deployment of U.S. forces in the Asia-Pacific region. The U.S.'s cultivation of these countries and Indonesia may be said to be an attempt to strengthen security ties on the basis of a shared value system, but the intention of the Bush administration and its successor to build up Vietnam's capability to

⁷⁶ Joseph Y. S. Cheng, "China's ASEAN Policy in the 1990s: Pushing for Regional Multipolarity", *Contemporary Southeast Asia*, Vol. 21, No. 2 (1999), pp. 189–193.

⁷⁷ "Erap Orders Blockade of Mischief Reef", *Philippine Daily Inquirer* (Manila), 11 November 1998.

police Asian sea lanes can only be premised on strategic considerations. Until now, the ASEAN states have been able to maintain a security equilibrium in Southeast Asia and promote security cooperation in the region because all the major powers involved have no intention or the capabilities to dominate the region. These powers are willing to allow ASEAN to take the initiative in the ARF and other regional organizations. ASEAN's significant role is therefore premised on the common interest among the major powers in maintaining the regional security equilibrium. Nonetheless, China has been an ardent supporter of ASEAN initiatives, and this support is appreciated by ASEAN.

The launching of the ARF in Bangkok in 1994 gradually won China's firm support. Initially, Chinese leaders had some concerns that the West, and especially the U.S., might try to use the ARF to "contain" China. According to Wu Xinbo, China's participation in the ARF was aimed at securing the following objectives: (a) to deter or defuse perceived attempts at containment by the U.S., Japan and their Southeast Asian allies; (b) to promote multipolarity while giving China a voice in regional security dialogues and averting decisions affecting its interests being made in Beijing's absence; and (c) to improve China's overall relations with ASEAN. In sum, China's participation in the ARF was an indication of the Chinese leadership's pursuit of security and recognition.⁷⁸ Similarly, China appreciated ASEAN's important role in launching the Asia-Europe Meeting (ASEM) first held in Bangkok in March 1996. This is a dialogue between the European Union and the countries of East and Southeast Asia. Singapore, its main initiator, and Thailand, the host of the first meeting, are both ASEAN members.

Tensions among the major powers, however, will limit the role of ASEAN, and confrontation among the major powers will disrupt the regional security equilibrium and force the ASEAN states to take sides, a scenario which the latter will try their best to avoid. In this

⁷⁸ Xinbo Wu, "China: Security Practice of a Modernizing and Ascending Power", in Muthiah Alagappa (ed.), *Asian Security Practice: Material and Ideational Influences* (Stanford, CA: Stanford University Press, 1998), pp. 115-156.

connection, the difficulties and tensions in Sino-American relations during the first months of the George W. Bush administration caused considerable concern among the ASEAN states. Since the disintegration of the Soviet Union, the ASEAN states have been applying a policy of linkage to ensure a continued American military involvement in regional security affairs. They have offered access to military facilities in their countries to U.S. forces to enable them to maintain a strong military presence in East and Southeast Asia to balance off China, and to prevent possible rivalry developing among the region's middle powers.⁷⁹

If China and the U.S. worked to ensure that their bilateral relationship would be a "constructive and cooperative" one, the American military presence in East and Southeast Asia would not be seen as a threat by China. If both countries treated each other as competitors, then Beijing's tolerance would be much reduced. When the two countries engage in confrontation, the forward deployment of the U.S. forces in the region would become a source of friction involving the ASEAN states. An early indicator emerged on 17 April 2001 when a People's Liberation Army (PLA) naval patrol vessel intercepted three Australian warships sailing through the Taiwan Straits. The key allies of the U.S. in East and Southeast Asia generally interpreted this as a disturbing signal that would likely make them come under pressure from the Chinese leadership as China and the U.S. moved toward strategic competition.

Tension in the Taiwan Straits area in 1995–1996 contributed to the strengthening of the U.S.–Japan defense cooperation, Japan's rapid growth in its military capabilities and the incorporation of Taiwan into Japan's area of security vigilance, under the pretext of the "situations that may emerge in the areas surrounding Japan and which will have an important influence on the peace and security of

⁷⁹ Renato C. de Castro, "Managing 'Strategic Unipolarity': The ASEAN States' Responses to the Post-Cold War Regional Environment", in Derek da Cunha (ed.), *Southeast Asian Perspectives on Security* (Singapore: Institute of Southeast Asian Studies, 2000), pp. 60–80.

Japan”.⁸⁰ In early 2005, the U.S.–Japan Security Consultative Committee further announced that the peaceful settlement of the Taiwan question had been included in the “common strategic objectives” of the two countries. In the eyes of Beijing, the security alliance system of the U.S., including the U.S.–Japan security alliance, not only aims at a common enemy, but also goes against a specific ideology or civilization. Furthermore, in the cases of Japan, South Korea and Taiwan, military alliances and defense cooperation are more than common defense arrangements; they also serve as mechanisms for Western values and ideas to penetrate into regional societies.⁸¹

Competition between China and Japan may well become more intense in the years to come, given the difficult bilateral relations at this stage. The ASEAN states certainly hope that Japan and China would be the twin engines pushing for economic growth in the Asia-Pacific region. But strong mutual distrust between China and Japan will make economic cooperation within the “ASEAN plus 3” framework difficult. The ASEAN states do not want to be forced into a position having to choose between China and Japan. They understand they have a limited role to play in resolving the problems in Sino-Japanese relations, and they have been successful in preventing the deterioration in Sino-Japanese relations from adversely affecting their respective relations with the two countries.

Chinese leaders’ worries about the deterioration in Sino-American relations and the potential danger of the “containment” of China by Western countries have been an important motivation for their promotion of East Asian regionalism through the “ASEAN plus China” and the “ASEAN plus 3” routes. On the part of the ASEAN states, they hope that this regionalism may enable them to deal with Western countries from a position of strength on issues such as protectionism,

⁸⁰ US–Japan Joint Declaration on Security: Alliance for the Twenty-first Century, Joint Declaration released in Tokyo during the State Visit by President Clinton to Japan, 17 April 1996. Available at <http://www.mofa.go.jp/region/n-america/us/security/security.html>.

⁸¹ Ji You, “The Chinese Perception on the Changing Security Situation in East Asia”, *China Studies* (Hong Kong), No. 6 (2000), p. 140.

in contrast to their impotence during the Asian financial crisis in 1997–1998. They share Beijing's resentment against Washington's arrogance and unilateralism, as well as China's promotion of a more multipolar world. They are disappointed with APEC's failure to serve as an engine to push the WTO to launch a new round of global trade negotiations; they have also become more cautious about globalization.⁸² As long as the Chinese leadership is aware of the limitations of the "ASEAN plus 3" process and does not overplay its desire to exclude the U.S., it should be satisfied with the present achievements.

China's support for ASEAN during the Asian financial crisis in 1997–1998 has also enhanced mutual trust between them. China's impressive economic growth has won considerable admiration in ASEAN. Beijing understands that China's economic achievements have generated increasing concern regarding competition from China among ASEAN members. Experts in China tend to argue that FDI flows to China and to the rest of Asia have been complementary and not competitive. It seems that ASEAN has been benefiting disproportionately from China's entry into the WTO. It has also been observed that servicing China's expanding middle class has been an increasingly important source of revenue for the ASEAN states, especially Thailand and Singapore. Chinese tourists in the ASEAN states have been increasing rapidly; Asian companies which can capitalize on exporting agricultural goods to China's more discerning middle classes have also been doing well. Such development trends are predicated on the maintenance of healthy economic growth in China. There is a more pessimistic view, however, that competition from China may hurt countries like Thailand, Indonesia and the Philippines, because their economies are at a similar stage of development as that of China. Owing to the diversity in China, it may be simultaneously developing its agricultural, industrial and technological sectors, and hence there may not be much room to absorb more agricultural imports from the

⁸² Daljit Singh, "Southeast Asia in 2000: Many Roads, No Destination?", in *Southeast Asian Affairs 2001*, Daljit Singh and Anthony L. Smith (Singapore: Institute of Southeast Asian Studies, 2001), pp. 10–13.

ASEAN states. Freer trade, however, should definitely offer a more optimistic outlook.

In November 2000, China suggested the creation of a China–ASEAN FTA; the formal agreement was signed in November 2002 establishing the FTA for trade in goods for the original six ASEAN countries by 2010 and for the newer ASEAN members by 2015. Bilateral trade increased from US\$ 65 billion in 2003 to US\$ 161 billion in 2006, making China the third largest trade partner of ASEAN after the U.S. and Japan. On the whole, ASEAN enjoys a trade surplus with China. But the gap is narrowing, and countries like Thailand, Vietnam and Malaysia suffer considerable trade deficits. Between 1991 and 2005, China invested only US\$ 1 billion in the ASEAN countries, compared with ASEAN's US\$ 38.5 billion in China (mainly from Singapore).⁸³ However, it is expected that Chinese investment in ASEAN will increase rapidly at this stage.

Economic contacts would help to enhance mutual understanding between China and ASEAN, especially at the people-to-people level. The strengthening of common economic interests will provide a better foundation for confidence-building measures, preventive diplomacy and eventually conflict resolution. China realizes that it has to be more active in multilateral diplomacy, especially at the regional level, and some efforts, though still far from adequate, have been made. The Boao Forum for Asia is a good example of such initiatives and their limited success. The Chinese government's enthusiastic support for the non-governmental, non-political and private-sector driven organization is indeed a sign of the times. Obviously, Chinese leaders are now ready to play a more active part in Track-2 processes.

In 2003, China became the first major power to accede to the 1976 ASEAN Treaty of Amity and Cooperation. It should be relatively satisfied with the East Asia Summit process despite the subsequent inclusion of Australia, New Zealand and India, and then the U.S. and Russia. In 2002, China and ASEAN concluded the

⁸³ Ian Storey, "China's Relations with Southeast Asia", in Deepak Nair and Poh Onn Lee (eds.), *Regional Outlook: Southeast Asia 2008–2009* (Singapore: Institute of Southeast Asian Studies, 2008), p. 13.

Declaration on the Conduct of Parties in the South China Sea, a non-binding agreement to encourage cooperative confidence-building measures among the claimants to the Spratlys and the overlapping exclusive economic zones.

China's economic influence and the success of its "charm offensive" were perhaps best illustrated by a Sino-Filipino agreement providing for their national oil companies to conduct a joint seismic study in the contentious South China Sea, an agreement signed during President Gloria Macapagal Arroyo's trip to China in late 2004. Within half a year, Vietnam, initially a harsh critic, changed its position and participated in the seismic study on a tripartite basis. Beijing naturally presented this as a possible model for the future. There was a concern, however, that first Manila, then Hanoi, broke ranks with ASEAN in negotiating with China as a group on the South China Sea issue. It was also said that the Philippine government agreed to include a part of its continental shelf not claimed by China and Vietnam in the area for study.⁸⁴ No wonder the Chinese Premier Wen Jiabao declared that Sino-ASEAN relations were at their "historic best" in their summit in October 2006.

ASEAN is probably the best example of China engaging in regional organizations and multilateral diplomacy to promote better relations with its Asian neighbors. It now shares a strategic partnership with ASEAN, and on this basis, it also established a strategic partnership with Indonesia in April 2005.⁸⁵ Despite the difficulties in Sino-American and Sino-Japanese relations, ASEAN will continue its constructive engagement with China, respect its vital interests and strengthen their economic ties.

This optimistic picture, however, has been compromised by the deterioration in the South China Sea territorial disputes. China's perceived assertiveness and its substantial enhancement of its power projection capabilities have caused considerable alarm on the part of

⁸⁴ Barry Wain, "Manila's Bungle in the South China Sea", *Far Eastern Economic Review*, Vol. 171, No. 1 (2008), pp. 45–48.

⁸⁵ Josephine Ma, "With Eyes to Tanker Safety, China is Ready to Help Indonesia Rearm", *South China Morning Post*, 26 April 2005.

ASEAN, especially those member states directly involved in the disputes. This escalation of tension has been demonstrated in various areas, including invitations for international bids in disputed areas. For example, in February 2012, the Philippine Department of Energy announced an invitation for bids to develop resources in the waters near Reed Bank, which includes some areas claimed by China. In the following June, the China National Offshore Oil Corporation invited international bids on an ocean area which Vietnam claims as part of its exclusive economic zone. The Vietnamese Ministry of Foreign Affairs issued a statement condemning this action.

Both Vietnam and China have attempted to strengthen their own claims of territorial rights by applying domestic law and setting up administration bodies. In June 2012, for example, the Vietnamese national legislature passed a Law of the Sea which specified that the Paracel and Spratly Islands were subject to Vietnam's sovereignty and administration. In response, on the same day, the Chinese authorities announced that it had established an administrative unit called Sansha City that covered the Paracel, Macclesfield and Spratly archipelagoes.

The claimant states have also been taking steps to reinforce their effective control over the disputed areas, and they easily cause more serious frictions which in turn exacerbate the nationalist feelings directed against each other. In April 2012, the Philippine naval frigate Gregorio del Pilar attempted to seize Chinese fishing vessels near Scarborough Shoal about 200 km west of Luzon Island. This attempt was blocked by two patrol boats belonging to China Marine Surveillance, resulting in a confrontation lasting over two months.

The Philippine government brought the dispute for arbitration by the United Nations International Tribunal for the Law of the Sea, but China simply refused to take part in the process. The Philippines and Vietnam have been strengthening their naval capabilities, and their efforts receive strong support from the U.S., Japan and India. Various ASEAN countries step up their hedging strategies which involve efforts to enhance national defense capabilities and attempts to strengthen security cooperation with the U.S. The latter's "return to

Asia” and “rebalancing toward Asia” strategies have thus been much facilitated by such hedging strategies.

ASEAN and China have been careful to maintain various bilateral and multilateral dialogues on the resolution of South China Sea issues, at least to avoid further escalation of tension. On the basis of the China–ASEAN Declaration on the Conduct of Parties in the South China Sea signed in 2002, the two parties concluded the Guidelines for the Implementation of the Declaration in July 2011 with the intention to start negotiations leading to a binding code of conduct. Progress, however, has been slow and limited.

China apparently adopts a “divide and rule” strategy toward ASEAN on the South China Sea issues and related security concerns. Its success was reflected in the unprecedented failure of the ASEAN Ministerial Meeting in July 2012 to release a joint communique. At the meeting, the Philippines and Vietnam sought resolute language in references to reefs and exclusive economic zones in the South China Sea, but Cambodia, the current ASEAN chair, stubbornly refused to allow it, leading to the impasse and exposing the internal divisions within ASEAN.⁸⁶

The progress and institutionalization of the ASEAN Defense Ministers’ Meeting-Plus (ADMM-Plus), on the other hand, have seen a positive development. At the second ADMM-Plus in Brunei in August 2013, participants exchanged views on the prevention of disputes at sea and avoidance of collisions, peaceful resolution of problems in the South China Sea, denuclearization of the Korean Peninsula and even the worsening situation in Syria. It is obviously useful that the ADMM-Plus provides the defense ministers of the countries involved in the South China Sea disputes an opportunity for consultation at a time when tensions are escalating in the region. There are serious doubts, however, that it will remain a “talking shop” and not much more. The division of labor between the ADMM-Plus and ARF is also an issue.

⁸⁶The National Institute for Defense Studies, Japan, *East Asian Strategic Review* 2013, pp. 224–235.

In May 2014, a more serious incident occurred when the China National Offshore Oil Corporation moved an oil-drilling platform into waters claimed by Vietnam as part of an exclusive economic zone and began ocean floor drilling; the location was some 220 km off Vietnam's shores and near the Paracel Islands.⁸⁷ Hanoi naturally protested; but worse still, the drilling triggered off a wave of anti-China demonstrations throughout Vietnam, resulting in at least 21 deaths.

At the ASEAN Foreign Ministers' Meeting on 10 May 2014, a dedicated joint statement was issued to express the serious concerns over the worsening Sino-Vietnamese conflict, though efforts were made to avoid specifically naming China. Malaysia and Indonesia, which normally adopted a middle-of-the-road position, were critical of China, and Cambodia and Laos raised no objection since China was not explicitly identified.⁸⁸

In the autumn of 2013, President Xi Jinping proposed the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road" projects. These projects are aimed at removing the strategic anxiety of China's neighbors regarding its emergence as a major power. They are designed to encourage countries involved in territorial disputes with China to shelve the disputes and engage in regional economic cooperation. To support the two major projects, the Chinese authorities have established the Silk Road Fund and the Asian Infrastructure Investment Bank (AIIB); the latter plans to have a capital base of US\$ 100 billion, with 50% coming from China. Regarding ASEAN, China's National Development Bank also pledged US\$ 10 billion in support of China-ASEAN countries to treat China and ASEAN as a community of common destiny.

ASEAN countries do not want to have to choose between China and the U.S. They value the economic ties with China, but would not abandon their hedging strategies at this stage. Their position has prompted China's ASEAN experts to complain that ASEAN

⁸⁷ *Kyodo News* dispatch, 10 May 2014; *Xinhua News Agency* dispatch, 8 May 2014.

⁸⁸ *Asahi Shinbun*, 11 May 2014; *Nihon Keizai Shinbun*, 12 May 2014.

countries want to depend on China economically and rely on the U.S. for their security guarantee.

The Shanghai Cooperation Organization

While China gradually becomes more involved in the ARF, the SCO is very much the brainchild of the Chinese leadership. When the Soviet Union disintegrated at the end of 1991, the Chinese government promptly recognized the Russian Federation and the other 14 republics. Diplomatic relations with them were established rapidly. The Chinese government actively cultivated good relations with these countries and offered them government loans and commodity credits. Leaders from these countries were invited to visit China, and in 1992–1993, there were top leaders from these countries visiting Beijing almost monthly.⁸⁹ In 1994, the then Premier Li Peng visited Uzbekistan, Turkmenistan, Kyrgyzstan, Kazakhstan and Mongolia. During the visits, he enunciated the four major principles governing China's relations with the Central Asian republics. They were to maintain good-neighborly relations and peaceful coexistence; to promote equality and mutually beneficial cooperation 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.⁹⁰

Friendly relations and expanding economic ties with these Central Asian neighbors were expected to help China contain troubles from the national minorities in the provinces and autonomous regions in the Northwest. An agreement was reached among China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan in April 1997 on reducing

⁸⁹Xing Qu, "Shilun Dong'ou Jubian he Sulian Jieti Hou de Zhongguo Duiwai Zhengce (Discussion of China's Foreign Policy Since the Radical Changes in Eastern Europe and the Disintegration of the Soviet Union)", *Journal of Foreign Affairs College*, No. 37 (1994), pp. 16–22.

⁹⁰Qichen Qian, "Shizhong Buyu de Fengxing Duli Zhizhu de Heping Waijiao Zhengce (Forever Implementing a Peaceful Foreign Policy of Independence and Self-Reliance)", *Qiushi Zhazhi (Seeking Truth)*, No. 12 (5 June 1995).

troop levels along their common border of over 7,000 km to about 260,000 soldiers. This approach to Central Asia was in line with the belief of Chinese leaders that the end of the Cold War would enhance instability and facilitate the re-emergence of various territorial disputes, ethnic contradictions and religious conflicts. Some of these troubles would have adverse impacts on China too, such as the demonstration effects of the rise of ethnic nationalism and Islamic fundamentalism in the Central Asian republics on the national minorities in Xinjiang and Inner Mongolia.

On the basis of the achievements in the 1990s, China was able to take the lead in June 2001 to formally establish the SCO involving China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. Since then, the SCO has evolved into an economic, energy and security forum. In contrast to the ARF, the SCO has been more ready to engage in institutionalization. In the third heads of state meeting held in Moscow in May 2003, agreement was reached on the establishment of a general secretariat (with a budget and a secretary-general) in Beijing and an anti-terrorism center in Tashkent. There were regular meetings at the foreign minister, prime minister and head of state level. In the July 2005 meeting, Iran, Pakistan, India and Mongolia were invited to take part as observers, a sign possible of ambitious expansion plans for the organization.

A few months after the founding of the SCO, the September 11 incident prompted the establishment of an American military presence in Central Asia. This military presence was welcomed by the Central Asian republics concerned, which were eager to attract American economic assistance and were interested in exploiting the American influence to achieve a new balance of power equilibrium allowing them more room for maneuver. This military presence was initially facilitated by the Putin administration too. SCO members share the common interest of combating terrorism, religious extremism and separatism. But they become more concerned with the Western governments' initiatives to spread democracy.

China, as well as Russia, has been exploiting the anti-American sentiments in Central Asia. In August 2005, when China and Russia held a large-scale joint military exercise, the other four SCO members

also dispatched military observers. Oil has been another important factor; in reducing American influence in the region, China hopes that it will have a better chance in its competition with the U.S. for the region's energy resources. Soon after a violent suppression in eastern Uzbekistan in May 2005 by President Islam Karimov which caused the U.S. and other Western countries to call for an independent inquiry, Karimov visited Beijing. He was offered political support by the Chinese leadership, as well as a contract for a US\$ 600 million oil and gas joint venture.⁹¹

The SCO therefore has been a useful vehicle for China to promote common interests with the Central Asian republics as well as Russia. It has served to maintain political stability in China's border provinces and limit the influence of hostile forces. Trade and investment activities have only been stepped up in recent years. The development of the "Eurasian land bridge" offers considerable promise. Within the SCO framework, besides regular meetings of foreign ministers and defense ministers, there are now established dialogues and consultative mechanisms among economic/trade ministers, cultural ministers, education ministers, attorney generals, etc. But, China has to bear the risk of supporting unstable authoritarian regimes, whose collapse may severely undermine its influence in the region.

The development of the SCO so far has demonstrated several characteristics which can be attributed to the strong initiatives and backing from Beijing. It advocates the Shanghai spirit of "mutual trust, mutual benefit, equality, consultation, respect for diversity in civilizations, and the pursuit of common development". Xi Jinping at the summit meeting in September 2013 in Bishkek even appealed for the construction of a common destiny community and a common interests community.

The SCO initially aimed at the combat of terrorism, separatism and religious extremism, with emphasis on security and mutual confidence-building measures. But in the recent decade and more, it has given equal emphasis on regional economic cooperation. Parallel to various ministerial meetings, in response to its new economic mission, it has developed new platforms like the SCO

⁹¹ *Ibid.*

Business Council, the SCO Interbank Consortium, and is planning the SCO Development Bank. The fact that the SCO has attracted potential new members such as India, Pakistan and Iran shows its success and appeal.

In 2013, China established a strategic partnership with Tajikistan, Turkmenistan (not an SCO member) and Kyrgyzstan; hence, China now enjoys a strategic partnership with Russia and all five Central Asian countries. At the same time, China is also a leading trade partner and an important source of foreign investment for all these countries. China's "Silk Road Economic Belt" project announced in the autumn of 2013 will further stimulate regional economic cooperation within the SCO framework as well as infrastructural interconnectivity.

The SCO University was proposed by Russian President Vladimir Putin in August 2007, but progress has been slow. On the part of China, when Xi Jinping announced the "Silk Road Economic Belt" project in Kazakhstan, he also offered SCO member countries 30,000 government scholarships in the coming decade, and invited 10,000 teachers and students of the Confucius Institute in SCO countries to study in China. The distant vision is the European Union model, so much so that students from countries along the "Silk Road Economic Belt" will enjoy a minimum of procedures and applications in accessing the tertiary institutions in all these countries.⁹²

A serious weakness of the SCO has been its inefficiency in implementing the proposals. As member countries take turn to serve as chair of the regional organization, small countries like Kyrgyzstan and Tajikistan obviously do not have the resources to perform this role effectively. While China is often willing to come up with the resources in support of the development of the SCO, it has to be careful not to

⁹²Jinfeng Li, "Shiying Xin Xingshi, Yingdui Xin Tiaozhan, Shanghe Zuzhi Maijin Wushi Hezuo Xin Jieduan (Confronting the New Situations and Challenges, the SCO Enters a New Stage of Pragmatic Cooperation)", *Shanghai Hezuo Zuzhi Fazhan Baogao 2014 (Annual Report on the Shanghai Cooperation Organization 2014)* (Beijing: Social Sciences Academic Press (China), 2014), pp. 1–18.

alienate other member states which do not want to see a predominant member within the organization.

Undeniably, there is an element of Sino-Russian competition in Central Asia; at the same time, Central Asian countries want to diversify their diplomatic, economic and even security ties so as to avoid being too dependent on Russian or China. Regarding Sino-Russian competition, Russia clearly plans to strengthen the Eurasian Economic Community, the Collective Security Treaty Organization and the Eurasian Economic Union. The development of the latter regional organizations must not be handicapped by the evolution of the SCO.

China has been prudent not to challenge Russian vital interests in the region and is ready to defer to its demands. It also understands the Central Asian countries' desire to maintain their options open, and it therefore has to make its regional cooperation proposals attractive to the SCO members. The promotion of economic ties among SCO member countries has to overcome the challenge of weak infrastructure too. Regional transport has to rely mainly on highways; railway transport is backward and coverage is limited. Telecommunication networks are not yet well developed, and broadband standards differ among countries. These problems probably enhance the attraction of the "Silk Road Economic Belt" project.

In recent years, the difficult strategic environment in Central Asia has strengthened the motivation of the SCO member states to cooperate. The withdrawal of U.S. and NATO forces from Afghanistan in 2014 has exacerbated the potential for instability in the country. If the situation gets out of control, the spread of terrorism and religious extremism to the neighboring countries will be more rampant, and the narcotics problem in the region may worsen. While SCO cannot assume the responsibilities of the U.S. and NATO, its member states believe that closer cooperation is necessary.

The Ukraine crisis in 2014 resulted in a sharp downturn in Russia's relations with the West, and this confrontation has increased the significance of China as its strategic partner.⁹³ At the same time,

⁹³The National Institute for Defense Studies, Japan, *East Asian Strategic Review* 2015, pp. 203–248.

the authoritarian nature of Central Asian countries' regimes sets limits to their approaches to the West, and China and Russia are more reliable partners from this perspective. President Putin has been consistently looking for ways to improve ties with East Asia, in view of his commitment to placing a strong focus on developing the Russian Far East's economy.⁹⁴ The Ukraine crisis has therefore enhanced Russia's drive to develop closer relations with East Asian countries, especially the export of its energy resources to them.

Six-Party Talks on the Nuclear Program in North Korea

Since the Soviet-American détente and the Sino-American rapprochement in the early 1970s, the major powers in Northeast Asia have demonstrated a common interest in peace and stability in the region through the maintenance of the *status quo*.⁹⁵ Officially, the Chinese leadership still supports the independent and peaceful reunification of Korea in principle, but it has become less certain of the consequences of Korean reunification and more apprehensive about its possible negative results. Since the mid-1990s, the collapse of the Kim Jong-Il regime had been a distinct possibility, and reunification is increasingly the sole prerogative of Seoul.

The establishment of formal diplomatic relations between China and South Korea in 1992 introduced an important new element, and the Chinese authorities have since then inclined to maintain an even-handed approach to Seoul and Pyongyang. The major variables responsible for this shift in China's policy included the rise in importance of China's market-oriented modernization agenda since 1978, the appeal of the successful South Korean economy as a partner and model of development strategy, and the inability or

⁹⁴Rensselaer Lee, "The Russian Far East: Opportunities and Challenges for Russia's Window on the Pacific", *Orbis*, Vol. 57, No. 2 (2013), p. 316.

⁹⁵Fei-Ling Wang, "Joining the Major Powers for the Status Quo: China's Views and Policy on Korean Reunification", *Pacific Affairs*, Vol. 72, No. 2 (1999), pp. 167–185.

reluctance of the North Korean regime to adapt to the post-Cold War realities.⁹⁶

The expansion of economic exchanges between China and South Korea since 1992 has indeed been impressive. China is South Korea's most important trade partner and destination for foreign investment; South Korea is, on a country basis, China's third largest trade partner and the fourth largest source of foreign investment. At the end of 2006, cumulative actually utilized direct investment from South Korea's private sector in China amounted to US\$ 35 billion. In the same year, travelers between the two countries exceeded half a million (mainly from South Korea to China).⁹⁷ In comparison, since 2003, over 150 Chinese enterprises had been operating or trading in North Korea, and about 80% of the consumer goods in the country came from China. Chinese investment in North Korea increased from US\$ 1.1 million in 2003 to US\$ 90 million in 2005, and the bilateral trade amounted to US\$ 1.7 billion in 2006, that is, China enjoyed a 50% share of North Korea's trade and provided a large part of its foreign investment.⁹⁸

China has been prudent enough to retain its special relationship with North Korea, which gives it considerable political and diplomatic leverage. Chinese leaders have been very concerned with the unstable domestic situation in North Korea since the death of Kim Il Sung in 1994. Political chaos and economic collapse in North Korea will have a severe negative impact on China. China is already facing the problem of North Korean civilians desperate for food in its Northeast provinces, and a large-scale outflow of refugees into China will be a nightmare. The Chinese authorities therefore decided to renew its assistance to Pyongyang to help stabilize the situation. The Taiwan Straits crisis in 1995–1996 and the subsequent strengthening of the U.S.–Japan security cooperation further highlighted North Korea's

⁹⁶Chae-Jin Lee, *China and Korea: Dynamic Relations* (Stanford, CA: Hoover Institution Press, 1996).

⁹⁷Policy Research Department, Ministry of Foreign Affairs, PRC (ed.), *Zhongguo Waijiao 2007* (*China's Foreign Affairs 2007*) (Beijing: Shijie Chubanshe, 2007), p. 199.

⁹⁸Sutter, *Chinese Foreign Relations*, p. 252.

strategic significance. China began to offer aid to its neighbors in 1996; in the following year, North Korea received most of its oil imports and half of the 2 million tonnes of grain it needed from China. Food aid from China, unlike that from the West, has no strings attached, and it can go to satisfy the military needs first.

Apparently, China's relations with North Korea showed signs of improvement beginning in 2000. Kim Jong-Il called the Chinese embassy in Pyongyang in March, and then traveled to Beijing for an "informal visit" in May, just before the historic summit between North and South Korea in the following month. It has to be appreciated that this was Kim's first overseas trip in 17 years. Kim again visited China in January 2001 for talks with the top leaders in Beijing; he even toured Shanghai's Pudong industrial zone. In July 2001, both governments celebrated the 40th anniversary of the Sino-Democratic People's Republic of Korea (DPRK) Treaty of Friendship and Mutual Assistance. In the following September, the then General Secretary of the CPC Jiang Zemin formally visited North Korea. Kim Jong-Il's diplomatic initiatives at this stage were not only limited to China. North Korea also concluded a new friendship treaty with Russia in the first half of 1999 and had begun negotiations with Italy, Australia, Britain and the Philippines with a view to the establishment of formal diplomatic relations.⁹⁹

The real challenge came with North Korea's engagement in nuclear brinkmanship. On 4 October 2002, the Kim Jong-Il regime admitted that it had an ongoing nuclear weapons development program utilizing highly enriched uranium. On 10 January 2003, North Korea further announced its withdrawal from the Nuclear Non-Proliferation Treaty (NPT) after its earlier decision to expel weapons inspectors from the International Atomic Energy Agency (IAEA). The IAEA observed that North Korea had been violating international nuclear weapons agreements and decided on 12 February in the same year to refer the matter to the United Nations Security Council. At the same time, a senior U.S. intelligence official told the

⁹⁹ Lorien Holland and Jae-Hoon Shim, "China's Korea Game", *Far Eastern Economic Review*, Vol. 163, No. 24 (2000), pp. 16–18.

Congress that North Korea had an untested missile capable of reaching western U.S.¹⁰⁰

The Chinese authorities were alarmed by these developments. There is a potential that North Korea's nuclear weapons program may result in a nuclear arms race in East Asia. Chinese academics close to the foreign policy establishment openly articulated China's worries and concerns.¹⁰¹ The fact that they expressed such views to the Western media reflected that the Chinese authorities would like to convey such messages to the international community, especially the Western countries.

For a long time in previous years, China had insisted that the Korean conflict be settled between the two Koreas, as well as between North Korea and the U.S., and declined to get involved in the negotiations to establish a peace mechanism in the peninsula. On the whole, China's role in the earlier quadrilateral talks had been seen as constructive. On the economic front, China joined the Tumen River Area Development Program (TRADP) with Russia, Mongolia and

¹⁰⁰Gady A. Epstein, "China Debates Greater Role in N. Korean Nuclear Crisis: Longtime Main Ally Wants Pyongyang to Forgo Arms", *The Baltimore Sun* (Baltimore), 13 February 2003; Raviprasad Narayanan, "China, N. Korea & the Nuclear Issue", *The Hindu* (Delhi), 8 February 2003.

¹⁰¹Shi Yinhong, Professor of international Relations of Renmin University in Beijing, criticized North Korea as follows: "If your ally becomes one of your greatest threats to security, I don't think you should keep the alliance just for alliance's sake. . . . Whatever the consequences of this crisis (the North Korean nuclear brinkmanship), whatever the diplomatic choices China makes during this crisis, China-North Korea relations have changed forever". Zhu Feng, Director of the International Security Programme at Beijing University's School of International Studies, similarly observed: "There is increasing recognition here that if North Korea is finally armed with nuclear weapons, it will be a big threat to China. . . . I have a strong sense at this crucial moment; my government will change its mind to resort to another approach rather than just, say, use the veto right to block any UN-imposed sanctions against North Korea". Zhang Liankui, a North Korean expert at the Central Party School in Beijing, also commented: "What worries me worst is if this will result in a nuclear arms race in East Asia, the worst thing that anybody could imagine". See Gady A. Epstein, "China Debates Greater Role in N. Korean Nuclear Crisis: Longtime Main Ally Wants Pyongyang to Forgo Arms", *The Baltimore Sun* (Baltimore), 13 February 2003; Raviprasad Narayanan, "China, N. Korea & the Nuclear Issue", *The Hindu* (Delhi), 8 February 2003.

the two Koreas. In addition to the economic assistance for Pyongyang, China also played an important supporting role in paving the way for the U.S.–DPRK Agreed Framework in October 1994. The threat of a Chinese veto on any draft sanctions resolution in the United Nations Security Council was instrumental in enabling Pyongyang to secure direct negotiations with the U.S. It was, however, only when Pyongyang initiated its diplomatic offensives in 1999 that Sino-North Korean relations began to improve.

In the nuclear brinkmanship of Kim Jong-Il initiated in late 2002, China reiterated its long-standing policy of opposing the nuclearization of the Korean Peninsula.¹⁰² Most observers believe Beijing to be sincere as the Chinese leadership supports the *status quo* in the Korean Peninsula and is against nuclear proliferation in principle. China is naturally concerned that the North Korean threat will strengthen U.S.–Japan defense cooperation and further involve South Korea and Taiwan, especially in the development of the TMD system.

In Beijing's assessment, the major actors concerned all share the same interest in not wanting to rock the boat. Hence, there are no fundamental conflicts of interest among the key actors involved. Kim Jong-Il's nuclear brinkmanship was therefore less threatening and less urgent in the eyes of Beijing, which tended to believe that there would be relatively more time to resolve the issue diplomatically. While Chinese leaders did not support such nuclear brinkmanship, they had more sympathy for Pyongyang's difficult situation and more understanding of its strategy. Arguably, it was difficult to expect North Korea to give up its brinkmanship diplomacy. Unless there is a significant improvement in the U.S.–North Korea relations, it was probably also difficult to expect Pyongyang to abandon its nuclear weapons and ballistic missiles programs. The Bush administration certainly wanted China to assume a more active role in urging North Korea to abandon its nuclear weapons program, and it considered that Beijing could play such a role.

Chinese leaders perceive the China–North Korean relationship as a long-term one. They are reluctant to allow short-term

¹⁰² *South China Morning Post*, 14 February 2003.

considerations to adversely affect long-term ties. They also realize that too much pressure on Pyongyang may be counterproductive. A sharp reduction of Chinese assistance may lead to a total collapse in North Korea; at least it will lead to a flood of refugees to China and severely damage the bilateral relationship for a long period. The Chinese leadership finds it difficult to accept the advice from the U.S. to exert too much pressure on an ally, given the Chinese diplomatic tradition of respecting state sovereignty and avoiding interference in the domestic affairs of other states. It is acutely aware that Pyongyang sees Chinese aid as an instrument serving Chinese strategic interests and maintaining their influence in North Korea. Hence, it prefers quiet diplomacy rather than overt pressure on the Kim Jong-Il regime. The Chinese leaders continued to encourage North Korea to engage in economic reforms during Kim Jong-Il's visits to China in 2004 and 2006, and Hu Jintao's visit to Pyongyang in 2005.¹⁰³

Chinese leaders considered that since the two key regional allies of the U.S., that is, Japan and South Korea, have been reluctant to apply severe sanctions to Pyongyang, it would be difficult for the Bush administration to take military action against North Korea, not to mention the heavy burden of the U.S. involvement in the Middle East. Given the increasing Russian interest in the Korean Peninsula, China would like to work closely with Russia at this stage. Strategically, deterring U.S. unilateralism and predominance in international affairs through Sino-Russian cooperation is what China wants.

In mid-January 2003, China made an unprecedented offer to host talks between the U.S. and North Korea to resolve their dispute over Pyongyang's nuclear weapons program.¹⁰⁴ Basically, there was no reason why the bilateral approach and the multilateral approach could not be adopted simultaneously. The first round of the six-party talks on the nuclear program in North Korea took place in August 2003. The six governments concerned laid down the common objectives of

¹⁰³ See quarterly reviews of China–North Korean relations by Scott Snyder in *Comparative Connections*. Available at <http://www.csis.org/pacfor/ccejjournal.html>.

¹⁰⁴ *South China Morning Post*, 15 January 2003.

achieving a nuclear-free Korean Peninsula and resolving the crisis through peaceful means.¹⁰⁵

In September 2005, the six-party talks produced a Joint Statement of Principles in which Pyongyang pledged to commit itself to “abandoning all nuclear weapons and existing nuclear programmes and returning at an early date” to the NPT and IAEA standards, in return for security assurances, energy supply, and aid from as well as economic cooperation with the U.S. and its Asian neighbors.¹⁰⁶ Pyongyang’s negotiating strategy has been designed to show that Beijing cannot represent its interests, and it obviously tried to continue to squeeze concessions from the negotiations. But in the handling of the North Korean situation, Beijing was able to enhance the Bush administration’s trust of the Chinese leadership, win the appreciation of South Korea and secure the acceptance of its role by Russia and Japan. It was not expected that the negotiations would yield smooth progress, but at least a dialogue with limited success would help to avoid crises leading to confrontation.

Pyongyang’s missile tests in July 2006 and the nuclear test in the following October caused much frustration in Beijing and demonstrated the limitations of the six-party talks. Despite China’s disappointing influence on North Korea, its role continues to be valued. While the United Nations Security Council responded with resolutions imposing some sanctions, the Bush administration switched course to pursue bilateral negotiations with the Kim Jong-Il regime. They finally led to a joint agreement at the six-party talks in February 2007.¹⁰⁷ All the major actors accept that there is no alternative to Sino-American cooperation and the multilateral process. The agreement was fragile, though the objectives of its Phase I were essentially realized. Optimists at that time even hoped that the talks might

¹⁰⁵ The six parties were the USA, Russia, China, Japan, South Korea and North Korea.

¹⁰⁶ *South China Morning Post*, 20 September 2005.

¹⁰⁷ Gilbert Rozman, “The North Korean Nuclear Crisis and U.S. Strategy in Northeast Asia”, *Asian Survey*, Vol. 47, No. 4 (2007), pp. 601–621.

eventually lead to the establishment of a permanent multilateral dialogue on security in Northeast Asia. But they were to be disappointed.

The adoption of a more hawkish position on the part of the new Lee Myung-bak administration in early 2008 and the deteriorating health of Kim Jong-Il later introduced new negative factors into the negotiation process. Disputes then arose over the verification process, and the negotiations lost momentum; the U.S. presidential election in the same year also contributed to their stalling.

The satellite launch in April 2009 and the second underground nuclear test in the following month by Pyongyang finally caused the breakdown of the six-party talks, which have not recovered till now. There were some attempts to initiate contacts and even negotiations between the U.S. and North Korea. The Obama administration, for example, dispatched its Korean Peninsula policy coordinator to visit Pyongyang in February 2010 to prepare for the renewal of dialogues. On 23–24 February 2012, Kim Kye Gwan, first vice-minister of Pyongyang's ministry of foreign affairs, engaged in two days of talks in China with Glyn Davies, special representative of the Secretary of State for North Korea policy.

The broad trend, however, was that no serious and lasting progress could be made. On the parts of the U.S. and South Korea, there was inadequate political will to make genuine concessions to attract Pyongyang to return to meaningful negotiations. On the part of North Korea, it simply continued its nuclear weapons program and the associated delivery systems, and basically could not allow the building of mutual trust.

The Leap Day agreement reached between the U.S. and North Korea at the end of the talks in February 2012 mentioned above was typical. According to the agreement, the U.S. would offer 240,000 metric tonnes of nutritional assistance with the prospect of additional food assistance. North Korea agreed to a moratorium on nuclear tests, long-range missile launches and uranium enrichment activity at Nyongbyon. In the following April, however, Pyongyang launched a "satellite" and effectively scuttled the agreement.

The basic approach by the two major powers toward the Korean Peninsula was well demonstrated at the Sino-U.S. summit meeting in Washington in January 2011. After the sinking of the South Korean corvette *Cheonan* in March 2010 and the shelling of the Yeonpyeong Island in the following November by the Pyongyang regime, a dangerous crisis emerged. The Chinese leaders sent special envoys to both Seoul and Pyongyang and initiated active communications with the U.S., Japan and Russia. The Chinese efforts helped to defuse the crises. In the summit meeting, President Hu Jintao and President Obama agreed to maintain peace and stability in the Korean Peninsula and improve the relations between South and North Korea through their sincere and constructive dialogue, with the ultimate objectives to denuclearize the Korean Peninsula.¹⁰⁸

The Kim Jong Un regime apparently intends to continue to develop its nuclear capability and rely on it as the most significant bargaining chip in U.S.–North Korea relations. It emphasizes *songun* politics and the establishment of a strong and prosperous state. It carried out the failed launch of the Kwangmyŏngsŏng-3 rocket on 13 April 2012, and revealed on the same day that it was declaring itself a “nuclear state” in its constitution. It then conducted a third nuclear test on 12 February 2013.¹⁰⁹ In January 2016, North Korea engaged in its fourth nuclear test, which it claimed was a hydrogen bomb, and in the following February, it launched the Kwangmyŏngsŏng-4 rocket carrying what it called a satellite.¹¹⁰

The international community now has to accept that North Korea has become a nuclear weapon state like Pakistan. The chance of achieving the denuclearization of the Korean Peninsula, therefore, is rather low in the foreseeable future. China and the U.S. share similar

¹⁰⁸ “Joint Statement between the People’s Republic of China and the United States of America (in Chinese)”, website of the Chinese central government. Available at <http://www.gov.cn>, 21 January 2011.

¹⁰⁹ Hyan Joon Chon, “North Korea’s Shrinking Hard-Line Space: Why Its Geopolitical Calculus Must Change”, *Global Asia*, Vol. 9, No. 3 (2014), pp. 44–50.

¹¹⁰ Ju-min Park and Louis Charbonneau, “North Korean Rocket Puts Object into Space, Angers Neighbours, U.S.”, *Reuters*, 8 February 2016. Available at <http://www.reuters.com/article/us-northkorea-satellite-idUSKCN0VG00H>.

interests in crisis management under the present circumstances; they will work hard to discourage Japan and South Korea from going nuclear. The development of Terminal High Altitude Area Defense (THAAD) capabilities between the U.S., Japan and South Korea and the frequent large-scale military exercises among these three countries at China's doorsteps are unpleasant developments that China has to learn to tolerate.

The U.S., South Korea and, to a lesser extent, Japan understand that crisis management and the maintenance of peace and stability in the Korean Peninsula require China's active participation, and this understanding enhances their mutual strategic trust. Chinese leaders, however, come under increasing domestic pressure concerning their policy toward Pyongyang, which is perceived by China's intelligentsia as being exploited by North Korea without due respect for China's interests.

China's Peaceful Rise

Paul Kennedy discussed in his book, *The Rise and Fall of the Great Powers* (1987), the emergence of China as a major power. He indicated that China was the poorest among the world's major powers and at the same time probably located in the worst strategic position. He believed that two conditions would be essential to China's rise as a major power, namely, a visionary strategy formulated by the Chinese leadership and sustainable economic growth.¹¹¹

At the end of 2003, the Chinese leadership led by Hu Jintao began to articulate the concept of China's peaceful rise publicly. On 26 December 2003, in commemoration of the 110th anniversary of Mao Zedong's birthday, Hu Jintao, General Secretary of the CPC Central Committee, stated that China had to "insist on following the development path of a peaceful rise".¹¹² About two weeks earlier, in a speech delivered at Harvard University in the U.S., Premier Wen

¹¹¹ Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987), pp. 447–457.

¹¹² For the text of Hu's speech, see *Renmin Ribao* (Beijing), 27 December 2003.

Jiabao elaborated on the concept as follows: "In expanding our opening up to the external world, we, at the same time, have to adequately and more self-consciously rely on our own institutional innovations; rely on our developing and expanding domestic market; rely on transforming the huge savings of the residents into investment; and rely on the raising of the nation's quality and the progress of science and technology to resolve our resources and environmental problems. The gist of China's development path of a peaceful rise lies in the above".¹¹³

Chinese academics in the international relations field consider China's peaceful rise to be a long-term process in motion at this stage. It focuses on the status and function of China in the international system and world market, including its adaptability, integration, influence and creativity.¹¹⁴ Through active participation in the processes of economic globalization, China has captured the opportunity to rise as a major power. The contribution of China's economic growth to the world economy lies in the following areas: first, it leads to the stable improvement of the living standards of China's 1.3 billion population; second, it constitutes important momentum pushing for Asia's economic development (see Tables 1 and 2), and in return serves as a positive factor in global economic development; third, it facilitates the achievement of the optimal allocation of resources in the world market through China's participation in the international division of labor; and finally, it helps China assume a constructive role in the international economic mechanisms, and as a linkage between developed countries and developing countries.

The rapid increase of the weight of China's economy in the world market had generated some maladjustment between the external world and the Chinese market, including the exchange rate of the Renminbi (RMB), China's huge trade surpluses, large-scale relocation of industries to China, global deflation and so on. Chinese leaders pledged to tackle these issues gradually as China's economic structure stabilized and when China could absorb the shock of these

¹¹³ See *ibid.* (overseas edition), 12 December 2003.

¹¹⁴ See, for example, Renwei Huang and Youwen Zhang, 2004 *Zhongguo Guoji Diwei Baogao* (*China's International Status Report 2004*) (Beijing: Renmin Chubanshe, 2004), pp. 1–15.

adjustments. They also indicated that investment outflow from China would gradually accelerate.

The Chinese leadership was acutely aware of the danger of the spread of the “China threat” perception. They understood that the rise of a new major power would probably be perceived as a challenge and threat by the existing major powers. Chinese leaders were concerned that such perception would lead to the “containment” of China. In fact, they believed that the U.S. had been engaging in such “containment”, which in fact was the main cause of the conflicts in Sino-American relations. Chinese academics attempted to explain that China’s peaceful rise involved a redefinition of national interest and national security by the Chinese authorities as common interest and a new concept of security.

According to this new concept of security, China’s security is not an isolated issue; it is mutually interdependent with that of the Asia-Pacific region and indeed of the entire global community. This new concept of security involves non-traditional security and human security, and in fact can serve as the basis for cooperation between China and the other major powers. In this connection, Chinese leaders would attempt to establish a new framework for international relations, but they understood that they only had limited support. It was hoped that this new framework would expand the strategic space for China’s peaceful rise. To secure another 20–50 years for China to develop its economy and to catch up with the advanced countries in the world was the most important strategic objective in accord with China’s core national interest; such an objective was to facilitate China’s peaceful rise. China therefore was willing to make concessions to secure this strategic space. This was probably most conspicuous in Sino-American and Sino-Japanese relations, although less so in recent years; indeed, Chinese leaders had often been criticized by the domestic intelligentsia for being weak in dealing with these two countries. Such criticisms had led to a hardened position on their part in dealing with Japan during the Koizumi Junichiro administration.

In a speech at the Institute of International Relations in Moscow on 28 May 2003, and in another speech on the following day addressing the Moscow summit meeting of the SCO, Chinese President Hu

Jintao explained China's position. Hu stated: "China advocates the establishment of a new concept of security, the building of security through mutual trust, and the promotion of co-operation through dialogue. Military measures may win temporary victory, but will not bring long-lasting security. History and reality repeatedly demonstrate that force cannot establish peace, and power cannot ensure security. Only through the enhancement of mutual trust, consultation on the basis of equality and broad co-operation can universal and lasting security be realized".¹¹⁵

This approach arguably was the strategy of the weak and was in line with the Chinese leadership's objective of gaining time. Chinese leaders typically appeal for overcoming differences through dialogue and negotiation. As an implicit critique against U.S. unilateralism and Samuel P. Huntington's thesis of "the clash of civilizations",¹¹⁶ the Chinese public information machinery preaches mutual respect, mutual exchange and mutual learning among various civilizations, different social systems and development paths while engaging in peaceful competition. In line with China's relative weakness, Chinese leaders have been eager to promote multipolarity as the new global power transfiguration, the democratization of international relations, the strengthening of the role of the United Nations and respect for the diversity of development models.

Within this framework, the Chinese leadership considers that priority should go to China's neighbors, while the major powers are the key and the developing countries are the foundation. As China's influence rises in the international community, it would seek to strengthen its foundation, and relations with Latin America and Africa would assume greater significance.

Chinese leaders want to distinguish China's emergence as a major power from that of Germany before the First World War and that of Japan before the Second World War. They emphasize the themes of peace and development, arguing that China needs a peaceful

¹¹⁵ For the text of the two speeches, see *Renmin Ribao*, 29 and 30 December 2003.

¹¹⁶ Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon and Schuster, 1996).

international environment for its modernization and that China embraces globalization as symbolized by its joining the WTO in 2001. The high mobility of factors of production facilitated by globalization is perceived to have provided the strategic opportunities for China to exploit the advantage of its abundant cheap labor supply adopting an exports-oriented development strategy and emerging as “the workshop of the world”.

This development poses China as a keen competitor to many developing countries which also depend on labor-expensive exports — many ASEAN states are good examples. Chinese academics, however, point out that the processes of the international division of labor including the international intra-industry division of labor are controlled by multinational corporations. China is eager to move up the value-added chain in the production processes and develop more technology-intensive industries. Moreover, it also wants to establish its own brand names, its own Sony-type or Samsung-type of enterprises, and its own international distribution networks. Otherwise, China's share of the profits will remain very small. The Chinese explanation is genuine; it tries to identify China with the Third World and suggests that all developing countries still have a long way to go to secure relative economic autonomy.

Similarly, the Chinese leadership is aware that many of its Asian neighbors perceive the attraction of foreign investment by China as benefiting at their expense.¹¹⁷ China recognizes the contribution of foreign investment to its modernization, but at its present stage of development, it probably values more the advanced technology, management and access to the international market brought by foreign investment. At the same time, it attempts to maintain a balance between increasing foreign investment and avoiding foreign control. It is also aware that excessive competition for foreign investment among China's provinces has been counterproductive. It is obvious that China has been increasing its own investment overseas in recent

¹¹⁷This is obviously an important issue in Sino-ASEAN relations; see Joseph Y. S. Cheng, “Sino-ASEAN Relations in the Early Twenty-first Century.” *Contemporary Southeast Asia*, 23, No. 3 (2001), pp. 420–451.

years to secure supply of energy and industrial raw materials as well as to enhance its access to markets.

As economic globalization progresses and international competition intensifies, regional integration also accelerates. Since China's priority lies in the Asia-Pacific region, its cooperation with ASEAN and the ASEAN plus 3 framework is the most important regional integration process to China. The strategic partnership with Russia and the development of Sino-European Union relations are also perceived by the Chinese authorities in a positive light in promoting multipolarity. Similarly, regional integration among developing countries is supported because it enhances their bargaining power and facilitates the emergence of multipolarity. In the WTO ministerial conference in Cancun, Mexico, in September 2003, China assumed an active role in the Group of 20 in support of the leadership of Brazil, India and South Africa in fighting for the interests of the developing countries. Chinese leaders now take greater interest in narrowing the gap between the North and South as well as in South-South cooperation.

In the second decade of the twenty-first century, Chinese leaders perceive a deterioration in China's external environment. As China's rise becomes more prominent and its position on its territorial disputes become more assertive, the hedging strategies of its neighbors have been strengthened, which have also facilitated the U.S.'s "return to Asia" and its "rebalancing/pivoting toward Asia". According to China's international relations scholars, this "rebalancing" has three major aspects: the strategic and security aspect, the U.S.'s consolidation and renewal of its alliances with its allies and pseudo-allies, and the economic aspect symbolized by the TPP agreement.¹¹⁸

In security terms, China's gradual and significant enhancement of its military capabilities has emerged as a concern of the U.S. and China's neighbors, and a small arms race has been going on as the

¹¹⁸ Zhifei Li and Jie Zhang, "Zhongguo Zhoubian: Zhong Mei Boyi yu Haiyang Zhengduan (China Periphery: Sino-American Chess Game and Maritime Disputes)", *Zhongguo Zhoubian Anquan Yanjiu (di yi juan) (China Regional Security Review Vol. 1)* (Beijing: Social Sciences Academic Press (China), 2015), pp. 16–35.

countries with territorial disputes with China also seek to strengthen their respective naval and air forces. Military exercises have become more frequent and larger in scale, though military confidence-building measures have made progress at the same time, especially between the U.S. and China.

In regional economic integration, competition between TPP and the Regional Comprehensive Economic Partnership has become more distinct; the former scheme excludes China and the latter the U.S. Chinese leaders consider that the U.S. and its allies are exploiting the TPP and the TTIP to define the global trade and investment rules to exclude China and the major developing countries like the other members of the BRICS group. The Chinese authorities have not ruled out joining the TPP though as China as a member of APEC is entitled to do so.

China realized that its neighbors, with the exception of Japan and the Philippines, do not want to have to choose between the U.S. and China, but it has been dissatisfied with the phenomena of their economic dependence on China and security dependence on the U.S. While progress in the security front in reassuring China's neighbors has not been significant, as symbolized by the efforts to conclude a binding code on the conduct of parties in the South China Sea, the Xi Jinping administration has offered the ambitious schemes of the Silk Road Economic Belt and the 21st Century Maritime Silk Road.¹¹⁹

China's international relations experts consider that China's relations with its neighboring countries have been in a stage of remolding since 2010 or so, and the Chinese authorities under Xi Jinping intend to be more proactive in designing and implementing a grand periphery strategy; the "one belt, one road" schemes are the core components of this strategy. In support of these schemes, China has been engaging in institutional building including the BRICS New Development Bank, the AIIB, the SCO Development Bank, the Silk Road Fund, etc.

¹¹⁹ See, for example, Jie Zhang (ed.), *Zhongguo Zhoubian Anquan Xingshi Pinggu — "Yi Dai Yi Lu" yu Zhoubian Zhanlue* (2015) (*China's Regional Security Environment Review: 2015*) (Beijing: Social Sciences Academic Press (China), 2015).

Chinese officials attempt to distinguish the “one belt, one road” schemes from the U.S. Marshall Plan in Europe after the Second World War. They argue that while the latter was an aid scheme organized by the U.S., the former would emphasize mutual participation, management and enjoyment of the outcomes. They also argue that the new institutions initiated by China are not intended to disrupt or replace the existing international institutions; instead, they are meant to supplement and strengthen them. Symbolically, President Xi Jinping has been articulating the establishment of a community of common destiny in many places.

This grand periphery strategy or, in more concrete terms, the “one belt, one road” schemes have generated strategic anxiety and suspicion in the U.S., Japan and some of China's neighbors. India and Myanmar, for example, have articulated their doubts concerning the strategic purposes of the regional railway and highway networks that China has proposed; China's maritime cooperation plans and post-investment projects with Pakistan and Sri Lanka have been accorded political and military connotations. Even in pure economic terms, there are worries of economic dependence on China and the damages to the development of local industries as a result of competition from China's exports.

Keen competition for regional influence with the U.S., Japan, India and, to a lesser extent, Russia has been exacerbating as China's power and influence grow. The U.S., for example, openly articulated its dissatisfaction with AIIB and had tried to dissuade its allies like Australia from participation. China's territorial disputes with its neighbors have not improved, to say the least.

Economic projects in the region pose new challenges for China as it attempts to ensure the security of its corporations and investment. There are risks relating to political stability and regime change in the region, and there are risks relating to corruption involving officials and corporations on both sides. Chinese corporations have been adapting to local demands in terms of legal compliance, administrative supervision, corporate social responsibility, community relations and so on. As the Chinese authorities are keen to improve China's international image, these demands become even more significant.

Conclusion

Some observations and assessments may now be made in this survey of China's Asian policy. In the first place, Chinese leaders' foreign policy framework has been an evolving one, responding to emerging opportunities and setbacks. Sometimes, the implementation may become disorderly, making the framework confused and indistinct. Take the key concept of strategic partnerships: on the basis of the author's interviews with Chinese foreign policy experts, it was Russia that first proposed the concept of a strategic, cooperative partnership in the bilateral relationship.¹²⁰ Similarly, it was also the then U.S. President Bill Clinton who first raised the idea of a strategic partnership with China when he visited Australia in November 1996.¹²¹ The Chinese leadership quickly embraced the idea, and China soon began to establish various types of partnerships with other major powers.

Initially, there appeared to be a hierarchy of partnerships ranging from strategic partnerships to comprehensive partnerships, constructive partnerships of long-term stability, partnerships based on good-neighborliness and mutual trust, partnerships of friendship and cooperation, etc.¹²² Due to the spread and upgrading of these types of partnerships in the following years, this hierarchy has become blurred; now, China has strategic partnerships even with Venezuela, Spain, etc.¹²³ On the other hand, Sino-Japanese relations have been a failure in Chinese diplomacy. Given the strategic signifi-

¹²⁰ Blank, "Which way for Sino-Russian relations", pp. 345–360.

¹²¹ *Renmin Ribao* (Beijing), 29 August 1998.

¹²² Joseph Y. S. Cheng and Zhifu Shi, "Zhongguo yu Duliанти Guojia, Dongou Guojia Guanxi de Queli he Fazhan (The Establishment of Relations and Subsequent Developments between China and the Countries of the Commonwealth of Independent States and Eastern Europe)", in Joseph Y. S. Cheng and Zhifu Shi (eds.), *Zhonghua Renmin Gongheguo Duiwai Guanxi Shigao* (A Draft History of the Foreign Relations of the People's Republic of China), Vol. 4, 1989–1999 (Hong Kong: Cosmos Books, 2000), pp. 133–172.

¹²³ China established a strategic partnership with Spain in November 2005 during President Hu Jintao's visit to Madrid; see *Ming Pao* (Hong Kong), 16 November 2005.

cance of the bilateral relationship, Beijing cannot afford to allow it to deteriorate to such an extent during the Koizumi administration. Domestic nationalism has been an important obstacle preventing the Chinese leadership from adopting a more flexible position, and this is a good example of public opinion exerting some influence on Chinese foreign policy today.

China has been quite successful in reassuring ASEAN that it is not a serious threat. Despite China's expanding comprehensive national power, ASEAN countries have still been eager to engage China. This improvement in Sino-ASEAN relations has been all the more remarkable in view of the substantial Sino-American strategic mistrust and the Sino-Japanese differences. The SCO so far has been quite successful, though the September 11 incident and the subsequent American military presence in Central Asia for some years exposed China's vulnerabilities and the impact of the power of the U.S. The George W. Bush administration's support of the prodemocracy movements in the region facilitated a recovery of Sino-Russian influence based on anti-American sentiments. But, supporting unstable authoritarian regimes has its long-term risks.

China's potential weaknesses cause worries among China's neighbors and may adversely affect their perceptions of and relations with China. If China's economic collapse leads to an exodus of refugees, China's neighbors will feel threatened. If China's lack of political reforms, government incompetence and corruption finally lead to political and social instability, peace and stability in the Asia-Pacific region will be damaged. China's environmental pollution spreads to its neighbors. Its inefficient use of natural resources resulting from rapid economic growth adds a lot of pressure to international commodity markets and the balances in demand and supply regarding raw materials. Hence, domestic reforms constitute an important part of China's responsible behavior, reassuring the international community that China's development should not be perceived as a threat.

Concern with China's political and social stability is related to the human rights condition, political reforms and corruption in China.

Chinese leaders are obviously determined to combat corruption; there has been improvement in the human rights condition in the country, but the CPC has no intention of compromising its monopoly of political power. The fact that China is not a democracy and makes little efforts in democratization remains a handicap in China's foreign relations. It was suggested that the neo-conservatives in the American political establishment favored closer ties with Russia than with China at the turn of the century because they considered Russia a democracy. Similarly, they now prefer the cultivation of India to balance against China for the same reason.

In contrast to the 1950s and 1960s, China's "soft power" remains limited today.¹²⁴ This is perhaps most conspicuous in its diplomatic competition with Taiwan and in terms of benefits in return for its foreign aid programs. So far, the incumbent leaders Xi Jinping and Li Keqiang have not been perceived as charismatic statesmen on the world stage. The projection of China's image overseas is handicapped by the fact that international media are mainly in the hands of the U.S. and other Western countries. In the 1990s, Chinese academics and think tanks worked hard to rebuke Samuel P. Huntington's thesis of the clash of civilizations,¹²⁵ but their efforts failed to make any impact in the international community. The Chinese authorities have now been attempting to exploit the appeal of traditional Chinese culture; they have been, for example, establishing hundreds of Confucius Institutes in Western countries. But such efforts were not in line with Chinese leaders' cultivation of Fidel Castro and Hugo Chavez. While trying to secure recognition as a major power, China has yet to convince the world the purpose and contribution of its pursuit.

As China emerges as a major power and demands the associated international status and influence, its leaders are aware that they have to work hard to minimize the "China threat" perception and to provide

¹²⁴ Joseph S. Nye, Jr., *Soft Power: The Means to Success in World Politics* (New York: Public Affairs, 2004).

¹²⁵ Huntington, *The Clash of Civilizations*.

reassurances to the international community. Within a more proactive foreign policy framework initiated by President Xi Jinping, the Chinese authorities offer to build a “new type of major power relations”, with the U.S. as the principal target, while Japan remains neglected.

China also implements a grand peripheral strategy with the “one belt, one road” schemes as its focus. The general message has been that China intends to establish a community of common destiny with its neighbors through the offering of more international public goods. The latter is perceived as a profitable way of investing China's substantial foreign exchange reserves and digesting its excessive industrial capacity. In sum, there is a realization that ensuring China's sustainable economic growth will contribute to a peaceful international environment and regional economic cooperation.

The articulation by China's international relations experts and their general assessment of a deterioration in China's external environment since the end of the last decade reveal the Chinese leadership's awareness of its foreign policy's inadequacies. Their perception of the U.S.'s strategic anxiety implies that strategic trust in Sino-American relations is lacking, and a substantial segment of China's elite and population considers that the U.S. does not want to accept a strong China. There is no denial that China's Japan policy has been a failure, and the best scenario in the near future is the avoidance of further deterioration in the bilateral relationship. Many neighbors of China have been strengthening their hedging strategies, which has facilitated the U.S.'s “return to Asia” and Japan's attempts to maintain its regional influence in competition with China.

This strategic anxiety and competition have spread to regional economic cooperation too, with the competition between the TPP agreement and the RCEP scheme as the core. As a result, regional economic cooperation has been largely stalled at the expense of the entire region.

As the Chinese leadership understands that the legitimacy of the regime partly depends on its performance in enhancing the nation's international status and influence and its exploitation of nationalism, it believes that it cannot be seen to be weak in dealing with Japan

and, to a lesser extent, the U.S. This belief helps to explain the increasing assertiveness in China's foreign policy in the recent decade, especially in relation to its territorial disputes. This assertiveness damages the Chinese leadership's efforts to minimize the "China threat" perception and provide reassurances to the international community.

As economic growth slows down and social stability is adversely affected by the development of civil society, Chinese leaders may consider that they have even less room to maneuver Chinese foreign policy. At the intelligentsia level, there are more criticisms of Xi Jinping's cost-benefit analysis in his grandiose foreign assistance schemes in recent years.

As China's influence grows, the maintenance of a balance among the above considerations becomes more significant and more difficult. While Chinese leaders remain sober in their understanding of global politics, the restraints are serious and breakthroughs are less likely as the efforts required cannot be underestimated.

Acknowledgment

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Chapter 3

China's Evolving Regional Strategy in East Asia

Joseph Yu-Shek Cheng

Introduction

In 1993, when the ASEAN Regional Forum was about to be established, China was hesitant in joining the multilateral regional organization. There was a concern that China might become a target or come under pressure within the organization. It subsequently participated because it considered that it would be better to influence the forum from within than stay outside. In the early 1990s, China became involved in subregional economic cooperation projects like the Tumen River Development Program and the Greater Mekong Subregion (GMS) Cooperation Program, but its participation in multilateral international organizations has been markedly stepped up only in the new century. By 2001, when the Shanghai Cooperation Organization was formed, Chinese leaders were fully convinced that multilateral regional organizations were significant mechanisms for China to articulate its interests, strengthen its influence, cultivate its soft power and promote multipolarity. In less than a decade, China was transformed from a passive, defensive participant to an active organizer with a well-defined agenda and strategy.

Meanwhile, China has been gradually moving away from the low-profile foreign policy line suggested by Deng Xiaoping in the wake of the Tiananmen incident¹ toward the role of a “responsible stakeholder” in the international community² while pursuing the status and influence of a major power. Deng Xiaoping’s advocacy of peace and development, however, is still emphasized by the Chinese leadership today.³ China needs a peaceful international environment to concentrate on its economic development, and this in turn demands good relations with its neighbors. To this end, China wants to minimize the “China threat” perception among its neighbors.⁴ Active participation in regional organizations obviously helps to realize these objectives as minimum goals.

The Asia-Pacific financial crisis in 1997–1998 offered an important opportunity for China. The failure on the part of the World Bank and the International Monetary Fund to help facilitated the establishment of the ASEAN Plus Three (APT) mechanism. China’s refusal to devalue the *yuan* also impressed the ASEAN countries, which in turn saw China as a responsible major power with respect for their interests. The APT mechanism and later the East Asia Summit demonstrate that enthusiastic participation in regional economic cooperation by major powers within the region contributes to a strengthening of regional identification.⁵ East Asia certainly felt the pressure of the expansion of the European Union (EU) and the proposed establishment of the

¹ In the aftermath of the Tiananmen incident, Deng Xiaoping released a number of guidelines for Chinese foreign policy; see Joseph Y. S. Cheng, “China’s Foreign Policy in the Mid-1990s”, in Joseph Y. S. Cheng (ed.), *China in the Post-Deng Era* (Hong Kong: The Chinese University Press, 1998), pp. 225–226.

² Robert Zoellick, “Whither China: From Membership to Responsibility?”, Speech made on 21 September 2005 at Washington, D.C. Available at <http://www.state.gov/s/d/former/zoellick/rem/53682.htm>.

³ Deng Xiaoping, “The International Situation and Economic Problems”, in *Selected Works of Deng Xiaoping*, Vol. III (1983–1992), ed. Xiaoping Deng (Beijing: Foreign Languages Press, 1994), p. 341.

⁴ Herbert Yee and Ian Storey (eds.), *The China Threat: Perceptions, Myths, and Reality* (New York: RoutledgeCurzon, 2002), pp. 1–19.

⁵ Walter Mattli, *The Logic of Regional Integration: Europe and Beyond* (Cambridge: Cambridge University Press, 1999), pp. 42–43.

Free Trade Area of the Americas. In November 2007, ASEAN leaders signed the ASEAN Charter, and in December the following year, it was declared to be in force after the completion of the ratification processes by its members.⁶ In 2015, ASEAN announced the formation of the ASEAN Community with its three pillars: the Political-Security Community, the Economic Community and the Sociocultural Community.

China's regional strategy in Asia took time to develop, and this strategy was pursued with attempts to ensure that China would still be perceived as a "*status quo* power". China has been eager to convince the international community that it has no intention to be a "revisionist power" in the era of economic reforms and opening to the outside world.⁷ Its economic achievements well demonstrate that it has benefited from the existing international economic order, and its rising international status and influence have much reduced its incentive to challenge the existing international political order, despite concerns that the U.S. and the Western world still want to "contain" China.

On the other hand, the world becomes increasingly skeptical of China's peaceful rise. Since 2010, China has become considerably more assertive in territorial disputes with Japan over the Diaoyu/Senkaku Islands as well as with Vietnam, the Philippines, etc. over the Spratlys. There have been many minor incidents and almost routine, confrontational naval maneuvers and exercises. Meanwhile, China's development of modern weaponry including the imminent launch of its second aircraft carrier has also resulted in military modernization on the part of China's neighbors. Their adoption of hedging strategies in turn leads to their strengthening of security ties with the U.S. facilitating the "return to Asia" policy of the Obama administration.

⁶See Hiro Katsumata, "The ASEAN Charter Controversy — Between Big Talk and Modest Actions", in Yang Razali Kassim (ed.), *Strategic Currents — Emerging Trends in Southeast Asia* (Singapore: S. Rajaratnam School of International Studies, Nanyang Technological University and Institute of Southeast Asian Studies, 2009), pp. 11–14.

⁷Alastair Iain Johnston, "Is China a Status Quo Power?", *International Security*, Vol. 27, No. 4 (Spring 2003), pp. 5–56; Joseph Y. S. Cheng, "China's Asian Policy in the Early Twenty-first Century: Adjusting to its Increasing Strength", *Journal of Asian Public Policy*, Vol. 1, No. 3 (November 2008), pp. 237–266.

There is a clear understanding on the part of the Chinese leadership that the country's external environment has been deteriorating.

There has been much academic discussion on a *status quo*-oriented foreign policy, especially within the school of classical realism. Hans J. Morgenthau considers that its objective is to maintain the existing distribution of power within a specific historical era.⁸ China's foreign policy researchers observe that a *status quo*-oriented foreign policy does not object to all changes, it only opposes significant changes such as the transformation of a first-rank power into a second-rank power. They tend to perceive *status quo* as an order, which involves both power factors and institutional factors. A change of the *status quo* cannot be achieved simply by altering the existing distribution of power; it is definitely accompanied by a change in international institutions as well. A new order can only be established through the building and acceptance of new institutions in which China will play a much more active and hopefully constructive role.

Alastair Iain Johnston's study of Chinese foreign policy has been followed by many think tank researchers in Beijing's foreign policy establishment. Johnston argues that it cannot be demonstrated that China is a revisionist power operating outside the international community; instead, China has been increasingly integrating with the international community and has been more and more cooperative.⁹ Despite the rhetoric, it is still unclear whether China has been actively balancing itself against the predominance of the U.S. to weaken its influence in a unipolar world. China obviously has been joining an increasing number of international organizations; its level of participation is higher than those of countries with a similar level of development.

There is no denial that China has been pursuing the status of a major power.¹⁰ It has spared no effort to protect its sovereignty and territorial integrity, with an emphasis on independence and

⁸Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace* (New York: Alfred A. Knopf, 1956).

⁹Alastair Iain Johnston, *op. cit.*

¹⁰Deng Yong, "Better than Power: 'International Status' in Chinese Foreign Policy", in Deng Yong and Wang Fei-ling (eds.), *China Rising: Power and Motivation in Chinese Foreign Policy* (Lanham, Maryland: Rowman & Littlefield, 2005), pp. 51–52.

unification, and to realize its modernization goals. At the same time, it embraces globalization and is prepared to be more integrated with the international community through more active participation in international institutions. This development model has power politics elements as well as those of institutional cooperation. The former involve the gradual strengthening of China's military power, ranging from the development of a credible second strike nuclear force to that of a blue-water navy to protect its trade routes and territories in dispute. The latter refer to an emphasis on cooperation and economic benefits from China's external economic relations, striving to maintain a peaceful international environment on a long-term basis to allow China to concentrate on modernization through the establishment of and participation in various bilateral and multilateral institutions and mechanisms. This participation has to be facilitated by strengthening mutual trust between China and its neighbors as well as the delivery of public goods in the regional and international community. Unfortunately, this mutual trust has been considerably compromised by China's recent assertiveness in the regional territorial disputes.

Beijing is aware that China's socioeconomic development level is still quite far behind that of developed countries, and hence China needs much time and space for development without serious conflicts. In concrete terms, this means normal if not cordial relations with all major powers, especially the U.S., friendly ties with China's neighbors and avoidance of wars and military confrontations. China will attempt to realize these objectives on a long-term basis.

China's optimal strategy at this stage would be to seek gradual, limited changes while maintaining its "*status quo* power" image.¹¹

¹¹ Randall Schweller divides major powers into four categories: *status quo* powers not accepting any changes; *status quo* powers accepting limited reforms; revisionist powers with relatively limited objectives; and revolutionary revisionist powers; see Randall Schweller, "Bandwagoning for Profit: Bringing the Revision State Back In", in Michael Brown (ed.), *The Perils of Anarchy: Contemporary Realism and International Security* (Cambridge: The MIT Press, 1995), pp. 251–270. As to how China fits into the categorization, see Michael D. Swaine and Ashley J. Tellis, *Interpreting China's Grand Strategy: Past, Present and Future* (Santa Monica, California: The Rand Corporation, 2000), p. 231.

These changes should ideally be secured through active participation, coalition-building and even leadership in international institutions. In its formal pronouncements, the Chinese leadership has been articulating the objective of building a new international order for decades. In 1996, the then Vice Premier Qian Qichen proposed a “new security concept”, which was further elaborated by President Jiang Zemin in 1999, advocating principles of mutual trust, mutual benefit, equality and cooperation to promote the concept of common security, mutual security, cooperative security, comprehensive security and collective security as the foundation of a new international order.¹² Regarding the economic front, Chinese leaders have also indicated that China would adopt a responsible attitude to participate in the coordination of international and regional economic policies to secure a fair and rational new order. From an offensive realism point of view, China is perceived to exploit participation in international institutions and international cooperation to establish its major power status and image, as well as secure the initiatives in enhancing regional cooperation in East Asia.¹³

At the 16th Party Congress held in November 2002, Jiang Zemin in the foreign policy section of his report elaborated on China's “periphery diplomacy”, indicating that China would uphold the principles of “*yu lin wei shan, yi lin wei ban* (do good to neighboring countries and treat them as partners)” and strengthen regional cooperation, pushing exchanges and cooperation with China's neighboring countries to a new level.¹⁴ The following October, the then Premier Wen Jiabao addressed the first ASEAN commerce and investment summit and enunciated the principles of “*mulin, anlin, fulin*

¹²Information Office of the State Council, *China's National Defense* (Beijing: Information Office of the State Council, 2000), p. 8.

¹³On offensive realism, see John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton, 2001), p. 21. On China's exploitation of its participation in international affairs to enhance its international influence, see Richard Bernstein and Ross Munro, *The Coming Conflict with China* (New York: Alfred A. Knopf Inc., 1997), p. 53.

¹⁴For the text of his report, see *Renmin Ribao* (Beijing), 10 December 2002 Available at http://english.peopledaily.com.cn/200211/18/eng20021118_106983.shtml.

(maintaining good relations with China's neighboring countries, offering them security and prosperity)".¹⁵ It was in this context that a revised Foreign Trade Law was implemented in July 2004. In addition to the previous stress on the principle of equality and mutual benefit, the revised law aimed to: "conclude or participate in agreements on customs alliance, free trade area agreements and other regional economic and trade agreements, and participate in regional economic organizations".¹⁶ Finally, at the 17th Party Congress in October 2007, Hu Jintao indicated that China would "implement a free trade area strategy, strengthen bilateral and multilateral economic and trade co-operation".¹⁷ By then, China clearly defined its regional strategy in diplomatic and economic terms.

This chapter intends to examine the objectives of China's regional strategy in East Asia (relative to other parts of Asia), its options, challenges and difficulties. The soft power aspects of this strategy will also be studied, as well as the strategies of other major powers in the region and their impact on the Chinese strategy. The policy measures adopted in pursuit of China's regional strategy will be carefully analyzed to consider its strengths and weaknesses.

The Emerging Regional Strategic Framework of China for Asia

As China's economy grows and its ambition to enhance its international status and influence strengthens, Chinese leaders believe that they need a more proactive strategy to defend and promote the country's interests. The earlier guideline of "prudence and keeping a low profile

¹⁵For the text of his speech entitled "China's Development and Asia's Rise", see Ministry of Foreign Affairs of the People's Republic of China, http://www.mfa.gov.cn/chn/pds/gjhdq/gjhdqzz/lhg_14/zyjh/t27173.htm.

¹⁶See Anshan You, *Zhongguo-Dongmeng Ziyoumaoyiqu Jianshe: Lilun, Shijian, Qianjing* (*The Construction of the China — ASEAN Free Trade Area: Theory, Practice and Prospects*) (Shanghai: Shanghai Academy of Social Sciences Press, December 2008), p. 231.

¹⁷For the text of Hu Jintao's report, see <http://www.china.org.cn/english/congress/229611.htm>.

(*taoguang yanghui*)” has been accorded a high priority.¹⁸ In this connection, the Chinese leadership intends to shape the international order in Beijing’s favor and formulate a regional or peripheral strategy.

At the end of his first year of administration, the Communist Party of China (CPC) General Secretary Xi Jinping called a conference on peripheral diplomatic work in October 2013, demonstrating the significance of regional strategy or peripheral strategy in China’s foreign policy framework at this stage.¹⁹ Xi emphasized that peripheral diplomatic work meets the need of the great revival of the Chinese nation and the realization of the Chinese dream.²⁰ The task of the conference was to define the strategic objectives, basic guidelines, overall design and the solutions to the major issues regarding China’s peripheral diplomatic work in the coming five to ten years. This promotion of a regional or peripheral strategy was unprecedented.

Xi put forward four principles as important concepts guiding China’s relations with its neighboring countries for his administration: closeness, sincerity, benevolence and tolerance. Closeness refers to well-developed networks of geographical, humanitarian and cultural ties as well as interconnectivity and a sense of fraternity. Sincerity refers to honesty, keeping one’s promises and avoidance of bullying behaviors. Benevolence stresses mutual benefit, and a proper sense of justice in the pursuit of one’s interests. Tolerance means recognition of differences between China and its neighbors and the pursuit of harmonious coexistence in this context.

¹⁸Yan Yuetong, “From Keeping a Low Profile to Striving for Achievement”, *The Chinese Journal of International Politics*, Vol. 7, No. 2 (2014), pp. 153–184; Jean Pierre Cabestan, Editorial on Special Feature, “What Kind of International Order Does China Want? Between Reformism and Revisionism”, *China Perspectives*, No. 2 (2016), pp. 3–6.

¹⁹Qi Huaigao, “Zhongyang Zhoubian Waijiao Gongzuo Zuotanhui hou Zhoubian Waijiao Dingceng Sheji Sikao (Top-level Design Consolidation on Peripheral Diplomacy After the Central Peripheral Diplomatic Work Conference)”, in Liu Ming, Li Kaisheng and Tang Wei (eds.), *Zhongguo Zhoubian Diyuhan Huanjing Xin Qushi — Lilun Fenxi yu Zhanlue Yingdui (New Trends in China’s Peripheral Geopolitical Environment — Theoretical Analysis and Strategic Responses)* (Beijing: Social Sciences Academic Press (China), 2016), pp. 265–280.

²⁰For the text of Xi Jinping’s address at the conference, see *Renmin Ribao* (Beijing), 26 October 2013.

China's official foreign policy think tanks realize that China's periphery is entering a period of rising turmoil and sharpening contradictions, leading to a deterioration of its external security environment. In this decade, China's peripheral diplomacy has to handle the following risks and challenges. In the first place, some of China's neighbors have considerable suspicions and worries regarding the country's rapid rise.²¹ Further, the U.S. has enhanced its intervention in Beijing's peripheral issues, and its balancing against China.²² China's maritime territorial disputes with some of its neighbors have been escalating, and the risks of military conflicts rise.²³ Political turmoil, social conflicts and even armed confrontations frequently emerge in China's periphery. Rapid and even violent political transformations and changes in China's neighboring countries may have adverse impacts on China's security and social stability. The U.S., Japan, Australia and the ASEAN have actively proposed multilateral institution initiatives, with an intention to balance against China's increasing influence in the Asia-Pacific region.

China's foreign policy scholars often distinguish between the concepts of small periphery and grand periphery. The former refers to China's 14 neighboring shared maritime boundaries; North Korea and Vietnam share common land borders as well as maritime boundaries with China.²⁴ The grand periphery concept exceeds the traditional boundary limits involving neighboring countries which are sharing

²¹Bruce A. Elleman, Stephen Kotkin and Clive Scheffeld (eds.), *Beijing's Power and China's Borders: Twenty Neighbours in Asia* (New York: M.E. Sharpe, 2013).

²²Kenneth Lieberthal and Wang Jisi, *Addressing U.S.–China Strategic Distrust*, John L. Thornton China Center Monograph Series, No. 4, March 2012.

²³Yavor A. Kostadinov, *Small Islands, Big Flashpoint: Impact of China's Maritime Territorial Disputes on International Security and Cooperation* (Saarbrücken: Lap Lambert Academic Publishing, 2013); Gregory B. Poling, *The South China Sea in Focus: Clarifying the Limits of Maritime Dispute* (Lanham: Center for Strategic & International Studies, 2013).

²⁴The 14 neighboring countries sharing common land borders with China are: North Korea, Russia, Kazakhstan, Kyrgyzstan, Afghanistan, Pakistan, India, Nepal, Bhutan, Myanmar, Laos and Vietnam. The eight maritime neighbors of China are North Korea, South Korea, Japan, the Philippines, Malaysia, Brunei and Indonesia.

similar strategic demands as China, including seven more countries without common boundaries with China.²⁵

The scope of the grand periphery, according to some Chinese experts, depends on three factors: maximum consolidation of the foundation in support of China's geopolitical strategy; considerations of China's own capabilities and its effective influence on its periphery; and the costs and benefits of the actual implementation of China's peripheral strategy. On the basis of the above, China's grand periphery may be divided into six plates: Northeast Asia, Southeast Asia, South Asia, Central Asia, Western Asia and the South Pacific. The latter two plates do not share common boundaries with China, but Western Asia is considered the strategic extension region of China's western provinces and is related to China's energy security, stability of its boundary areas and the development of western China. South Pacific is the strategic extension region of Southeastern China; ensuring cordial relations with Australia, New Zealand and the South Pacific countries is considered essential to the maintenance of China's maritime security.

According to Qi Huaigao, there are four streams of thinking concerning China's regional strategy or peripheral strategy in the country's foreign policy research community.²⁶ The first accords a priority to the achievement of a maritime breakthrough, i.e., the neutralization of major powers' attempts to form coalitions to "contain" or even "blockade" China, the adoption of a more proactive approach in the management of its maritime territorial disputes and the development of closer relations with countries in the South Pacific and the eastern Indian Ocean. The second approach emphasizes a push toward the West, cultivating broad strategic space and an economic development belt in South and Central Asia extending toward the Middle East. Holders of this view perceive the need for more balanced regional economic development within China and the balance against the U.S. This approach toward the West considers

²⁵These seven countries are Uzbekistan, Turkmenistan, Bangladesh, Sri Lanka, Cambodia, Thailand and Singapore.

²⁶Qi Huaigao, *op. cit.*, pp. 270–272.

that China's economic interests in Central and Western Asia will continue to expand, and these regions offer opportunities for Beijing to build international institutions to raise its international status.

The third approach turns inward and considers it important to strengthen the security and foreign policy decision-making processes. The decision of the third plenum of the Eighteenth CPC Central Committee to establish a new National Security Commission in November 2013 was an important step in this direction.²⁷ The fourth stream of thinking adopts a broad extension strategy of cultivating China's overseas interests in Latin America, Europe and Africa. There are also advocacies of combination of some of the above streams of thinking.

Regarding Northeast Asia, there is a general recognition of the failure in China's Japan policy and the need to avoid further deterioration in the bilateral relationship. The cultivation of South Korea has become a more significant priority. Most Chinese foreign policy researchers still believe that the Six-Party Talks have the potential to develop into a regional security mechanism, though the adamant push to develop nuclear weapons on the part of the Kim Jong Un regime and Beijing's inadequate influence over Pyongyang are obvious obstacles at this stage. Xi Jinping proposed the establishment of a "new type of major power relationship" with the U.S., and China's foreign policy experts hope to achieve an accommodation between the multilateral institutions initiated by Beijing and the bilateral alliances maintained by Washington.

In Southeast Asia, the hitherto pursuit of economic diplomacy combined with the shelving of maritime territorial disputes had to be adjusted toward an equal emphasis of economic diplomacy and an active security strategy. In South Asia, the rise of India, the relative decline of Pakistan, the acceleration of regional integration and the increasing competition among major powers have posed new challenges to Beijing. China has to accord a much higher priority to

²⁷For the text of the communique of the Central Committee plenum adopted on 12 November 2013, see <http://news.xinhuanet.com/politics/2013-11/15/c-118164235.htm>.

handle the strategic implications of India's rise, maintain its traditionally strong relationship with Pakistan and engage the U.S. in coordinating over their respective South Asian policies.

China hopes to pursue its interests in Central Asia in the context of promoting stability and development of the countries in the region, while respecting the core interests of Russia and the regional institutions initiated by Moscow. In line with China's rise, its national interests have extended to Western Asia, and it now intends to cultivate the broad Middle East region including Central Asia, Western Asia and North Africa as a strategic region and economic development belt serving China's strategic interests. It is anticipated that China's diplomatic approach to the Middle East would be more proactive.

In the second decade of the twenty-first century, China's political, economic and social ties with the South Pacific and New Zealand have been strengthening. China has been cultivating Australia and New Zealand while trying to neutralize interferences from the U.S., Japan and the major European countries in its approach to the South Pacific.

Though the significance of the six plates varies in China's foreign policy framework, coordination has become all the more important. This is probably part of the reason behind the demand for an overall peripheral diplomacy. Under the guideline of "strive for achievement (*fenfa youwei*)", the Chinese foreign policy establishment in recent years often articulates a "rights consciousness". In a press conference held after the second session of the Twelfth National People's Congress in March 2014, Chinese Foreign Minister Wang Yi stated: "On issues of territory and sovereignty, China's position is firm and clear. We will not take anything that isn't ours, but we will defend every inch of territory that belongs to us".²⁸

As the Chinese leadership understands that the legitimacy of the Party regime partly depends on its performance in raising China's international status and influence, the articulation of this "rights

²⁸ Ministry of Foreign Affairs of the People's Republic of China, "Foreign Minister Wang Yi Meets the Press, 2014/03/08". Available at http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1135385.shtml.

consciousness” naturally becomes prominent. There is also a speculation that as economic growth slows down, the appeal to nationalism on the part of the Xi Jinping administration will be stepped up.

In dealing with the traditional disputes, China's foreign policy researchers in recent years often discuss the concept of “baseline mentality”, which implies risk management and making preparations for the worst scenario. Such a discourse attempts to demonstrate China's strong resolve in defense of its sovereign rights.

The enhancement of patrols in the vicinity of the disputed maritime territories such as the Diaoyu/Senkaku Islands as well as the Paracels and Spratlys in the South China Sea is an obvious example of this “rights consciousness”. The definitions of “red lines” on the other hand reflect the implementation of the “baseline mentality”. On nuclear tests by North Korea and in the handling of the Diaoyu/Senkaku Islands dispute, the Chinese authorities attempted to spell out their respective baselines as measures of deterrence.

On the positive side, the “one belt, one road” initiatives enunciated in September and October 2013 are designed to coordinate China's peripheral diplomacy. They are to meet two fundamental challenges: to consolidate and develop the cooperative partnerships with China's neighbors so that these partnerships would provide the assistance for China's further development; and to facilitate China's neighbors to share China's fruits of peaceful development, which in turn would help to maintain a peaceful international environment essential to China's development.

The implementation of the “one belt, one road” schemes has highlighted the coordination needed for China's peripheral diplomacy and opening to the external world. This involves not only the foreign policy establishment in Beijing, but also the local governments in China, the foreign governments concerned, local governments in China's neighboring countries, international organizations, multinational corporations and the NGOs.

China's peripheral diplomacy also accords a priority to the development of subregional economic cooperation mechanisms like the Bangladesh–China–India–Myanmar economic corridor and the China–Pakistan economic corridor. At the same time, China has

been engaging in a new series of institutional innovations including the BRICS New Development Bank, the BRICS Contingency Fund, the Asian Infrastructure Investment Bank, the Silk Road Fund, etc.

In sum, the peripheral diplomacy and regional strategy initiated in this decade reflect a more proactive foreign policy on the part of China in its pursuit of international status and influence of a major power. They enable Beijing to downplay the traditional emphasis on relations with major powers, enhance its appeal to act as a leader of developing countries, strengthen its base for power projection and continue to maintain a peaceful environment in support of its development. The activism at this stage reveals its attempts to create opportunities instead of waiting for them to come, and to shape a more favorable environment in China's neighborhood instead of simply adjusting to its external environment.

Options and Progress in China's Regional Strategy in East Asia

At this stage, China aims at strengthening its participation in all major regional organizations and will try to define and publicize its long-term strategy. China needs a peaceful international environment to concentrate on its modernization, and since in many ways China is still a regional rather than global power, East Asia serves as the basis for it to seek the status and influence of a major power.

China's emphasis is on an East Asian regionalism excluding the U.S. rather than Asia-Pacific regionalism. Its objective is to promote multipolarity and reduce the predominance of the U.S. as the sole superpower globally and regionally. In contrast, the U.S. prefers institutions set in the wider Asia-Pacific context in which it has more allies sharing common values. But these institutions including the Asia-Pacific Economic Cooperation (APEC) forum are perceived as complementary diplomatic instruments to its system of bilateral military alliances, especially its core alliance with Japan. Institutions in which

the U.S. participates are not perceived to pose a threat to its leadership in the region but rather to consolidate it.²⁹

According to the analysis of Zhang Wei, deputy head of the Afro-Asian research department of the research institute affiliated to China's Ministry of Commerce, APEC and Asia-Europe Meeting (ASEM) are forum type of cooperation, in contrast to the two other types of economic cooperation in the Asia-Pacific region, i.e., cooperation based on certain definite mechanisms like ASEAN Plus Three and the GMS economic cooperation program and cooperation based on concrete preferential arrangements like the China-ASEAN Free Trade Area (CAFTA) and the bilateral free trade agreement (FTA) between China and Chile and that between China and New Zealand.³⁰

Apparently China wants to downgrade the importance of APEC. Chinese leaders would like APEC to continue to operate as an economic cooperation forum and not move toward a binding type of cooperation; it should concentrate on promoting economic and technological cooperation as well as trade and investment liberalization in a balanced manner.³¹

The Chinese leadership is aware that the Obama administration would still accord a priority to the Middle East and the combat of terrorism followed by North Korea's nuclear weapons program. The fall from power of the governments in Tunisia and Egypt and Libya in the Arab Spring and the regional political unrest would further absorb much of the Obama administration's attention. Hence, APEC would not be a priority concern of the Obama administration, and

²⁹ Barry Desker, "APEC — Time for Second-Best Options", in Yang Razali Kassim (ed.), *op. cit.*, p. 86.

³⁰ International Relations Department and Economic Diplomacy Research Centre, Tsinghua University (eds.), *Zhongguo Jingji Waijiao 2008 (China's Economic Diplomacy 2008)* (Beijing: China Economic Publishing House, December 2008), p. 208.

³¹ Lu Jianren, "Ping Yataijinghezuzhi Lima Huiyi (On the APEC Summit Meeting in Lima)", in Zhang Yuyan (ed.), *Yatai Diqu Fazhan Baogao 2009 (Annual Report on Development of Asia-Pacific 2009)* (Beijing: Social Sciences Academic Press (China), 2009), p. 127.

this seems to be in line with China's interests. Beijing also understands that the rise of China has become an overriding issue for U.S. foreign policy, but it has no intention to confront the U.S. in APEC.³² Although Chinese leaders have been reluctant to involve APEC in the global combat of terrorism given their overt expectation of its role as a forum on trade and investment, they made no attempt to resist the diplomatic efforts of the George W. Bush administration. China would remain active in APEC, and it would maintain its *modus operandi* to ensure that APEC would stay on its desired course.

China should be satisfied that at the APEC informal summit in Manila in November 2015, the then Philippine President Benigno Aquino III acquiesced to the Chinese demand that the South China Sea disputes should be left off the APEC agenda.³³ At this summit, Beijing revealed a fairly significant change of position by beginning to formally pursue the Free Trade Area of the Asia-Pacific (FTAAP), a free trade agreement among APEC members, despite its active promotion of the Regional Comprehensive Economic Partnership (RCEP), i.e., ASEAN Plus Six.³⁴

China had offered few significant initiatives concerning institution-building in the Asia-Pacific or East Asia region before its "one belt, one road" schemes announced in late 2013. It appeared to have an open mind. In response to the Asia-Pacific Community proposal from Kevin Rudd, the then Australian Prime Minister, a spokesman of China's Ministry of Foreign Affairs indicated that China would adopt an open attitude regarding any proposal advantageous for the objective of realizing common development, mutual benefit and a

³²Richard K. Betts, "The United States and Asia", in Ashley J. Tellis, Mercy Kuo and Andrew Marble (eds.), *Strategic Asia 2008–09: Challenges and Choices* (Seattle and Washington, D.C.: The National Bureau of Asian Research, 2008), pp. 40–68.

³³Trefor Moss, "APEC Leaders Silent on South China Sea", *The Wall Street Journal*, 19 November 2015. Available at <http://www.wsj.com/articles/apec-leaders-silent-on-south-china-sea-1447915869>.

³⁴Trevor Kennedy and David Yin, "The future of Free Trade in Asia-Pacific: China's Eurasian Dilemma", *Forbes*, 24 November 2015. Available at <http://www.forbes.com/sites/davidyin/2015/11/24/the-future-of-free-trade-in-asia-pacific-chinas-eurasian-dilemma/#b2dd934a2863>.

win-win outcome for the Asia-Pacific region. The spokesman further stated that China considers that enhancing regional cooperation is a trend of the times, and that it hopes that all concerned countries in the Asia-Pacific region would work together to promote exchanges and strengthen mutual trust politically.³⁵ However, China's academic experts believe that China, at this stage, would concentrate on coordination with the ASEAN countries and respect ASEAN's guiding role in regional cooperation, and that it would support RCEP as the main channel for the promotion of regional cooperation.³⁶

Another potential initiative was the Six-Party Talks on the North Korean nuclear issue. The negotiations began in 2003 involving the U.S., China, Japan, Russia and the two Koreas, with China probably playing the most important role. When the Six-Party Talks made some progress in the previous decade, there was optimism that the negotiations might become a permanent security forum for East Asia. In April 2009, Pyongyang declared that it was pulling out of the Six-Party Talks in response to international criticisms of its controversial long-range rocket test.³⁷ In May that year, North Korea conducted its second nuclear explosion, and tension escalated in the Korean Peninsula. Under such circumstances, there was no more suggestion of turning the talks into a permanent security forum. It is now amply clear that Beijing's influence on Pyongyang remains limited, and North Korea is more interested in direct negotiations with the U.S.

In the initial stages of the Six-Party Talks, however, Beijing had indicated considerable enthusiasm for its institutionalization. In November 2003, when the then Chinese vice minister of foreign

³⁵ "Zhongguo dui Cujin Yatai Diqu Gongtong Fazhan Chi Kafang Taidu (China Adopts an Open Attitude Regarding the Promotion of Common Development in the Asia-Pacific Region)", *Xinhuanet*, 5 June 2008. Available at http://news.xinhuanet.com/newscenter/2008-06/05/content_8317484.htm.

³⁶ Han Feng, "Aodaliya 'Yatai Gongtongti' Jianyi (The Australian Proposal of the Asia-Pacific Community)", in Zhang Yuyan (ed.), *op. cit.*, p. 186.

³⁷ Hyung-jin Kim, "N. Korea Criticizes U.S. Nuclear Protection of South", *Associated Press Worldstream*, 21 June 2009.

affairs, Dai Bingguo, visited Japan, it was reported that he argued that institutionalizing the Six-Party Talks would be the only way to make them sustainable in view of the lack of confidence and trust among the countries involved. Moreover, it would facilitate better implementation of the agreements reached, and might eventually strengthen the chance of building a security regime based on multilateralism and regionalism in East Asia.³⁸ Beijing's interpretation of institutionalization was to transform the Six-Party Talks into a permanent regional security dialogue through the establishment of a "special small group" consisting of representatives from the six countries at vice minister or bureau director rank.³⁹ This would then act as the Six-Party Talks representatives group. Beijing's position demonstrated that it was in support of an institutionalized regional security dialogue for Northeast Asia, especially when it held the initiative.

On the financial front, the establishment of the "Asian dollar" is a distant possibility. In May 2009, the finance ministers of China, Japan and South Korea reached a consensus on the establishment of a regional foreign exchange reserve within the ASEAN Plus Three framework. China and Japan would offer US\$ 38.4 billion each and South Korea US\$ 19.2 billion, together constituting 80% of the reserve which would begin operation at the end of the year. This was a response to the global financial crisis then, and it aimed at maintaining the stability of regional currencies in a financial crisis, reducing regional states' dependence on the International Monetary Fund (IMF). This reserve obviously may serve as the foundation for the establishment of the "Asian Monetary Fund" and even the "Asian

³⁸ Aaron L. Friedberg, "Ripe for Rivalry: Prospects for Peace in Multipolar Asia", *International Security*, Vol. 18, No. 3 (Winter 1993–1994), pp. 1–56.

³⁹ "Spokesman of MOFA: I Hope to See the Six-Party Talks Institutionalized", *Renmin Ribao (Beijing)*, 25 February 2004. For scholarly points of view, see Jiang Xiyuan, "DPRK Nuke Problem and New Framework of Multilateral Security Co-operation in Northeast Asia", *SIIS Journal*, Vol. 10, No. 4 (November 2003), pp. 24–37; Pang Zhongying, "Building Regional Security System", *China Daily*, 26 March 2004; "Building a Regional Security Mechanism", *PacNet (Pacific Forum CSIS)*, No. 13A, 5 April 2004; Jaewoo Choo, "China's Plans for a Regional Security Forum", *Asia Times*, 17 October 2003.

dollar” as the regional currency.⁴⁰ The reserve was built on the Chiang Mai Initiative (CMI) initiated in 2000 by the ASEAN Plus Three in response to the Asia-Pacific financial crisis in 1997–1998, and it was basically a series of bilateral currency swap arrangements between the countries of the group. It was the first step in regional financial cooperation in Asia, but was linked to an IMF program; it was further handicapped by the shortage of available funds and the lack of a central body.⁴¹

Some progress toward multilateralization of the series of bilateral arrangements has been made, and agreement was also reached to establish the ASEAN Plus Three Macroeconomic Research Office (AMRO), which started operation in February 2016. The AMRO as an international organization would facilitate information exchange and strengthen coordination.

China's Ministry of Commerce had earlier stated that an Asian currency unit would enhance the Chinese *yuan's* status and influence in Asia and would strengthen the cooperation between China and other Asian countries.⁴² It is certainly in line with Beijing's proposal for an international reserve currency in the long term and the objective of weakening the U.S. influence in Asia, but the development would still take much time. Meanwhile, China would concentrate on the wider use of the yuan in international trade in preparation for it to become a hard currency eventually.

The IMF and, to a lesser extent, the World Bank's clumsy handling of the Asia-Pacific financial crisis in 1997 made Southeast Asian countries realize that they needed a regional mechanism that could react to an impending crisis in a timely manner; this realization led to the emergence of the CMI and its later developments.⁴³ The discrediting

⁴⁰Jiang Yiqing, “‘Yayuan’ Chengli zhi Kexingxing Fenxi (A Feasibility Study of the Establishment of the ‘Asian Dollar’)”, *Asia-Pacific Peace Studies Monthly* (Taipei), Vol. 1, No. 6 (June 2009), pp. 12–14.

⁴¹Sun Jie, “ASEAN–China Financial Co-operation in the Asian Bond Market”, in Saw Swee-Hock (ed.), *ASEAN–China Economic Relations* (Singapore: Institute of Southeast Asian Studies, 2007), pp. 176–178.

⁴²Jiang Yiqing, *op. cit.*, p. 13.

⁴³Tang Shiping, “East Asian Identity — After the Crisis”, in Yang Razali Kassim (ed.), *op. cit.*, pp. 78–79.

of the Washington consensus,⁴⁴ the inaction on the part of APEC and the opposition to the establishment of an Asian Monetary Fund by the U.S. all provided an impetus to the establishment of the ASEAN Plus Three mechanism, and persuaded the countries concerned to downplay the earlier hesitation in implementing the East Asia Economic Group proposal initiated by the then Malaysian Prime Minister Mahathir Mohamad in December 1990.⁴⁵

By then, members of ASEAN Plus Three all appreciated the development of international production chains linking them together, and the demand for further regional economic integration to facilitate the freer flow of goods, services and investment on the part of multinational corporations. There was also an awareness that East Asia in terms of regional economic integration was very much behind in view of the progress of the EU and the North American Free Trade Agreement (NAFTA). Meanwhile, the stagnation of the Doha round of trade negotiations encouraged the proliferation of a multitude of bilateral and regional free trade agreements, and the ASEAN Plus Three was a timely response in line with this development.

China apparently found the ASEAN Plus Three arrangement highly satisfactory; the exclusion of the U.S. was an obvious factor. The fact that it emerged partly as an outcome of the dissatisfaction with the IMF and APEC was interpreted as a decline in the U.S. influence in the region. In December 1997, the leaders of ASEAN and China held their first informal summit (ASEAN Plus One) and released a joint statement on the establishment of a partnership of good-neighborliness and mutual trust toward the twenty-first century. The partnership was subsequently upgraded to a strategic partnership for peace and prosperity in October 2003.⁴⁶ Between 1998

⁴⁴ John Williamson, "What Washington Means by Public Reform", in John Williamson (ed.), *Latin American Adjustment: How Much Has Happened?* (Washington, D.C.: Institute for International Economics, 1990), pp. 8–19.

⁴⁵ Richard Stubbs, "ASEAN Plus Three: Emerging East Asia Regionalism?", *Asian Survey*, Vol. 42, No. 3 (May–June 2002), pp. 440–455.

⁴⁶ Sheng Lijun, "China and ASEAN in Asian Regional Integration", in Wang Gungwu and Zheng Yongnian (eds.), *China and the New International Order* (London and New York: Routledge, 2008), pp. 256–261.

and 2000, China signed framework documents on bilateral relations or announced cooperation programs with each of the 10 ASEAN member states.⁴⁷ By 2005, a total of 46 mechanisms at various levels in 16 fields, including 12 at the ministerial level, had been established between China and ASEAN. In comparison, only 15 similar mechanisms existed between the U.S. and ASEAN, despite the fact that the U.S. was the most significant supporter of ASEAN at its birth in 1967.⁴⁸

In 2001, ASEAN and China identified agriculture, information technology, human resource development, mutual investment and Mekong River Basin development as the five priority areas for cooperation in the early years of the twenty-first century. In 2002, a Framework Agreement on Comprehensive Economic Cooperation was signed to establish a free trade area covering the six old ASEAN states by the year 2010 and covering all 10 ASEAN members by 2015. Today, ASEAN has emerged as the third largest trade partner of China, ahead of Japan and behind the European Union and the U.S.

Although China and ASEAN have been improving their relationship within the ASEAN Plus Three mechanism, progress in strengthening regional cooperation has been relatively slow because of the competition between China and Japan. In the first place, there are three ASEAN Plus One mechanisms within the ASEAN Plus Three framework between China, Japan and South Korea respectively and the regional group. When China concluded its FTA with ASEAN, Japan and South Korea acutely felt the pressure of being left behind and immediately followed China's footsteps.

Later in the development of the East Asia Summit (EAS), there was keen competition between two different views. In the final report of the East Asian Study Group delivered in 2002, the EAS was

⁴⁷See ASEAN Secretariat, *Report of the ASEAN-China Eminent Persons Group*, November 2005. Available at <http://www.aseansec.org>.

⁴⁸See the speech by Singapore's ambassador to the U.S., Chan Heng Chee, at the Annual Ambassadors' Forum and Corporate Conference of Asia Society Texas, 3 February 2006, *Straits Times* (Singapore), 15 February 2006, pp. 28–29.

supposed to include only members of the ASEAN Plus Three,⁴⁹ and China was happy with this line of development. But then Japan, Indonesia and Singapore again asked for the inclusion of Australia, New Zealand and India. Apparently Malaysia was the only country which articulated reservations. The expansion of EAS from 13 to 16 members was related to the consideration of most ASEAN members that this arrangement would make it easier for ASEAN to maintain the leadership.⁵⁰ As one researcher in the think tank of China's Ministry of Foreign Affairs indicated, this expansion of membership challenged China's previously favorable position in the EAS process.⁵¹ China was further disappointed when ASEAN decided not to hold the second EAS in Beijing as China requested, but to ensure that the next and subsequent summits would be held in ASEAN countries only. More significant still, in 2010, the EAS further expanded to include the U.S. and Russia; under such circumstances, China would have to focus again on ASEAN Plus Three.

In sum, China's preferred regional strategy in East Asia would be the ASEAN Plus Three approach which excluded the U.S. and allowed more room for China to maximize its influence. In this approach, China hoped to win over ASEAN and persuade South Korea to support its position. However, progress has not been smooth, and China explicitly would like to keep all options open at this stage, avoiding clearly indicating its preferred option but actively presenting new initiatives. Before 2010 or so, keeping a relatively low profile was considered a prudent way of minimizing resistance to China's attempts to enhance its influence from the major powers involved in the region as well as reducing suspicions and the sense of insecurity on the part of the lesser regional powers. In this decade,

⁴⁹ See *Final Report of the East Asian Study Group*. Available at <http://www.aseansec.org/viewpdf.asp?file=/pdf/easg.pdf>.

⁵⁰ Sheng Lijun, *op. cit.*, p. 271; Chai Yu, *op. cit.*, p. 137.

⁵¹ Wei Min, "Zhongguo Dongmeng Guanxi ji Dongya Hezuo de Huigu yu Zhanwang (China-ASEAN Relations and East Asia Cooperation: Review and Prospects)", from the official China-ASEAN FTA website. Available at www.cafta.org.cn. The author was an Associate Professor at the China Institute of International Studies, Beijing.

this prudence seems to be receding partly because of the escalation of the territorial disputes, the “return to Asia” policy of the Barack Obama administration and Beijing’s desire to enhance its influence in the region more rapidly.

In October 2015, 12 participating countries (excluding China) reached an agreement on the Trans-Pacific Partnership (TPP) in Atlanta in the U.S. This has exerted some pressure on the RCEP. Implementation of TPP would have some adverse trade transfer impact on China, which has been eager to complete the RCEP negotiation to minimize TPP’s impact. By October 2015, 10 rounds of RCEP negotiations had been held since its proposal by ASEAN in February. But when Donald Trump was elected as U.S. President in November 2016, he signed a memorandum in January 2017 to withdraw from TPP.

The promotion of TPP was benefited by the strong push of the Barack Obama administration. In contrast, ASEAN has not been able to provide the strong momentum needed as some of its members were engaged in the TPP negotiations. Japan’s quarrels on the history and territorial disputes with China and South Korea, Sino-Indian competition and the absence of free trade agreements between China and India, China and Japan, Japan and South Korea, as well as India and Australia undeniably present obstacles. Reaching agreement on trade in services, free investment flows and the standardization of market supervision has proven to be difficult.⁵² There was an expectation in late 2015 that RCEP would move toward an agreement in 2016; it now seems that more time is still needed.⁵³ With the U.S. withdrawal from the TPP, negotiations on the RCEP (which includes China) continue.

⁵² Zhang Yihui, “RCEP Maoyi Tanpan Jincheng yu Qianjing Zhanwang (The Progress and Prospects of RCEP Negotiations)”, in Li Xiangyang (eds.) *Yatai Diqu Fazhan Baogao 2016* (Annual Report on Development of Asia-Pacific 2016) (Beijing: Social Sciences Academic Press (China), 2016), pp. 76–87.

⁵³ “Interview (of ASEAN Security-General Le Luong Minh): ASEAN Hails China’s Support for Regional, Global Integration”, *Xinhuanet*, 22 November 2015. Available at http://news.xinhuanet.com/english/2015-11/22/c_134842421.htm.

Apparently, the Chinese leadership understands the challenges of RECP negotiations, and its fallback position is an upgraded version of the ASEAN–China Free Trade Area (ACFTA). Chinese media claim that ACFTA is the largest free trade area in the world in terms of population and third largest in terms of nominal GDP. The average tariff rate on Chinese goods sold in ASEAN countries fell from 12.8% to 0.6% starting 1 January 2010, and the average tariff rate on ASEAN goods sold in China dropped from 9.8% to 0.1%.⁵⁴

Chinese Premier Li Keqiang in 2013 called for an “upgraded version” of the ACFTA in promoting economic and trade cooperation of “a greater scope and higher quality”. Consultation has been progressing since the first round conducted in Hanoi, Vietnam in September 2013. ASEAN and China have agreed to expand their bilateral trade to US\$ 500 billion in 2015 and US\$ 1 trillion by 2020.⁵⁵ The first stage target was not met, and the bilateral trade reached almost US\$ 400 billion in 2014; global and regional economic slowdown was having an adverse impact.

In a meeting between the Chinese and ASEAN leadership in Kuala Lumpur in November 2015, a new plan of action was finalized to implement their strategic partnership, and both sides agreed to accelerate the process of consolidation toward an early conclusion of a code of conduct in the South China Sea.⁵⁶ Southeast Asian countries remain suspicious that China has no serious intention to promote the building of a code of conduct, and the negotiations are perceived as a delaying tactic or as a gesture of deference to the demand of the regional countries.

Regarding the strengthening of the economic ties with ASEAN countries, China has been forthcoming. During the above meeting, China pledged to provide RMB 3.6 billion (about US\$ 560 million

⁵⁴ “Backgrounder: Upgraded Version of ASEAN–China FTA”, *Xinhua*, 22 November 2015. Available at http://news.xinhuanet.com/english/2015-11/22/c_134841426.htm.

⁵⁵ *Ibid.*

⁵⁶ “Interview (of ASEAN Secretary-General Le Luong Minh): ASEAN Hails China’s Support for Regional, Global Integration”, *op. cit.*

as at that time) to the less developed ASEAN member states in 2016 and infrastructure loans amounting to US\$ 10 billion to ASEAN countries to improve interconnectivity within the group.⁵⁷

In recent years, it appears that the Chinese authorities do not want to allow the deterioration in Sino-Japanese relations to pose serious obstacles to regional cooperation. Chinese leaders basically accept that Japan is a legitimate participant in various regional organizations and forums; they have avoided any boycott actions and in fact used encounters in the meetings to maintain a certain level of bilateral contacts.

The brief meeting between President Xi Jinping and Prime Minister Abe Shinzo on the sidelines of the APEC summit in Beijing in November 2014 was a well-known example. It was generally interpreted as an icebreaker after more than two years' termination of high-level contacts. The ASEAN Plus Three foreign ministers' meetings, the ASEAN Plus Three summits, the East Asian summits, etc. have not been affected by the severe difficulties in Sino-Japanese relations.

China is keenly aware of the competition from Japan under the Abe Shinzo administration. Japan International Cooperation Agency has been more active in ASEAN; the Asian Development Bank largely operates under the leadership of Japan; the Japan Bank for International Cooperation has expanded its risk-money supply for Southeast Asia; and in 2016, Japan announced the "Expanded Partnership for Quality Infrastructure" aiming to finance global infrastructure projects in the following years amounting to US\$ 200 billion.⁵⁸ The latter appears to be Japan's answer to China's "one belt, one road" schemes.

⁵⁷ "China to provide 560 mln USD free assistance to underdeveloped ASEAN countries in 2016", *Xinhua* dispatch, 22 November 2015. Available at http://news.xinhuanet.com/english/2015-11/22/c_134842032.htm; "ASEAN welcomes China's pledge of 10 bln USD in infrastructure loans", *Xinhua* dispatch, 23 November 2015. Available at http://news.xinhuanet.com/english/2015-11/23/c_134842656.htm

⁵⁸ Japan Ministry of Foreign Affairs, "Summary of the 17th ASEAN Plus Three Foreign Ministries' Meeting", 27 July 2016. Available at http://www.mofa.go.jp/a_o/tp/page4e_000486.html.

Diplomatic and Security Challenges and Difficulties in China's Regional Strategy in East Asia

While China's approach to various regional international institutions reveals the strengths and weaknesses of its regional strategy in East Asia, there are also diplomatic and security challenges based on its own values and foreign policy orientations as well as those of other countries involved in the region.

Sovereignty and Institutionalization

The CPC traditionally considered the struggle against imperialism and the abrogation of the unequal treaties imposed on China its sacred missions. According to Shan Wenhua, while China today still maintains the "inviolability of sovereignty" position, it really refers to the "abstract sovereignty" concept which only means that China, as a sovereign state, should retain ultimate control over its domestic affairs and enjoy an equal standing in the international community. Yet, at the "concrete sovereignty" level, the Chinese authorities accept that specific sovereign powers may be divided, allocated, delegated or transferred after a cost-benefit analysis. For example, since the 1990s, the Chinese government has reversed its previous position and has decided to accept the granting of national treatment and access to international dispute settlement mechanisms in bilateral investment treaties.⁵⁹

The concept of sovereignty is also controversial in regional natural disaster relief, an important element in China's increasing concern over its involvement in non-traditional security issues. This controversy was highlighted by the devastation of Cyclone Nargis which struck Myanmar in early May 2008. It posed a problem to the Chinese leadership in view of China's support for Myanmar. Under what circumstances would China accept that human security, which

⁵⁹Shan Wenhua, "Redefining the Chinese Concept of Sovereignty", in Wang Gungwu and Zheng Yongnian (eds.), *op. cit.*, pp. 53–80.

the international community has increasingly adopted as the norm for its rescue operations in recent years, takes precedence over traditional security based on national sovereignty? In the Myanmar case, China, Russia, South Africa and Vietnam opposed the Responsibility to Protect doctrine and the United Nations Security Council intervention to deliver relief supplies to stricken areas in Myanmar without the consent of its government.⁶⁰ In the foreseeable future, this position on the part of China will continue to facilitate Beijing's approach to the CLMV group of countries (i.e., Cambodia, Laos, Myanmar and Vietnam) within ASEAN, but this will continue to attract criticisms from the U.S. and the Western countries and will be a bone of contention in the Sino-American competition for regional influence.

In the pursuit of strengthening regional cooperation, a much more flexible concept of "concrete sovereignty" is essential. Since the turn of the century, there are many indications that the Chinese leadership has decided to pursue an active and constructive role in international organizations. The EU serves as a useful reference. In the eyes of many Chinese scholars, the European model is perceived as managing international relations via "institutionalization" and "the construction of multilateral institutions"; "institution" is a crucial pillar of the EU's "civilian power" and the main source of its influence.⁶¹ Chinese academics in the field of international relations have shown a strong interest in three major EU approaches: common security (as opposed to absolute security), multilateralism (as opposed to unilateralism) and a global treatment of international problems and crises (as opposed to short-term and *ex post* solutions). The promotion of common security emphasizes regional security as well as economic and political means, and deals with international crises through inter-

⁶⁰ The National Institute for Defense Studies, Japan, *East Asian Strategic Review 2009* (Tokyo: The Japan Times Ltd., May 2009), p. 159.

⁶¹ See Zhang Jun, "Cong Ya-Ou Huiyi Jincheng kan Fazhan Guoji Guanxi de 'Ouzhou Moshi' (A European Model of International Relations from the View of the Asia-Europe Meeting)", *Ouzhou Yanjiu* (*European Studies*), No. 1 (February 2006), p. 4; Song Xinning, "Zhongguo de Jueqi yu Ouzhou de Jingyan (China's Rise and the European Experience)", *Jiaoxue yu Yanjiu* (*Teaching and Research*), No. 4 (April 2004), pp. 6-7.

nal and external cooperation as well as economic and cultural exchanges.⁶²

Great Power Ambitions, Lack of Trust and Hedging Strategy

In the 1990s, China was more interested in promoting multipolarity as well as establishing strategic partnerships and various types of partnerships to reduce U.S. influence.⁶³ In the following decade, China much toned down its confrontational rhetoric about American “hegemonism”. Chinese leaders instead had been trying hard to assume a constructive role in resolving international disputes or alleviating tension, as well as demonstrate a diplomatic activism involving multilateral mechanisms and a collective security approach and promoting win-win solutions to international problems. In the East Asian context, China had been promoting good-neighborly relations and regional cooperation. In the 2010s, as indicated above, China believes that it has to be more assertive in defending its interests and expanding its influence.

The most serious limit of the EU model's influence on China's regional strategy in East Asia, however, is China's great power ambitions and those of the other major powers in the region, including the U.S., Russia, Japan and India.⁶⁴ The present Chinese leadership continues to identify the U.S. as China's principal external threat, while the U.S.–Japan alliance places Japan together in the same category with the U.S.; Japan is also perceived as an important competitor in the East Asian region. Although China succeeded in reducing the

⁶²Qiu Yuanlun, “Cong Wuda Guanjianci Rushou Liaojie Ouzhou Waijiao (Understanding European Diplomacy from Five Key Words)”, *Xiandai Guoji Guanxi (Contemporary International Relations)*, No. 3 (March 2002), p. 23.

⁶³Joseph Yu-Shek Cheng and Zhang Wankun, “Patterns and Dynamics of China's International Strategic Behaviour”, *Journal of Contemporary China*, Vol. 11, No. 31 (May 2002), pp. 235–260.

⁶⁴Jean-Pierre Cabestan, “Learning from the EU? China's Changing Outlook Toward Multilateralism”, in Wang Gungwu and Zheng Yongnian (eds.), *op. cit.*, pp. 211–214.

“China threat” perception⁶⁵ on the part of the ASEAN countries to some extent in the previous decades, many of them still adopt a policy of “hedging” against China, i.e., engaging China while enhancing ties with other extraregional powers so as to balance China.⁶⁶ China’s assertiveness in territorial issues and maritime rights has in fact strengthened such hedging strategies since 2010. As argued by Sheng Lijun, a strong but balanced relationship with the U.S. not only serves as a security insurance but also as an incentive to persuade China to make more economic concessions. “Ironically, the more China pushes in deepening its relations with ASEAN, the more ASEAN may feel that it needs a strong relationship with other extraregional powers to keep the balance”.⁶⁷

ASEAN countries’ adoption of a “hedging” strategy reflects the lack of trust and confidence among members of ASEAN Plus Three. Regionalism in Northeast Asia must be realized as a prerequisite to East Asian regionalism, and the lack of close regional cooperation in Northeast Asia is much related to the fact that China and Japan cannot cooperate to support the objective. There are other factors too, including animosity arising from past relations among the regional states; differences in political and social systems; discrepancies in economic development level; and a long tradition of ethnic homogeneity that does not allow nations to be susceptible to the concept of integrating with others.⁶⁸

⁶⁵ Herbert S. Yee and Ian Storey (eds.), *The China Threat: Perceptions, Myths and Reality* (London: RoutledgeCurzon, 2002).

⁶⁶ See Corazon Foley, “Contending Perspectives: Southeast Asia and American Views of a Rising China”, *Colloquium Brief* (Carlisle, Pennsylvania: Strategic Studies Institute, U.S. Army War College, 2006).

⁶⁷ Sheng Lijun, *op. cit.*, p. 270.

⁶⁸ Jaewoo Choo, “Northeast Asia Regionalism and China — From an Outside-in Perspective”, in Wang Gungwu and Zheng Yongnian (eds.), *op. cit.*, p. 220. For a detailed analysis on the impact of the “comparatively high degree of ethnic homogeneity” on the shaping of the regional international relations, see Christopher M. Dent, “Introduction: Northeast Asia — A Region in Search of Regionalism?”, in Christopher M. Dent and David W. F. Huang (eds.), *Northeast Asian Regionalism: Learning from the European Experience* (London: RoutledgeCurzon, 2002), pp. 4–8.

The history textbook issue and Koizumi Junichiro's visits to the Yasukuni Shrine while he was the Japanese Prime Minister caused severe setbacks in Sino-Japanese relations and blocked any significant progress in regionalism in Northeast Asia and East Asia. These issues have been adversely affected by rising nationalism in both countries and their gradual loss of vision and tolerance to tackle difficulties. Some academics would argue that this lack of trust could be traced to earlier developments. After the Taiwan Strait crisis in 1996, the strengthening of the "hedging" strategy on the part of the U.S. and Japan was reflected by their subsequent reforming of their alliance structure.⁶⁹ Sino-Japanese mutual suspicions were further exacerbated during the Asia-Pacific financial crisis in 1997 when China and Japan revealed a reluctance to engage in full cooperation and a sense of competition in supporting ASEAN.⁷⁰ There is also a view that the Japanese feel uncomfortable about a rising China.

The above difficulties might have encouraged the Northeast Asian states to actively pursue cooperation with Southeast Asia on an individual basis, but this is not sustainable in the long term if the former do not seriously move to strengthen trust and cooperation among themselves. After the stepping down of Koizumi Junichiro, there had been some progress in cooperation among China, Japan and South Korea. In the autumn of 2006, Abe Shinzo visited China; the "ice-breaking trip" resulted in a joint press statement indicating that both countries would aim to build a mutually beneficial relationship based on common strategic interests. Sino-Japanese relations continued to improve on this basis. When Hu Jintao visited Japan in May 2008, the

⁶⁹ Christopher Preble, "Two Normal Countries: Rethinking the U.S.-Japan Strategic Relationship", *Policy Analysis*, No. 566 (April 2006). Available at http://www.cato.org/pub_display.php?pub_id=6335; Wu Xinbo, "The End of the Silver Lining: A Chinese View of the U.S.-Japan Alliance", *Washington Quarterly*, Vol. 29, No. 1 (2005-2006), pp. 119-130.

⁷⁰ Gilbert Rozman, "China's Changing Images of Japan, 1989-2001: The Struggle to Balance Partnership and Rivalry", *International Relations of the Asia Pacific*, Vol. 2, No. 1 (February 2002), pp. 95-130; Jian Yang, "Sino-Japanese Relations: Implications for Southeast Asia", *Contemporary Southeast Asia*, Vol. 25, No. 2 (2003), pp. 306-327.

two governments signed a Joint Statement on Comprehensive Promotion of a Mutually Beneficial Relationship Based on Common Strategic Interests regarded as the “fourth important political document” guiding the bilateral relationship. In the following month, Beijing and Tokyo announced an agreement that a joint development zone would be established in the northern section of the East China Sea and that in the Chunxiao gas field (Shirakaba in Japanese) where China had already begun development, Japanese companies would participate according to Chinese law. The agreement would not compromise the territorial claims on the disputed islands by both sides.

At the end of May 2008, the China–South Korea summit talks also led to the upgrading of the bilateral relationship to a “strategic partnership”, and the two governments would negotiate for a free trade agreement between them. The improvement in relations among China, Japan and South Korea and the global financial crisis prompted their closer cooperation in the financial field. In May 2009, the three countries agreed to contribute to a regional foreign exchange reserve fund serving ASEAN Plus Three, offering member countries liquidity when they were in difficulty in a financial crisis. This reserve fund might lead to the establishment of the Asian Monetary Fund and even an Asian currency unit in the future.⁷¹

Subsequently, Sino-Japanese relations deteriorated especially after the purchase of the Diaoyu/Senkaku Islands by the Japanese government in September 2012, and during the second Abe Shinzo government. The above examples, however, are good illustrations of what can be achieved in the near future when a thaw in the bilateral relationship can be achieved.

*Soft Power*⁷²

When Chinese leaders began to engage in multilateral diplomacy at the end of the Cold War, they might not have been aware of the need

⁷¹ Jiang Yiqing, *op. cit.*, p. 19.

⁷² Joseph S. Nye, Jr., *Soft Power: The Means to Success in World Politics* (New York: Public Affairs, 2004).

to cultivate China's soft power. The Hu-Wen leadership probably initiated a well-planned design to exploit international institutions and non-government organizations (NGOs) as global platforms to promote multilateral cooperation in various spheres so as to cultivate a peaceful international environment to facilitate China's development and enhance its international status. This design also serves China's regional strategy in East Asia.

As argued by Joshua Cooper Ramo, the Chinese model has begun to alter the global development parameters in the economic, social and political aspects. China thus has been able to reduce the influence of the U.S. which is perceived to have been promoting its interests unilaterally. China's development model offers new ideas to guide developing countries to protect their respective lifestyles and political options, and to realize genuine independence while converging with the international order in their respective development courses. The global financial crises in 2008–2009 further discredited the "Washington consensus" because the Bush and the Obama administrations pursued a course of action condemned by the U.S. authorities during the previous regional financial crises. Meanwhile, China was given a good opportunity to seek a louder voice in the restructuring of the international financial structure and better articulate the interests of the developing countries.

Chinese leaders have also been building various international forums since the turn of the century to engage in Track-2 dialogue including the Boao Forum for Asia in 2001; it aims at dialogues and exchanges with other regions to strengthen the economic ties within Asia and between Asia and the external world. In 2002, after the visit to Beijing University by a higher education delegation from South Korea, both parties reached an agreement to hold the first annual meeting of the Beijing Forum on "The Harmony of Civilizations and Prosperity for All" in August 2004. Then in May 2005, Fudan University hosted the Shanghai Forum on "Economic Globalization and the Choice of Asia" involving academics, experts, entrepreneurs and politicians from various countries to discuss the challenges of

globalization.⁷³ The hosting of international forums at the civil society level has become a trend in China's major cities too.

The spread of Chinese culture and language now constitutes an important element in the cultivation of China's soft power. Following the examples of the British Council, the Alliance Française, the Goethe-Institut, etc., China has also initiated its Confucius Institutes project. Since the launch of the first Confucius Institute in Seoul on 21 November 2004, by August 2011, there were already 353 Confucius Institutes in over 55 countries. At the end of 2015, there were about 500 Confucius Institutes and 1,000 Confucius Classrooms all over the world. The Institutes offer five types of services: promotion of Chinese language teaching; training of Chinese language teachers and provision of Chinese language teaching resources; holding of Chinese language examinations and certification of the qualifications of Chinese language teachers; information and consultation services on Chinese education and culture; and development of language and cultural exchanges between China and foreign countries.

The Confucius Institutes actually demonstrate the soft power of Chinese ancestors. The Chinese authorities in the 2010s have been spending substantial resources to establish global media conglomerates to influence international public opinion. So far, the impact remains limited. The fatal weakness appears that China's media do not enjoy freedom and autonomy, and as such they lack credibility and appeal. Unless the Chinese leadership is ready to accept freedom of the media, the pursuit of influence in the international discourse will be an uphill task. At the same time, China's assertiveness in the handling of territorial disputes and maritime rights has also led to nationalist feelings in the region against China, thus reducing its appeal.

⁷³Tsai Tung-chieh and Hung Ming-te, "MeiZhong Liangguo zai Dongnanya Diqu de Ruanquanli Gouzhu yu Jingzheng (Constructing and Competing for Soft Power in Southeast Asia between the U.S. and China)", *Prospect Quarterly* (Taipei), Vol. 10, No. 1 (January 2009), p. 60.

Economic Challenges and Difficulties in China's Regional Strategy in East Asia

China's major economic power status in East Asia is based on its impressive economic growth, rapid increases in industrial production and trade, and the expansion of its domestic market. To the countries of ASEAN Plus Three, China's economic development and rise in purchasing power have been serving as an engine for regional economic growth, a market for their exports and outlet for their investment. China's attraction of external investment, trade and commerce activities in turn enhance the region's economic vitality and international competitiveness.⁷⁴ Hence, China's economic development has been an asset for promotion of regional economic integration and regionalism. Chinese leaders further appeal for the establishment of a new international political and economic order, respect for diversity among countries in the region, and the promotion of global economic relations based on equality, mutual benefit and win-win scenarios so as to protect the interests of the developing countries.⁷⁵

In terms of intraregional trade share and trade intensity index in East Asia, there is a good foundation for regional economic integration (see Table 1), and it is obvious that ASEAN Plus Three is the only viable grouping which compares favorably with the North American Free Trade Area (NAFTA) and not too far behind the EU before its further expansion in this century. ASEAN as a group is too dependent on external markets, and it also heavily relies on investment from outside the region.

Table 2 provides a summary of ASEAN free trade agreements and regional trade agreements which were largely concluded in the first

⁷⁴Thomas Dorsey, David Robinson, Yongzheng Yang and Harm Zebregs, "The Impact of WTO Accession", in Wanda Tseng and Markus Rodlauer (eds.), *China: Competing in the Global Economy* (Washington, D.C.: International Monetary Fund, 2003), pp. 192–194.

⁷⁵Wu Lingjun, "Zhongguo yu Dongya Quyu Jingmao Hezuo: Quyu Zhuyi yu Baquan Zhijian de Guanxi (China and East Asian Regional Economic and Trade Co-operation: The Relationship Between Regionalism and Hegemony)", *Issues and Studies*, Vol. 44, No. 5 (September 2005), pp. 1–27.

Table 1. Intraregional Trade in East Asia, NAFTA and EU, 1980–2001

Regions	1980	1985	1990	1995	2000	2001
Intraregional trade share^a (in %)						
East Asia-10, including Japan ^c	33.6	36.2	41.6	50.1	50.1	50.8
Emerging East Asia-9 ^d	22.6	26.3	32.8	38.4	39.5	41.0
NIEs-4	8.5	9.5	12.3	14.0	13.6	13.2
ASEAN-4	3.5	4.9	3.9	5.2	7.9	7.9
NAFTA	—	36.6	36.8	41.9	46.5	46.3
European Union-15	52.6	53.8	64.9	64.1	62.1	61.9
Intraregional trade intensity index^b						
East Asia-10, including Japan ^c	2.31	2.02	2.08	1.99	2.06	2.22
Emerging East Asia-9 ^d	3.02	2.66	2.66	2.19	2.23	2.44
NIEs-4	2.00	1.62	1.56	1.31	1.32	1.41
ASEAN-4	1.58	2.27	1.45	1.28	2.15	2.17
NAFTA	—	1.82	2.06	2.28	2.10	2.12
European Union-15	1.39	1.55	1.45	1.66	1.73	1.67

Note: ^aThe intraregional trade share is defined as $\{(X_{ij}/X_{i..}) + (X_{ji}/X_{j..})\}/2$, where X_{ij} represents exports of region i to region j ; $X_{i..}$ represents total exports of region i ; and $X_{j..}$ represents total exports of the world to region j (or total imports of region j). In the table, the share is defined only for economies within the same region, so that $i = j$.

^bThe trade intensity index is defined as $(X_{ij}/X_{i..})/\{(X_{i..}/X_{j..})(X_{ji}/X_{j..})\}$, where X_{ij} represents exports of region i to region j ; $X_{i..}$ represents total exports of region i ; $X_{j..}$ represents total exports of the world to region j (or total imports of region j); and $X_{..}$ represents total world exports. In the table, the index is defined only for economies within the same region, so that $i = j$.

^cEast Asia-10 includes Emerging East Asia-9 and Japan.

^dEmerging East Asia-9 includes NIE-4 (Korea, Taiwan, Hong Kong and Singapore), ASEAN-4 (Malaysia, Thailand, Indonesia and the Philippines) and China.

Source: Japan Ministry of Finance, <http://www.mof.go.jp/english/others/ots022c.pdf>.

decade of the twenty-first century. They reflect a disappointment with the lack of progress in the promotion of free trade within the global WTO framework as well as the keen interest in the establishment of partial free trade areas within the ASEAN Plus Three framework after the Asia-Pacific financial crisis in 1997 and especially after China's approach to ASEAN in the beginning of the twenty-first century.

Table 2. ASEAN Free Trade Agreements and Regional Trade Agreements

ASEAN Member States	WTO/ APEC Member	FTA/RTA Concluded	FTA/RTA Under Negotiation
ASEAN		China (2010); India (2009); Japan (Comprehensive Economic Partnership, 2003); Korea (Goods and Services, 2005; Investment, 2009); Australia and New Zealand (2009)	Korea; EU; US (TIFA); RCEP; Hong Kong, China
Brunei Darussalam	Yes/Yes	AFTA (1992); Japan (2008); Trans-Pacific SEP (2006)	US (TIFA) ; TPP ³ ; RCEP
Cambodia	Yes/No	AFTA (1992)	US (TIFA); RCEP
Indonesia	Yes/Yes	AFTA (1992); Japan (Economic Partnership Agreement, 2007)	US (TIFA); EU
Lao PDR	No/No	AFTA (1992)	RCEP
Malaysia	Yes/Yes	AFTA (1992); Japan (Economic Partnership Agreement, 2005); Pakistan (Closer Economic Partnership Agreement, 2007); New Zealand (2010); Chile (2012); Australia (2013); Turkey (2015)	Australia; India (Comprehensive Economic Cooperation Agreement); Korea; New Zealand; US (TIFA); EU; Chile; The Gulf Cooperation Council; EFTA; TPP ³ ; RCEP
Myanmar	Yes/No	AFTA (1992)	US (TIFA); RCEP

Philippines	Yes/Yes	AFTA (1992); Japan (Economic Partnership Agreement, 2006)	US (TIFA); EU; EFTA; RCEP
Singapore	Yes/Yes	AFTA (1992); New Zealand (Closer Economic Partnership, 2001); EFTA (2002); Japan (Economic Agreement for a New-Age Partnership, 2002); Australia (2003); the U.S. (2003); Jordan (2004); India (Comprehensive Economic Cooperation Agreement, 2005); Korea (2005); Panama (2006); Trans-Pacific SEP (2006); China (2008); Peru (2009); The Gulf Cooperation Council (2008); Costa Rica (2013); Taiwan (2014)	Canada; Mexico; Pakistan; Ukraine; EU; Pakistan; Mexico; Ukraine; Turkey; Egypt (Comprehensive Economic Cooperation Agreement); Sri Lanka (Comprehensive Economic Partnership Agreement) TPP ³ ; RCEP
Thailand	Yes/Yes	AFTA (1992); Bahrain (2002); China (Preferential Trade Agreement on Agriculture, 2003); India (Early Harvest, 2003); Peru (Closer Economic Partnership, 2003; Early Harvest, 2005; FTA, 2011); Australia (2005); New Zealand (2005); Japan (Economic Partnership, 2007); Korea (2009); Chile (2015)	US (TIFA); India; Pakistan; EFTA; EU; RCEP
Vietnam	Yes/Yes	AFTA (1992); Japan (Economic Partnership Agreement, 2009); Chile (2012); Korea (2015); EAEU (2016)	EU; US (TIFA); Israel; TPP ³ ; RCEP

Notes: 1. AFTA: ASEAN Free Trade Agreement; EFTA: The European Free Trade Association (member countries: Switzerland, Iceland, Liechtenstein and Norway); SEP: Strategic Economic Partnership; TIFA: Trade and Investment Framework Agreement; Trans-Pacific SEP: Trans-Pacific Strategic Economic Partnership Agreement (member countries: Brunei Darussalam, Chile, New Zealand and Singapore); EAEU: Eurasian Economic Union (member countries: Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia); TPP: Trans-Pacific Partnership; and RCEP (ASEAN+6): Regional Comprehensive Economic Partnership (member countries: ASEAN, China, Korean, Japan, India, Australia and New Zealand).

2. The above data do not include other types of regional cooperation such as the Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC) involving Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand.

3. The TPP agreements were signed by the 12 countries in February 2016 and awaited ratification by each country. The U.S. withdrew in January 2017 by the newly elected President Donald Trump.

Sources: U.S.–ASEAN Business Council, http://www.us-asean.org/ASEAN/FTA_Matrix.doc; ASEAN Secretariat, “Framework Agreement on Comprehensive Economic Cooperation Between the Republic of India and the Association of Southeast Asian Nations, Bali, 8 October 2003”, <http://www.aseansec.org/22563.htm>; ASEAN Secretariat, “Joint Media Statement on the Signing of the Agreement Establishing the ASEAN–Australia–New Zealand Free Trade Area, Cha-am, Thailand, 27 February 2009”, <http://www.aseansec.org/22255.htm>; ASEAN Secretariat, “China Ready to Accommodate on ASEAN–China FTA”, 22 January 2010, <http://www.aseansec.org/24209.htm>; ASEAN Secretariat, “The Sixth AEM–ROK Consultation, 15 August 2009, Bangkok, Thailand — Joint Media Statement”, <http://www.aseansec.org/JMS-6th-AEM-ROK.pdf>; ASEAN Secretariat, “ASEAN and India Sign the Much Awaited Free Trade Area”, 13 August 2009, <http://www.aseansec.org/PR-ASEAN-India-Sign-Much-Awaited-FTA.pdf>; “Japan–Brunei FTA Takes Effect Thursday”, TMCnet.com, 30 July 2008, <http://www.tmcnet.com/usubmit/2008/07/30/3576562.htm>; Malaysia External Trade Development Corporation, “Malaysia–Pakistan Closer Economic Partnership Agreement”, http://www.matrade.gov.my/cms/content.jsp?id=com.tms.cms.article.Article_hide_MalaysiaPakistan; Government of Singapore, “FTAs”, http://www.fta.gov.sg/sg_fta.asp; Department of Trade Negotiations, Ministry of Commerce, Thailand, http://www.thaifta.com/english/index_eng.html; Vietnam Foreign Trade Office in Japan, “Japan Approved Economic Partnership Agreement with Vietnam”, http://www.moit.gov.vn/vsi_portlets/portlet_action/cmsportlet/printarticle?arcId=4194, 26 June 2009; “Vietnam and Chile to Sign FTA Soon”, Communist Party of Vietnam Online Newspaper, 17 May 2009, http://www.cpv.org.vn/cpv/Modules/News_English/News_Detail_E.aspx?CN_ID=340759&CO_ID=30180; Department of Trade Negotiations, Thailand, <http://www.thaifta.com/>; and “Thai–Korean FTA Offers Ray of Hope to Businesses”, Bangkok Post, 28 February 2009, <http://www.bangkokpost.com/business/economics/12488/thai-korean-fta-offers-ray-of-hope-to-businesses>.

The impact of this “spaghetti bowl” of FTAs is mixed, but China’s trade with ASEAN in absolute terms expanded impressively, as shown by Table 3. The ASEAN Free Trade Area officially came into existence in 2002, and although the six long-standing members agreed to reduce tariffs on one another’s goods to a maximum 5%, non-tariff barriers and excise duties remain in place. More significant still, where manufacturing industries might benefit from economies of scale and an integrated internal market, ASEAN governments remain stubbornly protectionist; the Malaysian state-owned car maker, Proton, has been an obvious example.⁷⁶ In absolute terms, intra-ASEAN trade increased from US\$ 166.85 billion in 2000 to US\$ 543.75 billion in 2015, but in terms of trade share, intra-ASEAN trade increased from 22% of the total in 2000 to 25.1% in 2003, but remained roughly at the same level of 24% in the 2010s (see Table 3).

In the case of Japan, its share of ASEAN trade declined from its highest level of 15.3% in 2000 to 10.5% in 2015; in absolute terms, Japan–ASEAN trade increased from US\$ 116.19 billion to US\$ 238.04 billion in the same period. Sino-ASEAN trade, as expected, did remarkably well; it rose from US\$ 32.32 billion (4.3% of ASEAN’s total trade) in 2000 to US\$ 345.76 billion (15.2% of ASEAN’s total) in 2015.

The China–ASEAN Free Trade Area has been formally launched on 1 January 2010; hence, the process of tariff reduction and elimination would take place in the following decade (see Table 4). Though bilateral trade would continue to expand in absolute terms, China is not expected to emerge as the predominant trade partner of ASEAN in the foreseeable future. China has been the largest trade partner of ASEAN for some years, but Japan, the EU and the U.S. would remain important trade partners of ASEAN,⁷⁷ and the four will allow ASEAN to maintain a balance of power in trade terms. This symmetry is

⁷⁶David Martin Jones and M.L.R. Smith, *ASEAN and East Asian International Relations — Regional Delusion* (Cheltenham, U.K. and Northampton, Mass.: Edward Elgar, 2006), p. 137.

⁷⁷In 2008, the top five trade partners of ASEAN were ASEAN (26.7% of ASEAN’s total trade), Japan (12.4%), EU-25 (11.9%), China (11.3%) and the U.S. (10.5%); see ASEAN Merchandise Trade Statistics Database. Available at <http://www.aseansec.org/18137.htm>.

Table 3. Intra-ASEAN and Extra-ASEAN Trade, 1993–2015 (US\$ billion)

Year	Intra-ASEAN Trade		Extra-ASEAN Trade		ASEAN Trade with China		ASEAN Trade with Japan	
	As % of		As % of		As % of		As % of	
	Amount	Total	Amount	Total	Amount	Total	Amount	Total
1993	82.44	19.2	347.50	80.8	8.87	2.1	86.66	20.2
1994	105.48	20.5	408.52	79.5	11.06	2.2	101.60	19.8
1995	123.78	20.1	491.47	79.9	13.33	2.2	121.22	19.7
1996	145.18	21.5	528.78	78.5	16.69	2.5	116.46	17.3
1997	149.97	21.5	548.67	78.5	22.65	3.2	113.27	16.2
1998	120.92	21.0	455.19	79.0	20.41	3.5	81.41	14.1
1999	132.67	21.3	490.48	78.7	21.92	3.5	89.15	14.3
2000	166.85	22.0	592.25	78.0	32.32	4.3	116.19	15.3
2001	150.32	21.8	540.67	78.2	31.92	4.6	101.51	14.7
2002	159.91	22.4	553.91	77.6	42.76	6.0	97.59	13.7
2003	206.73	25.1	617.81	74.9	59.64	7.2	113.40	13.8
2004	260.97	24.3	810.99	75.7	89.19	8.3	143.46	13.4
2005	304.83	24.9	919.75	75.1	113.35	9.3	153.95	12.6
2006	352.87	25.1	1,052.36	74.9	140.05	10.0	161.95	11.5
2007	401.91	25.0	1,208.87	75.0	171.09	10.6	173.24	10.8
2008	470.23	24.8	1,426.93	75.2	196.86	10.4	214.60	11.3
2009	376.21	24.5	1,160.66	75.5	178.22	11.6	161.11	10.5
2010	511.02	25.4	1,498.10	74.6	231.86	11.5	206.78	10.3
2011	598.38	25.1	1,790.07	74.9	280.15	11.7	274.16	11.5
2012	602.05	24.3	1,874.38	75.7	319.48	12.9	263.22	10.6
2013	608.56	24.2	1,902.96	75.8	350.51	14.0	241.13	9.6
2014	608.21	24.1	1,920.41	75.9	366.53	14.5	229.42	9.1
2015	543.75	24.0	1,726.56	76.0	345.76	15.2	238.04	10.5

Note: Figures may not add up to totals due to rounding off.

Source: *ASEAN Statistical Yearbook* (various years) (Jakarta: The ASEAN Secretariat, 1994–2016).

Table 4. Progress of Tariff Reduction and Elimination within the China–ASEAN Free Trade Area

Time	Tariff Rates	Participating Countries	Remarks
2000	0%–5%	Singapore, Indonesia, Malaysia, Brunei, Thailand	85% of the articles of the Common Effective Preferential Tariff of the ASEAN Free Trade Area agreement
2001	Average tariff rates: about 14% ASEAN member countries: 0%	China, Singapore, Indonesia, Malaysia, Brunei, Thailand, Myanmar	90% of all merchandise
2002	ASEAN members: 0%	Singapore, Indonesia, Malaysia, Brunei, Thailand, Myanmar	Memorandum of Understanding between the ASEAN Secretariat and the Ministry of Agriculture of the People's Republic of China (PRC) on Agricultural Cooperation signed
2003	Protocol to Amend the Framework Agreement on Comprehensive Economic Cooperation Between the ASEAN and the PRC signed		
2004	Reduction of tariff rates of agricultural products began	China–ASEAN Free Trade Area	Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Cooperation Between the ASEAN and the PRC signed
2005	Average tariff rates for WTO member countries: about 11%	China	All merchandise with reduced tariff rates

(Continued)

Table 4. (Continued)

Time	Tariff Rates	Participating Countries	Remarks
2006	ASEAN member countries: 0%–5%	Vietnam	Below 82% of all merchandise
2008	ASEAN member countries: 0%–5%	Laos, Myanmar	Below 82% of all merchandise
2010	ASEAN member countries: 0%–5%	Cambodia	Below 82% of all merchandise
2011	Below 5%	China–ASEAN Free Trade Area	All merchandises
2015	ASEAN member countries: 0%	Singapore, Indonesia, Malaysia, Brunei, Thailand, Myanmar	All merchandises
2018	ASEAN member countries: 0%	All ASEAN member countries	All merchandises
2020	Below 5%	China, Singapore, Indonesia, Malaysia, Philippines, Thailand, Vietnam	All merchandises

Source: “Zhongguo — Dongmeng Ziyou Maoyiqu Bufen Guanshui Xiaojian Shijianbiao (Timetable for the Tariff Reduction and Elimination for Some Merchandises within the China — ASEAN Free Trade Area)”, China-customs.com, 1 January 2005, <http://www.china-customs.com/html/afta/200501/01-1986.html>.

healthy for regional economic integration. As indicated by Table 2, various free trade/tariff reduction arrangements in East Asia were implemented in the decade or so since 2006; this process had slightly raised the respective shares of ASEAN trade for China, Japan and South Korea.

Closer examination reveals that China's economic influence in Southeast Asia was considerably weaker than depicted by the international media. From 1995 to 2003, China's investment in ASEAN constituted 0.29% of the total foreign investment for ASEAN, as compared with 28.83% from the EU, 16.47% from the U.S. and 12.9% from Japan.⁷⁸ In 2015, ASEAN foreign direct investment (FDI) from China amounted to 6.8% (from 0.4% in 2005) of the ASEAN total, compared with Japan's 14.5% (compared with 16.3% in 2005) of the ASEAN total) (see Table 5). Given China's substantial foreign exchange reserves (about US\$ 3.2 trillion at the end of 2016) and its "going out" investment strategy abroad, China's investment in ASEAN will certainly continue to increase in the foreseeable future. Moreover, China's official statistics have not taken into consideration investment by small- and medium-sized enterprises as well as that by foreign subsidiaries of major enterprises not reported to the Ministry of Commerce. This is not to deny, however, that China's share of foreign investment in ASEAN, though on the rise, remains relatively smaller at this stage.

In terms of foreign aid, China has been offering more government economic aid to ASEAN since 2005, especially to Indonesia, Cambodia, the Philippines and Myanmar. But the main beneficiaries of China's expanding foreign aid program are African countries, and in Asia, the principal recipient has been North Korea (probably receiving a third or more of the total).⁷⁹

⁷⁸These figures are from the ASEAN Secretariat, quoted from www.cafta.org.cn. See also "Dongnanya: Zhongguo Qiye 'Zouchuqu' de Zhongdian Diqu (Southeast Asia: A Key Area for Chinese Companies 'Going Out')", *Guoji Gongcheng yu Laowu (International Projects and Labour)*, No. 10 (October 2005), quoted from www.cafta.org.cn.

⁷⁹Sheng Lijun, *op. cit.*, p. 263.

Table 5. Intra-ASEAN and Extra-ASEAN FDI Inflow, 1995–2015 (US\$ billion)

Year	Intra-ASEAN FDI Inflow		Extra-ASEAN FDI Inflow		ASEAN FDI from China		ASEAN FDI from Japan	
	Amount	As % of Total	Amount	As % of Total	Amount	As % of Total	Amount	As % of Total
1995	4.80	18.3	21.43	81.7	0.14	0.5	5.55	21.2
1996	4.56	15.1	25.64	84.9	0.12	0.4	5.28	17.5
1997	5.40	15.8	28.69	84.1	0.06	0.2	5.23	15.3
1998	2.97	13.3	19.43	86.7	0.29	1.3	3.94	17.6
1999	2.47	9.0	24.91	91.0	0.06	0.2	1.69	6.2
2000	0.76	3.2	22.96	97.6	-0.13	-0.6	0.50	2.1
2001	2.53	12.4	18.10	88.9	0.14	0.7	2.20	10.8
2002	3.81	21.2	13.97	77.5	-0.07	-0.4	3.03	16.8
2003	2.70	11.1	21.36	88.2	0.19	0.8	3.91	16.1
2004	3.28	8.3	36.11	91.7	1.18	3.0	6.23	15.8
2005	4.10	9.6	38.39	90.4	0.15	0.4	6.91	16.3
2006	8.69	13.6	55.22	86.4	1.96	3.1	10.16	15.9
2007	9.63	11.3	75.28	88.7	2.13	2.5	8.80	10.4
2008	10.45	21.0	39.24	79.0	0.95	1.9	4.29	8.6
2009	6.67	13.9	41.26	86.1	1.97	4.1	3.92	8.2
2010	15.20	15.1	85.16	84.9	4.05	4.0	11.17	11.1
2011	14.56	15.2	81.28	84.8	7.86	8.2	8.79	9.2
2012	20.55	13.2	134.90	86.8	5.72	3.7	21.21	13.6
2013	19.56	15.7	105.30	84.3	6.43	5.1	24.75	19.8
2014	22.13	17.0	107.86	83.0	6.99	5.4	15.71	12.1
2015	22.23	18.4	98.59	81.6	8.26	6.8	17.56	14.5

Note: Figures may not add up to totals due to rounding off.

Source: *ASEAN Statistical Yearbook* (various years) (Jakarta: The ASEAN Secretariat, 1994–2016).

The limited influence of the substantial China–ASEAN trade lies in the fact that most of it is in the hands of multinational corporations (MNCs) which accounted for 60.6% of the bilateral trade in 2005.⁸⁰ This was mainly intraindustrial trade within and among MNCs in China and Southeast Asia as well as entrepot trade. It is significant to note that much double counting is involved as many products, especially electronic products, cross borders twice or more, thereby grossly inflating the trade volumes. This double counting is estimated to be as high as 30% in China–ASEAN trade. The latter, however, has been an important asset in promoting development in the Guangxi Autonomous Region and Yunnan Province in southwestern China which is relatively backward compared with the country's coastal provinces.

Conclusion

In the early 1990s, Chinese leaders began to consider the regional aspects of their foreign policy line, and soon they had to tackle the issue of China's participation in regional organizations. As indicated above, China rapidly developed a sophisticated regional strategy in East Asia as the region is most important for China. To minimize the region's "China threat" perception has been a significant consideration in this strategy; as the "China threat" was largely perceived in economic terms before this decade, the economic components in the strategy became more important. After all, China has been working hard to secure a peaceful international environment to concentrate on its development; the development aspects have always been accorded top priority. Hence, regional economic integration emerged as the core of China's regional strategy in East Asia; economic considerations were the principal force pushing for regional integration as demonstrated by the progress made in response to the regional and global financial crises. In the recent decade, territorial disputes,

⁸⁰ Zhu Wenwei, "Zhongguo Dongmeng Huwu Maoyi Shichang Jiang Jinyibu Kaifang (China and ASEAN will Further Open Their Markets to Goods)", *Zhongguo Maoyibao (China Trade)* (Beijing), 12 January 2006.

maritime rights, the “return to Asia” policy of the Barack Obama administration and the strengthening of China’s international influence have gained more weight.

The escalation of tension concerning the territorial disputes over the Diaoyu/Senkaku Islands and the South China Sea symbolized by the series of high-profile naval exercises in the neighborhoods since the latter half of 2010 would reinforce the “China threat” perception and strengthen the regional countries’ hedging strategies. The Obama administration was able to exploit the situation in engineering the U.S.’s “return to Asia” initiatives. While China’s building of a “blue-water” navy will continue to raise the concern of its neighbors, it will probably emphasize more the appeal of regional economic cooperation by offering more economic concessions to ASEAN.

China is aware of its relative weakness in comprehensive national power, and it has been keeping its options open while allowing ASEAN to hold the initiative in most cases. Though never made explicit, China’s preferred scenario is a highly integrated East Asia which, in terms of balance of power, is comparable to the EU and NAFTA, with China playing a significant or even a leading role. Chinese leaders understand that there is a long way to go, and actively seeking leadership for China in the regional integration processes can be counterproductive. In view of the difficulties in Sino-Japanese relations, economic integration in Northeast Asia has failed to make much progress. Hence, China’s approach has been economic integration within the Greater China circle first, then China and ASEAN, leading to ASEAN Plus Three. Its most demanding challenge is to help to develop the institutional framework to promote regional integration.

Meanwhile, China has been actively promoting subregional economic cooperation like the development of the GMS and that of the Pan-Beibu Gulf Area. These projects generate more room for China’s initiative and leadership, and attract less attention and resistance from the major powers in the region. At the same time, China has been developing its soft power projection capabilities. Though largely successful, in terms of resources and history, it will take considerable time

for China to catch up with the U.S. and Japan. The preference for the leading American universities for their children's education among the elites in the region is perhaps one significant example.

Despite China's impressive economic growth and its expansion of trade with the region, its economic influence is still not strong because its manufacturing industries concentrate on the lower end of the value-added chain. Certainly, China's enterprises will be working hard to upgrade themselves, moving upstream to research and design as well as downstream to international and distribution networks. China aims to secure a central role in the regional economy and production networks in the intermediate future, and it has the resources to do so.

If the Chinese leadership remains cautious, and avoids being overly ambitious, its regional strategy in East Asia will facilitate China's economic development and its attainment of major power status. It will serve to weaken the various "hedging" strategies adopted by the big and small countries involved in the region as well as their economic protectionist measures, as common interests will strengthen trust and overcome suspicions. Patience and self-restraint, however, are essential, and they have been increasingly scarce because of rising nationalism in many regional countries, including China, Japan, South Korea and India, which are due in part to escalating tensions in the territorial and maritime rights disputes.

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Chapter 4

China's ASEAN Policy in the 1990s: Pushing for Regional Multipolarity

Joseph Yu-Shek Cheng

Since the 1970s, Chinese leaders have valued good relations with the Association of Southeast Asian Nations (ASEAN) states. ASEAN was even considered as one of the poles in the multipolar power transfiguration in the Asia-Pacific region. Both China and ASEAN have intended to play a more significant role in the Asia-Pacific and beyond. Their pursuits have been a nonzero-sum game which was regarded as mutually supportive. The Asia-Pacific region needs effective representatives in negotiations with the Western powers and in various international organizations. China and ASEAN, on the basis of close bilateral and regional consultations, could perform that role together. But meanwhile, Chinese leaders still face the arduous tasks of reducing, if not eliminating altogether, the fears of the “China threat”, and inducing acceptance of their “new international political and economic order” among the ASEAN states.

Introduction

Chinese leaders often refer to the important place of the Third World in their foreign policy. But in the actual implementation of their foreign policy, the focus has been on the handling of China's relations with the United States (U.S.), Russia (formerly the Soviet Union) and other major powers. This was already the case in the 1970s, although the trend became more pronounced in their pursuit of diplomatic modernization in the 1980s and in their attempt to accelerate the transition toward multipolarity in the international state system in the 1990s. ASEAN has been an exception though. In the past two decades, despite territorial disputes and other differences, Chinese leaders have valued good relations with the ASEAN states. In view of ASEAN's impressive economic development and increasing international influence, an expert of the Chinese Academy of Social Sciences in 1997 described the regional grouping as one of the poles in the multipolar power transfiguration in the Asia-Pacific region.¹

After the fall of the Gang of Four in 1976, the unmistakable emphasis of the post-Mao leadership on the "Four Modernizations" improved China's image. To the ASEAN states, China was no longer a power dissatisfied with the *status quo* and intent on exporting revolution, Chinese style. The post-Mao leaders after 1976 drastically reduced their material aid to various national liberation movements and communist guerrilla groups, so that those in the Middle East largely turned to the Soviet Union, and many of those in Southeast Asia split into pro-China, pro-Soviet (or pro-Vietnam) or independent factions. When Malaysian Prime Minister Mahathir Mohamad visited Beijing in November 1985, he indicated that Malaysia had accepted the assurances given by the Chinese leadership that it had no intention to do anything harmful to China's Southeast Asian

¹ Lu Jianren, "China's Diplomatic Strategy towards ASEAN at the Turn of the Century" (Speech delivered at the Contemporary China Research Centre, City University of Hong Kong on 15 December 1997). Dr Lu is Secretary-General, APEC Policy Research Centre, and Assistant Director, Institute of Asia-Pacific Studies, Chinese Academy of Social Sciences.

neighbors, and instead remained concerned about China's stability.² On the other hand, Indonesia still had lingering doubts about China's support for communist groups in Southeast Asia; nevertheless, the Chinese Foreign Minister visited Indonesia in 1985, and the two countries resumed direct trade in July of the same year.³ Admittedly, this improvement in relations had more to do with China's open-door policy, the enhanced attraction of the China market, and economic difficulties in Southeast Asia as a result of falling commodity prices. The ASEAN states were then more interested in managing a balance of power in Southeast Asia; they became self-confident and were, therefore, more inclined to grant China the benefit of the doubt.

With the open admission of the failure of the Maoist development strategy, China could no longer claim to be an attractive model of socioeconomic progress offering a successful alternative to the Third World. Since the late 1970s, China's economic development strategy has been similar to that of other developing countries in East and Southeast Asia. It has also been competing with other Third World countries for aid and loans from international organizations such as the World Bank, as well as from Western countries and Japan. After China joined the Multi-Fibre Arrangement and indicated its intention to participate in the General Agreement on Tariffs and Trade (GATT), it too entered into hard bargaining for export quotas from the developed countries in competition with the developing countries, particularly those from East and Southeast Asia.

All these actions demonstrated that China was gradually freeing itself from various ideological restrictions and trying to compete with other Third World countries within the existing international financial and trade framework. Such competition might have initially aroused jealousy and suspicion from ASEAN and other developing countries, but in the long term, only through this means would China be accepted by them. In some ways, China was probably quite accommodating in supporting the Third World's demands. China, for example, was the first country to endorse Sri Lanka's proposal for

² *South China Morning Post* (Hong Kong), 24 November 1985.

³ *Ming Pao* (Hong Kong), 25 March 1986.

turning the Indian Ocean into a zone of peace and the Malaysian proposal for the neutralization of Southeast Asia. Distinguishing itself from the two superpowers, while fully realizing its limited military and economic capabilities, China's support for nonalignment and neutralization served its objectives well. In the field of arms control and disarmament, China's declaration neither to be the first to use nuclear weapons nor to use them against non-nuclear countries won support from the Third World.

The conclusion of a Sino-Japanese peace and friendship treaty in August 1978, the establishment of formal diplomatic relations with the U.S. in the following December, and the limited war to "punish" Vietnam in early 1979, all enhanced the common interests between China and the ASEAN states. The confidence in China was strengthened by the perception that China had formed a pseudo-alliance with the U.S. and Japan to check Soviet global expansionism. Meanwhile, trade between China and the ASEAN states increased rapidly so much so that when Chinese Premier Zhao Ziyang summed up the contents of China's independent foreign policy of peace in 1986, China-ASEAN relations were already on solid foundation.

In his report to the Fourth Session of the Sixth National People's Congress on 25 March 1986,⁴ following the Chinese leadership's usual practice, Premier Zhao provided a detailed account of the 10 principles guiding China's foreign policy line which emerged in 1982-1983. Besides reaffirming the general principles of defending world peace, opposing hegemonism, observing the Five Principles of Peaceful Coexistence⁵ and supporting the Third World, China also reiterated its position on arms control and disarmament, as well as its open-door policy and support for the United Nations (UN). On China's position of never establishing an alliance or a strategic relationship with any big

⁴For the text of the report, see *Ta Kung Pao* (Hong Kong), 14 April 1986.

⁵The Five Principles of Peaceful Coexistence were jointly initiated by China, India and Burma in 1953-1954; they are to apply to relations among countries with different social systems. They are respect for territorial integrity and sovereignty, non-interference in domestic affairs, equality and mutual benefit, non-aggression, and peaceful coexistence.

power, the Chinese Premier stated further that China's relations with various countries would not be determined by their social systems and ideologies, and that China's stand on various international issues would be guided by the criteria of defending world peace, developing friendship and cooperation among various countries, and promoting international prosperity. Premier Zhao also affirmed China's emphasis on various exchanges at the people-to-people level.

During his visit to Thailand in November 1988, Premier Li Peng further summarized four principles of the China-ASEAN relationship. They were:

- to strictly follow the Five Principles of Peaceful Coexistence in state-to-state relations;
- to uphold the principle of opposing hegemonism under all circumstances;
- to uphold, in economic relations, the principles of equality and mutual benefit as well as joint development;
- in international affairs, to follow the principles of independence and self-reliance, mutual respect, close cooperation and mutual support.⁶

Such principles were vague and lacked substance, but they represented an effort to establish consensus.

According to Zhao Quansheng, although China's relations with Southeast Asia began to improve from the early 1980s, the Tiananmen incident in June 1989 was a significant turning point. The sanctions imposed by Western countries as well as the collapse of the Soviet and East European communist regimes forced China into international isolation. Chinese leaders had to adjust their foreign policy, and one

⁶Lu Jianyuan, "Zhongguo tong Zhoubian Fazhanzhong Guojia Youhao Guanxi zhi Fazhan (Development of Friendly Relations Between China and Its Neighbouring Developing Countries)", in Xie Yixian (ed.), *Zhonghua Renmin Gongheguo Shiqi 1979-1994 (A Diplomatic History of China — The Period of the People's Republic of China 1979-1994)* (Zhengzhou: Henan Renmin Chubanshe, 1995), Section 3, Chapter 7, p. 186.

of their new initiatives was a more Asia-oriented foreign policy, with Southeast Asia as a major focus.⁷

When Chinese Foreign Minister Qian Qichen visited Africa in August 1989,⁸ he noted at a press conference in Harare, Zimbabwe, that of the 137 countries which had established diplomatic relations with China, only about 20 had reacted adversely to the Tiananmen incident. The majority, including African countries, neighboring Asian countries, Latin American countries, and socialist countries considered it China's internal affair and that other countries should not poke their noses into it.⁹ The ASEAN principle of non-interference in another country's domestic affairs was certainly appreciated by the Chinese leadership.

China's diplomatic initiatives in Southeast Asia secured satisfactory results in the second or third year after the Tiananmen incident. In August 1990, China normalized relations with Indonesia, and, as expected, just two months later it established diplomatic relations with Singapore. The normalization of Sino-Vietnamese relations was achieved in 1991, and it was followed by a visit to Vietnam by Premier Li Peng in December 1992 and the commencement of border negotiations between the two countries. After 1992, China also assumed a constructive role in facilitating a peaceful political settlement in Cambodia.¹⁰

The Chinese Leadership's World View

At the memorial service for Deng Xiaoping, Jiang Zemin pledged to act "in accordance with the teaching of Comrade Deng Xiaoping,

⁷See Zhao Quansheng, "China's Foreign Relations in the Asia-Pacific Region: Modernization. Nationalism and Regionalism", in Lo Chi Kin, Suzanne Pepper and Tsui Kai Yuen (eds.), *China Review 1995*, (Hong Kong: The Chinese University Press, 1995), pp. 8–15. See also the author's "China's Post-Tiananmen Diplomacy", in George Hicks (ed.), *The Broken Mirror: China after Tiananmen* (Essex, United Kingdom: Longman, 1990), pp. 406–409.

⁸For Qian's visit to Africa in August 1989 and to the Middle East in the following month, see *South China Morning Post*, 9 September 1989.

⁹Chang Qiang, "Chinese Foreign Minister Tours Africa", *Beijing Review*, Vol. 32, No. 35, 28 August–3 September 1989, p. 10.

¹⁰Zhao, *op. cit.*

adhering to the independent foreign policy of peace".¹¹ Shortly before Deng's death, Jiang had reaffirmed the Dengist foreign policy line of "avoiding the limelight and keeping a low profile", while concentrating on China's own affairs.¹² His statements on Chinese foreign policy immediately after Deng's demise repeatedly emphasized continuity and peace. Such messages obviously had the ASEAN states in mind as important targets. China needs a peaceful international environment to concentrate on economic modernization, and it will try its best to secure such an environment in the foreseeable future. Striving for a peaceful international environment certainly involves establishing friendly relations with neighboring countries and avoiding conflicts with them. This has probably been China's most important foreign policy objective since 1983, and it achieved results in the 1990s. This policy meant that advancing China's national interests by force or the threat of force would be very costly.

Chinese leaders perceived the early 1990s as a transitional period between bipolarity and multipolarity, and they considered that such a transition would last for a considerable length of time. The U.S. was the ultimate winner of the Cold War, and it became the only superpower in the world. With the disintegration of the Soviet Union and the dissolution of the Warsaw Pact, the "strategic triangle" could no longer be exploited by China.¹³ In the post-Cold War era, however, China has been relieved of the direct military threat from Russia. Both Russia and the U.S. have a military capability far superior to that of China, but they would not have any motivation to attack China in the foreseeable future.

At the beginning of 1998, the Chinese leadership appeared to be more encouraged by the trend toward multipolarity. At a tea party on the eve of the Chinese New Year, Premier Li Peng, in analyzing the

¹¹ For excerpts of the speech delivered by President Jiang Zemin at the memorial service for Deng Xiaoping, see *South China Morning Post*, 26 February 1997.

¹² *Ming Pao*, 23 January 1997.

¹³ See Chen Qimao, "New Approaches in China's Foreign Policy", *Asian Survey*, Vol. 33, No. 3 (March 1993), pp. 237–251; Yan Xuetong, "China's Post-Cold War Security Strategy", *Contemporary International Relations* Vol. 5, No. 5 (May 1995), pp. 1–16.

world situation, stated: "At present, the multipolar global power transfiguration has become increasingly obvious."¹⁴ In his visit to the Netherlands in the following month, Li also stated that in the approach toward the next century, the trend toward a multipolar world was accelerating.¹⁵ Chinese leaders obviously believed that their efforts to facilitate the emergence and consolidation of global multipolarity were achieving results. In the joint communique released during the visit of Russian President Boris Yeltsin to China in April 1996, the two countries announced "their resolve to develop a strategic partnership of equality ... towards the 21st century".¹⁶ The following April, President Jiang Zemin visited Moscow, and a joint declaration on global multipolarization and the establishment of a new world order was issued.¹⁷ In May 1997, when French President Jacques Chirac visited China, the two sides issued a joint declaration stating that they shared an "identity of views" on the need for the establishment of a "comprehensive partnership". The objectives of this "comprehensive partnership" are clearly spelled out in the introduction of the joint declaration: "The two parties have decided to foster the march towards multipolarity ... to contribute to a new political and economic international order that is both just and rational and opposes any attempt at domination in international affairs."¹⁸

In contrast to the 1970s and the early 1980s, Chinese leaders have not advocated a broad united front against the U.S. And, they have not identified the principal contradiction in current international relations. The Chinese leadership's worldview considers that Washington's strategic focus will remain on Europe and its flank, the Middle East. Though the U.S. emerged as the sole remaining superpower after the

¹⁴ *Renmin Ribao* (Beijing), 28 January 1998.

¹⁵ *Renmin Ribao* (Beijing), 17 February 1998.

¹⁶ Uli Schmetzer, "Russia, China Find Common Foe in U.S.: Each Backs the Other on Issues of Nationalism", *Chicago Tribune*, 26 April 1996.

¹⁷ *Ming Pao*, 25 and 27 April, 1997; see also *South China Morning Post*, 28 April 1997.

¹⁸ *Renmin Ribao*, 15 May 1997; see also "France joins Russia in special ties with China", Agence France Presse (AFP) dispatch on 17 May 1997, supplied by Singapore Press Holdings Ltd.

Gulf War, it will not have the resources to play a more significant role in the Asia-Pacific region. It will also be handicapped by domestic problems which will generate demands to reduce resources for its foreign policy. Chinese leaders also believe that the end of the Cold War will enhance instability and facilitate the re-emergence of various territorial disputes, ethnic contradictions and religious conflicts. Some of these troubles will have an adverse impact on China too, such as the demonstration effect of the rise of ethnic-nationalism and Muslim fundamentalism in the newly-independent Central Asian republics on the national minorities in Xinjiang and Inner Mongolia.

The Chinese leadership was convinced that a fundamental factor for the termination of bipolarity was the backwardness of the Soviet economy and its scientific and technological developments. The multipolar world was still in its early stages, and the emergence of a new balance of power would ultimately depend on the competition in “comprehensive national power”, the main components of which are economic and technological power. China would need to concentrate on the intermediate and long-term competition in building “comprehensive national power”, otherwise it will fall behind in this competition.

In the mid-1990s, China's official media often attacked the U.S. for trying to block China's economic development. A *Renmin Ribao* commentary, for example, stated: “The U.S. will not allow the emergence of a great country on the European or Asian continent that threatens its power to dominate.”¹⁹ Chinese leaders appreciate that China's neighbors are concerned that its rapid economic growth might be translated into an expansion of military strength. China's flexing of its muscles in the South China Sea in early 1995 was a case in point. Chinese leaders fear that such a perception of a China threat would offer support to the renewal of a strategy to “contain” China. The deterioration of Sino-American relations in 1995–1996 and the establishment of formal diplomatic relations between the U.S. and Vietnam also generated speculation of a possible “containment” strategy against China initiated by the U.S. and supported by Japan, ASEAN and Vietnam.

¹⁹Speech of Dr Lu Jianren, see Footnote 1.

Jiefangjun Bao (Liberation Army Daily), for example, accused the proponents of the "China threat theory" of aiming to sow discord between China and its Asian neighbors in view of Washington's waning influence in the region. It was said that countries against China wanted a bigger share of the Asian arms trade, and they also called for the containment of China.²⁰ Nevertheless, Chinese leaders are still eager to cultivate cordial relations with the Western countries, and especially the U.S. This was why Premier Li Peng considered the Sino-American summit the most important event in China's foreign relations in 1997, and he acknowledged that Jiang Zemin's successful visit marked the termination of the Western countries' unjust sanctions against China.²¹ At the end of 1998, China also rejected the Russian proposal to establish a "strategic triangle" of Russia, China and India to contain American influence in global affairs.²²

The Chinese leadership obviously prefers a multipolar world in which the major powers can develop friendly ties with each other and in which nonzero-sum games are the norm. Power blocs and security alliances tend to exacerbate tension and eventually limit the options of the major powers involved. Diversified sources of capital, technology and management know-how, as well as a broad spectrum of partners for economic cooperation, also constitute part of the preferred scenario of the Chinese leaders.

China's strategic partnerships provide the standard mode of behavior governing relations among the major powers in a multipolar world. While adhering to an independent foreign policy line and emphasizing the Five Principles of Peaceful Coexistence, the concept of strategic partnership reflects the importance attached to relations with major powers on the part of the Chinese leadership. In contrast to the Five Principles of Peaceful Coexistence, strategic partnerships imply that China looks upon itself as a major power and pursues the legitimate interests of one in a multipolar world.

²⁰ *Jiefangjun Bao* (Liberation Army Daily), 3 November 1995; and *South China Morning Post*, 4 November 1995.

²¹ In January 1998, Premier Li Peng was interviewed by the U.S.-based monthly *China Information*. See *Ming Pao*, 5 February 1998.

²² *Ming Pao*, 23 December 1998.

Chinese leaders also do not want China to assume leadership of the Third World. In a talk with leading members of the Party Central Committee in late 1990, Deng Xiaoping stated: "Some developing countries would like China to become the leader of the Third World. But we absolutely cannot do that, this is one of our basic state policies. We can't afford to do it and besides, we aren't strong enough. There is nothing to be gained by playing that role; we would only lose most of our initiative."²³ In reality, Chinese leaders understand that any active attempt by China to seek a leadership role of the Third World will probably be counter-productive.

In the next century, China will continue to need a peaceful international environment to catch up with the developed countries. In view of the recent Asian economic crisis, the Chinese leadership now places considerable emphasis on China's "economic security". It is believed that because of the keen competition for markets and resources in the context of globalization as well as the enhancement of regionalism, the economic development of an individual country will be more vulnerable to the influence of external factors. Hence, the strengthening of coordination among governments concerned will become all the more essential. This implies that Chinese leaders will attempt to further develop China's dialogue and multilateral cooperation with the major powers and Asian neighbors.²⁴

The Significance of ASEAN in China's Foreign Policy

The Chinese leadership hopes that the emergence of regional powers and regional organizations in the developing world will help to bring about a multipolarity which is different from the traditional one

²³Deng Xiaoping, "Seize the Opportunity to Develop the Economy", *Selected Works of Deng Xiaoping, Vol. III (1982–1992)* (Beijing: Foreign Languages Press, 1994), p. 350.

²⁴Ma Zhongyuan, "Zhonggong Zuochu 'Jingji Anquan' Zhanlue Juece" (Chinese Communist Party Has Made a Policy on an 'Economic Security' Strategy), *Mirror* (Hong Kong), No. 255 (1 October 1998), pp. 32–34.

dominated by a small number of major powers. It is envisaged that this new type of multipolarity will better preserve peace and democratize international relations, thus contributing to the establishment of a new international political and economic order. In this context, the Latin American countries' boycott of U.S. sanctions against Cuba, ASEAN's admission of Myanmar despite the objections from the West and the opposition to U.S. military action against Iraq by Arab countries are some international issues that are seen as enhancing the evolution toward multipolarity. Jiang Zemin, in a speech in Pakistan on 2 December 1996, stated: "The trend towards multipolarity, with the widespread emergence of the developing countries as its important characteristics, is like a torrential river which cannot be blocked."²⁵

Chinese leaders appreciate that the evolution toward multipolarity cannot mainly depend on the rise of developing countries. A balance of power among several major powers in the world today is still the decisive factor facilitating multipolarity through a structure of mutual dependence and mutual checks and balances. Above all else, the U.S. remains the only superpower globally, and the Chinese attempts to accelerate and shape the evolution toward multipolarity will make very limited impact.

The series of summits at the end of 1997 among China, the U.S., Japan and Russia symbolized the dialogue and cooperation among major powers in a multipolar world. They also demonstrated the potential for achievement as well as the fluidity of the relationships. The latter demands constant effort to reduce tension and enhance trust; economic interdependence probably remains the most significant incentive for bilateral and multilateral cooperation. In the long term, however, the rise of the developing countries *vis-à-vis* the developed countries constitutes an important guarantee of a healthy multipolarity.²⁶

In his report delivered at the Fifteenth National Congress of the Chinese Communist Party, Jiang Zemin observed: "The trend toward

²⁵ See He Fang, "Yinian lai Nanbei Guanxi de Bianhua yu Fazhan" (Changes and Developments in North-South Relations in the Past Year), *Renmin Ribao*, 28 December 1997.

²⁶ *Ibid.*

multipolarity has further developed globally or regionally in the political, economic and other fields ... Regional and intercontinental organizations of cooperation are active as never before. The overall strength of the greater number of developing countries is growing.”²⁷ ASEAN certainly fits into the above analysis, which should be seen as the preferred scenario by Chinese leaders.

In economic terms, the gross domestic product (GDP) of the nine members of ASEAN (Cambodia is excluded as it is a most recent member) amounted to US\$ 1,600 billion in 1995 on a purchasing power parity basis, or about 60% of that of Japan (US\$ 2,660 billion).²⁸ Foreign trade of the ASEAN members totalled US\$ 636.6 billion in 1995, about 10 times that of India, and 82% of that of Japan (US\$ 779 billion).²⁹ ASEAN ranked fourth in the world's total trade, only after the U.S., Germany and Japan. Following the trend of economic regionalism, ASEAN has been accelerating the establishment of an ASEAN Free Trade Area (AFTA). In August 1995, the annual ASEAN ministerial meeting agreed to bring forward the grouping's target date for the implementation of AFTA from 15 years to 10 years ending in 2003. (The Hanoi Summit in December 1998 brought this forward to 2002.) In April 1999, Cambodia became the 10th member of ASEAN. The ASEAN countries were obviously still suffering from the regional financial crisis in 1997/1998, which has exacerbated the problems generated by ASEAN's expansion. At the Hanoi Summit, the final declaration called for closer unity, dialogue and cooperation, but steered clear of calls for a new era of vigor and openness demanded by Thailand and the Philippines.³⁰ Chinese leaders,

²⁷ Jiang Zemin, “Hold High the Great Banner of Deng Xiaoping Theory for an All-Round Advancement of the Cause of Building Socialism with Chinese Characteristics into the 21st Century — Report Delivered at the 15th National Congress of the Communist Party of China on 12 September, 1997”, *Beijing Review*, Vol. 40, No. 40 (6–12 October 1997), p. 29.

²⁸ Speech of Dr Lu Tianren, see Footnote 1. Dr Lu quoted in *Yomiuri Shimbun* (Tokyo), 7 April 1997.

²⁹ *Ibid.* Dr Lu quoted in *Asian Development Outlook* 1996 and 1997.

³⁰ *South China Morning Post*, 17 December 1998.

however, believed that the setbacks were temporary and they would not affect the long-term trend.

The launching of the ASEAN Regional Forum (ARF) in Bangkok in 1994 won China's firm support. It was conceived as a new security framework for Asia and the Pacific in the post-Cold War era. Initially, Chinese leaders had some concerns that the West might try to use the ARF to "contain" China. In an intersessional meeting in May 1995 in Brunei, the Chinese side opposed an Australian proposal that the ARF should become more active in resolving conflicts and establish formal working groups. A compromise was eventually reached to form a support group on confidence-building measures and to hold meetings on regional cooperation.³¹

At the same meeting, ASEAN officials presented a "concept paper" on broad outlines for the ARF, which was presented to the foreign ministers in August 1995. The ARF meetings would have no formal agenda and would approach sensitive security issues in a non-confrontational manner, following ASEAN's well-established style of decisionmaking by consensus. The paper also suggested a gradual three-stage process beginning with confidence-building measures, moving to preventive diplomacy and finally to conflict resolution.³² In 1997, the ARF agreed to move toward preventive diplomacy.³³ The agreement was based on the earlier ARF recognition that "preventive diplomacy would be a natural follow-up to confidence-building measures"; this was interpreted as the intention of the institution to move beyond the "talk shop" that some critics had labelled it.³⁴

Apparently, the Chinese leadership was pleased with ASEAN's balance of power strategy which attempted to maintain a balanced

³¹ "ASEAN", *Far Eastern Economic Review Yearbook Asia 1996* (Hong Kong: Far Eastern Economic Review, 1997), p. 72.

³² "The ASEAN Regional Forum: A Concept Paper, 1995", submitted by ASEAN and annexed to the ARF Chairman's statement, Brunei Darussalam, 1 August 1995.

³³ See ARF Chairman's statement, Subang Jaya, Malaysia, 27 July 1997.

³⁴ See Simon S.C. Tar with Obood Talib, "The ASEAN Regional Forum: Preparing for Preventive Diplomacy", *Contemporary Southeast Asia*, Vol. 19, No. 3 (December 1997), p. 252.

relationship with the U.S., Japan and China; at the same time, it avoided neglecting Russia and India. This ASEAN strategy helped to prevent any major power, including the U.S., from dominating the Asia-Pacific region. This was in line with China's strategic interests since China did not have the capability and therefore the intention to become the predominant power in regional affairs. Hence, China welcomed ASEAN's balance of power strategy and supported the regional organization in playing an active role in the Asia-Pacific region. Guided by ASEAN, the ARF has been developing successfully and today has 25 members involving all the major powers of the world.³⁵ ASEAN organizes unofficial summits with China, Japan and South Korea, and also carries substantial weight within Asia-Pacific Economic Cooperation (APEC). ASEAN's unity and initiative then were an important factor determining whether or not APEC could overcome its difficulties as revealed at its Kuala Lumpur summit in November 1998.³⁶

Similarly, China appreciated ASEAN's important role in initiating the Asia-Europe Meeting (ASEM), first held in Bangkok in March 1996. This was a dialogue between the European Union and the countries of East and Southeast Asia. Singapore, its main initiator, and Thailand, the first host of the meeting, are both ASEAN members. The fundamental idea behind ASEM is also a central concept of ASEAN: mutual interdependence.³⁷ In paving the way for ASEM, both the European Union and the ASEAN governments shared a common view of a tripolar world order based on the U.S., Europe and the Asia-Pacific region. They recognized that the ties between Europe and the Asia-Pacific region were the weakest in this triangular relationship, and hope that ASEM would remedy the situation.

³⁵ The ARF members are Australia, Bangladesh, Brunei, Cambodia, Canada, China, Democratic People's Republic of Korea, the European Union, India, Indonesia, Japan, Laos, Malaysia, Mongolia, Myanmar, New Zealand, Pakistan, Papua New Guinea, the Philippines, Republic of Russia, Singapore, Republic of Korea, Thailand, Timor-Leste, the United States and Vietnam.

³⁶ *South China Morning Post*, 19 November 1998.

³⁷ See Eero Palmujoki, "EU-ASEAN Relations: Reconciling Two Different Agendas", *Contemporary Southeast Asia*, Vol. 19, No. 3 (December 1997), pp. 280-283.

The political process of ASEM subsequent to the Bangkok summit has been to adopt the Track-2 process, which is the practice of the ARF. This means that while the first track consists of conventional diplomatic discussions at the intergovernmental level, the second track promotes interaction among non-governmental organizations, academic institutions and business groups from the two regions. China, in particular, needs to develop its Track-2 interactions with other countries.

In sum, Chinese leaders perceive China and the ASEAN states as developing countries in Asia; they have a considerable sense of common identity; and they hold similar views on values, human rights, democracy and many issues in international affairs. Hence, they should be able to cooperate, offer each other support, and jointly oppose hegemonism and power politics. Chinese leaders do not believe that ASEAN will become part of an alliance aimed at “containing” China. Instead, ASEAN’s active diplomatic profile is seen as facilitating progress toward multipolarity in the Asia-Pacific region, and contributing to regional stability. Moreover, ASEAN then was perceived as acting as a balance among the U.S., Japan and China and as a stabilizing force in this triangular relationship. ASEAN would also help to deter the hegemonism of Western powers in the region, thereby reducing the pressure on China from Western powers and improving the diplomatic environment for it.³⁸

In August 1997, for example, Singapore Prime Minister Goh Chok Tong urged his Japanese counterpart, Ryutaro Hashimoto, to soften Japan’s stance toward China in the dispute over Tokyo’s intention to play a more active military role in the Asia-Pacific region. During his visit to Japan, Goh told Hashimoto that Japan should pursue a policy of “constructive engagement”, rather than that of “containment” in dealing with China. In a separate meeting with members of Hashimoto’s Cabinet, Goh warned that Japan’s plan to support U.S. forces in regional conflicts could have “grave consequences” for Sino-Japanese relations if Tokyo refused to exclude

³⁸ Lu Jianren, Zhongguo he Dongmeng Tisheng Mulin Guanxi” (China and ASEAN Improve Good-Neighbourly Relations), *Ming Pao*, 17 December 1997, p. B15.

Taiwan from areas which might require Japan to provide logistical and other non-combatant support for U.S. forces.³⁹ The ASEAN states were concerned with the expansion of Japanese influence in Southeast Asia, and they realized that their solidarity was the best guarantee against undue influence in the region from Japan and other major powers.⁴⁰ A survey of five Southeast Asian countries by the Japanese foreign ministry in the period October 1996–January 1997 indicated that, as against an earlier survey, more people in Thailand, Malaysia and Singapore feared that Japan would become a major military power. The percentage of Thai respondents holding such a view increased from 24% in 1992 to 34%, while the proportion in Malaysia rose from 35% to 38% and that in Singapore rose from 34% to 36%. On the other hand, the percentage of Indonesian respondents concerned with Japan's military buildup fell from 23% to 14%, and that in the Philippines declined from 32% to 21%.⁴¹

In this context, Chinese leaders accepted the admission of Vietnam into ASEAN in 1995 and did not see it as damaging to China's security interests. Likewise, Chinese leaders did not consider the inclusion of Myanmar and Laos into ASEAN as an attempt to reduce Chinese influence in these two countries. Beijing had full confidence that the military junta in Myanmar would not weaken its ties with China, ties which had remained steadfast ever since the junta's severe measures on the domestic opposition in 1988.⁴² Beijing reacted calmly to the coup in Phnom Penh in July 1997 in which Hun Sen ousted Prince Norodom Ranariddh. ASEAN officials revealed that they were told by the Chinese Government that it would support ASEAN's action to mediate in the conflict and to restore order.⁴³ It appeared that the Chinese Government endorsed ASEAN's mediating role to prevent the U.S. from intervening in the Cambodian situation. ASEAN officials considered that the Chinese position on the

³⁹ *Financial Times* (London), 30–31 August 1997.

⁴⁰ *Ming Pao*, 23 July 1997.

⁴¹ *Ming Pao*, 21 April 1997; and *South China Morning Post*, 21 April 1997.

⁴² *Ming Pao*, 4 June 1997.

⁴³ *Ming Pao*, 26 July 1997.

coup represented an important change in its policy toward Southeast Asia. While China was eager to achieve major power status, it had refrained from direct intervention in the region and had preferred to allow the countries in the region to solve their own problems. The positions of China and ASEAN apparently had an impact on the Clinton Administration. It eventually softened its stand on Hun Sen and tried to cooperate with ASEAN and China to avoid being isolated. U.S. Secretary of State Madeleine Albright even praised China for its "very positive role" on the Cambodian question.⁴⁴

On human rights issues, Chinese leaders were much encouraged by their common stand with their ASEAN counterparts. In the ASEAN post-ministerial conference with Dialogue Partners in July 1997, the differences between ASEAN member countries and the West were considerable. The Malaysian representative urged for a review of the UN Declaration on Human Rights and was firmly supported by Indonesia, the Philippines and China. The U.S. and the European Union naturally opposed the review. A view emerged among Western diplomats, especially the Americans, that there were two ASEANS: one made up of democratic or authoritarian countries, and the other consisting of countries with totalitarian backgrounds or characteristics.⁴⁵ ASEAN's objection to the European Union's boycott of Myanmar's participation at ASEM similarly widened the gap between the two groups on the human rights question. Regarding the Western countries' attempt to censure China's human rights record at the UN Human Rights Commission, Japan was the only Asian country which voted against China's no-action motion in the last encounter in April 1997. Two Asian countries, namely, South Korea and the Philippines, abstained, while the other nine Asian countries (Bangladesh, Bhutan, China, India, Indonesia, Malaysia, Nepal, Pakistan and Sri Lanka) all supported China's motion.⁴⁶

⁴⁴ *Ming Pao*, 27 July 1997.

⁴⁵ Ian Stewart, "United Front Shows Signs of Cracking", *South China Morning Post*, 31 July 1997, p. 17.

⁴⁶ *South China Morning Post*, 17 April 1997.

While the Chinese leadership believed that ASEAN would not be involved in “containing” China, there were nonetheless developments which caused its concern. Singapore apparently saw a need to strongly encourage the continuing U.S. involvement in Southeast Asia as a protection against any political unrest spilling over from its neighbors. In January 1998, it announced that it would give American aircraft carriers and other warships access to its new Changi naval base to be completed in the year 2000.⁴⁷ This was an obvious violation of the ASEAN commitment to turn Southeast Asia into a “zone of peace, freedom and neutrality”, and Malaysia was dissatisfied with the Singapore move. Malaysian Prime Minister Mahathir Mohamad indicated that Malaysia did not want an increased American military presence because it would cause anxiety throughout the region. Yet, the U.S. and the Philippines had also earlier completed negotiations on a legal framework for resuming military ties (a Visiting Forces Agreement), which had, since May 1999, been ratified by the Philippine Senate.⁴⁸

Before Indonesian President Soeharto's resignation in May 1998, the Clinton Administration seemed to have been interested in establishing some kind of strategic partnership with Indonesia. At the APEC summit in Vancouver at the end of 1997, it was reported that Clinton had planned an “extremely important” meeting with Soeharto. The speculation was that the two leaders wanted to discuss the possibility of bilateral military cooperation.⁴⁹ During the peak of the financial crisis in Southeast Asia in January 1998, U.S. Defense Secretary William Cohen was in Kuala Lumpur stating that Southeast Asian countries had to strengthen their military ties with the U.S. and support the 100,000 U.S. troops which had been forward-deployed in Asia to maintain regional security. Cohen stressed in a speech that U.S. troops would need logistical support in Southeast Asia, military exercises/military training opportunities, and access to port facilities. American officials also indicated that in view of the cutbacks in

⁴⁷ *South China Morning Post*, 18 January 1998.

⁴⁸ *Ibid.*; and *Ming Pao*, 10 February 1998.

⁴⁹ *Ming Pao*, 22 November 1997.

military expenditure and the postponement of weapon acquisitions by Southeast Asian countries, Washington would desire increases in American naval visits to Southeast Asia, and joint military exercises to enhance the U.S.'s military profile in the region.⁵⁰ The Clinton Administration was ready to initiate various types of exchanges and offer financial assistance to acquire the facilities/services needed by the U.S. military.⁵¹

The regional financial turmoil has also strengthened U.S. economic interests in the region, and the U.S. emerged as the indispensable guarantor of regional political and economic stability. When there was reluctance to accept the restructuring and austerity measures dictated by the International Monetary Fund (IMF), the U.S. backed the IMF to ensure that its prescribed programs would be carried out. Many in Southeast Asia felt that American banks and businesses would profit from the opening up of their economies.

China's Territorial Disputes with ASEAN States⁵²

Both China and the concerned ASEAN states did not expect that their territorial disputes over the Spratly Islands could be resolved in the foreseeable future. However, they believed that they share a common interest in maintaining a peaceful and stable environment in the region so that they can all concentrate on economic development. China has been modernizing its military, but not to the extent of causing significant alarm among its neighbors. In fact, the ASEAN states themselves have at the same time been engaging in high-technology military expansion programs, at least until the setting in of a regional economic crisis in 1997–1998.⁵³ They did not necessarily

⁵⁰ *Ming Pao*, 13 January 1998.

⁵¹ *Ming Pao*, 4 December 1998.

⁵² The first six paragraphs of this section come mainly from the author's article, Joseph Yu-Shek Cheng, "China's American Policy: A Turning Point", *Journal of Chinese Political Science*, Vol. 2, No.2 (Summer 1996), pp. 73–76.

⁵³ Steven Strasser, "The Neighbors Are Restless", *Newsweek*, Vol. 76, No. 3 (17 July 1995), pp. 13–14.

have the China threat in mind, as some of the countries with the highest military expenditures (namely Singapore and Thailand) felt much less threatened by China compared with some other ASEAN member states. It seemed that their arms modernization programs were more related to the availability of money and the need to better protect their borders and trade.

How Chinese leaders quickly attempted to defuse the Mischief Reef incident in early 1995 (when the Philippines accused China of occupying and building possible naval structures on Mischief Reef in the Spratly Islands claimed by Manila) well illustrated the importance attached by China to having good relations with ASEAN. In March 1996, China and the Philippines held their first annual vice-ministerial talks to resolve problems caused by the conflicting claims to the Spratlys. The negotiations led to an agreement to step up efforts to avoid maritime conflicts in the South China Sea and to promote high-level visits between the two countries. The two sides also pledged to establish "a bilateral consultative mechanism" to explore ways of cooperation in the South China Sea.⁵⁴

This was followed 2 months later by the visit of a Chinese People's Liberation Army (PLA) delegation led by a deputy chief of general staff, Lieutenant-General Xiong Guangkai. The two parties were said to have briefed each other on the organizational structures of each other's armed forces.⁵⁵ The Chinese side also indicated that it had ordered PLA warships to steer clear of that part of the Spratly Islands claimed by the Philippines so as to avoid any untoward incident.⁵⁶ These were obviously military confidence-building measures, and such visits become routine and cover all the ASEAN states. Xiong's visit also included Malaysia, Indonesia and New Zealand. Apparently, the ASEAN states do not consider China as having fulfilled its pledges, and strict implementation of such confidence-building measures is essential to strengthen mutual trust.

⁵⁴ *South China Morning Post*, 5 and 16 March 1996.

⁵⁵ *South China Morning Post*, 10 May 1996; and *Ming Pao*, 8 May 1996.

⁵⁶ *South China Morning Post*, 11 May 1996.

Sino-ASEAN discussions on the Spratlys in fact took place earlier in Hangzhou in March 1995 immediately after the Mischief Reef incident. At the ARF meeting in early August 1995 in Brunei, the Chinese Government indicated for the first time that it would abide by international law in sovereignty negotiations with the claimants to the Spratlys. This was a significant concession on the part of Beijing which had hitherto simply insisted that the Spratlys were Chinese territory.⁵⁷

In the bilateral negotiations between China and the Philippines in the wake of the forum, the two sides agreed to resolve their territorial conflict using international law, including but not limited to the UN Convention on the Law of the Sea (UNCLOS). The joint statement released also pledged to settle the territorial dispute "without prejudice to the freedom of navigation in the South China Sea".⁵⁸ China and the Philippines announced that they would work out a code of conduct rejecting the use of force to settle their claims over the Spratlys.⁵⁹ China proposed joint oil and gas exploration in the archipelago too, but the Philippines was not enthusiastic. The agreements reached were obviously meant to apply on a regional basis. On many occasions, the Chinese authorities had appealed to the other claimants to the Spratlys to shelve the territorial dispute and to discuss joint development of the archipelago's resource potential.⁶⁰

The Philippines, however, indicated that it would seek international support on the Spratlys issue "should China continue to build up its presence there".⁶¹ The Philippines has a defence treaty with the U.S., but the latter does not consider areas of the Spratlys claimed by the Philippines as covered by the treaty, and has called for a peaceful resolution of the territorial dispute at that time.⁶² But the U.S. Navy commandos (SEALs) were involved in training Filipino troops stationed near the Spratlys. Similarly, reports of joint naval exercises between the

⁵⁷ *South China Morning Post*, 3 August 1995.

⁵⁸ *South China Morning Post*, 12 August 1995.

⁵⁹ *South China Morning Post*, 11 August 1995.

⁶⁰ *Ming Pao*, 14 March 1996.

⁶¹ *South China Morning Post*, 24 July 1995.

⁶² *Ibid.*; and *Ming Pao*, 22 May 1995.

U.S. and the Philippines, as well as Filipino interest in buying a number of F-16 fighter aircraft which had originally been meant for delivery to Pakistan, were disturbing to the Chinese leaders and could lead to friction in Sino-American relations.⁶³ The Chinese representatives at the ARF meeting in Brunei failed to secure an assurance from the U.S. that it would stop “meddling” in the Spratlys dispute.⁶⁴

Further progress was achieved in 1997. In the annual consultations between Chinese senior officials and their ASEAN counterparts in April in Huangshan (Anhui Province in China), both sides discussed the Spratlys as a formal agenda item for the first time since the consultations started in 1995. An ASEAN official observed that while there was no change in the basic positions of both sides, the atmosphere had improved. Referring to the implementation of the Law of the Sea, the official stated: “The tone and the mood have improved. What we need to do now is to mobilize the political will to make real progress and the technical side will follow.”⁶⁵

In the informal summit between ASEAN and China, South Korea and Japan in December 1997, a joint statement between China and ASEAN was released in which all parties pledged “to resolve differences or disputes through peaceful means without resorting to the threat or use of force” in the handling of the sovereignty issues concerning the archipelagoes in the South China Sea. The parties also agreed that while trying to resolve the conflicting claims, they should exercise self-restraint, and not allow the differences to block friendly cooperation.⁶⁶ Earlier in August, Malaysian Prime Minister Mahathir Mohamad had indicated in an interview to mark the 30th anniversary of ASEAN that he did not foresee an open conflict erupting over the Spratlys.⁶⁷ While the disputes remained unresolved, these statements demonstrated an improvement in the atmosphere.

⁶³ *South China Morning Post*, 24 July 1995; 2 August 1995; 3 August 1995; and 20 September 1995.

⁶⁴ *South China Morning Post*, 3 August 1995.

⁶⁵ *South China Morning Post*, 18 April 1997.

⁶⁶ *South China Morning Post*, 12 December 1997; and *Ming Pao*, 17 December 1997.

⁶⁷ *South China Morning Post*, 8 August 1997.

China's territorial disputes with ASEAN have been further complicated by Vietnam's entry into ASEAN in 1995. Vietnam has naturally wanted to enlist ASEAN's support to exert pressure on China. While the Spratlys dispute involves China, Taiwan, Malaysia, Brunei, the Philippines and Vietnam, the Vietnamese also had land border differences with the Chinese as well as competing sovereignty claims over the continental shelf in the Gulf of Tonkin and the Paracels. These disputes are still not yet resolved. China and Vietnam normalized their relations in November 1991, and in October 1992 agreed to hold talks on the land border and other territorial disputes.⁶⁸

In November 1995, the Secretary-General of the Communist Party of Vietnam, Do Muoi, arrived in China for a summit meeting, accompanied by the Vietnamese Foreign Minister, Nguyen Manh Cam. In the Sino-Vietnamese joint communique which was released, both sides agreed to "properly" resolve the "issue of territory along the borders" on the basis of international law and practices as well as through negotiations. It was also announced that the two sides had reached agreement "in principle" on railway transportation linking the two countries.⁶⁹ Nguyen Manh Cam also indicated that the two governments had agreed that in order to create favorable conditions to resolve the land border issue and achieve the signing of a treaty "as soon as possible", all conflicts in the "border areas" should be ironed out quickly and on the spot.⁷⁰ As a result, railway traffic between the two countries was officially resumed on 14 February 1996.⁷¹ In September 1998, a Vietnamese official indicated that the Sino-Vietnamese land border problems would reach resolution before

⁶⁸ See Ramses Amer, "The Territorial Disputes between China and Vietnam and Regional Stability", *Contemporary Southeast Asia*, Vol. 19, No. 1 (June 1997), pp. 86-113.

⁶⁹ For the text of the Sino-Vietnamese joint communique, see *BBC Summary of World Broadcasts, Part III, The Far East*, (FE)/2477/G/1-2, 4 December 1995. See also *ibid.*; (FE)/2477/B/3, 4 December 1995; (FE)/2494/B/5, 23 December 1995; and (FE)/2524/B/1, 1 February 1996.

⁷⁰ *Ibid.*; (FE)/2479/B/3-4, 6 December 1995.

⁷¹ *Ibid.*; (FE)/2536/B/4, 15 February 1996; and (FE)/2539/G/3, 19 February 1996.

2000, while the demarcation of the Gulf of Tonkin would probably be finalized during 2000. Annual border talks would continue in Beijing in 1999.⁷² This was confirmed in the following month during Vietnamese Premier Phan Van Khai's visit to Beijing.⁷³

According to Ramses Amer, Sino-Vietnamese relations since the normalization of ties in late 1991 were characterized by the expansion and strengthening of economic and political cooperation as well as a fluctuating level of tension related to the territorial disputes.⁷⁴ In January 1998, for example, the Vietnamese official media reported territorial disputes with China along a boundary river during the previous months.⁷⁵ Earlier, in November 1997, Hanoi had protested to Beijing after China had granted a U.S. oil firm, Atlantic Richfield, exploration rights in waters that Hanoi had claimed as its exclusive economic zone (EEZ).⁷⁶ In September 1998, it was Beijing's turn to accuse Vietnamese soldiers of illegally seizing Chinese territory in the Spratlys and China demanded their immediate withdrawal.⁷⁷ It was likely that these minor incidents would continue to recur, but at the same time, both countries would try to avoid any major escalation of conflict. Under such circumstances, China and Vietnam should best reach an agreement on a "code of conduct", possibly along the lines of the two "codes of conduct" agreed to by the Philippines and China, and the Philippines and Vietnam respectively, in 1995.

A similar situation existed between China and the Philippines over the Spratlys. In May 1997, the Philippines welcomed the removal of a hut and the withdrawal of armed Chinese ships from near the disputed Spratlys Islands in the South China Sea, after Manila had lodged a protest.⁷⁸ In July 1997, the Chinese government in turn condemned the Philippine navy for destroying Chinese markers on a

⁷² *South China Morning Post*, 30 September 1998.

⁷³ *Ming Pao*, 20 and 24 October 1998.

⁷⁴ Ramses Amer, *op. cit.*, p. 104.

⁷⁵ *Ming Pao*, 24 January 1998.

⁷⁶ *South China Morning Post*, 24 November 1997.

⁷⁷ *Ming Pao*, 9 September 1998; and *South China Morning Post*, 30 September 1998.

⁷⁸ *South China Morning Post*, 3 May 1997; and *Sunday Morning Post*, 4 May 1997.

shoal in the disputed Spratly Islands as a “serious violation of Chinese sovereignty”.⁷⁹ At the same time, however, the two countries began exchanging information on marine technology as part of their efforts to ease tensions in the archipelago.⁸⁰ In November 1998, another row emerged over the Mischief Reef when the Philippines protested against Chinese naval ships and other vessels sailing in the vicinity of the reef, and their attempts to strengthen the structures on the reef. The Philippine government was suspicious of China adopting a “talk and take” attitude.⁸¹

Economic Cooperation between China and ASEAN, and the Taiwan Issue

Table 1 provides trade figures between China and ASEAN in the 1990s. Trade expanded steadily, increasing from US\$ 14.29 billion in 1994 to US\$ 25.04 billion in 1997. Despite the rapid increase in China's foreign trade during this period, ASEAN's share of China's trade only rose from 6.04% in 1994 to 7.70% in 1997.

As Table 2 shows, ASEAN also became an important source of foreign investment for China, which rose from US\$ 1.21 billion in 1993 to US\$ 3.62 billion in 1997. The rate of increase was indeed impressive, but the major part of the investments (77.5%) came from just one country — Singapore. It was generally believed that the actual ASEAN investments in China were considerably higher than those reflected by the official statistics as some investments from the region, especially those from “overseas Chinese”, had found their way into China via Hong Kong and other places, and had thus escaped notice. In view of the economic difficulties in the region during 1997–1998, the flow of investments into China from ASEAN declined, albeit temporarily.

⁷⁹ *South China Morning Post*, 4 July 1997.

⁸⁰ *South China Morning Post*, 16 April 1997.

⁸¹ *Ming Pao*, 10, 11, 13 and 15 November 1998; and *South China Morning Post*, 6, 7, 10, 12 and 26 November 1998.

Table 1. China's Trade with ASEAN Countries 1994–1997 (US\$ million)

Country	1994			1995			1996			1997		
	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total
Brunei	16.26	—	16.26	34.48	0.03	34.51	38.86	0.02	38.88	33.31	—	33.31
Myanmar	369.11	143.28	512.39	617.82	149.53	767.35	521.12	137.41	658.53	570.09	73.41	643.50
Indonesia	1,051.70	1,588.37	2,640.07	1,438.15	2,052.17	3,490.32	1,428.02	2,280.42	3,708.44	1,840.61	2,673.58	4,514.19
Laos	35.98	4.38	40.36	47.77	6.45	54.22	26.68	8.16	34.84	23.93	5.82	28.75
Malaysia	1,117.66	1,622.66	2,740.32	1,280.99	2,070.60	3,351.59	1,370.65	2,243.48	3,614.13	1,919.93	2,495.38	4,415.31
Philippines	475.69	272.40	748.09	1,030.14	275.77	1,305.91	1,014.94	372.36	1,387.30	1,339.11	327.07	1,666.18
Singapore	2,558.42	2,482.02	5,040.44	3,500.64	3,397.83	6,898.47	3,749.40	3,601.11	7,350.51	4,319.05	4,464.51	8,783.56
Thailand	1,159.28	864.39	2,023.67	1,751.75	1,610.77	3,362.52	1,254.95	1,890.29	3,145.24	1,500.30	2,014.46	3,514.76
Vietnam	341.66	191.16	532.82	720.29	332.06	1,052.35	842.15	308.48	1,150.63	1,078.54	357.10	1,435.46
ASEAN[*]	7,125.76	7,168.66	14,294.42	10,422.03	9,895.21	20,317.24	10,246.77	10,841.73	21,088.50	12,623.87	12,411.33	25,035.02
ASEAN as a % of China's Total	5.89	6.2	6.04	7.01	7.49	7.23	6.78	7.81	7.27	6.91	8.72	7.70

Note: *Vietnam joined ASEAN in 1995 and Myanmar and Laos joined in 1997.

Source: State Statistical Bureau comp. *China Statistical Yearbook 1995–1998* (Beijing: China Statistical Publishing House, 1995–1998).

Table 2. ASEAN's Investments in China (On An Actually Used Basis) 1993–1997 (US\$ million)

Country	1993	1994	1995	1996	1997
Myanmar	66.4	2.89	—	0.58	2.68
Indonesia	65.75	115.70	111.63	93.54	79.98
Laos	—	—	—	0.15	0.39
Malaysia	91.42	200.99	259.00	459.95	381.83
Philippines	122.50	140.40	105.78	55.51	155.63
Singapore	674.80	1,179.61	1,860.61	2,247.16	2,806.96
Thailand	234.37	234.87	288.24	328.18	194.00
Vietnam	11.61	18.49	28.30	1.45	1.54
ASEAN[*]	1,207.09	1,892.95	2,653.56	3,186.52	3,623.01
ASEAN as a % of China's Total	3.10	4.38	5.51	5.81	5.63

Note: *Vietnam joined ASEAN in 1995 and Myanmar and Laos joined in 1997. Statistics on Brunei and Laos (1993–1995) are not available.

Source: State Statistical Bureau comp. *China Statistical Yearbook 1995–1998* (Beijing: China Statistical Publishing House, 1995–1998).

Compared with China, Japan then enjoyed even closer economic relations with ASEAN. During the 1990's, Japan was planning to move in the direction of establishing an integrated system of production of small lots of diverse products to replace the mass production system so that it could meet more sophisticated consumer demand and improve its domestic research and development functions.⁸² The East Asian newly industrializing economies (NIEs) were concentrating on the production of advanced components which the other ASEAN countries still could not make. They were already competing with Japan in the application and industrialization of advanced technology, and yet they still had to depend on Japan. A pattern for future competition and interdependency among Japan, the East Asian NIEs, and the ASEAN states was emerging,⁸³ and Japan certainly did not

⁸² Maruyama Nobuo, "New Directions in East Asian Regional Economy", *JETRO China Newsletter*, No. 114 (January–February 1995), p. 7.

⁸³ *Ibid.*, p. 14.

want to see its regional role diminish. At the ASEAN Summit in Hanoi in December 1998, Japanese Prime Minister Keizo Obuchi offered an extra US\$ 5 billion to help ease the regional financial crisis, on top of a US\$ 30 billion package already pledged by Kiichi Miyazawa.⁸⁴

How did China fit into this pattern in the 1990s? Countries in the Asia-Pacific region all agreed that the smooth incorporation of the potential and energy of the Chinese economy was essential to the development of the region. Given the size of China and the differences among various Chinese provinces and municipalities, some such as Guangdong and Shanghai would soon join the ranks of the NIEs while some would remain at the level of the ASEAN states. There appeared to be no magical formula, and market forces would decide the issue. (What the governments had to do was to strengthen bilateral and multilateral consultations so that the interests of all concerned parties would be taken into account in the respective national development strategies.) The latter, through such processes, would have a better chance of success.

In the economic interactions between China and ASEAN, the overseas Chinese networks played a very significant role. According to the Kuomintang government in Taiwan, at the end of 1997 there were some 33.24 million overseas Chinese, with 81% of them in Asia and 14.2% in the Americas.⁸⁵ Most of the overseas Chinese came from the coastal provinces; the majority of them, originating from Guangdong and Fujian, were mainly in Southeast Asia, where they had significant economic influence. One estimate in 1997 indicated that the assets of the overseas Chinese amounted to US\$ 200 billion, with over 90% in Southeast Asia (before the Asian crisis).⁸⁶ Another study in 1995 revealed that there were over 20 overseas Chinese business groups in Singapore, each with capital exceeding US\$ 100 million, about 40 overseas Chinese business groups in Malaysia, each with capital over

⁸⁴ *South China Morning Post*, 17 December 1998.

⁸⁵ *Shijie Ribao* (Bangkok Chinese newspaper), 9 April 1998.

⁸⁶ Lin Jinzhi (ed.), *Huaqiao, Huaren yu Zhongguo Gemin he Jianshe* (Overseas Chinese and China's Revolution and Construction), (Fuzhou: Fujian Renmin Chubanshe, 1993), p. 532.

US\$ 200 million, and more than 10 such business groups in the Philippines, each with capital exceeding US\$ 100 million. Overseas Chinese business groups were similarly very strong in Indonesia and Thailand.⁸⁷ Fujitsu Research in Tokyo studied listed companies in six Asian countries. It found that an overwhelming majority of these companies was owned by overseas Chinese: 81% in Thailand, 81% in Singapore, 73% in Indonesia, 61% in Malaysia and 50% in the Philippines. According to Bustanil Ariffin, a former Indonesian minister, small and medium-sized companies employed half of the labor force in most Asian countries, and the Chinese owned 90% of these companies.⁸⁸

The economic crisis in Southeast Asia in 1997/1998, however, might have altered the situation. In May 1998, Indonesians of Chinese descent became major targets of attack in anti-government riots. That episode probably encouraged the ethnic Chinese communities in ASEAN to diversify their investments and move their assets to other countries, including China. At the same time, the credit crunch and the regional currency crisis made the ASEAN governments highly sensitive to capital outflows. Attempts by the Chinese authorities to attract overseas Chinese investments created friction with the ASEAN governments. Naturally, Chinese officials also anticipated a temporary decline in investments from ASEAN.

The Chinese Government maintained a very low profile during the riots in Indonesia in 1998. It was aware that it could offer little help to the ethnic Chinese who were targets during those riots. Strong protests would be counter-productive as they might further arouse local feelings against the ethnic Chinese and exacerbate the ASEAN governments' suspicions of ties between the Chinese authorities and ethnic Chinese communities in Southeast Asia. Chinese

⁸⁷Chen Jing, "Haiwai Huaren Da Caituan Laihua Touzi Dongxiang" (Moves of Major Overseas Chinese Business Groups Regarding Investments in China), in Huaren Jingji Nianjian Editorial Committee, *Huaren Jingji Nianfian 1996* (Yearbook of the Huaren Economy 1996) (Beijing: Shehuikexue Wenxian Chubanshe, 1996), p. 195.

⁸⁸John Naisbitt, *Megatrends Asia* (New York: Simon & Schuster, 1996), pp. 19–20.

leaders later took up the issue mainly in response to demands from the overseas Chinese community.

China's self-restraint and its financial support for ASEAN in the latter's economic crisis have enhanced mutual trust between them. China's relative economic health also won considerable admiration in ASEAN. As the largest borrower from the World Bank, China received no further funds from the International Development Association, the soft-loan arm of the World Bank, after mid-1999.⁸⁹ In August 1997, China offered US\$ 1 billion to help Thailand to overcome its financial crisis. Similarly, it provided assistance to Indonesia. In December 1997, at the summit between ASEAN, China, Japan and South Korea in Kuala Lumpur, President Jiang Zemin pledged US\$ 4–6 billion for the IMF's program to support Southeast Asia, and to take part in other assistance programs.⁹⁰ Chinese leaders also promised not to devalue the renminbi so as to avoid another round of competitive devaluations among Asian currencies. Chinese leaders considered this an important contribution to stabilize the financial markets in Asia and a sacrifice on China's part, a view shared within ASEAN circles.⁹¹ The U.S. Government was also concerned with China's holding of U.S. government bonds. In July 1997, Beijing owned US\$ 12 billion of U.S. government bonds, second only to Japan. If it decided to sell US\$ 10 billion of these bonds, it would raise interest rates in the U.S. by 1%, and would make a significant impact on international financial markets.⁹² In contrast to China's efforts, Japan had been criticized for not doing enough to help rescue Southeast Asia from the regional economic crisis.⁹³

China carefully exploited the contradictions between the U.S. and ASEAN in the 1997–1998 crisis. A *Renmin Ribao* article in January 1998, for example, criticized the U.S. for forcing East Asia into submission through the offer of its assistance, and that it was

⁸⁹ *South China Morning Post*, 20 September 1997.

⁹⁰ *Ming Pao*, 15 and 16 December 1997.

⁹¹ *Ming Pao*, 18 April 1998.

⁹² *Ming Pao*, 16 January 1998.

⁹³ *South China Morning Post*, 19 January 1998.

promoting its economic and political model while easing East Asia's threat to the U.S. economy. *Renmin Ribao* also attacked the U.S. for stressing the authority of the IMF during the crisis to further its own strategic interests.⁹⁴ Many political and business leaders in ASEAN supported such a view.

In response to the Chinese authorities' united front offensive to attract investment from Taiwan, the Taipei government officially initiated the "go South" policy in 1994, in encouraging and facilitating Taiwan's business community to invest in Southeast Asia. By June 1995, Taiwan's contracted cumulative investment in the ASEAN states and Vietnam had reached US\$ 25 billion, of which US\$ 21.6 billion had been committed since 1988.⁹⁵ Such a sizable investment obviously gave Taipei considerable clout.

In 1998, Taipei intended to make good use of the economic crisis in Southeast Asia to step up its diplomatic profile there. Investments from Taiwan became even more attractive in such a difficult time. Taiwan Vice-President Lien Chan made a private visit to Malaysia in March 1998 to meet the country's leaders. He was followed by Vincent Siew in the following month, when Siew was believed to have met Malaysian Prime Minister Mahathir and his then deputy Anwar Ibrahim. Earlier, in November 1997, Mahathir had stopped briefly in Taipei, while flying home from Canada, and met Vincent Siew. In Siew's visit to Kuala Lumpur in April 1998, he offered to have Taiwan's private banks guarantee the issue of bonds by the Asian governments hit by the Southeast Asian financial crisis.⁹⁶ At the APEC summit in Kuala Lumpur in November 1998, Taipei offered to invest US\$ 930 million in the ASEAN states through its Southeast Asia Investment Holding Company; at the same time, it proposed to join the dialogue among ASEAN economic ministers.⁹⁷

⁹⁴ *Renmin Ribao*, 6 January 1998.

⁹⁵ See Xiangming Chen, "Taiwan Investments in China and Southeast Asia", *Asian Survey*, Vol. 36, No. 5 (May 1996), p. 454.

⁹⁶ *South China Morning Post*, 27 April 1998.

⁹⁷ *South China Morning Post*, 10, 18 and 19 November 1998.

The Taiwan issue no doubt would continue to be a source of friction in China's relations with some of the ASEAN states. The latter were certainly unwilling to sacrifice their mutually beneficial economic ties with Taiwan to placate China. Taiwan's trade with Malaysia, for example, amounted to US\$ 7.3 billion in 1997, and Taiwan imported US\$ 4.23 billion of goods from Malaysia, and exported to that country to the amount of US\$ 3.04 billion. Taiwan was Malaysia's fourth largest trading partner then, after Japan, Singapore and the U.S.⁹⁸ Yet, the ASEAN states respect Beijing's position and have no intention of violating their recognition of the government of the People's Republic of China as the sole legal government of China. Chinese leaders too realized that there was a limit to their pressure on the ASEAN states, though protests and symbolic gestures remained indispensable. In response to Vincent Siew's stopover in Singapore on his way to Indonesia in January 1998, the Chinese Government cancelled the visit to Singapore of its Defence Minister, Chi Haotian (the visit subsequently took place later in the year).⁹⁹ It was felt that a more effective way to limit the impact of Taiwan's diplomatic offensive was the strengthening of China's approach to ASEAN.

In view of the lukewarm attitude of the Taiwan business community, the Taiwan government had to rely more on the public sector to boost investments in Southeast Asia. In that respect, the ruling Kuomintang's powerful business unit, the China Development Corporation, had taken the lead in many cases. Its chairman, Liu Tai-ying, visited Thailand, the Philippines, Malaysia and Indonesia in March 1998. The China Development Corporation would manage an investment firm targeting mainly Malaysia and Thailand with the participation of about 20 leading Taiwan companies.¹⁰⁰ Taipei also proposed the establishment of a major multilateral Asian crisis fund under APEC's auspices.¹⁰¹

⁹⁸ *Hong Kong Economic Journal* (Hong Kong), 9 May 1998.

⁹⁹ *Ming Pao*, 12 April 1998.

¹⁰⁰ *South China Morning Post*, 16 March 1998.

¹⁰¹ *South China Morning Post*, 14 February 1998.

Taiwan's lack of diplomatic representation in Indochina and Myanmar also meant that it could not provide adequate protection for its investors. Where corruption was rampant and the rule of law not well established, Taiwan investors did have grievances against the local governments. They felt acutely that their government lacked channels and mechanisms to articulate their interests and redress their grievances. Sometimes, in their frustration, they had even turned to Chinese embassies for assistance.

Conclusion

Since the early 1990s, Chinese leaders have been under pressure to come up with a coherent regional policy, given their recognition of the increasing significance of economic regionalism and regional trading blocs. In 1991, China became a dialogue partner of ASEAN, a member of APEC, and expressed support for the Malaysian proposal for an East Asia Economic Caucus that excluded the U.S.¹⁰² Directions for an institutional framework to strengthen economic cooperation among East and Southeast Asian countries were still fluid, but they had an important impact on the roles of the U.S. and Japan in the region. China could not afford to be left out in shaping this institutional framework, and its relations with ASEAN had a significant impact on its efforts in this direction, especially in view of ASEAN's increasingly important role in the Asia-Pacific region.

China needs a peaceful international environment to concentrate on economic development. Hence, the Chinese leadership prefers a multipolar world in which the major powers can develop friendly ties with each other and in which nonzero-sum games are the norm. Both China and ASEAN intend to play a more significant role in the Asia-Pacific region and in the international community, especially in the UN. Their pursuits are a nonzero-sum game and can be mutually supportive. The Asia-Pacific region needs effective representatives in negotiations with the Western countries and in various international

¹⁰² See Michael Yahuda, "Deng Xiaoping: The Statesman", *China Quarterly*, Vol. No. 135 (September 1993), pp. 565-566.

organizations. China and ASEAN, on the basis of close bilateral and regional consultations, can perform that role together. After all, they have no intention of isolating each other in regional affairs, and they do not have the ambition of assuming a predominant leadership role in the region.

There were, however, differences in approach and interest in the 1990s which had to be recognized and reconciled.¹⁰³ China's more active participation in regional organizations and ASEAN's initiatives to articulate regional interests certainly contributed to this recognition and reconciliation. Multilateral dialogue and cooperation were essential at this stage to enhance trust and reduce tension; eventually stable, friendly and mutually beneficial relations between China and ASEAN would help to curb the resurgence of nationalism or neo-nationalism in these countries. ASEAN's emphasis on the Track-2 process in its various diplomatic initiatives would be beneficial to China too.

From an idealistic point of view, Chinese leaders' conception of peace is more than an absence of war and violence. It is related to North-South issues and the elimination of social injustice arising from the gap between the rich and the poor. Peace should be based on an equality of states, while hegemonism is seen as a threat to peace.¹⁰⁴ Such a conception of peace is obviously in line with ASEAN's aspirations as a group of countries of varying sizes seeking to articulate their interests in a region dominated by major powers.

Meanwhile, Chinese leaders still face an arduous task in reducing or eliminating fears of a "China threat", and inducing acceptance of their "new international political and economic order" among the ASEAN states. The PLA's emphasis on improving its capabilities to win regional wars by employing high-technology would only exacerbate ASEAN's worries of a "China threat" especially in the context of

¹⁰³ See Rosemary Foot, "Thinking Globally from a Regional Perspective: Chinese, Indonesian and Malaysian Reflections on the Post-Cold War Era", *Contemporary Southeast Asia*, Vol. 18, No.1 (June 1996), pp. 17-35.

¹⁰⁴ See Gerald Chan, "Chinese Perspectives on Peace and Development", *Peace Review*, Vol. 10, No. 1 (1998), p. 35.

China's territorial disputes with the ASEAN states and its rapidly-increasing energy needs. China's military modernization plans accord considerable priority to the navy, including the development of aircraft carriers.¹⁰⁵

By the end of the twentieth century, the ASEAN leaders, including those of Vietnam, were convinced that China needed a peaceful international environment at this stage of its economic development. They were more concerned with China beyond the year 2020 when its economic strength and military capabilities would likely attain a significant level. This perception meant that the Chinese leadership had gained time, and economic interdependence was perhaps the most significant incentive to avoid conflict. The Chinese government's responsible behavior during the regional economic crisis in 1997–1998 was an important landmark. Chinese leaders regarded the economic crisis as an opportunity to strengthen economic ties with ASEAN; they considered Sino-ASEAN economic cooperation from a long-term perspective.¹⁰⁶

China's active participation in the ARF's practice of preventive diplomacy has been another important area of Sino-ASEAN cooperation to reduce tension and enhance trust. In March 1998, Malaysia offered a venue for China and Taiwan to hold talks on unification.¹⁰⁷ In return, China should seriously consider its strategic partnership with ASEAN along the lines of its relations with the major powers.

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¹⁰⁵ *South China Morning Post*, 1 and 14 April 1998.

¹⁰⁶ *South China Morning Post*, 30 March 1998.

¹⁰⁷ *South China Morning Post*, 6 March 1998.

Chapter 5

From the Path of Least Resistance to Increasing Assertiveness: China's Way of Engagement in Southeast Asia

Joseph Yu-Shek Cheng and Huangao Shi

Active engagement has, to some extent, turned China from a strategic threat to a constructive partner in the eyes of Southeast Asia in the past two decades. Though the improvement in relations is partly the result of China's changing global and regional strategies, the strategic changes are the necessary rather than sufficient conditions for China's success. Scholars have developed various concepts, like "new diplomacy", "charm offensive" and "soft power" to account for China's diplomatic achievements in the region, but little academic attention has been directed to examine the specific ways through which China accomplished its goals without much disturbing the regional states and external powers. This chapter attempts to explore the ways and processes that lead to China's relative success. It finds that China's engagement in Southeast Asia not only pragmatically follows the path of least resistance, but also has proactively charted its own path wherever necessary and possible. On the theoretical front, this chapter

finds that China's gradual engagement experience poses challenges to the "issue linkage" argument in international cooperation studies, and suggests that "issue delinkage" can be an equally important, if not better, mechanism for international cooperation construction.

Roughly since 2010, Sino-ASEAN relations have been affected by a number of significant trends. In the first place, territorial disputes in the South China Sea have escalated, which led to deteriorations in Sino-Vietnamese and Sino-Philippines relations and raised suspicious and distrust of China among the ASEAN countries. Many of the ASEAN countries have been adopting hedging strategies which involve closer security ties with the U.S., Japan and India as well as individual military modernization programs. This rising tension has not seriously affected Sino-ASEAN relations yet; in fact, China has probably been more eager to promote cooperation, as demonstrated by its "one belt, one road" scheme.

In October 2013, the Central Committee of the Communist Party of China (CPC) organized a top-level conference on China's periphery diplomacy. The principal purpose of periphery diplomacy seems to be to offer reassurance to China's neighbors of its peaceful development through the strengthening of economic ties. Chinese leaders repeat their principles of "*mulin, anlin, fulin*", i.e., maintain cordial relations with China's neighbors and bring security and prosperity to them. The then new leader Xi Jinping also offered his own concepts of "*qin cheng hui rong*" (i.e., affinity, sincerity, benevolence and tolerance).

At the Party periphery diplomacy conference, Xi Jinping indicated that in the implementation of its neighboring diplomacy, China would "strive for achievement (*fenfa youwei*)" and establish friendly, good-neighborly relations with nearby countries. This slogan is often cited in comparison with Deng Xiaoping's guideline issued soon after the Tiananmen incident in June 1989, i.e., "hide one's strength and bide one's time".¹ While there are different interpretations of this

¹The National Institute for Defense Studies, Japan, *East Asian Strategic Review 2015* (Tokyo: The Japan Times Ltd., 2015), Chapter 3, "China: Xi Jinping's Administration — Proactive Policies at Home and Abroad", pp. 108–109.

comparison, Chinese Foreign Minister Wang Yi at a press conference during the annual session of the National People's Congress in March 2014 stated that the most vivid characteristic of Chinese diplomacy at this stage is that it would move forward autonomously and independently.²

At the Party foreign affairs work conference in late November 2014, Xi Jinping presented a comprehensive discourse on China's foreign policy. He recognized the clear trends toward multipolarization and globalization, as well as the reform of the international system toward democratization; however, the struggle for international order would be long term. Xi argued that at this stage, China would have the opportunity of securing the great revival of the Chinese nation, highlight the significance of improving China's international status and influence.³

The Chinese authorities have not given any precise definition of China's periphery; sometimes, the concept of greater periphery (*dazhoubian*) is also articulated. The Silk Road Economic Belt and the 21st Century Maritime Silk Road schemes obviously have very broad geographical scopes. But ASEAN certainly is the most important component of China's periphery, and central to China's peripheral diplomacy is the deepening of economic ties through trade and investment.

In May 2014, China hosted the Conference on Interaction and Confidence-Building Measures in Asia (CICA) in Shanghai, at which President Xi Jinping introduced his New Asian Security Concept. Xi criticized the enhancement of military alliances targeted against third parties as not conducive to the maintenance of common regional security, and he even stressed that "security in Asia should be maintained by Asians themselves". At the same time, Xi declared that China would make its contribution to create a security environment in Asia conducive to peace, development, cooperation and win-win relations. Finally, Xi proposed that CICA should serve as the platform for a security dialogue encompassing all of Asia, and that Asia should

² *Renmin Ribao* (Beijing), 9 March 2014.

³ *Xinhuanet*, 29 November 2014.

seek using CICA as the foundation for a new regional security cooperation framework.⁴

Meanwhile, the negotiations on the Trans-Pacific Partnership (TPP) were completed at the end of 2015, though its approval by the American Senate may still face a considerable challenge. The TPP excludes China at this stage, though China as a member of Asia-Pacific Economic Cooperation (APEC) may apply to join later. On the other hand, China has been promoting the Regional Comprehensive Economic Partnership (RCEP), a regional economic cooperation framework based on ASEAN Plus Three excluding the U.S.

Though ASEAN member states are most reluctant to have to choose between the U.S. and China, the strategic competition between the two has created some difficulties for them. Meanwhile, Chinese foreign policy researches complain that many ASEAN countries choose to turn to the U.S. on security issues, while continuing to exploit the economic concessions offered by China in its promotion of regional economic cooperation.

A Survey of Recent Sino-ASEAN Relations

Few relationships had evolved better than that between China and Southeast Asia during the two decades before 2010 in China's diplomacy. In the 1990s, the discussion of their relations tended to focus on concerns over China's military modernization and provocative moves in the South China Sea, in the context of the declining U.S. strategic commitment in this region after the Cold War. In the first decade of the twenty-first century, however, the acceptance of China in economic and security affairs grew considerably among the Southeast Asian political elites. China's image largely changed from a strategic threat to a constructive economic partner in Southeast Asia.⁵

⁴ *Renmin Ribao* (overseas edition), 22 May 2014.

⁵ Allen S. Whiting, "ASEAN Eyes China: The Security Dimension", *Asian Survey*, Vol. 37, No. 4 (April 1997), pp. 299–322; see also Evelyn Goh, "Southeast Asian Perspectives on the China Challenge", *The Journal of Strategic Studies*, Vol. 30, No. 4–5 (August–October 2007), pp. 809–832.

As Alice D. Ba states “of the great powers, China has made the most gains in terms of its relations with Southeast Asia”.⁶

China’s rise is no longer a prediction, but a fact. It is now generally perceived as a new force in the global scene to be reckoned with.⁷ China’s rise, however, also creates serious concern about how Beijing will use its expanding economic and military powers. Southeast Asia is the region where the projection of Chinese influence and military capabilities are most acutely felt.⁸ The Chinese leadership realizes that the international community is concerned with the implications of China’s rise and has been striving to ensure the world that China’s rise is not threatening. Cultivating friendly relations with the neighboring countries and avoiding conflicts with them are naturally an important part of its efforts.⁹ With regard to Southeast Asia, China seeks to promote an image of being able to handle its greater economic and strategic clout responsibly, and an Asian partner playing a constructive role in regional economic and political affairs.¹⁰ In the 1990s, however, most of Southeast Asian nations were uncertain of China’s long-term strategic intentions and strove to keep the U.S. in their regional security architecture to serve as a counterweight to China.¹¹ This was especially so in the first half of the decade, when conflicts of interests between China and Southeast Asia were frequent and the “China threat” perception often dominated the official, academic and media discussions in the latter.

⁶ Alice D. Ba, “China and ASEAN: Renavigating Relations for a 21st-Century Asia”, *Asian Survey*, Vol. 43, No. 4 (2003), pp. 622–647.

⁷ Fareed Zakaria, “Does the Future Belong to China?”, *Newsweek*, 9 May 2005.

⁸ Martin Stuart-Fox, “Southeast Asia and China: The Role of History and Culture in Shaping Future Relations”, *Contemporary Southeast Asia*, Vol. 26, No. 1 (2004), pp. 116–139.

⁹ Joseph Y. S. Cheng, “China’s ASEAN Policy in the 1990s: Pushing for Regional Multipolarity”, *Contemporary Southeast Asia*, Vol. 21, No. 2 (August 1999), pp. 176–183.

¹⁰ Bruce Vaughn and Wayne M. Morrison, “China-Southeast Asia Relations: Trends, Issues, and Implications for the United States”, CRS Report for Congress, 4 April 2006.

¹¹ Evelyn Goh, “Meeting the China Challenge: The U.S. in Southeast Asian Regional Security Strategies”, East–West Center Washington Policy Studies, No. 16 (2005).

The Chinese government wanted to demonstrate to the Southeast Asian states that they had very much to gain, very little to lose and nothing to hedge against, by living next to a powerful but friendly China. Chinese diplomacy succeeded to a considerable extent that most people in Southeast Asia seemed persuaded that China did not pose an immediate threat in both security and economic terms. In his study of Southeast Asia's reactions to China's peaceful development doctrine, Carlyle A. Thayer found that the mainstream public opinions in Thailand, the Philippines and Indonesia were largely positive toward China's rise, and more than half of the respondents regarded China as a trustful partner.¹² The then Indonesian President Susilo Bambang Yudhoyono asserted publicly that China's emergence as a regional political and economic leader benefited not only Indonesia, but also Southeast Asia as a whole. Considering the long history of suspicions and mistrust that has colored Indonesia's ties with China, such an affirmation might safely be interpreted as an achievement for Chinese diplomacy.¹³

Besides the improving diplomatic relationship, economic cooperation certainly made remarkable progress. Bilateral trade between China and the Association of Southeast Asian Nations (ASEAN) grew from US\$ 8.4 billion in 1991 to US\$ 213 billion in 2009, hitting a peak of US\$ 231.1 billion in 2008. In 2009, ASEAN became China's third largest foreign export market (excluding Hong Kong) and the fourth biggest trade partner.¹⁴ At the same time, China emerged as ASEAN's biggest trade partner in 2009, with a total volume of US\$ 213 billion, surpassing the U.S.-ASEAN trade of US\$ 178 billion.¹⁵

¹² Carlyle A. Thayer, "Southeast Asian Reactions to China's Peaceful Development Doctrine: Indonesia, the Philippines, and Thailand", in National Bureau of Asian Research (ed.), *NBR Analysis: Assessing Regional Reactions to China's Peaceful Development Doctrine*, Vol. 18, No. 5 (April 2008), pp. 5-14.

¹³ Ronald N. Montaperto, "China-Southeast Asia Relations: Assurance and Reassurance", *Comparative Connections*, Center of Strategic and International Studies, April 2005.

¹⁴ "2009 nian Zhongguo Duiwai Maoyi Fazhan Qingkuang (Development of China's Foreign Trade in 2009)", Ministry of Commerce of People's Republic of China, 27 April 2010.

¹⁵ Kyaw Hsu Mon, "China Becomes ASEAN's Biggest Trade Partner", *Myanmar Times*, 6 September 2010.

Notably, China had been running a trade deficit with ASEAN since 1998, with a peak of US\$ 20 billion in 2004, when the “Early Harvest” program was first implemented (see Table 1). Bilateral investment also witnessed significant increases in the past few years. Between 2003 and 2009, ASEAN investment in China grew from US\$ 2.93 billion to US\$ 4.68 billion, while China’s investment in ASEAN increased 13 times, from a meager US\$ 230 million to US\$ 3 billion.¹⁶ Although China’s investment was still a very small fraction of the total foreign direct investment (FDI) flow to ASEAN, the pace of increase was impressive in those years.¹⁷ Take Myanmar as an example: China’s investment in Myanmar rose from US\$ 194.22 million in 2007 to more than US\$ 10.02 billion in 2010.¹⁸

With the implementation of the Sino-ASEAN Free Trade Area Agreement in 2010, total bilateral trade increased very rapidly from US\$ 232 billion in 2010 to US\$ 480 billion in 2014. Due to the global economic slowdown, Sino-ASEAN trade declined slightly in 2015. Since 2012, China managed to transform its continuous trade deficit with ASEAN into a trade surplus, which had been growing significantly till 2015. In that year, China enjoyed a trade surplus of US\$ 94 billion (see Table 1). This reversal was probably related to China’s diversification of its import sources of raw materials, the decline in their prices, as well as its success in opening up the ASEAN market for its manufactured products.

While the substantial trade deficits on the part of ASEAN in recent years may be a cause for complaint, the Chinese authorities may point to the impressive investment flow from China to ASEAN which amounted to US\$ 5.9 billion in 2011 and US\$ 7.8 billion in 2014 (see also Chapter 2, Table 2).

¹⁶ “Zhongguo Dongmeng Zimaoku Bannian Shuangbian Maoyie 1365 yi Meiyuan (China-ASEAN FTA’s Bilateral Trade Reaches US\$136.5 Billion in Half a Year)”, *Jingji Cankaobao (Economic Information)*, 27 July 2010.

¹⁷ According to ASEAN data, in 2006, China’s investment in ASEAN accounted for only 1.8% of regional investment stock, whereas U.S. investment accounted for about 7.4%, Japan accounted for 20.6% and EU nations accounted for 25.5%.

¹⁸ Kyaw Hsu Mon, *op. cit.*

Table 1. Sino-ASEAN Bilateral Trade (US\$ million)

Year	Bilateral Trade	China's Trade Surplus/Deficit
1991	8,009.10	283.76
1996	20,429.97	-978.67
2001	41,614.73	-4,843.89
2002	54,765.92	-7,628.99
2003	78,252.36	-16,401.42
2004	105,879.77	-20,075.53
2005	130,370.06	-19,627.82
2006	160,839.70	-18,212.23
2007	202,548.27	-14,190.44
2008	231,219.70	-2,686.15
2009	178,185.40	-15,003.30
2010	232,013.20	-6,013.60
2011	363,088.70	-22,947.48
2012	400,146.19	8,362.97
2013	443,598.13	44,481.53
2014	480,286.14	63,805.20
2015	461,105.16	94,385.62

Source: National Bureau of Statistics of China, *China Statistical Yearbook* (various issues). Available at <http://www.stats.gov.cn/english/statisticaldata/AnnualData/>.

With a bitter memory of China's hostility during the Cold War era and its assertive behavior patterns in territorial disputes, the suspicions of Southeast Asia against China have remained entrenched. Besides an anxious Southeast Asia, the external powers involved in the region, especially the U.S., do not welcome a rising power with the capacity to pose a substantial threat to the existing political, economic and security structures. Although the Obama administration has declared a "return to Asia" policy, the U.S. has never actually left this region completely. It has been wary of China's rapidly growing regional influence and has been ready to demonstrate its determination to maintain a significant presence in the region, as exemplified by its regular military exercises with its Southeast Asian allies.

Scholars have developed various concepts to account for China's diplomatic achievements in the region. Evan Medeiros and M. Taylor Favel consider China's "new diplomacy" characterized by an active embrace of regional and global institutions as accountable for China's success in drawing Southeast Asia into its sphere of influence.¹⁹ Joshua Kurlantzick argues that China's "charm offensive" or "soft power" including diplomacy, trade incentives, cultural and educational programs, etc. has helped China build its global influence.²⁰ Avery Goldstein, from a realist perspective, contends that China's neo-Bismarckian tactics play a crucial role.²¹ Scholars in China generally attribute China's success to its genuine intention for peaceful rise and good-neighborliness.²²

Much of the existing literature tries to explain China's approach to Southeast Asia from strategic perspectives, but relatively little academic attention has been directed to examine the specific ways through which China has achieved its diplomatic goals without disturbing the regional states and external powers. It hopes that its objectives can be achieved through carefully selected means and skillful implementation. This chapter argues that China's relative success in Southeast Asia, especially before 2010 or so, can be explained by an adroit engagement process in which China pragmatically follows the path of least resistance and has proactively defined its own way wherever necessary. China's adept exploitation of opportunities created by external shocks, its attentive policies catering to the needs of individual states and the region as a whole,

¹⁹ Evan Medeiros and M. Taylor Favel, "China's New Diplomacy", *Foreign Affairs*, Vol. 82, No. 6 (2003), pp. 22–35.

²⁰ Joshua Kurlantzick, *Charm Offensive: How China's Soft Power is Transforming the World* (New Haven, CT: Yale University Press, 2008).

²¹ Avery Goldstein, "An Emerging China's Emerging Grand Strategy: A Neo-Bismarckian Turn?", in G. John. Ikenberry and Michael Mastanduno (eds.), *International Relations Theory and the Asia-Pacific* (New York: Columbia University Press, 2003), pp. 57–106.

²² Zhu Feng, "China's Rise Will Be Peaceful: How Unipolarity Matters", in Robert S. Ross and Zhu Feng (eds.), *China's Ascent: Power, Security, and the Future of International Politics* (Ithaca and London: Cornell University Press, 2008), pp. 34–54.

and its accommodating stances constitute the main features of its engagement of Southeast Asia.

Since 2010 or so, however, China has been perceived by its Southeast Asian neighbors as more assertive in the territorial disputes in the South China Sea and more eager to secure the status and influence of a major power. On the part of China, it considers that its previous self-restraint has not helped to resolve the territorial disputes, and in fact, the countries concerned have been quite aggressive in exploiting the resources in the disputed maritime territories.

Chinese leaders realize that ordinary Chinese increasingly expect an improvement in China's international status and influence, and this has become an important source of legitimacy for the Party regime. They therefore face a dilemma: domestic public opinion tends to favor a strong position on sovereignty issues, while the international community, especially China's neighbors, expects it to assume a greater responsibility in the delivery of international public goods.

At the same time, while China narrows its gap with the U.S. in terms of its national capabilities, including military capabilities, that between China and its Southeast Asian neighbors has been widening. The weight of oceanic economy in China's future economic development has been rising rapidly. In 2003, the State Council released the "National Ocean Economic Development Outline", and in the 12th Five-Year Economic and Social Development Program, it was stipulated that by 2015 the weight of oceanic economy in China's GDP should be raised to over 10%. In 2012, the report to the 18th Party Congress proposed the goal of making China an "oceanic major power".

Robert A. Scalapino considers "the Central Kingdom complex" in China's relations with its neighbors and identifies three models: the "Confucian peace" model that applied to China's relations with Korea, Vietnam and Japan which were deeply influenced by the Confucian culture; the relations between China and the northern nomadic tribes characterized by frequent military conflicts; and a stable, equal relationship like that between China and India marked by limited interactions.²³

²³Robert A. Scalapino, "China's Relations with Its Neighbours", *Proceeding of the Academy of Political Science*, Vol. 38, No. 2 (1991), pp. 63–74.

China's mainstream foreign policy think tanks often examine the impact of the following trends on China's external environment. In terms of economic strength, China will be catching up with the U.S. rapidly. Measured by purchasing power parity, the Chinese economy may surpass the American economy by 2017 or so. In the military arena, China will not be able to challenge the U.S. and its allies in the coming 10 years. As new media spread and the middle class grows in Asia, information transmitted through the Internet will have a very significant impact on China's peripheral environment, and the Chinese authorities will find it increasingly difficult to control this information inflow. China's foreign policy researchers believe that China's capacity of managing major power relationships will strengthen, and China's model of a "new type of major power relations" will become influential. Finally, these researchers recognize that the economic interdependence between China and its neighboring countries will continue to grow, and China's interests in its periphery will become more significant. Chinese leaders will maintain their strategy of cooperation and try to secure win-win scenarios.²⁴

China has been preaching its peaceful rise²⁵ and intends to avoid a pursuit of hegemony leading to a major war with the sole superpower today, namely, the U.S.²⁶ This consideration will continue to determine China's approach to Southeast Asia. Its assertiveness will differ from the low profile adopted until the first decade of the twenty-first century, but at the same time it will offer more international public goods symbolized by the Silk Road Economic Belt and 21st Century Maritime Silk Road schemes.

²⁴ Zhong Feiteng, "Ruhe Shenshi Weilai 5–10 Nian Zhongguo de Zhoubian Huanjing (How to See China's Peripheral Environment in the Next 5–10 Years)", in Li Xiangyang (ed.), *Yatai Diqu Fazhan Baogao (2014) Zhongguo de Zhoubian Huanjing (Annual Report on Development of Asia-Pacific (2014) China's Peripheral Environment)* (Beijing: Social Sciences Academic Press (China), 2014), pp. 21–24.

²⁵ Joseph Yu-Shek Cheng, *China's Foreign Policy — Challenges and Prospects* (Singapore: World Scientific, 2016), Chapter 5, "Convincing the World of China's Tradition to Pursue Universal Harmony", pp. 165–190.

²⁶ John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton & Company, 2001).

Exploiting the U.S. Neglect of the Region

In the first decade of the twenty-first century, China had benefited much from the U.S. global war on terror. The latter's strategic preoccupation first in Afghanistan and later in Iraq did not directly contribute to China's rise, but it has given Beijing greater diplomatic space to expand its influence both within and outside Southeast Asia.

The Bush administration accorded top priority to the combat of global terrorism since the September 11 incident, and Southeast Asian countries felt the pressure to adopt a clear-cut stand on the campaign. Subsequent to the September 11 incident, the Bush administration's policy became considerably more interventionist, as reflected by its new doctrine of preemptive strike. This doctrine was supposed to apply to rogue states which were engaged in the development of weapons of mass destruction (WMD) as well as to Al Qaeda and Al Qaeda-linked terrorist groups in other countries, but there was a concern that its application might gradually widen. This was particularly alarming among countries with large Muslim populations who viewed the strategy with strong suspicion.²⁷ As Scot A. Marciel, U.S. Ambassador for ASEAN Affairs and Deputy Assistant Secretary of State for East Asian and Pacific Affairs, publicly admitted, "our numbers in the polls sometimes slip, and some in the region are occasionally critical of our policies and approaches".²⁸

China, on the other hand, succeeded in gaining significant acceptance by aligning itself with the concerns in Southeast Asian capitals about the U.S. military campaign in Iraq and about the statements from Washington suggesting a new policy of unilateral military preemption with little regard for dissent in foreign capitals. After the Iraq invasion, China stepped up its criticisms of U.S. interventionism and reiterated its non-interference principle. A corollary to China's

²⁷Carin Zissis, "Crafting a U.S. Policy on Asia", Council on Foreign Relations Backgrounder, 10 April 2007.

²⁸Scot A. Marciel, "U.S. Engagement in Southeast Asia", Remarks to Center for Strategic International Studies Meeting on "U.S. and Southeast Asia: Toward a Strategy for Enhanced Engagement", Washington D.C., 25 September 2008. Available at <https://2001-2009.state.gov/p/eap/tls/rm/2008/09/110494.htm>.

non-interference doctrine has been greater strategic recognition of the role of the UN. The difficulties the U.S. faced after its initial phase of invasion of Iraq worked to bolster China's argument that the kind of military action that the U.S. undertook should only be initiated with the consensus of the international community.

The Bush administration's insistence on preemptive attack also consolidated the views that the American military presence was not always a stabilizing factor. The great difficulties encountered by the U.S. in its military operations, the enormous economic cost of the wars and the high diplomatic price the U.S. paid for its actions prompted Southeast Asian states to reevaluate China's time-honored non-interference principle.

Since the September 11 incident, U.S. attention was absorbed by the Middle East situation and its counterterrorism efforts. Southeast Asia especially felt neglected by the Bush administration. "One of the major casualties of the war on terror has been a strategic policy toward Asia", commented Donald C. Hellmann, director of the Institute for International Policy at the University of Washington.²⁹ On China's part, there was a clear trend of courtship. Then Chinese Vice President Hu Jintao stopped in Malaysia on 23–25 April and in Singapore on 26–27 April 2001 en route to his first visit to the U.S. The order of his travel schedules might have been intended to signal Beijing's priorities of putting Asia first.

In contrast to the U.S.'s neglect, China was working hard to be perceived as attentive and responsive to the needs of the individual states and the region as a whole. In November 2004, U.S. President George W. Bush and China's President Hu Jintao travelled through Asia. Karim Raslan, a Malaysian writer, observed: "Bush talked obsessively about terror. He sees all of us through that one prism. Yes, we worry about terror, but frankly that's not the sum of our lives. We have many other problems. We're retooling our economies, we're wondering how to deal with the rise of China, we're trying to address health, social and environmental problems. Hu talked about all these; he talked about our agenda, not just his agenda". In Fareed Zakaria's

²⁹ Carin Zissis, *op. cit.*

words, from Indonesia to Brazil, China's attention to other countries' needs was winning new friends.³⁰

Further U.S. strategic attention to Southeast Asia had not been restored even several years after its victories in the Afghanistan and Iraq battlefields. In early August 2007, then Secretary of State Condoleezza Rice failed to attend the ASEAN Regional Forum (ARF) Foreign Ministers' meeting, Chinese media were quick to point out that "this is for the second time in three years" and then offered positive comments about China's strong commitment to the region and regional organizations. An expert from China in regional affairs made the following observation, "As a large country in Asia, China pays more attention to regional affairs, while as a global power, the U.S. is distracted by many other concerns". Immediately after Rice's failure to attend the ARF meeting, ASEAN was further informed that no U.S. leader would attend the ASEAN Summit in Singapore in September 2007 either. Responding to these U.S. decisions, Surin Pitsuwan, Secretary-General of ASEAN, complained that "the absence of U.S. creates an impression that the U.S. has ignored ASEAN".³¹

American researchers and official strategists also acknowledged that the U.S. neglect had led to a decline in its influence. A Congressional Research Service (CRS) report found that the prominence of the U.S. fell as its government showed "waning or limited attention" to Southeast Asia.³² In an interview with the Australian media, Richard Armitage, former Deputy Secretary of State, was particularly critical of the Bush administration's Asia policy, saying "Right now, we're just so preoccupied with Iraq that we're ignoring China totally". "In every measure, China is making real hay right throughout Asia", Armitage added.³³

³⁰ Fareed Zakaria, "Does the Future Belong to China?", *Newsweek*, 9 May 2005.

³¹ Cai Penghong, "Meiguo Quexi Dongmeng Huiyi Bingfei Quexi Yingxiangli (U.S. Absence in ASEAN Summit Will not Reduce its Influence)", *Xinhua*, 8 August 2007.

³² Thomas Lum, Wayne M. Morrison and Bruce Vaughn, *China's "Soft Power" in Southeast Asia*, Washington D.C.: CRS Report, 4 January 2008.

³³ "China to Report Military Data to UN", *Aljazeera*, 3 September 2007.

Preoccupied with Iraq and the broader war on terrorism, U.S. influence fell behind that of China in Southeast Asia because of its neglect and unpopular policies in the region.³⁴ While the U.S. accorded its top priority to the war on international terrorism, Southeast Asian states were concerned above all with their economic recovery after the 1997–1998 Asian financial crisis. The unpopular U.S. policies, the shared aspiration for non-interference between China and Southeast Asia, China's political attention and its economic courtship backed by increasing economic power together created new space for enhancing China's presence and influence among its southern neighbors.

Using Crises to Create Consensus

The Asian financial crisis was an important turning point for Sino-ASEAN relations, and it severely tested the commitment of the U.S. and Japan to the region.³⁵ China's prompt and condition-free, though relatively small, emergency assistance to Southeast Asia during the crisis won China the reputation as a responsible economic player for the first time and laid the foundation for its further acceptance in the region. The 2008 global financial tsunami provided China another opportunity to enhance its "responsible major power" image and commitment to the region paving the way for a leadership role in regional economic affairs. Crisis (*weiji*) has the connotation of both danger and opportunity in the Chinese characters concerned. Obviously, China had successfully seized the political and diplomatic opportunities associated with these two economic crises.

The currencies of a few Southeast Asian countries endured dramatic devaluations, amounting to an average of more than 50%

³⁴ Joshua Kurlantzick, "Pax Asia-Pacific?: East Asian Integration and Its Implications for the United States", *The Washington Quarterly*, Vol. 30, No. 3 (Summer 2007), pp. 67–77.

³⁵ Zhan Zhongyuan, "Dongxie Jiasan de Fazhan yu dui Zhongguo de Yingxiang: Zhengcemian de Tantaoyao (The Development of ASEAN Plus Three and Its Impact on China: Policy Discussions)", Taipei, National Policy Foundation Research Report, 22 August 2006.

Table 2. Rate of Depreciation of Southeast Asian Currencies (July 1997 and January 1998)

Currency	Exchange Rate: Local Currency Unit/US\$ 1		Percentage Change
	4 July 1997	23 January 1998	
Indonesia Rupiah	2,432.3	14,555	-83.3%
Malaysian Ringgit	2.52	4.55	-44.6%
Philippine Peso	26.4	43.61	-39.5%
Singaporean Dollar	1.44	1.766	-18.5%
Thai Baht	28.4	53.7	-47.1%
Japanese Yen	113.85	126.00	-9.6%

Source: Dick K. Nanto, "The 1997-98 Asian Financial Crisis", *CRS Report*, 6 February 1998. Available at <https://fas.org/sgp/crs/row/crs-asia2.htm>.

between July 1997 and January 1998. Indonesia, the hardest hit country in the crisis, saw its currency depreciated approximately by 80% in the previous year (Table 2). Many Southeast Asian nations had expected that the U.S. would rush to their help as the financial crisis unfolded. At first, U.S. officials, believing that the contagion would not spread and not giving a high priority to the Thailand situation, refused to take the lead in organizing a bailout of the Thai financial system. In November 1997, President Bill Clinton himself downplayed the crisis as a mere "glitch in the road".³⁶ Thai leaders who had watched the U.S. bailout of Mexico from a similar crisis only three years earlier felt abandoned by their traditional ally. In its slow response, the U.S. even blocked the creation of a pan-Asian stabilization fund proposed by Japan, a move that made it seem to many Asian leaders as though Washington's top priority was maintaining its hegemony in the region, and not supporting it in a time of acute need. The confidence in the U.S. commitment of support was further cast in doubt in view of the fact that U.S. speculators actually benefited

³⁶Jane Skanderup, "The 1998 Asia Pacific Economic Cooperation Meeting: Opportunity for Relevance?", *PacNet*, No. 43, 6 November 1998.

from the crisis.³⁷ As Joshua Kurlantzick observed, “even 10 years after the crisis, Thai officials still seethe at how the United States treated them at the time”.³⁸

In comparison with the U.S., Japan’s responses did not score better, if not worse. Japan not only responded lukewarmly, but allowed the Japanese yen to depreciate, though at a more moderate rate, to avoid its export industry being hit by the crisis. In the eyes of ASEAN leaders, Japan did not take its due responsibility as Asia’s leading economic power and did not use its economic capacity to mitigate crisis and stimulate recovery. Still worse, they criticized that Japan only took its own interests into policy consideration and tried to circumvent the crisis at the expense of its Southeast Asian neighbors.

In sharp contrast to the responses of the U.S. and Japan, China promptly promised to offer Thailand US\$ 1 billion to help to stabilize the baht. Similarly, China provided assistance to Indonesia. In December 1997, at the summit among ASEAN, China, Japan and South Korea (ASEAN+3) in Kuala Lumpur, Jiang Zemin, then Chinese President, pledged US\$ 4–6 billion credit for the IMF’s program in support of Southeast Asia and to take part in other assistance programs. Further, China made a bold and symbolic move, publicly refusing to devalue its currency, which effectively helped to contain the contagious effect of the crisis and facilitate the creation of an opportunity window for Southeast Asian states to formulate their own crisis management plans. Beijing wisely advertised its decision as standing up for other Asian nations, implicitly criticizing Washington for its failure to help.³⁹

Southeast Asian countries openly demonstrated their appreciation.⁴⁰ As Mahathir Mohamad, then Prime Minister of Malaysia, said: “China’s performance in the Asian financial crisis has been laudable,

³⁷ Douglas Webber, “Two Funerals and a Wedding? The Ups and Downs of Regionalism in East Asia and Asia-Pacific after the Asian Crisis”, *Pacific Review*, Vol. 14, No. 3 (August 2001), pp. 339–372.

³⁸ Joshua Kurlantzick, *op. cit.*

³⁹ Joshua Kurlantzick, *op. cit.*

⁴⁰ Chien-Peng Chung, “Southeast Asia–China Relations: Dialectics of ‘Hedging’ and ‘Counter-Hedging’”, *Southeast Asian Affairs* (2004), pp. 35–53.

and the countries in this region greatly appreciated China's decision not to devalue the yuan. China's cooperation and high sense of responsibility have spared the region a much worse consequence. The price China has to pay to help East Asia is high, and the Malaysian people truly appreciate China's stand".⁴¹ China's scholars also acknowledged the positive impact the Asian financial crisis brought to the China–ASEAN relationship and claimed that "China had benefitted from it".⁴²

China later actively advocated the Chiang Mai Initiative (CMI), which came into effect in November 2001.⁴³ Under the CMI, East Asian countries created a series of Asian Bilateral Swap Arrangements (ABSA), allowing members to swap their own currencies for major international currencies for a period of up to six months and for a total of up to twice the amount committed by the members. Through this arrangement, China, Japan and South Korea planned to help other Asian states to stabilize their currencies and to hedge against the spreading effects of future crises.

Unlike the 1997 Asian financial crisis which only slightly affected the Chinese economy, the 2008 global economic crisis hit China much harder. In November 2008, China's monthly export figure dropped by 2.2%, the first decline since February 2002.⁴⁴ For a country with an export dependence ratio of 33%, China clearly felt the challenge.⁴⁵ But with the world's largest foreign exchange reserves,

⁴¹ "Sino-Malaysian Forum Held on Economic Recovery", *Xinhua*, 21 August 1999.

⁴² Ruan Jinzhi, "Liangci Weiji dui Zhongguo-Dongmeng Guanxi Yingxiang Yanjiu (Two Crises and Their Impacts on Sino-ASEAN Relations)", *Renmin Luntan (People's Tribune)*, No. 290, 13 June 2010.

⁴³ O. G. Dayaratna-Banda and John Whalley, "Regional Monetary Arrangements in ASEAN+3 as Insurance through Reserve Accumulation and Swaps", The Centre for International Governance Innovation Working Paper, No. 22, April 2007.

⁴⁴ Lu Zheng, "11 yue Zhongguo Jinchukou Zongzhi 7 nian lai Shouxian Fuzengzhang, Chukou jiang 2.2% (November Witnesses the Import–Export Figures Falling for the First Time in 7 Years, Export Drops by 2.2%)", *Zhongguo Zhengquanbao (China Securities Times)*, 11 December 2008.

⁴⁵ Development Research Centre of the State Council, "Zhongguo: Zai Yingdui Weiji zhong Xunqiu Tupo (China: Seeking a New Breakthrough in Dealing with Crises)", *Guangli Shijie (Management World)*, No. 6, pp. 4–18, 2009.

China had the capacity, and more importantly, the willingness to continue its outward investment in Southeast Asia. China's relatively stable investment in Southeast Asia during the crisis helped stabilize the regional economy. Among the top five foreign investors in Southeast Asia, China was the only one that showed an increase in investment (25.3%) between 2007 and 2008. In contrast, other major investor countries' investment shrank substantially during the same period: investment from the U.S., Japan and the European Union (EU-25) dropped by 36.4%, 47.2% and 46.4%, respectively. Although China's investment in Southeast Asia went down in 2009, the 10.4% decline (between 2007 and 2009) was relatively moderate in comparison with the U.S.'s 58.4%, Japan's 39.4% and the EU-25's 58.9% plunges.⁴⁶ China's stable economic presence facilitated Southeast Asia's improvement of their production capacities.⁴⁷ The expanding bilateral trade and ASEAN's growing surplus amid the economic crisis undoubtedly won China additional credit as a reliable economic partner.

Although China was among the major economic powers least affected in the 2008–2009 global economic crisis, the economic recession and decline in consumption demand in the Western countries exposed the weakness of China's export-oriented growth model and its overdependence on the Western countries' markets. Along the line of economic restructuring, industrial upgrading and boosting domestic consumption, China announced its RMB 4 trillion (about US\$ 570 billion) stimulus package on 9 November 2008.⁴⁸ For Southeast Asia, China's prompt substantial responses were clearly perceived as a positive move. Economic integration in the past two decades or more has formed a symbiotic relationship between the two

⁴⁶The figures are derived from ASEAN Secretariat, "Foreign Direct Investment Net Inflow from Selected Partner Countries/Regions", *ASEAN Statistical Yearbook*, 2010. Available at <http://asean.org/resource/statistics/statistical-publications/>.

⁴⁷Li Hainan, "Dongmeng Dashang Zhongguo Jingji Julun (ASEAN Rides on China's Economic Growth)", *Zhongguo Jingji Shibao (China Economic Times)*, 24 August 2009.

⁴⁸"China's 4 Trillion Yuan Stimulus to Boost Economy, Domestic Demand", *Xinhua*, 9 November 2008.

economies as linked parts of the international production chain. China's continued economic growth and stimulation of domestic demand alleviated the detrimental effects associated with the decline in external demand for Southeast Asia.

In response to the Western countries' calls for sharing the global responsibility to tackle the economic crisis, the Chinese leadership's routine rhetoric had been that "keeping China's domestic economy in order is the biggest contribution to the world economy". China, however, was willing to strengthen its economic cooperation with Southeast Asia. At the Boao Forum for Asia's annual meeting in April 2008, Premier Wen Jiabao stressed that "we Asian countries need to further strengthen our co-operation, work together in a concerted way, sit on the same boat (*tongzhou gongji*), strive to achieve an 'all-win' result for Asian economies, and make Asia the engine of world economic recovery".⁴⁹ At the Twelfth China-ASEAN Summit in Hua Hin, Thailand in October 2009, Wen Jiabao further stated: "More than ten years ago, we (China and ASEAN) fought shoulder to shoulder and finally overcame the Asian financial crisis successfully. Today, with consolidated mutual trust and enhanced bilateral connections, we have the full confidence that we together will make history again".⁵⁰

To facilitate trade transactions and to hedge against the exchange rate risks associated with the U.S. dollar, China in recent years has been actively promoting the RMB to be used as a regional currency in Southeast Asia. For example, since December 2008, China signed currency swap contracts with Malaysia valued at RMB 80 billion in February 2009, with Indonesia valued at RMB 100 billion in March 2009 and with Singapore valued at RMB 150 billion in July 2010,

⁴⁹ "Zhongguo Wen Jiabao: She Touzi Hezuo Jijin 365 yi zhu Dongmeng Jianshe (Chinese PM Wen Jiabao: Set up a 36.5 Billion Investment Cooperation Fund to Help ASEAN Development)", *Sin Chow Daily*, 18 April 2009.

⁵⁰ Feng Jian and Zhao Cheng, "Zhongguo yu Dongmeng Hezuo su Gongying (Cooperation between China and ASEAN Will Lead to 'All-Win')", *Xinhua*, 24 October 2009.

respectively.⁵¹ According to the People's Bank of China, "central banks use currency swaps to address the short-term liquidity problem and cope with the current crisis more efficiently, and safeguard stability of the financial system".⁵² In the aftermath of the 2008–2009 global economic crisis, several ASEAN leaders called for the expansion and strengthening of the CMI, leading to the conclusion of the "Chiang Mai Initiative Multilateralization" (CMIM) in March 2010. China (including Hong Kong) contributed US\$ 34.4 billion (32%) to the total pool of US\$ 120 billion and secured the same voting rights as Japan.⁵³

Respecting U.S. Interests in China's Strategic Calculations

On the whole, China respects U.S. interests in Southeast Asia and carefully avoids aggressive rhetoric or actions that may exacerbate U.S. suspicions and intervention. This is consistent with ASEAN's goal of maintaining good relations with all major powers in the region including the U.S., China, Japan and, to a lesser extent, India, Russia and the EU.

⁵¹ "Renming Yinhang he Malaixiya Guoming Yinhang Jianli Huobi Huhuan Anpai (People's Bank of China Established Currency Swap Arrangement with Malaysia's National Bank)", 9 February 2009. Available at http://big5.gov.cn/gate/big5/www.gov.cn/gzdt/2009-02/09/content_1225079.htm; "Zhongguo Renming Yinhang he Yindunixiya Yinhang Jianli Hurbi Huhuan Anpai (People's Bank of China Established Currency Swap Arrangement with Indonesian Bank)", 23 March 2009. Available at http://big5.gov.cn/gate/big5/www.gov.cn/gzdt/2009-03/23/content_1265915.htm; Nipa Piboontanasawat and Belinda Cao, "China Agrees to 150 Billion Yuan Currency Swap with Singapore", *Businessweek*, 23 July 2010.

⁵² Belinda Cao and Judy Chen, "China Will Expand Currency Swap Accords to Help Trade", *Bloomberg News*, 31 March 2009.

⁵³ Amy Searight, "Special Assessment: Asian Regionalism, New Challenges, New Vision, Pedestrian Progress", *Comparative Connections*, Vol. 12, No. 1 (14 April 2010).

The U.S.'s core interests in Southeast Asia include the promotion of stability and a favorable balance of power, avoidance of being excluded from the region by another power or group of powers; freedom of navigation and protection of sea lanes; trade and investment interests; support of treaty allies and friends; and the promotion of democracy, rule of law, human rights and religious freedom.⁵⁴ Chinese leaders acknowledge that the two countries share common interests in maintaining a stable regional environment and sustainable energy supplies, and have indicated that China intends to be a constructive partner rather than pursuing its own interests at the expense of others.

Responding to the increasing U.S. concern about Sino-ASEAN amity, Dai Bingguo, State Councillor, stated in January 2010, "The U.S. is an important partner for East Asian countries as well as for China. We value our relationship with the U.S. and we have neither the intention nor the ability to push it out. We are willing to see the U.S. play a constructive role in promoting stability and development in Asia".⁵⁵ But the U.S. is not satisfied with merely statements and has been asking for concrete actions. As James B. Steinberg, the then U.S. Deputy Secretary of State, indicated: "We will also be looking for signs and signals of reassurance from China. If China is going to take its rightful place, it must make those signals clear. China too needs to demonstrate the same commitment to doing its part, reassuring the United States, its neighbours in Asia, and the rest of the world that we have nothing to fear from a more influential China".⁵⁶

⁵⁴ J. Robert Kerrey and Robert A. Manning, "The United States and Southeast Asia: A Policy Agenda for the New Administration", Task Force Report of the Council on Foreign Relations, July 2001; see also Michael McDevitt, "U.S. Strategy in the Asia Pacific Region: Southeast Asia", in Wilson Lee, Robert M. Hathaway and William M. Wise (eds.), *U.S. Strategy in the Asia-Pacific Region* (Washington, D.C.: Woodrow Wilson International Center for Scholars, 2003), p. 44.

⁵⁵ Dai Bingguo, "Embrace New Opportunities for China-ASEAN Cooperation: Address by H. E. Dai Bingguo, State Councillor of the People's Republic of China at ASEAN Secretariat, Jakarta, 22 January 2010". Available at <http://www.china-un.ch/eng/xwdt/t653431.htm>.

⁵⁶ James B. Steinberg, "China's Arrival: The Long March to Global Power", Keynote address at Center for a New American Security, Washington, D.C., 24 September 2009.

China has thus officially and unofficially expressed its desire for inclusiveness in regional cooperation mechanisms, trying to convince the U.S. that China does not seek to challenge the U.S. presence or influence in the region. Addressing the East Asian Summit (EAS) on 14 December 2005, Premier Wen Jiabao emphasized China's opposition to a "closed, exclusive" regional grouping, favoring openness to the non-East Asian participants in the summit and the strengthening of contacts with "the U.S., the EU, and other countries". Wen further stated that China would pursue "peaceful" development, would "never seek domination in East Asia" and "will not develop at the expense of others".⁵⁷

Another notable development was that Chinese officials and official media tended to avoid anti-U.S. rhetoric from around 2001 onward though lower-level criticisms of strengthening U.S. alliances in the Asia-Pacific still continued. Party Secretary General Hu Jintao's work report to the Seventeenth Party Congress in 2007, for the first time, did not call for the establishment of a "new international political and economic order", a phrase that the Chinese leadership initiated in the mid-1970s. Instead, Hu's report adopted a much milder statement: China would "work to make the international order fairer and more equitable".⁵⁸ In addition, Chinese officials have also downplayed their advocacy of "multipolarity", because they realized that it was often perceived as an implicit appeal to restrain and balance U.S. power. Chinese official statements now more commonly called for greater "multilateralism" in international relations.

In promoting its "soft power", China's externally oriented publicity work does not include "socialism with Chinese characteristics". The Chinese leadership never openly accepts the "Beijing consensus" too. Despite the close ideological ties between China and Vietnam and the latter's aspiration to learn from the Chinese model, China cautiously avoided being seen promoting a rivalry to the Washington consensus.

⁵⁷Wen Jiabao, "Jianchi Kaifang Baorong, Shixiang Huli Gongying (Be Open and Inclusive, Achieve Mutual Benefit and Win-Win)", Speech at the first East Asia Summit, Kuala Lumpur, 14 December 2005.

⁵⁸"Hu Jintao zai Dang de Shiqida Shang de Baogao (Hu Jintao Report at the 17th CCP Congress)", *Xinhua*, 24 October 2007.

During his visit to China in September 2000, Vietnamese Prime Minister Phan Van Khai expressed Vietnam's willingness "to learn from China's experiences in economic development". Jiang Zemin, then Chinese President, responded that "on developing socialism, countries should base on their own circumstances and conditions".⁵⁹ In short, Chinese leaders and media seldom claim that China represents a unique development model that others should follow, preferring instead to highlight China's unique conditions, its willingness to share its experiences with developing countries and to discuss the weaknesses of ideas associated with the Washington consensus. Chinese leaders are concerned that promoting a "Beijing consensus" would confront the U.S. and other Western countries, undermining its reassurance strategy.

On U.S. gestures projecting its military commitments as well as the recent hardening stance on the South China Sea issue during the Barack Obama administration, the Chinese leadership believed that it had exercised self-restraint, in line with its commitment to China's peaceful rise. In the clashes on the South China Sea issue in July 2010, U.S. Secretary of State Hillary Clinton declared at the ASEAN Regional Forum (ARF) Foreign Ministerial meeting in Hanoi that resolving the territorial disputes was in the "national interest" of the U.S. and a "diplomatic priority". In response, Chinese Defense Ministry spokesman Geng Yansheng said that China would push for the resolution of differences over the South China Sea with "relevant countries" through dialogue and negotiation, but objected to them being internationalized. "China upholds resolving the disputes according to international law with related countries in the South Sea through peaceful talks and friendly consultations", he said. Geng also said that China would respect the liberty of ships and aircraft from "relevant countries" traversing the South China Sea in accordance with international law.⁶⁰ China's position was aimed at restraining the

⁵⁹ Che Yuming, "Jiang Zeming Huijian Yuenan Zongli Pan Wen Kai (Jiang Zemin Meets Vietnamese Prime Minister Phan Van Khai)", *Guangming Daily*, 27 September 2000.

⁶⁰ Greg Torode and Minnie Chan, "For China, War Games Are Steel Behind the Statements", *South China Morning Post*, 31 July 2010.

U.S. strategic initiatives in Southeast Asia and eventually rendering the U.S.'s forward deployment and bilateral alliances less relevant. However, China's development of a blue-water navy and its expanding influence cannot help but reinforcing the mistrust.⁶¹

China demonstrated its willingness to play a constructive role in maintaining regional peace by sending a peacekeeping force to East Timor in 2000. Beijing played a quiet, supportive role in facilitating the implementation of humanitarian intervention in East Timor. China voted in favor of both limited United Nations Security Council resolutions (UNSC Resolution 1264 and UNSC Resolution 1272) which authorized international intervention in the East Timor conflict and issued a number of official statements in support of these votes. Beijing initially deployed a small civilian police force in East Timor on 9 September 1999, and then offered more substantial support upon the establishment of the United Nations Mission of Support in East Timor (UNMIST) in May 2002. By May 2010, China had dispatched 14 peacekeeping teams to East Timor.⁶² In the case of Myanmar, China's mediation efforts between the U.S. and Myanmar and its willingness to persuade the military junta to accept political reform and national reconciliation at least helped to deflate criticisms from the West.⁶³

In assessing China's strategic calculations of respecting U.S. interests in its Southeast Asian policy so as to reduce Sino-American frictions, Stanley Foundation, a U.S. think tank, argued that U.S. economic importance in Southeast Asia appeared to have diminished somewhat as China's trade and other interactions with Southeast Asia grew rapidly, but there was little substantive fallout for the U.S.

⁶¹ Renato Cruz De Castro, "Exploring the Prospect of China's Peaceful Emergence: Strategic and Obstacles to the PRC's 21st Century Geopolitical Gambit", *Views & Politics*, Vol. 2, No. 1 (September 2005), pp. 65–91.

⁶² "Dongdiwen Zongtong wei Zhongguo Weihe Renyuan Shouxun (East Timor President Conferred Honorable Medals to Chinese Peacekeepers)", *Xinhua*, 13 May 2010.

⁶³ Robert Sutter and Chin-Hao Huang, "China-Southeast Asia Relations: Incremental Progress Without Fanfare", *Comparative Connections*, Center for Strategic and International Studies, April 2008.

and its core interests in the region.⁶⁴ A scholarly assessment of China's rise and U.S. leadership in Southeast Asia released by the U.S. Center for Naval Analysis (CNA) shows that key U.S. interests and leadership, focused heavily on sea lanes of communication and the maritime nations of Southeast Asia, had not been adversely affected by China's increasing interactions with the region. The assessment finds little evidence that countries in Southeast Asia of importance to U.S. interests have been drifting toward a Sino-centric economic or political order detrimental to U.S. interests. A RAND study examining the reactions to the rise of China on the part of U.S. allies and security partners in East Asia and the Pacific also observes that China's growing involvement and influence had not changed the U.S. position as the "strategic partner of choice" for these nations.⁶⁵

Military and Economic Reassurance to Southeast Asia

Chinese leaders understand that the world is more worried about the strategic objectives of a rising China than the actual status and influence that China manages to secure in the international hierarchy. Hence, China strives to convey a message to the world that it is a peaceful rising power, and it seeks neither hegemony nor changing the *status quo*. In the case of Sino-ASEAN relations, although China's growing influence in the region has been widely accepted, Chinese leaders have been clearly aware that Southeast Asia will neither solely align itself with the U.S. at the expense of China, nor vice versa. Thus, China's policy places much emphasis on strategic reassurance and accommodation through multilateral diplomacy and mutually beneficial cooperation.

⁶⁴The Stanley Foundation, *Changing Security Cooperation and Competition: New Power Dynamics in Southeast Asia*, Policy Memo, 19 November 2007. Available at <http://www.stanleyfoundation.org/resources.cfm?id=301>.

⁶⁵Evan Medeiros, Keith Crane, Eric Heginbotham, Norman Levin and Julia Lowell, *Pacific Currents: The Responses of U.S. Allies and Security Partners in East Asia to China's Rise* (Santa Monica, California: RAND, 2008).

Strategic assurance is especially critical when it comes to military activities. China published its first Defence White Paper in 1995, and in the subsequent Defense White Papers, China repeatedly reaffirms its good-neighborly foreign policy to reassure China's Southeast Asian neighbors that the rise of China would not be a threat but an opportunity for regional stability and development.⁶⁶ In 1997, China proposed a new security concept (NSC) that emphasized equality, mutual trust, dialogue, confidence-building and institutionalized multilateralism, rather than seeking "absolute security for oneself and threatening other parties' security". This initiative was aimed at reducing regional support for the containment of China by claiming that its intentions were benign and that the values and norms it embraced were consistent with those of Southeast Asia. China's proposal of initiating an East Asian security dialogue was also directed at mitigating regional states' complaints that China had not been interested in multilateral military consultations.

China's strategists, however, understood that the continued talk of China's rise as being "peaceful", would only be partially convincing.⁶⁷ Structural and permanent economic and security mechanisms will carry far more weight than words, and regional acceptance of China's rise would be more premised on its adherence to the rhetorical promises made in its diplomatic campaigns.⁶⁸ The Chinese leadership was eager to construct a framework of relations that would both anticipate potential problems and provide a means for tackling them. Consequently, China agreed to join ASEAN to release the Declaration on the Conduct of Parties in the South China Sea (DOC) in November 2002, aiming at preventing the escalation of ongoing maritime territorial disputes over the Spratly Islands. The DOC, though lacking in binding power, at least committed both parties to

⁶⁶ Rosemary Foot, "China's Regional Activism: Leadership, Leverage, and Protection", *Global Change, Peace & Security*, Vol. 17, No. 2 (June 2005), pp. 141–153.

⁶⁷ Zhang Xuegang, "Southeast Asia and Energy: Gateway to Stability", *China Security*, Vol. 3, No. 2 (2007), pp. 18–35.

⁶⁸ Denny Roy, "Southeast Asia and China: Balancing or Bandwagoning?", *Contemporary Southeast Asia*, Vol. 27, No. 2 (2005), pp. 305–322.

self-restraint, non-use of force, peaceful settlement of disputes, refraining from further occupying unoccupied geographical features in the area and anticipating a more formal code of conduct in the future. To show its commitment to the DOC, on 5 March 2003, China announced that its Hainan Island would significantly reduce its fishing fleet under a China–Vietnam fishery cooperation agreement covering the Tonkin Gulf/Beibu Bay. The province would remove 570 fishing boats from service and transfer 12,800 fishermen to employment in non-fishing sectors of the island's economy. China's self-restraint measures were intended as positive moves to help stabilize the controversial area. Some regional scholars argued that "the declaration is the best China could hope for, since in addition to protecting its sovereignty, the declaration helps to preserve regional stability and a stable Sino-ASEAN relationship, and more importantly, it also reduces the possibility for external powers to interfere in the disputes".⁶⁹

China signed the Treaty of Amity and Cooperation (TAC) in 2003, signaling its acceptance of ASEAN's security norm of peaceful settlement of disputes. China was the first non-ASEAN state to take this step. In the same year, China and ASEAN also concluded a "Joint Declaration on a Strategic Partnership", consolidating the progress China had made since 1997 and enhancing its image as a benevolent regional partner sharing the values and goals of the Southeast Asian states. Chinese officials observed that it was the first formal "strategic partnership" for China with a regional organization, and a first for ASEAN as well. ASEAN leaders welcomed this step as symbolizing "deeper political trust and a higher level of co-operation", and indicated that they had agreed to cooperate with China in maintaining peace. At a meeting in Nanning in October 2006 to celebrate the 15th anniversary of China's dialogue with ASEAN, Premier Wen also reiterated China's support for ASEAN's 1995 Treaty on the Southeast Asian Nuclear Weapon-Free Zone, which was especially important to

⁶⁹ Kuik Cheng-Chwee, "Multilateralism in China's ASEAN Policy: Its Evolution, Characteristics, and Aspiration", *Contemporary Southeast Asia*, Vol. 27, No. 1 (2005), pp. 102–122.

ASEAN, given that the U.S. and several other nuclear weapon states still have reservations with the nuclear-free zone.

These commitments, to some extent, were backed by actual behavior. In addressing maritime territorial disputes, China agreed in 2004 to conduct joint seismic investigations of underwater resources with the Philippines in the South China Sea, and Vietnam joined this three-year research investigation in 2005. Beijing also agreed to conduct joint patrols of sea areas that had been agreed on and demarcated, such as those with Vietnam in the Gulf of Tonkin.⁷⁰ On 5 May 2009, the Chinese Foreign Ministry announced the establishment of the Department of Boundary and Ocean Affairs, strengthening the ability of the Chinese government to manage complicated land and maritime border disputes through diplomatic channels.⁷¹

The ARF remains the principal multilateral forum in the region for the discussion of political and security issues. China has been an active participant in the forum and supports its guiding principles and practices of non-interference and consensus-based decision-making. In November 2004, China hosted the ARF Security Policy Conference (SPC) for the first time, demonstrating China's willingness to discuss even issues of high politics multilaterally. China deliberately proposed to locate the SPC within the ARF framework to assure other major powers about China's benign intention. Moreover, in July 2006, China convened the first China-ASEAN workshop on regional security, with more than 30 senior defense officials from China's People's Liberation Army (PLA) and their Southeast Asian counterparts participating.⁷² China also took the initiative to push for the creation of the Network of East Asia Think Tanks (NEAT) to facilitate more comprehensive information exchange. China's active participation in these multilateral institutions served as confidence-consolidation

⁷⁰ "Philippines, China, Vietnam to Conduct Joint Marine Seismic Research in South China Sea", *Xinhua*, 14 March 2005.

⁷¹ "Waijiaobu Zengshe Bianjie yu Hiyang Shiwusi, Ning Bingkui ren Sizhang (Ministry of Foreign Affairs Establishes Department Boundary and Ocean Affairs, Ning Bingkui Appointed as Head)", *People's Daily*, 5 May 2009.

⁷² "China, ASEAN Hold 1st Regional Security Workshop", *Xinhua*, 19 July 2006.

efforts.⁷³ As Ikenberry and Tsuchiyama put it: "By binding together, surprises are reduced and expectation of stable future relations dampens the security dilemmas that trigger dangerous strategic rivalry. By creating institutional connections between potential rivals, channels of communication are established which provide opportunities to actively influence the others' evolving security policy".⁷⁴

Besides traditional military cooperation, China in the second half of the first decade of the twenty-first century placed most of its efforts on consultation and non-traditional security issues, with the objective of deepening military cooperation while not alarming its small neighbors and external powers. At the China-ASEAN Foreign Ministers' Meeting in July 2008 in Singapore, Chinese Foreign Minister Yang Jiechi openly called for greater coordination on disaster relief, as well as upgrading the level of cooperation in counterterrorism and transnational crimes.

While regional evaluations of the military implications of China's rise remained mixed, the above combination of military cooperation, reassurance through negotiations and the freezing of territorial conflicts, and the strategic opportunities provided for some Southeast Asian countries seeking diversification of their military aid and supplies amounted to a considerable reduction of threat perceptions. Remarks made by the Singaporean Prime Minister Lee Hsien Loong at the Sixth International Institute of Strategic Studies's Asia Security Conference on China's rise probably reflected the general perception shared by the Southeast Asian governments. Lee acknowledged that while the U.S. remained the primary security guarantor in the region, other emergent powers such as China, Japan and India were "exerting a decisive benign influence in the region".⁷⁵

⁷³ Denny Roy, *op. cit.*

⁷⁴ G. John Ikenberry and Jitsuo Tsuchiyama, "Between Balance of Power and Community: The Future of Multilateral Security Cooperation in the Asia-Pacific", *International Relations of the Asia-Pacific*, Vol. 2, No. 1 (2002), pp. 64-94.

⁷⁵ Lee Hsien Loong, "Speech by Mr. Lee Hsien Loong, Prime Minister, at the 6th International Institute of Strategic Studies' Asia Security Conference, 1 June 2007, Singapore", Singapore Government Media Release. Available at <http://www.nas.gov.sg/archivesonline/speeches/view-html?filename=20070601982.htm>.

China's rapid economic growth caused as much alarm among its Southeast Asian neighbors as the improvement of its military prowess. Politicians and academics alike in Southeast Asia have expressed worries that the sustained expansion of the Chinese economy would harm their economic prospects. The potential for "diversion" of FDI to China has figured prominently in these discussions.⁷⁶ The Chinese leadership realized that the strategy of reassurance had to cover the economic sphere as well.

The initiative of establishing the ASEAN–China Free Trade Area (ACFTA) by then Chinese Premier Zhu Rongji in 2000 caught the ASEAN countries by surprise. Jesus Estanislao, Secretary of Finance of the Philippines, warned that "China was so solely driven by its political objectives that it underestimated the difficulties involved in negotiating the FTA details; even ASEAN itself is facing tremendous obstacles in setting up its own FTA". Initially, Indonesia and the Philippines were reluctant to send clear responses to China's call because of their serious concern with the potential detrimental impact that China's low-cost, labor-intensive textile products, garment, footwear, toys and machinery parts might bring to their domestic economies.⁷⁷ Two major questions emerged among the ASEAN states regarding China's FTA proposal: competition from China in their domestic markets, and how the agreement would affect ASEAN's newer members. On its part, however, China had shown notable willingness to accommodate. China adopted a "decision prior to negotiation" approach, which was a widely accepted practice in Southeast Asia.⁷⁸

If ASEAN's economic recovery needs after the Asian financial crisis in 1997–1998 had worked as policy "sticks", China further

⁷⁶ John Ravenhill, "Is China an Economic Threat to Southeast Asia?", *Asian Survey*, Vol. 46, No. 5 (2006), pp. 653–674.

⁷⁷ "Jianli Ziyou Maoyiqu, Dongmeng dui Zhongguo Rengcun Jiexin (ASEAN still Holds Reservation on Establishing Free Trade Area)", Translated from *Wall Street Journal*, 9 October 2002. Available at <http://www.china.com.cn/chinese/ch-yuwai/215319.htm>.

⁷⁸ John Ravenhill, "Economic Cooperation in Southeast Asia: Changing Incentives", *Asian Survey*, Vol. 35, No. 9 (September 1995), pp. 850–866.

offered additional policy “carrots” to induce ASEAN to embrace the FTA initiative. China promised to give concessional tariff rates to Southeast Asia’s agricultural products, in which ASEAN enjoyed a distinct competitive advantage. A particularly enticing attraction of the proposed ACFTA to the less developed ASEAN-4 (Cambodia, Laos, Vietnam and Myanmar) was its “early harvest” program, by which China undertook to extend preferential tariff and other treatments to the imports from these countries without expectation of reciprocity for years, before opening its market to other World Trade Organization (WTO) members.⁷⁹ In the name of helping ASEAN to reduce its internal “development gap”, China agreed to offer the most-favored nation (MFN) status to the ASEAN-4, which were not yet WTO members then, as well as “special and differential treatment and flexibility in implementation” that gave them five extra years, until 2015, to comply with the agreement.⁸⁰ China’s goodwill gesture combined with ASEAN’s economic recovery imperative brought the two parties to sign in Phnom Penh in November 2002 the Framework Agreement on Comprehensive Economic Cooperation to create the ACFTA in 10 years, initiating negotiations on the reduction or elimination of tariffs on goods traded between ASEAN and China except the “sensitive” products.⁸¹ Following the framework agreement and the principle of “the easiest goes first”, China and ASEAN tackled the various components of ACFTA, including rules of origin for trade in goods, and the liberalization of trade in services and investment subsequently (see Table 3). Beginning on 1 January 2010, 90% of the products traded between China and the six more developed ASEAN members would be duty-free. The ACFTA represents the world’s third largest FTA in terms of trade volume (US\$ 2 trillion per annum) and the largest in terms of population (1.9 billion).

In the process of selling the ACFTA idea to Southeast Asia, China selected Thailand as its pilot state. The logic of gradualism was

⁷⁹ Kuik Cheng-Chwee, *op. cit.*

⁸⁰ ASEAN Secretariat Press Release, “ASEAN-China Free Trade Area Negotiations to Start Next Year”, 30 October 2002. Available at <http://www.asean.org>.

⁸¹ Rodolfo C. Severino, “China–ASEAN FTA: Why Anxiety Now?”, *Strait Times*, 23 February 2010.

Table 3. Timeline of the China–ASEAN Free Trade Agreement*

November 2001	China and ASEAN began to negotiate for setting up a FTA.
November 2002	The China–ASEAN Framework Agreement on Comprehensive Economic Cooperation was signed.
1 January 2004	Implementation of the Early Harvest Program; tariffs on certain products were reduced over a period of three years; and zero tariff no later than 1 January 2006.
November 2004	China–ASEAN Protocol on Enhanced Dispute Settlement Mechanism and Agreement on Trade in Goods were signed.
July 2005	Agreement on Trade in Goods under the Framework Agreement on China–ASEAN Comprehensive Economic Cooperation became effective.
January 2007	Agreement on Trade in Services between China and ASEAN was signed.
15 August 2009	Investment Agreement was signed, marking the successful completion of the main ACFTA negotiation process.
1 January 2010	Full implementation of ACFTA for the six more developed ASEAN states.

* Compiled from media reports.

evident. Representatives from both sides were determined to take advantage of the complementary, non-competitive nature of Chinese and ASEAN agricultural production to build confidence and work out the procedures to dealing with the potential disputes. The close political relationship between Thailand and China also made China's promotion efforts relatively easy, and actually Thailand appeared to be the more enthusiastic party.

As the world's second largest economy and its biggest exporter today, China's economic profile and competitiveness have been growing at an impressive pace. Not surprisingly, the actual implementation of the ACFTA was initially a source of anxiety in the ASEAN business community, especially among Indonesian manufacturers, who had predicted that the Chinese textile, garment and footwear exports would pose cutthroat competition to its domestic producers, resulting in job losses and exacerbating the trade deficit. The Commission VI of the House of Representatives, overseeing industry and trade,

demanded the government to renegotiate the tariffs for a number of items, including garments, furniture, footwear, etc.⁸² The then Indonesian President Susilo Bambang Yudhoyono indicated that he would not break the agreement at this stage, but he was aware that it would be essential to protect domestic interests. The Chinese side too noted problems associated with the ACFTA.⁸³ In a bilateral meeting on 2 April 2010, Chen Deming, the Commerce Minister of China, agreed to establish a joint working group to settle the problems arising from the implementation of the ACFTA as well as pledging China's commitment to pursue balanced trade.⁸⁴ In a move to partially offset the trade deficit, Chen offered nearly US\$ 2 billion of export buyers' credit to finance infrastructural projects.⁸⁵ A month earlier, the state-owned China Railways Group secured a US\$ 4.8 billion contract to build and operate a coal transportation network in South Sumatra, an indicator of China's economic commitment in Indonesia.⁸⁶ Dai Bingguo, a State Councillor of China, visited the ASEAN Secretariat in Jakarta in January 2010, the highest level Chinese visit to the office so far, advising that "all parties" would need to make "adjustments" that would eventually "enhance competitiveness and improve development". Dai also promised that China would work "relentlessly" to ensure mutual benefit and common development.⁸⁷

⁸² "Zhongguo-Dongmeng Ziyou Maoyiqu Zao Tiaozhan (China-ASEAN Free Trade Area Was Challenged)", *BBC Zhongwenwen (BBC Chinese Network)*, 6 January 2010. Available at http://www.bbc.co.uk/zhongwen/trad/indepth/2010/01/100104_chinainworld_aseanchinatrade.shtml.

⁸³ "Zhuanjia Zhichu Zhongguo yu Dongmeng Zhijian Maoyi Jiegou Juyou Henqiang Hubuxing (Expert: Trade Structure between China and ASEAN Are Highly Complementary)", *China News Agency*, 16 July 2006.

⁸⁴ Zhao Jinchuan and Li Xiaoyu, "Chen Deming: Zhongguo he Yinni ying Bawo Jiyu Kuoda Shuangbian Jingmao Hezuo (Chen Deming: China and Indonesia Should Seize the Opportunity and Expand Bilateral Economic and Trade Cooperation)", *Xinhua*, 2 April 2010.

⁸⁵ "China Promises Indonesia \$2b Loans for Infrastructure Projects as a Part of ACFTA", *Jakarta Globe*, 4 April 2010.

⁸⁶ "China Railway Signs \$4.8b Contract with Indonesian Firm to Build, Operate Sumatra Coal Railway", *Jakarta Globe*, 25 March 2010.

⁸⁷ Dai Bingguo, *op. cit.*

These concessions reflected that China was aware of the frictions and was trying to overcome them. In 2002, then Malaysian Prime Minister Mahathir Mohamad complained that “China is an economic threat for Southeast Asia. It is already a threat in terms of attracting foreign direct investment, and it is going to be a threat to Southeast Asia’s world trade”.⁸⁸ He was not the only prominent figure in Southeast Asia to complain; it was also significant how quickly things changed in comparing these comments in mid-2002 to the Malaysian leadership’s public view in late February 2004. In answering questions after the opening of the Malaysia–China Economic Conference 2004, then Malaysian Prime Minister Abdullah Ahmad Badawi said, “Malaysia does not feel threatened by the emergence of China as an economic powerhouse because the country is also a huge market for Malaysian products”.⁸⁹ Years later, in 2010 even Mahathir himself openly admitted: “China’s economic growth is not a threat but beneficial to Malaysia, and Malaysia should not unduly fear China’s strength as an engine of the world economy, rather Malaysia should maintain its good relationship with China as there is a lot to be gained”.⁹⁰

Though the 2009 East Asia Summit was cancelled due to the anti-government protests of the “Red-Shirts” in Pattaya, Thailand, Chinese Prime Minister Wen Jiabao, upon returning to Beijing, announced that China would set up a US\$ 10 billion “China–ASEAN Investment Cooperation Fund” to facilitate investment in infrastructure, energy and telecommunication projects in ASEAN. Wen further promised that in the following three to five years, China would provide a US\$ 15 billion credit line, of which US\$ 1.7 billion would be earmarked for concessional loan, to accelerate ASEAN integration and regional cooperation. The least developed ASEAN states — Cambodia, Laos and Myanmar — would receive RMB 270 million in

⁸⁸ “China’s Ascent Spurs Race to Capture Market Share”, *Nikki Weekly*, 15 July 2002.

⁸⁹ Stephen Frost, “Chinese Outward Direct Investment in Southeast Asia: How Big Are the Flows and What Does it Mean for the Region”, *The Pacific Review*, Vol. 17, No. 3 (2005), pp. 323–340.

⁹⁰ “Mahathir: China Not Threat to Malaysia”, *The Star*, 27 April 2010, B9.

special aid. In addition, China donated US\$ 900,000 to the “ASEAN+3 Cooperation Fund”, US\$ 100,000 to the “ASEAN Fund” and US\$ 5 million to the “China–ASEAN Cooperation Fund”.⁹¹ China would also establish a permanent representative office in ASEAN and proposed a “Plan of Action to Implement the Joint Declaration on China–ASEAN Strategic Partnership for Peace and Prosperity” for the years 2011–2015. In spite of the recent Sino-Vietnamese frictions in the South China Sea at that time, China’s National Development and Reform Commission approved an investment contract according to which the China Southern Power Grid would invest US\$ 1.75 billion — the biggest Chinese investment project in Vietnam — to build a thermal power plant in Binh Thuan.⁹²

The Sino-ASEAN economic ties have a significant security dimension as well.⁹³ Beijing is aware of the mixed feelings in Southeast Asia regarding its increasing economic clout, and it has been trying to reassure its neighbors and external powers through actively participating in regional institutions and forums, supporting ASEAN’s central role in regional affairs and conforming to the “ASEAN way” regional diplomacy.⁹⁴ At the Ninth ASEAN–China Summit on 12 December 2005, Premier Wen Jiabao explicitly disavowed a Chinese leadership role for China in regional organizations in deference to ASEAN, recognizing that “ASEAN is the organizer and main driving force for the 10+3 co-operation and that, China will continue to support ASEAN in playing the leading role”.⁹⁵

⁹¹ “Zhongguo Chengnuo xiang Dongmeng Guojia Tigong Zijin Yuanzhu (China Promises to Provide Aid to ASEAN)”, *Nanfang Zhoumo* (Southern Weekend), 13 April 2009.

⁹² “China’s Coal-Fired Power Plant in Vietnam Got Nod from Government”, *Caijing*, 27 August 2010.

⁹³ Alice D. Ba, “China and ASEAN: Renavigating Relations for a 21st -Century Asia”, *Asian Survey*, Vol. 43, No. 4 (2003), pp. 622–647.

⁹⁴ Evelyn Goh, “Southeast Asian Perspectives on the China Challenge”, *The Journal of Strategic Studies*, Vol. 30, Nos. 4–5 (August–October 2007), pp. 809–832.

⁹⁵ Wen Jiabao, “Deepen Comprehensive Cooperation and Enhance China–ASEAN Strategic Partnership”, Speech at the Ninth China–ASEAN Summit, Kuala Lumpur, 12 December 2005.

Developing Hierarchical Relationships with Individual ASEAN States

Although China showed a growing interest in multilateralism and a willingness to embrace the region as a whole, it still maintained a multilayered relationship with regional states. Bilateralism certainly has not lost its traditional significance; close bilateral ties between China and individual Southeast Asian states have always been perceived as an essential foundation for China's multilateral diplomacy.⁹⁶ To some extent, China's increasing involvement in regional multilateral institutions has in turn enhanced Southeast Asia's political trust, thus strengthening the bilateral ties between China and individual Southeast Asia countries. In 1999 and 2000, China signed bilateral political agreements with all Southeast Asian states, aiming to boost bilateral long-term cooperation in the twenty-first century. Moreover, Chinese leaders have made full use of their attendance at almost all multilateral forums to conduct bilateral meetings with their Southeast Asian counterparts.

In the eyes of the Chinese leadership, multilateralism and bilateralism are inseparable and mutually enhancing. While China and ASEAN have established a good "neighborly and mutual trust partnership" in 1997, and further upgraded it to a "strategic partnership" since 2003,⁹⁷ China's relations with individual ASEAN states demonstrate a certain hierarchy. While a hierarchy exists in the frequent high-level visits between the leaders of China and ASEAN in this century, there is a distinct trend of gradual upgrading of the bilateral relationships (see Table 4).

As Table 4 indicates, the relatively more developed ASEAN-6, which arguably carry greater economic and military weights, have been given a lower diplomatic status than the less developed ASEAN-4. Such a counterintuitive arrangement may possibly be understood as follows. On one hand, by according a high diplomatic and political

⁹⁶ Kuik Cheng-Chwee, *op. cit.*

⁹⁷ "Woguo yu Xaxie Guojia Jianli le Huoban Guanxi (With Which Countries Our Country Has Established a Partnership?)" , *Xinhua*, 19 July 2005.

Table 4. China's Relations with Southeast Asian Countries

Type of Relationship (As in February 2017)	Countries	Previously (As in 2010)
Comprehensive strategic and cooperation partnership (“Quánmiàn zhànlüè hézuò huǒbàn guānxì”)	Myanmar, Laos, Cambodia	Traditional friendly and comprehensive cooperation relationship
	Thailand	Strategic cooperation relationship
	Vietnam	Strategic and comprehensive cooperation relationship
Comprehensive strategic partnership (“Quánmiàn zhànlüè huǒbàn guānxì”)	Malaysia	Strategic cooperation relationship
	Indonesia	Strategic partnership
New strategic partnership (“Xīnxíng zhànlüè hézuò huǒbàn guānxì”)	ASEAN	Strategic partnership
All round cooperative partnership (“Quán fāngwèi hézuò huǒbàn guānxì”)	Singapore	Good neighborly and mutual trust partnership
Strategic cooperation relationship (“Zhànlüè xìng hézuò guānxì”)	Philippines	Strategic cooperation relationship
	Brunei	Good neighborly and mutual trust partnership

Sources: Websites of the Ministry of Foreign Affairs of the PRC (http://www.fmprc.gov.cn/mfa_eng/), *Xinhuanet* (<http://www.xinhuanet.com>), *The Beijing News* (<http://www.bjnews.com.cn/>) and *The People's Daily* (<http://en.people.cn/>). Accessed February 2017.

status to the less developed mainland Southeast Asian states, China sought to signal its continuous alignment with and support for the least developed countries in the world. Obviously, the targets should not be restricted to Southeast Asia only; rather, the Chinese leadership intends to convey this message to the other developing countries as well. China also wishes to show its appreciation of its historical friendship with these states.

After all, ASEAN was a Cold War creation, with the very purpose to contain Communist China in the Cold War era when these four

states were not members yet. At the same time, China realizes clearly that the U.S. has greater strategic interests in the ASEAN-6 in both economic and security terms. The U.S. still maintains military alliances with Thailand and the Philippines. After the September 11 incident, the U.S. strengthened its military ties with these two countries by granting them the “major non-NATO ally” status in 2003.⁹⁸ China does not have the capacity, nor the intention to challenge the U.S.’s military supremacy at least in the short term; rather, it accepts the need to preserve the peaceful environment maintained by the U.S.’s strategic presence. But China is also uneasy with the strengthening containment efforts led by the U.S. in Southeast Asia. Some Chinese strategists have advocated active efforts to neutralize the U.S. alliances in the region, so that they would be unable to pose any substantial threats to China’s security interests. China’s relations with Myanmar and Thailand were good examples to illustrate this line of argument.

Myanmar before the termination of military rule was probably the closest partner in mainland Southeast Asia of China, and was perceived by some Western analysts as key to China’s efforts to guard against potential encirclement by the U.S.⁹⁹ Unlike the U.S.’s largely human rights driven policy toward Myanmar, China’s Myanmar policy is generally based on economic and geostrategic considerations. In contrast to the U.S.’s limited engagement due to its domestic human rights legislation before Myanmar’s democratization, China’s approach to the country has been broad-based. China provided Myanmar with a US\$ 200 million loan in the aftermath of the 2003 U.S. sanctions against its human rights violations. China helped Myanmar build a road linking Yunnan Province with a port on the Irrawaddy River.¹⁰⁰ China reportedly supported the construction of naval facilities in the Hainggik and Great Coco Islands and assisted the upgrading of the

⁹⁸Andrew Prosser, “U.S. Arms Transfers to America’s Newest ‘Major Non-NATO Ally’”, Center for Defense Information, 30 April 2004.

⁹⁹Lawrence E. Grinter, “China, the United States, and Mainland Southeast Asia: Opportunism and the Limits of Power”, *Contemporary Southeast Asia*, Vol. 26, No. 2 (2006), pp. 447–465.

¹⁰⁰Mark Landler, “For Many Burmese China is an Unwanted Ally”, *The New York Times*, 30 December 2001.

Mergui naval base.¹⁰¹ Chinese media reported that China was Myanmar's third largest trading partner and investor after Thailand and Singapore, with trade in 2009 totaling US\$ 2.9 billion, and China's investment as of January 2010 amounting to US\$ 1.8 billion, 11.5% of Myanmar's total FDI.¹⁰²

Labelled as brotherly friendship and fraternal friendship, the close relations between Myanmar and China, however, in many ways lack substance. Leadership visits, at the level of standing committee members of the Political Bureau of the CPC, are important indicators of China's diplomatic priorities.¹⁰³ In terms of this indicator, Myanmar was not accorded a high priority in China's diplomatic agenda in Southeast Asia even when its military junta suffered diplomatic isolation. In comparison, Chinese leaders' visits to Thailand were much more frequent, especially on the military front.

Thailand before the military coup in 2006 appeared to be comfortable with its close ties with China. According to a poll in 2003, 76% of the Thai respondents said that China was Thailand's closest friend as opposed to 9% who named the U.S.¹⁰⁴ From the Thai perspective, China's prompt offer of financial assistance in response to Thailand's difficulties in the Asian financial crisis in 1997–1998 contrasted sharply with the U.S. response. The absence of territorial disputes and the traditional cultural ties between China and Thailand also helped to strengthen the bilateral relations. The Thaksin government came to power in 2001 with a pro-China position. Shortly after taking office, Surakiart Sathirathai, then Thai Foreign Minister, announced that "China is the first country I plan to visit outside ASEAN, because I

¹⁰¹ Jurgen Haacke, *Myanmar's Foreign Policy: Domestic Influences and International Implications* (Abington: Routledge, 2006).

¹⁰² Robert Sutter and Chin-Hao Huang, "China-Southeast Asia Relations: Senior Officials Visits; South China Sea Tensions", *Comparative Connections*, Center for Strategic and International Studies, July 2010.

¹⁰³ Scott Kastner and Phillip Saunders, "Testing Chinese Diplomatic Priorities: The Correlates of Leadership Travel Abroad under Jiang Zemin and Hu Jintao", paper presented at the APSA 2008 Annual Meeting, Boston, Massachusetts, 28 August 2008.

¹⁰⁴ Phillip Pan, "China's Improving Image Challenges U.S. in Asia", *The Washington Post*, 15 November 2003.

consider it will convey an important message that we greatly emphasize our ties with China".¹⁰⁵ Bangkok obviously appreciated Beijing's support for the Thai Deputy Prime Minister Surakiart Sathirathai's bid to succeed Kofi Annan as UN Secretary-General in 2005.¹⁰⁶

As Scot A. Marciel, the then U.S. Ambassador for ASEAN Affairs and Deputy Assistant Secretary of State for East Asian and Pacific Affairs, pointed out, one pillar of U.S. influence in Southeast Asia was the treaty alliances with the Philippines and Thailand.¹⁰⁷ China was adopting an "emasculating strategy" to neutralize the U.S. regional alliance system, seeking to substantially reduce its threat to China without directly challenging it. In Chinese words, China attempted to make the military alliances "looking good but without substantial content" (*xuyou qibiao*).

China's "emasculating strategy" apparently paid off. During the 1990s, Thailand already rejected an American request to preposition military equipment on ships in the Gulf of Thailand, possibly in response to China's objections.¹⁰⁸ The U.S. Center for Strategic and International Studies (CSIS) released a report in February 2009, arguing that there had been a deterioration of support for the U.S. among the "strategic elites" in Thailand. It even alluded to possible Thai shifts in favor of closer relations with China at the expense of U.S.-Thai relations.¹⁰⁹

¹⁰⁵ Carlyle A. Thayer, "China-Southeast Asian Relations: Regional Rivalries and Bilateral Irritants", *Comparative Connections*, Center for Strategic and International Studies, April 2001.

¹⁰⁶ Shi Hongtao, "Zhongguo Zhichi Xiayiren Lianheguo Mishuzhang you Yazhouren Danren (China Support the Next U.S. Secretary General to be Assumed by Asian)", *China Youth Daily*, 10 April 2005.

¹⁰⁷ Scot A. Marciel, "U.S. Engagement in Southeast Asia", Remarks to Center for Strategic International Studies Meeting on "U.S. and Southeast Asia: Toward a Strategy for Enhanced Engagement", Washington, D.C., 25 September 2008. Available at <http://merln.ndu.edu/archivepdf/EAP/State/110494.pdf>.

¹⁰⁸ Michael Vatikiotis, "Catching the Dragon's Tail: China and Southeast Asia in the 21st Century", *Contemporary Southeast Asia*, Vol. 25, No. 1 (April 2003), pp. 65-78.

¹⁰⁹ Bates Gill, Michael Green, Kiyoto Tsuji and William Watts, "Strategic Views on Asian Regionalism: Survey Results and Analysis", Center for Strategic and International Studies, February 2009.

Participating in Regional Public Goods Provision

In the past two decades or more, China has been using regional public goods provision as another effective tool for its strategic engagement. This includes its active participation in cooperation with the Greater Mekong Subregion (GMS), and various programs of regional cultural, agricultural, non-traditional security cooperation, as well as regional disaster relief and humanitarian and development aid efforts.

Mainland Southeast Asian governments have been worrying about the flood of Chinese imports and the environmental impact of Chinese dams in Yunnan Province that some regional and international environmental groups claim have led to falling water levels in the lower Mekong River. In relation to dam construction projects in the Lancang River (the upstream of the Mekong River), China has begun to release water information to reassure downstream countries, though without much success. As a dialogue partner of the Mekong River Commission (MRC) since 1996, China has been increasing technical cooperation with the countries concerned in the new century. In November 2002, China signed the Agreement on the Exchange of Hydrological Data in which it pledged to provide daily readings on water levels in the upper Lancang, so that downstream countries would have advance warnings for floods.¹¹⁰

In a September 2003 conference sponsored by the MRC's Navigation Program in Phnom Penh, the Chinese delegation asserted that an improved channel for trade would help all the riparian states. The delegation also offered US\$ 5 million to improve navigation along the river.¹¹¹ According to Chinese sources, the Chinese government had invested nearly RMB 400 million during the last decade to enhance the navigation capacity of the upper Mekong River, helping

¹¹⁰ "Working Together on Flood Management", Mekong River Commission Annual Report, 2003. Available at <http://www.mrcmekong.org/assets/Publications/governance/Annual-Report-2003.pdf>.

¹¹¹ Alex Liebman, "Trickle-down Hegemony? China's 'Peaceful Rise' and Dam Building on the Mekong", *Contemporary Southeast Asia*, Vol. 27, No. 2 (2005), pp. 281–304.

to cut transportation costs and facilitate trade.¹¹² In a side meeting between the MRC and China at the MRC Summit in April 2010, China provided further hydrometeorological data concerning the operation of its dams on the upper Mekong during the current dry season. "This is a significant step forward in engagement between China and the countries of the Lower Mekong Basin as it improves transparency. It is the first time that China has shared the dry season data with downstream countries", said Jeremy Bird, CEO of the MRC. A serious drought in spring 2010 in the Mekong Basin placed China's hydroelectric dams in a very bad light. In addition to explanations from the technical perspective, China further invited the four MRC member states to China for field investigation and a conference to discuss cooperation policies.¹¹³

China took part in the disaster relief efforts after the Indian Ocean tsunami in December 2004. Indonesia was the hardest hit country. Three days after the disaster, the Chinese government announced a RMB 21.63 million aid package, and China Earthquake Administration organized a 35-person strong rescue team which flew directly to the tsunami-hit area. Apart from Indonesia, China sent 27 medical experts to Thailand to help control the postdisaster epidemics. At a later stage, China further announced many additional aid measures, and the total aid to Southeast Asia reached RMB 690 million (US\$ 83 million).¹¹⁴ Premier Wen Jiabao indicated that Beijing was committed to involvement over the long haul, which included the participation of Chinese construction companies in efforts to provide housing, schools, hospitals and the restoration of the destroyed infrastructure. By participating actively in the disaster relief efforts, China

¹¹² "Lancangjiang-Meigonghe Guoji Hangdao Tonghang Shinian cheng Huangjin Shuidao (Lancang-Mekong International Sea Route Opens for Ten Years and Has Become a Golden Sea Route)", *China News Service*, 3 February 2010.

¹¹³ "Zhongguo Yao Geguo Canguan Shuiba, Meigonghe Ganhuan yu Zhongguo Wuguan (China Invites MRC States to Visit Dams, Draught in Mekong River Has Nothing to Do with China)", *People's Daily*, 31 March 2010.

¹¹⁴ "Yinduyang Haixiao Zhongguo Yuanzhu Zonghe 68763 Wanyuan, Wu Weigui Langfei Wenti (Chinese Aid Reached 687.630 million yuan in Indian Ocean Tsunami, No Waste or Illegality Found)", *Xinhua*, 3 March 2006.

wanted to demonstrate its commitment to the welfare of the "Asian Community".

Since 2000, engineering projects have been one of the major forms of assistance China offers to Southeast Asia. For example, China provided a US\$ 400 million credit line to finance a railway project in the Philippines that links Manila and Malolos. On 25 March 2005, the China-aided Pungluang hydroelectric power station, the biggest of its kind in Cambodia at that time, celebrated its completion. The hydroelectric power station, with an annual capacity of 910 million kilowatt-hours, would satisfy one-fourth of Cambodia's electricity needs and offer considerable relief to the electricity shortage in central Cambodia. Notably, the credit, equipment and technology were all provided by China.¹¹⁵ Four years later, another even bigger hydroelectric power project was finished in Myanmar, in May 2009. With an annual capacity of 4.033 million kilowatts, the Shweli hydroelectric power station would supply electricity to both Myanmar and China. Regarding the Shweli project, China financed 93% of the expenditure and provided all the equipment and technology.¹¹⁶ Besides transportation and energy projects, China also supported Southeast Asia's civil infrastructural projects. There were flagship projects like the Laotian National Cultural Hall as well as numerous "minds and hearts projects (*minxin gongcheng*)", like pilot farms, village schools, hospitals, malaria control centers and poverty-reduction projects.¹¹⁷ Between 1996 and 2002, China drilled 2,000 wells in Cambodia's villages and helped over 200,000 people to secure

¹¹⁵ Zhang Yunfei, "Miandian Zuida Shuidianzhan Banglang Dianzhan Jungong Fadian (Puangluang Hydropower Station, Burma's Biggest, Completed)", *Xinhua*, 25 March 2005.

¹¹⁶ "China's Largest International Hydropower BOT Project Commissions Production", *Burma Rivers Network*, 19 May 2009. Available at http://www.burmariversnetwork.org/index.php?option=com_content&view=article&id=194:china-s-largest-international-hydropower-bot-project-commissions-production&catid=11&Itemid=46.

¹¹⁷ "2006 nian Zhongguo Duiwai Yuanzhu Jiben Qingkuang (Basic Information on China's Foreign Aid in 2006)", Ministry of Commerce of People's Republic of China, Department of Aid to Foreign Countries, 15 January 2007.

access to clean water. In November 2008, the Chinese Ministry of Defense offered humanitarian materials, including 33 ambulances and other engineering equipment, to Cambodia to strengthen its capacity in disaster relief management.¹¹⁸

Since China does not publish information about the costs and scope of its foreign aid efforts, specialists concerned have a hard time assessing these efforts. A research team from New York University released a report in February 2009 and estimated that China's aid and related investment projects in Southeast Asia in 2002–2007 were valued at US\$ 14.8 billion.¹¹⁹

In regional cooperation on food security, China initiated a “China–ASEAN Plan for Comprehensive Improvement of Food Production Capacity”. This plan included proposals to help ASEAN countries establish high-yield and high-quality pilot farms, and to provide agricultural technology training courses to ASEAN personnel. China's hybrid rice breeding and cultivation technology became the most welcomed technology-assistance program in Southeast Asia. Yuan Longping, the renowned hybrid rice expert, visited the Philippines more than 30 times since 1979 to promote hybrid rice technology in the Philippines. In September 1999, China and the Philippines signed an agricultural cooperation agreement, and in the following November, China donated US\$ 5 million to the Philippines to establish an agricultural technology center to develop the hybrid rice technology. In 2005, the 10-acre hybrid rice pilot farm in the Philippines produced three times the output of a traditional rice farm of the same size. China's technology assistance has been valuable for the Philippines, which has to import over 700,000 tons of rice annually. The U.S. perceived the technological assistance from China as a replacement of its efforts initiated a generation ago, when the International Rice Research Institute was set up in

¹¹⁸ “Zhongguo xiang Jianpuzhai Guofangbu Tigong Yipi Rendao Zhuyi Wuzi (China Provides Cambodian Ministry of Defense with Humanitarian Materials)”, *Xinhua*, 24 November 2008.

¹¹⁹ Thomas Lum, Hannah Fischer, Julissa Gomez-Granger and Anne Leland, *China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia*, CRS Report, 25 February 2009.

Los Banos with funding from the Ford and Rockefeller Foundations, which brought about the “Green Revolution” in a number of Asian countries in the 1960s.¹²⁰ The hybrid rice assistance programs were also carried out in Indonesia and Malaysia, with Chinese experts’ help, to cultivate new breeds to suit the local climate.¹²¹

The Confucius Institutes are another “minds and hearts project” that has been widely accepted in Southeast Asia. Since the program was first launched in South Korea in 2004, it has witnessed rapid development. As of November 2009, there were 21 Confucius Institutes in the region: the Philippines (3), Malaysia (2), Thailand (12), Singapore (1), Indonesia (1), Cambodia (1) and Laos (1). There were also 14 permanent Confucius Lectureships: Singapore (1), Myanmar (2) and Thailand (11). Thailand hosts the largest number of Confucius Institutes in the whole of Asia. Fully funded by China’s Hanban (Chinese Language Office), the Confucius Institutes provide Chinese language and culture courses to the host countries for free for civil servants and university students.¹²² Regarding the role of the Confucius Institutes, Bienvenido F. Nebres, S. J., President of the Ateneo de Manila University, said: “The language, business, and technology courses provided by the Confucius Institutes contribute a lot to the enhanced trade and interactions between China and the Philippines”. Many ASEAN educators consider that the Confucius Institutes may help China’s neighboring countries benefit from its economic growth.¹²³

As a major world sports power, China has been eager in sharing its experience in sports training with Southeast Asia. Upon the

¹²⁰ Lyall Breckon, “China–Southeast Asian Relations: A Lull, and Some Complaints”, Comparative Connections, Center for Strategic and International Studies, April 2004.

¹²¹ Wu Jiwei, “Zhongguo dui Dongmeng Guojia de Yuanzhu Yanjiu (Study on Chinese Aids to ASEAN: Influence and Responsibility)”, *Dongnanya Yanjiu* (*Southeast Asian Studies*), No. 1 (2010), pp. 42–48.

¹²² Hanban, “About Confucius Institute”. Available at http://english.hanban.org/node_10971.htm.

¹²³ “Dajian Wenhua Qiaoliang, Kongzi Xueyuan zai Dongnanya Piandi Kaihua (Build the Bridge for Cultural Exchange, Confucius Institutes Mushroom in Southeast Asia)”, *Xinhua*, 10 August 2009.

request of the Vietnamese authorities, China's national gymnastics team selected six young gymnasts to receive training in Nanning, Guangxi. Several years of training in China yielded encouraging results. Three of them, as members of the Vietnamese national team, won eight gold medals in the Southeast Asian Games in 2004. In 2001, China and the Philippines concluded the Memorandum of Understanding on Sports Cooperation. In 2005, the Philippines sent 273 athletes and coaches to China to receive three-month training before the Southeast Asian Games. William I. Ramirez, then chairman of the Philippine Sports Commission, acknowledged that "excellent Chinese sports training not only helps the Philippines get closer to its dream of returning to the glorious days as a major sports power of Asia, it also opens a new channel for bilateral co-operation".¹²⁴ Similar programs also have been offered to Vietnam, Laos and Cambodia. In the educational front, Prime Minister Wen Jiabao announced in 2009 that China would provide 2,200 additional government scholarships to the less developed ASEAN member states in five years, as well as offer training programs for disaster management.¹²⁵

China has also showed its willingness to serve as an honest broker in settling regional conflicts when opportunities arise. In January 2003, angered by a report that a Thai movie star had claimed that the Angkor Wat belonged to Thailand, rioting Cambodians burnt the Thai embassy in Phnom Penh. Chinese Vice Foreign Minister Wang Yi met the ambassadors of the two countries in an effort to resolve the issue.¹²⁶ Reports surfaced in February 2004 that China might host peace talks between the Philippine government and the Communist New People's Army insurgents, whose 35-year armed campaign went back to the period when China supported Communist insurgencies in most Southeast Asian countries. President Gloria Macapagal-Arroyo's

¹²⁴ "Fei Yundongyuan dao Zhongguo Shouxun, Qidai Tiyu Hezuo Xiankai xin Pianzhang (Philippines Athletes Come to China for Training, Sports Cooperation Enters a New Chapter)", *China Radio International*, 25 April 2005.

¹²⁵ "Zhongguo Chengnuo xiang Dongmeng Guojia Tigong Zijin Yuanzhu", *op. cit.*

¹²⁶ "Jian Tai Guanxi Jinzhang, Zhongguo Chumian Quanhe (China Urge for a Peaceful Settlement of Cambodian-Thai Tension)", *China News Agency*, 30 January 2003.

spokesman said she would welcome such a role for China. At the second annual meeting of the Davos World Economic Forum in Switzerland in early November 2003, the keynote speaker, Singapore Prime Minister Goh Chok Tong, told the meeting that China had been playing a key role in managing the “stresses and strains” among Asian countries.¹²⁷

Issue Delinkage and Cooperation Building

Linkage of issues has usually been recognized as an effective tool for cooperation building.¹²⁸ Yet, China's pragmatic and effective engagement of Southeast Asia has offered an interesting counterexample to this conventional wisdom. Rather than striving to resolve many disputes once and for all, China has generally been pragmatic enough to move forward with those that can be resolved for the time being, while leaving aside issues that cannot be resolved. In other words, China has often managed to advance its relationship with the region by delinking different issues. This pragmatic gradualism apparently has generated more goodwill and spillover effect.

The idea of issue linkage may be controversial on theoretical grounds. It assumes that cooperation is the result of enhancing trust. Actually, cooperation is not only a product of building trust, but, perhaps more importantly, cooperation leads to stronger trust as well.¹²⁹ Issue delinkage means building cooperation in some areas so that initial trust can be built and strengthened, and this increased trust then spills over and facilitates future cooperation. Issue delinkage is more conducive to cooperation promotion since it confines the

¹²⁷ “Feilibin Neizhan Hetan Shuguang Chongxian (Prospects for Negotiation Re-emerges in Philippines' Civil War)”, *Qingnian Cankao (Elite Reference)*, 24 February 2004.

¹²⁸ Robert Axelrod and Robert Keohane, “Achieving Cooperation under Anarchy: Strategies and Institutions”, *World Politics*, Vol. 38, No. 1 (October 1985), pp. 226–254.

¹²⁹ Andrew H. Kydd, *Trust and Mistrust in International Relations* (Princeton: Princeton University Press, 2005), pp. 28–45.

scope of controversial issues, limits the areas of disputes, advocates pragmatic solutions wherever possible and resolves various conflicts in a gradual manner. Issue linkage often means many instances of *quid pro quo*, which may even reduce the chance of securing cooperation concerning some easy and less complex issues.¹³⁰

Energy cooperation between China and the ASEAN states in disputed territories is a case in point showing how issues delinkage can facilitate cooperation building. Territorial disputes between China and Vietnam in the South China Sea led to armed conflicts in the past. Those between China and the Philippines caused an open dispute. However, a new direction suggesting laying aside these differences and working toward joint exploration helped to initiate negotiations between China and the Philippines in 1986, and in 2002 the Declaration of the Code of Conduct (DOC) for the South China Sea was signed by China and ASEAN. The first agreement between China and the Philippines on energy exploration was signed in 2004, and a second joint survey agreement in 2005. In view of the successful experience between China and the Philippines, Vietnam also started its joint exploration negotiations with China over disputed areas in the South China Sea in late 2004. Based on the initial mutual trust accumulated in the South China Sea cooperation and in economic exchanges in general, China and Vietnam further carried out their first joint patrol in the Gulf of Tonkin in 2006, and China's Coast Guard rescued 100 Vietnamese fishermen caught in a typhoon later in the same year. Vietnam's Ambassador to China Tran Van Luat indicated in September 2005 that the three-way cooperation between China, Vietnam and the Philippines in the South China Sea could serve as a model for the future.¹³¹

¹³⁰ Shipping Tang, "Introduction: Understanding 'Living with China'", in Shipping Tang, Mingjiang Li and Amitav Acharya (eds.), *Living with China: Regional States and China through Crises and Turning Points* (New York: Palgrave Macmillan, 2009), pp. 1–16

¹³¹ Ronald N. Montaperto, "China–Southeast Asia Relations: Building Integration?", Comparative Connections, Center of Strategic and International Studies, October 2005.

In March 2005, China National Offshore Oil Corporation (CNOOC), the Philippines National Oil Company (PNOCO) and Petro Vietnam agreed to conduct joint seismic surveys over a three-year-period in a Philippine-claimed zone. The agreement stated that the basic sovereignty claims of the respective governments would not be affected. The Philippine President Gloria Macapagal-Arroyo hailed the agreement as a “diplomatic breakthrough” for peace and security in the region and the first step of the implementation of the DOC for the South China Sea.¹³² For the Philippines which had been haunted by the Mischief Reef incident, the trilateral cooperation served as an important confidence-building measure.

Through energy cooperation, the most immediate obstacles posed by sovereignty claims were side-stepped, which could remove some of the security uncertainty in the area. Energy cooperation between national oil companies could function as a confidence-building and stabilizing measure paving the way for progress toward maritime regime building.¹³³ The relevant parties’ willingness to delink joint exploration activities from these sovereignty claims was encouraging. Unfortunately, the cooperation was subsequently discontinued, but the demonstration effect continues to exist.

Responses to the Deteriorating Peripheral Environment: Continuities and Changes

There is no denial that China realizes the deterioration in its external environment in the 2010s, especially regarding its periphery, as reflected by the analyses produced by its official international relations think tanks. At the same time, the peripheral environment has become increasingly important to China.

¹³² Ian Storey, “China and the Philippines: Moving Beyond the South China Sea Dispute”, *China Brief*, Vol. 6, No. 17 (9 May 2007).

¹³³ Leszek Buszynski and Iskandar Sazlan, “Maritime Claims and Energy Cooperation in the South China Sea”, *Contemporary Southeast Asia*, Vol. 29, No. 1 (2007), pp. 143–171.

Since 2000, China has become the largest trade partner of almost every Asian country and Australia. According to China's Ministry of Commerce, China's trade with Asian countries amounted to US\$ 2.2249 trillion, about 53.5% of its global total. Its top 10 trade partners in the same year included the ASEAN, Japan, Korea, Australia, Russia, as well as Hong Kong and Taiwan. In 2013, China's FDI reached US\$ 107.8 billion, with US\$ 75.6 billion (70.1%) going to Asia. Similarly, at the end of the year, China's accumulated FDI amounted to US\$ 660.5 billion, with US\$ 447.4 billion (67.7%) invested in Asia.¹³⁴

China's assertiveness in the handling of its territorial disputes, its rapid improvement in military capabilities and its eagerness to raise its international status and influence have been exacerbating the worries and suspicions of its neighbors in this decade. After all, ASEAN states all the time want to maintain a regional balance among the major powers involved so that the initiative may stay in their hands. The Barack Obama administration clearly indicated the U.S. intention to "return to Asia", followed by its strategy of "rebalancing" or "pivoting" toward Asia, as it realized the significance of the Asia-Pacific region to U.S. strategic interests. Japan, India and Russia share this assessment, and they have been stepping up their involvement in the region to promote their respective interests.

As China is seen as the rising power able to challenge the U.S. in the future, the Barack Obama administration's strategy naturally had been directed against China. Its strategy was composed of three elements: (a) strengthening the existing bilateral alliances with Japan, South Korea, Australia, Thailand and the Philippines to serve as the foundation of its Asia-Pacific strategy; (b) seeking new strategic support in the region to better balance against China, including the enhancement of the U.S.'s comprehensive partnership with Indonesia,

¹³⁴ Shi Yuanhua and Qi Huaigao, "Weilai Shinian Zhongguo Zhoubian Huanjing de Xintiaozhan yu Zhoubian Waijiao Yingzhanlue (New Challenges from China's Neighbouring Environment and China's New Strategy for Its Neighbouring Diplomacy in the Next Decade)", *Journal of China's Neighbouring Diplomacy* (Center for China's Relations with Neighbouring Countries, Fudan University, Shanghai), Vol. 1 (2015), p. 35.

the partnership with Vietnam in the maritime security, diplomatic and economic arenas, and the relations with Myanmar facilitating its political reforms; and (c) strengthening and even attempting to lead the regional multilateral mechanisms like the East Asia Summit, the Trans-Pacific Partnership, etc.

In recent years, the Chinese leadership has been engaging in the reassessment and readjustment of its approach to the Asia-Pacific region, including that to Southeast Asia. It continues to emphasize that China will maintain the road of peaceful development and its good-neighborliness foreign policy line, and tries to dampen the domestic nationalist or even chauvinist sentiments, especially those directed against the small- and medium-sized neighboring countries. The measures considered above which were aimed at cultivating good relations with Southeast Asian countries have continued, and in most cases have been stepped up because China at this stage has more resources for the implementation of its foreign policy.

In November 2013, a high-level conference was held within the Chinese foreign policy establishment on its peripheral diplomacy. The perception of Japan is probably quite representative of the evaluations of China's Southeast Asian neighbors.¹³⁵ The fundamental goal of China's peripheral diplomacy is perceived to use diplomacy directed toward China's neighbors to further ensure China's peaceful development, especially through the deepening of economic ties like trade and currency circulation. The Silk Road Economic Belt and the 21st Century Maritime Silk Road schemes are important components and are representative of China's peripheral diplomacy. Other objectives include achieving energy security and securing sea routes other than through the Malacca Straits.¹³⁶

¹³⁵ The National Institute for Defense Studies, Japan, *East Asian Strategic Review 2015* (Tokyo: The Japan Times Ltd., 2015), Chapter 3, "China: Xi Jinping's Administration — Proactive Policies at Home and Abroad", pp. 112–115; see also Michael D. Swaine, "Chinese Views and Commentary on Periphery Diplomacy", *China Leadership Monitor*, 28 July 2014.

¹³⁶ Julian Sneler, "Why China's Silk Road Initiative matters", *The Interpreter*, 29 July 2014.

Infrastructure investment is obviously important in bolstering China's economic ties with its neighbors; its "high-speed rail diplomacy" has attracted considerable international media attention in recent years. China has also established new banks as part of this initiative to strengthen infrastructure construction, which is probably a way of better utilizing China's substantial foreign exchange reserves which stood at around US\$ 3.2 trillion in mid-2016. In October 2013, China advocated the creation of an Asian Infrastructure Investment Bank, with controlling shares held by China. In July 2014, formal agreement was reached on the setting up of a BRICS development bank, overcoming the competition between China and India. In the following September, at the Shanghai Cooperation Organization summit, it was also agreed to establish a Shanghai Cooperation Bank within the group in the near future.

China probably will continue to adopt a "divide and rule" strategy, trying to win over Southeast Asian countries which for ideological reasons do not intend to seek close ties with the U.S. In 2012, while Cambodia held the ASEAN chair, the ASEAN Foreign Ministers' meeting failed to issue a joint communique for the first time due to disagreement over the South China Sea problem.

China was less successful in 2014 when the ASEAN chair was held by Myanmar. On 10 May 2014, the ASEAN Foreign Ministers' meeting issued a joint statement to express the serious concerns over the worsening situation in the South China Sea, though efforts were made to avoid specifically naming China.¹³⁷ On the next day, the ASEAN summit adopted a Naypyitaw Declaration asking all parties to exercise self-restraint and refrain from the use of force, as well as calling for the early conclusion of a code of conduct.¹³⁸ According to media reports,

¹³⁷ ASEAN, "ASEAN Foreign Ministers' Statement on the Current Developments in the South China Sea", 10 May 2014. Available at <http://www.asean.org/storage/images/documents/24thASEANSummit/ASEAN%20Foreign%20Ministers%20Statement%20on%20the%20current%20developments%20in%20the%20south%20china%20sea.pdf>.

¹³⁸ ASEAN, "Nay Pyi Taw Declaration on Realisation of the ASEAN Community by 2015", 11 May 2014. Available at <http://www.asean.org/storage/images/documents/24thASEANSummit/Nay%20Pyi%20Taw%20Declaration.pdf>.

Vietnam and the Philippines, which were engaged in confrontations with China, were highly critical; even Malaysia and Indonesia, which often assumed middle-of-the road positions, were critical of China as well. Since the normally pro-China Cambodia and Laos raised no objections, ASEAN managed to reach a unanimous position.¹³⁹

ASEAN certainly has been disappointed with the progress on reaching an agreement on a binding code of conduct for the South China Sea. In June 2014, a joint working group session held in Bali, Indonesia, which was followed by the third round of formal discussions in Bangkok in October 2014 led to an agreement on setting up a hotline and conducting a tabletop exercise on search and rescue, but little progress was achieved in the actual drafting of a code of conduct. The discussions also decided to recognize that the process of consultation between ASEAN and China was equally important as the contents of a code of conduct.¹⁴⁰

The Chairman's statement released at the ASEAN summit in Naypyitaw in November 2014 expressed continuing concern over the situation in the South China Sea, and appealed for the acceleration of the drafting of a code of conduct as well as the study of a variety of early measures to promote trust and confidence in the region.¹⁴¹ Apparently, ASEAN members, including states which are parties involved in confrontations with China and those that are not, differ in their approaches to a code of conduct. It is said that China has been approaching some ASEAN members to persuade them to accept a code of conduct with little binding force; the emphasis on the importance of the consultative process is also considered a design to reduce the significance of the code of conduct itself.¹⁴²

¹³⁹ *Asahi Shimbun* (Tokyo), 11 May 2014; *Nikon Keizai Shimbun*, 12 May 2014.

¹⁴⁰ Foreign Office, the Government Public Relations Department, Office of the Prime Minister, Thailand, "The 8th ASEAN-China Senior Officials Meeting", 30 October 2014. Available at http://thailand.prd.go.th/ewt_news.php?nid=530&filename=index.

¹⁴¹ ASEAN, "Chairman's Statement of the 25th ASEAN Summit: 'Moving Forward in Unity to a Peaceful and Prosperous Community'", 12 November 2014. Available at http://www.miti.gov.my/miti/resources/Chairman_Statement_of_the_25th_ASEAN_Summit.pdf?mid=411.

¹⁴² East Asian Strategic Review 2015, *op. cit.*, Chapter 4, "Southeast Asia: China-Vietnam Confrontation Grows Ever More Apparent", pp. 145-146.

A survey of the literature released by China's major foreign policy think tanks often reveals the following suggestions for adjustment in China's approach to Southeast Asia. In the first place, there is a recognition that Southeast Asian countries' worries and suspicions against China have been increasing, and that China must step up its efforts to increase their trust and reduce their doubts. China needs to use concrete actions to demonstrate that it will not deviate from the road of peaceful development and will not constitute a military threat to its neighbors.

Instead, China will develop its economic ties with Southeast Asia to enhance their mutual economic interdependence and ensure that the latter will benefit from these economic exchanges. In line with China's increasing comprehensive national power, it will enhance its role as provider of regional public goods and promote regional economic cooperation.

In November 2015, China and ASEAN agreed to upgrade their 2002 Framework Agreement on Comprehensive Economic Cooperation. The "upgrade protocol" is expected to make it easier for ASEAN exporters and service providers to operate in China, and offer better assurance to their investors. Bilateral trade between China and ASEAN reached US\$ 480 billion in 2014, and the flows of investment exceeding US\$ 130 billion. In late 2015, Chinese Vice-Premier Zhang Gaoli indicated that China-ASEAN trade would increase to US\$ 1 trillion in 2020 and that China's additional investment in ASEAN would amount to US\$ 100 billion in the next five years.¹⁴³ China is now ASEAN's largest trading partner, while ASEAN is China's third largest trading partner. As both sides celebrated their 25th anniversary of relations in 2016, a commemorative leaders' summit was held, and 2016 was designated as a year for greater bilateral educational exchanges.

In view of the U.S. intervention in Southeast Asia, China should improve Sino-American communication and coordination and strengthen their strategic mutual trust. China's rational choice should

¹⁴³ "International Trade — ASEAN, China to Upgrade Trade Pact", FNA, 27 November 2015, <http://www.aplf.com/en-us/leather-fashion-news-and-blog/news/26607/international-trade-asean-china-to-upgrade-trade-pact>.

be a soft balance relying on institutions and not a military balance of power. As Sino-American economic interdependence deepens, China should secure its influence through international institutions and mechanisms. There is a clear awareness that China should not and cannot confront and challenge the U.S.; China should learn from the historical failures of Germany and Japan.

The “new type of major power relations” as advocated by Xi Jinping obviously mainly applies to Sino-American relations, and its gist is the respect of each other’s core interests, especially those in the Asia-Pacific region. Further, both sides should encourage and facilitate each other to take part in the regional multilateral institutions and mechanisms. Chinese foreign policy researchers consider that the strengthening of Sino-American mutual economic interdependence will serve to contain their respective strategic anxieties against each other.

In the context of China’s transformation into a major maritime power, including the significant improvement of its naval capabilities, China’s foreign policy think tanks propose the abandonment of a zero-sum-game mentality and the pursuit of win-win solutions, including the offer of compromises and concessions on China’s part, as well as the acceptance of parallel bilateral and multilateral negotiations.

China’s baseline will remain as the insistence on its sovereignty, the shelving of disputes and the engagements in joint developments. Tactically, China would seek agreements on the less intractable issues while putting aside the most difficult controversies. Finally, China would need to define its crisis management strategy, which explains its enthusiasm to set up hotlines and engage in various confidence-building measures.¹⁴⁴

Unfortunately, China’s Southeast Asian neighbors have not been convinced of Beijing’s sincerity and determination to implement the above. Even at rhetorical level, there are often contradictory messages. At the Summit Conference on Interaction and Confidence-Building Measures in Asia (CICA) held in Shanghai in May 2014, President Xi Jinping introduced his New Asian Security Concept

¹⁴⁴ Shi Yuanhua and Qi Huaigao, *op. cit.*, pp. 48–59.

based on the principles of mutuality, comprehensiveness, cooperation and sustainability. Xi proposed the institutionalization of CICA and the establishment of a regional multilateral security mechanism with ASEAN taking the lead.¹⁴⁵

Xi, however, observed that enhancing military alliances targeted at third parties is not conducive to maintaining a common regional security and declared that: “After all, security in Asia should be maintained by Asian themselves”. Statements of this kind may appeal to a small number of Southeast Asian countries, but will only exacerbate the strategic anxiety of the U.S. and Japan.

China’s increasingly proactive position may also be interpreted in a negative manner by its neighbors. While President Xi Jinping articulated that China needs to achieve a good peripheral environment for itself, Chinese Foreign Minister Wang Yi also declared that China should build a stable and advantageous external environment.¹⁴⁶ Similarly, Wang Jiarui, head of the Party’s international department, openly discussed about stabilizing the periphery, managing the periphery and shaping the periphery on the part of China.¹⁴⁷ Yan Xuetong, a Professor at Tsinghua University perceived to enjoy close ties with the foreign policy establishment, argues that in the past China sought a “peaceful environment”, but at this stage it would seek “advantageous external conditions”.¹⁴⁸

Conclusion

In the past two decades till 2010 or so, China demonstrated considerable willingness to proactively engage its Southeast Asian neighbors. This new orientation was manifested in Beijing’s activism in promoting confidence-building measures, attempting to settle border disputes through negotiations with the states concerned, practicing

¹⁴⁵ *Renmin Ribao* (Beijing, overseas edition), 22 May 2014.

¹⁴⁶ *Renmin Ribao* (Beijing), 10 September 2014.

¹⁴⁷ *Ibid.*, 13 June 2014.

¹⁴⁸ *East Asian Strategic Review 2015*, *op. cit.*, Chapter 3, “China: Xi Jinping’s Administration — Proactive Policies at Home and Abroad”, p. 115.

relative self-restraint, reassuring neighbors of China's benign intentions and proactively participating in regional economic, political and security dialogues and institutions. Partly as a result of this conciliatory posture, China received some acclaim in the region for its multilateral approach, its ability to understand the needs of regional actors and its desire to address the region's concerns.

China's diplomatic approach has, to some extent, integrated its activities and interests with those of individual Southeast Asian states and with the growing range of regional multilateral organizations. In view of its expanding military capabilities, especially naval power, Chinese leaders understood that they had to be more accommodating and flexible regarding the South China Sea issues. Moreover, China's basic approach to ASEAN and individual Southeast Asian governments seemed compatible with the ASEAN-supported principles of dialogue, inclusiveness, patience and decisions from a gradual process that is comfortable for all parties concerned and that respects the primacy of non-interference in internal affairs and agreement by consensus.

Beijing desired to be perceived within the region as a responsible and cooperative partner willing to tackle regional issues and problems through consultation and peaceful means. The favorable regional environment supported the Chinese government's strategy. The "issue-delinkage" approach was useful in reducing initial suspicions and accumulating trust. As the two sides proceeded to more thorny issues, such as the ultimate settlement of the South China Sea sovereignty disputes, the "the easiest goes first and the difficult ones later" approach lost its effectiveness in generating consensus. The rising nationalism in China and Southeast Asia complicated the problems. Beijing and the regional governments gradually found it difficult to make concessions, as they would come under severe domestic criticisms for being weak in handling territorial disputes. As China's influence increases, the need for a hedging strategy on the part of Southeast Asia will correspondingly increase, and this was supported by the Obama administration's significant political will to engage the region.

Since 2010 or so, the external environment for China has been deteriorating mainly because of the Obama administration's "return to Asia" policy; meanwhile, Chinese leaders believe that their hitherto

followed stand of shelving the territorial disputes had been unfairly taken advantage of by the neighboring countries concerned. Beijing therefore has been adopting a more assertive position in the territorial disputes and engaging in a more intense competition for influence in the region. These trends have been reinforced by Chinese leaders' more enthusiastic pursuit for international status and influence as China's economy grows. They also realize that the legitimacy of the Party regime increasingly depends on their performance in this pursuit. This pursuit also takes place in the context of rising nationalism both in China and the countries concerned.

Chinese leaders have not, however, abandoned their previous mode of cultivating good relations with Southeast Asian countries. In fact, their efforts in this area have been stepped up as they have more resources to do so and as they are aware of the deteriorating external environment. The Silk Road Economic Belt and 21st Century Maritime Silk Road schemes are prime examples. But because of the less favorable external environment as explained above, these efforts tend to be less effective.

Chinese leaders are in a dilemma. On one hand, their foreign policy toward Southeast Asia has become more assertive as the competition with the U.S. and Japan has been sharpening and as China's military capabilities gradually improve; and on the other, they continue to engage in a charm offensive with diminishing returns. This dilemma is perhaps reflected by Chinese foreign policy researchers' complaints that Southeast Asian countries tend to depend on China on economic development, and on the U.S. on security.

Despite Chinese leaders' awareness of their Southeast Asian neighbors' grievances and concerns, they have not been able to resolve this dilemma. Enhanced efforts to strengthen economic ties have easily been offset by the escalating territorial disputes which have given rise to frequent incidents and small crises. While care has been taken to maintain lines of communication and adopt more confidence-building measures, it remains unlikely that Beijing is ready to consider a serious redefinition of its existing policy in the near future. Changes of leadership in the U.S., the Philippines and Vietnam sometimes offer new opportunities and challenges in the eyes of Beijing though.

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Chapter 6

The ASEAN–China Free Trade Area — Updates on the Treaty’s Econometric Evaluation

Stefania Paladini and Joseph Yu-Shek Cheng*

The ACFTA and Its Discontent

The ASEAN–China Free Trade Area (ACFTA)¹ is just one of the many free trade agreements signed by ASEAN, but certainly one of the most important in an historically rather active ASEAN, an area that started its trade negotiations since its beginnings in 1967. The first idea of a free trade area (FTA) among the then five member

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¹In some of the trade literature, ACFTA is instead denominated as CAFTA. Moreover, the two terms are sometimes interchangeable.

states² came about 10 years after its inception and was known as the ASEAN Preferential Trade Agreement. This treaty provided a framework for a rather complex series of measures to reduce import duties but came into force only much later, when ASEAN has been enlarged to the present 10 members.

Moreover, since the Asian Crisis in 1997, ASEAN has tried, with renewed élan, to establish privileged trade relations with its powerful neighbors, first of all in East Asia. Many of these agreements were signed under the framework of the so-called ASEAN+1, which provided an institutional mechanism for the dialogue in the new century with partners in the Asia Pacific, such as China, Japan, Korea, Australia and New Zealand. India followed soon after.

The ACFTA was the first one of these schemes to be negotiated and signed, and the first to come into force. The practical proposal for the creation of the ACFTA was made in November 2000 by the Chinese Premier Zhu Rongji at the China-ASEAN Meeting. The official negotiations began about a year later.

The Framework Agreement of the treaty was signed on 28 November 2004, with a start date in 2005, encompassing three joint but separate agreements: the agreement on trade in goods — the initial one, signed in 2005, the 2007 agreement on trade in services and, finally, the 2010 agreement on investment. The ACFTA represented a fundamental step in the process of Asian regional integration, the first ever free trade agreement concluded by China at that time³ and even now one of the most important.

Moreover, initial steps were undertaken even before that signature date, namely, with the “Early Harvest Programme” running for two years starting from 1 January 2004, in which China granted the reduction or complete elimination of trade duties on about 600 agricultural products. Considering the relevance of the agricultural

²The so-called ASEAN-5 (Philippines, Thailand, Brunei, Singapore and Malaysia), while ASEAN-6 includes Indonesia as well. At present, ASEAN also includes Vietnam, Cambodia, Laos and Myanmar.

³The previous one with Hong Kong, the CEPA of 2004, cannot be considered as such, given the formula of “one country, two systems” among the two entities.

sector for many ASEAN countries, this agreement represented a strategic advantage for China ahead of Japan and Korea, which were far more cautious in granting similar measures to their commercial partners. After this important step, every ASEAN country has agreed to grant equivalent concessions to China within the same time frame, even if the individual average reduction rates have been different for each member.

The treaty itself, according to ASEAN's standard practices, has been negotiated separately with each of the member states, with the Philippines being the last to join in May 2005. The entry into force of the provisions was also different in that not all the countries had the same inception date. For the ASEAN-6, it was January 2010, while for the four states of more recent association (Cambodia, Myanmar, Vietnam and Laos, the so-called CMVL), it did not happen until 2015.

The general dispositions of the treaty partition the products in "normal" (track I and track II, with track II having its liberalization deferred to 2012) and "sensitive" (with themselves divided between "sensitive" and "highly sensitive") categories. This classification is standard and valid in every signatory country. Which products are included in the two categories and subcategories, however, vary substantially among the countries.⁴

The first round of tariff reduction measures affected manufactured products in the normal track, and was started in July 2005 and completed by 2010. In 2005, the date of the first introduction of preferential measures, the average tariff was first reduced to 8%, then brought down to 6.6% in 2007 and then to 2.4% in 2009. Since 2010, when the treaty's general entry was enforced, about 7,881 product categories, equivalent to 93% of the imported goods, have been reduced to zero tariff.

For the category of sensitive products, each country has the right to include in it up to 10% of the total value of its imports (calculated

⁴Stefania Paladini, "World Trade Negotiations, Commercial Disputes and WTO", in *Italian Foreign Trade Report 2007-2008* (Rome: Italian Trade Commission-ISTAT, 2008), pp. 210-219.

on the trade value of 2001), for which the duty should not exceed 20%. It will have to be reduced to between 0% and 5% no later than 2018. These types of goods, quite variable from country to country (ASEAN, unlike the EU, does not apply a common external tariff), generally include both agricultural and industrial products. Some of them are considered sensitive everywhere, such as motor vehicles, motorcycles and electrical and mechanical products.

Since the coming into effect in 2010, ACFTA has been generally considered a success. Established for more than six years now, it is the largest FTA in the world with a population of 2 billion, a regional GDP of more than US\$ 2 trillion. Intra-area investments look impressive, too; foreign direct investment (FDI) stock in ACFTA member countries in 2012 reached US\$ 2.15 trillion, about 9.4% of the global FDI.⁵

In addition, the free trade agreement between China and ASEAN had a domino effect, with all other Asian partners entering into negotiations for similar agreements. The first to follow was the ASEAN+1 with Japan, which signed an analogous treaty in 2008; South Korea as well signed an equivalent of ASEAN+1, and the Treaty about the trade of Goods came into force in 2010.

When it comes down to trade statistics, however, things shift on a more delicate ground. While liberalization of trade among member countries of ASEAN has historically not provoked any major issues, trade has changed since the ACTFA agreements came into effect.

The statistics (illustrated by time series and charts in the "Results" section) show that exchanges between China and ASEAN have kept growing significantly over the past 20 years. China, which in 1990 represented only 2.4% of ASEAN exports by destination, accounted for more than 11.3% in 2015. Concerning imports, 2015 trade statistics show China covering 19.2% of ASEAN total, being by far and large the first supplier of goods (Japan is second at only 11.4%). Trade outcomes for the partners have been uneven, though. Some

⁵ Figure essentially due to the abundant low-cost labor in the area. See *World Investment Report 2013* — UNCTAD.

countries (e.g., Malaysia and Singapore) have clearly benefited; others, including Vietnam, Thailand and the Philippines, complained that, since April and May 2010, China had exported to their countries an increasing amount of goods. One of the most serious issues has come from the biggest state of ASEAN, Indonesia, which even suggested a renegotiation of the agreement on a different and more equal basis.

The relation between China and Indonesia matters — both at the political and the purely economic level. While Indonesia represents a middle-income country of ASEAN behind, for instance, other large states such as Thailand and Malaysia, it is nevertheless more important than this data would suggest. Of the whole bloc, 250 of 602 million people are Indonesian, and the economy in nominal terms is the largest. Also, the country is the only one of ASEAN that belongs to the G20 (in Asia, only China and India are also part of it). This bilateral relation has therefore been selected for a more detailed analysis in this chapter.

The trade exchanges between China and Indonesia after the entry into force and in the period here considered for the econometric analysis carried out in sections “The FTA Debate in East Asia and an Estimate by Trade Gravity Equations” and “The Econometric Model Selected for Analysis” — the first two years 2010 and 2011 — clearly show a trade deficit for Indonesia. Indonesia was previously a net exporter to China, and they have got no better in more recent trade statistics (which have not been considered in the econometric model, but descriptive statistical analysis and evaluation are offered in the “Results” section).

However, it is still a matter of contention if this is due to the treaty or to other reasons, and only by examining the bigger picture will it be possible to reach a conclusion. This is exactly one of the issues this chapter will examine and try to answer, given its relevance for future choices of trade policies.

A general, preliminary comment is that, however, the problem in the balance of trade should not have come as a surprise. Some FTA simulation exercises had indicated strong likelihood of an increase in

Chinese exports toward ASEAN,⁶ more than proportional to the ASEAN exports to China, long before the implementation of the treaty. Furthermore, from the outset, the Indonesian trade associations had warned about the risk of imbalances that an FTA between China and Indonesia would cause. The treaty has in fact eliminated the tariffs that were protecting some sensitive sectors of the Indonesian economy — textiles, footwear, leather products, petrochemicals and electronics — from the more competitive products from China. The industrial associations also denounced the dumping practices of Chinese companies.

Since the onset, there have also been a few reactions at the political level, including proposals concerning the imposition of safeguard clauses and of anti-dumping duties to counter what is considered to be a wrong agreement and, in some extreme cases, to renegotiate the entire FTA on more favorable terms for ASEAN⁷ and to avoid a dangerous trade imbalance with China. This has been, for instance, expressly advocated by the Indonesian Chamber of Commerce in April 2011,⁸ just before Indonesia posted a trade deficit for the year. How much of the imbalance was originated from the treaty itself and what was instead due to the declining demand in China remained open to discussions.⁹

The purpose of this work — both in its original formulation on data up to 2012¹⁰ and in the present update — is to evaluate, using the popular econometric tool of the trade gravity equations and integrating it with more recent trade data, if there is any hard evidence that the ACFTA has been responsible for the growing trade imbalance

⁶ Raul L. Cordenillo, "The Economic Benefits to ASEAN of the ASEAN–China Free Trade Area (ACFTA)", Bureau for Economic Integration, ASEAN Secretariat, 2005. Available at http://asean.org/?static_post=the-economic-benefits-to-asean-of-the-asean-china-free-trade-area-acfta-by-raul-l-cordenillo. Accessed 21 November 2016.

⁷ *The Jakarta Post*, 6 June 2011.

⁸ *Ibid.*, 23 April 2011.

⁹ *The Wall Street Journal Asia*, 1 August 2012.

¹⁰ Stefania Paladini and Joseph Yu-Shek Cheng, "The ASEAN–China Free Trade Area: A Success or a failure? A Preliminary Evaluation Based on Econometric Evidence", *Journal of Comparative Asian Development*, Vol. 14, No. 2 (2015).

between China and Indonesia as could be expected as a result of the free trade implementation, or if a more sophisticated explanation needs to be taken into account.

The section “The FTA Debate in East Asia and an Estimate by Trade Gravity Equations” of this chapter covers the debate about the trade creation effects of FTs in general and in East Asia specifically, and the rationale for the choice of trade gravity equations for an evaluation *ex post* of free trade agreements as the most reliable instrument for the intended outcomes. The section “The Econometric Model Selected for Analysis” presents the specifications of the trade gravity equations used in this chapter, illustrating choices made. The section “Results: Econometric Evidence on ACFTA Preliminary Data and Recent Trade Data for Further Consideration” evaluates the econometric results by looking at the most updated trade statistics, which have not been integrated into the model for reasons of data consistency (more about this later) but that have been examined here for the additional insight they offer.

Finally, the section “Scenarios and Effects on Asian Regional Integration” discusses the issues related to ACFTA in the more general context of the East Asian integration and examines what consequences the success or failure of this specific treaty may have on this broader area. A brief final section summarizes the conclusions.

The FTA Debate in East Asia and an Estimate by Trade Gravity Equations

There is no shortage of theoretical elaborations exploring the role of FTA in international trade and their effects on bilateral exchanges.

One of the initial, and still theoretically valid, contributions was provided by Viner, who first proposed to distinguish between trade creation and trade diversion in the analysis of FTAs.¹¹ This concept maintains today its centrality even among a growing body of literature and other more recent analyses concentrated on the role of

¹¹ Jacob Viner, *The Customs Union Issue* (New York: Carnegie Endowment, 1950).

regional integration in fostering trade.¹² There are articles showing the trade creation as one of the most relevant effects of regional integrations,¹³ while others warned about the dangers of trade diversion due to the excessively complicated rules of origin, discriminatory custom procedures and other technicalities in the implementation of the single agreements.¹⁴

While some of the authors seem to believe regionalism is opposite and in a certain sense contrary to multilateralism¹⁵ and regarded as the greater good, others consider them two sides of the same coin, to be evaluated together.¹⁶ The single most important aspect to retain for the present analysis is that the FTAs are not necessarily positive for their members and do not always lead to an increase of welfare as net effect.¹⁷ Moreover, the trade diversion effects can in some cases be very serious

¹²Jeffrey A. Frankel and Shang-Jin Wei, "European Integration and Regionalization of World Trade and Currencies: Economics and Politics", in Barry Eichengreen, Jeffry Frieden and Jürgen von Hagen (eds.), *Monetary and Fiscal Policy in an Integrated Europe* (Berlin: Springer-Verlag, 1995); Jeffrey A. Frankel, *Regional Trading Blocs in the World Economic System* (Washington, D.C.: Institute for International Economics, 1997).

¹³Murray C. Kemp and Henry Y. Wan, Jr., "An Elementary Proposition Concerning the Formation of Customs Unions", *Journal of International Economics*, Vol. 6, No. 1 (1976), pp. 95–97; Richard Baldwin, "A Domino Theory of Regionalism", NBER Working Paper Series No. 4465 (Cambridge, MA: National Bureau of Economic Research, 1993); Richard Baldwin and Daria Taglioni, "Gravity for Dummies and Dummies for Gravity Equations", NBER Working Paper No. 12516 (Cambridge, MA: National Bureau of Economic Research, 2006).

¹⁴Jagdish Bhagwati, David Greenaway and Arvind Panagariya, "Trading Preferentially: Theory and Policy", *Economic Journal*, Vol. 108, No. 449 (1998), pp. 1128–1148; Patrick A. Messerlin and Jamel Zarrouk, "Trade Facilitation: Technical Regulations and Customs Procedures", *The World Economy*, Vol. 23, No. 4 (2000), pp. 577–593.

¹⁵Paul Krugman, "Regionalism Versus Multilateralism: Analytic Notes", in Jaime De Melo and Arvind Panagariya (eds.), *New Dimensions in Regional Integration* (Cambridge: Cambridge University Press for CEPR, 1993).

¹⁶Lawrence H. Summers, "Regionalism and the World Trading System", in *Policy Implications of Trade and Currency Zones*, ed. Federal Reserve Bank of Kansas City (Kansas City, Missouri: Federal Reserve Bank of Kansas City, 1991).

¹⁷Sumana Dhar and Arvind Panagariya, "Is East Asia Less Open than North America and the EEC? No", in John Piggott and Alan Woodland (eds.), *International Trade Policy and the Pacific Rim* (London: Macmillan, 1999), pp. 105–123.

and constitute a substantial argument against their proliferation, even though this point is somehow overlooked in many policy analyses.

Looking at the works more specifically addressing the ACFTA treaty, one of the consequences that has been forecasted is that, since tariff barriers were removed, an expected increase in China–ASEAN intraregional trade was expected with a consequent diminished exchange with the U.S., European Union and Japan,¹⁸ together with a growing convergence in income level.¹⁹

Filippini and Molini, in their article that examined the determinants of the East Asian success, found regional integration to be one of the key factors affecting trade exchanges.²⁰ A more recent analysis from the Asian Development Bank recently tried to measure the ACFTA's results by adopting an alternative model of gravity equations.²¹ Its general finding is that, although the ACFTA will have a positive impact on bilateral trade flows, its relative impact will be felt unevenly among ASEAN countries, with some substantial differences in the increase of trade. Countries as the Philippines, Singapore and Thailand will most likely see the largest increase, while for others, it will be more constrained. This view is supported here, even though Sheng's analysis did not specifically address the Indonesian trade exchange with China, which, as it has been highlighted before, is one of the most problematic issues.

¹⁸ Siow Yue Chia, "ASEAN–China Economic Competition and Free Trade Area", *Asian Economic Papers*, Vol. 4, No. 1 (2005), pp. 109–147; Siow Yue Chia, "Trade and Investment Policies and Regional Economic Integration in East Asia", ADBI Working Papers (Tokyo: Asia Development Bank Institute, 2010), p. 210.

¹⁹ Benjamin Roberts, "A Gravity Study of the Proposed China ASEAN Free Trade Area", *The International Trade Journal*, Vol. 18, No. 4 (2004), pp. 335–353.

²⁰ Carlo Filippini and Vasco Molini, "The Determinants of East Asian Trade Flows: A Gravity Equation Approach", *Journal of Asian Economics*, No. 14, No. 5 (2003), pp. 695–711.

²¹ Yu Sheng, Hsiao Chink Tang and Xinpeng Xu, "The Impact of ACFTA on People's Republic of China–ASEAN Trade: Estimates Based on an Extended Gravity Model for Component Trade", ADB Working Paper Series on Regional Economic Intergration No. 99 (Manila, Philippines: Asian Development Bank, 2012). Available at https://aric.adb.org/pdf/workingpaper/WP99_Sheng_et_al_The_impact_of_ACFTA.pdf. Accessed 21 November 2016.

A fair share of the analysis mentioned before employed trade gravity equations to estimate gains from the regional trade agreements (RTAs), not only FTAs but also different and more complex forms.²² They are not the only kind of econometric tools of choice for these tasks, but are one of the more reliable. Also, while some articles make use of Computational General Equilibrium (CGE) models,²³ the orientation is now to use them for estimating RTAs *ex ante*, testing also perspective welfare effects, while trade gravity equations are better suited for an *ex post* evaluation.²⁴

The literature covering trade gravity equations is extensive, and pretty much every aspect has been treated in detail. The model is well established and has been proposed in its original formulation in the beginning of the 1960s²⁵ for analyzing trade flows, and then successively expanded to address other aspects of international economy. It derives its name from the original Newtonian equation of “gravity” (intended here as the economic phenomenon under examination) as directly depending on the “mass” (normally approximated by the income of states) and inversely related to the distance. In time, this very

²² According to the trade literature, there are four kinds of regional trade agreements, Preferential Trade Agreement (PTA) and Free Trade Areas (FTA) being the simplest model, then adding progressively features as in Custom Unions, Common Markets and Economic and Monetary Unions. See Tim Martyn, *A Complete Guide to the Regional Trade Agreements of the Asia-Pacific*. Melbourne: The Australian APEC Study Centre, 2001.

²³ David Cox and Richard Harris, “Trade Liberalization and Industrial Organization: Some Estimates for Canada”, *Journal of Political Economy*, Vol. 93, No. 1 (1985), pp. 115–145.

²⁴ James E. Anderson and Eric van Wincoop, “Borders, Trade and Welfare”, NBER Working Paper Series No. 8515 (Cambridge, MA: National Bureau of Economic Research, 2001); Scott L. Baier and Jeffrey H. Bergstrand, “The Growth of World Trade: Tariffs, Transport Costs, and Income Similarity”, *Journal of International Economics*, Vol. 53, No. 1 (2001), pp. 1–27; Hongshik Lee and Innwon Park, “In Search of Optimised Regional Trade Agreements and Applications to East Asia”, *The World Economy*, Vol. 30, No. 5 (2007), pp. 783–806.

²⁵ Jan Tinbergen, *Shaping the World Economy — Suggestions for an International Economic Policy* (New York: Twentieth Century Fund, 1962); Pentti Pöyhönen, “A Tentative Model for the Volume of Trade Between Countries”, *Weltwirtschaftliches Archiv*, Vol. 90 (1963), pp. 93–99.

simple model has been augmented with a series of other predictors (i.e., explanatory variables). It is impossible here to give an account of all of them, but among the most used are population, state size, exchange rates, FDIs and a series of dummy variables such as regional trade agreements, contiguity and language, to name the very common ones.

One of the main reasons of the longevity and the success of the model lies in the quality of its empirical results and in its flexibility. Traditionally, its main criticism has been the lack of a theoretical background. This point has been thoroughly addressed in the last 30 years, and a series of articles have provided some economic foundations as a theoretical framework for the model. The first was by Anderson,²⁶ which formulated the first background theory, and this was followed by others.²⁷ More recently, a series of econometric specifications to the standard model were provided by, among others, Mátyás, Harris and Mátyás, Egger, Glick and Rose, and Evenett and Keller.²⁸ An evolution can be also observed in the kind of data used

²⁶James E. Anderson, "A Theoretical Foundation for the Gravity Equation", *American Economic Review*, Vol. 69 (1979), pp. 106–116.

²⁷Jeffrey H. Bergstrand, "The Gravity Equation in International Trade: Some Microeconomic Foundations and Empirical Evidence", *The Review of Economics and Statistics*, Vol. 67, No. 3 (1985), pp. 474–481; Alan V. Deardorff, "Determinants of Bilateral Trade: Does Gravity Work in a Neoclassic World?", in Jeffrey A. Frankel (ed.), *The Regionalization of Economy* (Chicago: University of Chicago Press, 1998), pp. 7–32; James E. Anderson and Eric van Wincoop, "Gravity with Gravitas: A Solution to the Border Puzzle", *American Economic Review*, Vol. 93, No. 1 (2003), pp. 170–192.

²⁸Laszlo Mátyás, "Proper Econometric Specification of the Gravity Model", *The World Economy*, Vol. 20, No. 3 (1997), pp. 363–368; Mark N. Harris and Laszlo Mátyás, "The Econometrics of Gravity Models", Melbourne Institute Working Paper No. 5/98. (Melbourne: Melbourne Institute of Applied Economic and Social Research, University of Melbourne, 1998); Peter Egger, "A Note on the Proper Econometric Specification of the Gravity Equation", *Economics Letters*, Vol. 66 (2000), pp. 25–31; Peter Egger, "Estimating Regional Trading Bloc Effects with Panel Data", *Review of World Economics*, Vol. 140, No. 1 (2004), pp. 406–420; Reuven Glick and Andrew K. Rose, "Does a Currency Union Affect Trade? The Time Series Evidence", NBER Working Paper No. 8396, 2001; Simon J. Evenett and Wolfgang Keller, "On Theories Explaining the Success of the Gravity Equation", NBER Working Paper No. 6925 (Cambridge, MA: National Bureau of Economic Research, 1998).

to estimate the models themselves, initially mainly cross-sectional and, increasingly, panel data, which generally yield more precise estimates. Another important addition has also been the use of dynamic trade equations, an important tool in some particular cases, especially when states' current exports are not related closely to their past exports volumes.²⁹

Passing from the theory to the application of the gravity equation tool, there are two important decisions to take. The first one regards the form of the equation itself, and therefore the estimator to be used. Ordinary Least Squares (OLS), the most common estimator used in multivariate regression analysis, is generally considered not appropriate as often yielding biased estimation,³⁰ especially when used with the usual procedure of log linearization of the parameters in the gravity models. This gets considerably worse in the presence of heteroscedasticity.³¹ There is also the known problem of the zero in trade exchanges (countries may well not trade among themselves in a single period of time). It has since long been demonstrated that dropping observations with zero value (as requested by the log transformation) or adding a constant to them also generate dangerous biases in the results.³²

The second issue, distinct but related to the first, concerns the choice between fixed effects and random effects models when dealing, as often is the case, with panel data. An important difference among them is the way they capture and estimate the heterogeneity in the system. Also, when specifically trying to assess the impact of a RTA on country trade, it has been proved that while both fixed and random effects are important to control for unobserved characteristics in the system, "they have a disadvantage in the sense

²⁹Paul de Grauwe and Frauke Skudelny, "The Impact of EMU on Trade Flows", *Weltwirtschaftliches Archiv (Review of World Economics)*, Vol. 136, No. 3 (2000), pp. 381–402.

³⁰James E. Anderson and Eric van Wincoop, "Gravity with Gravitas: A Solution to the Border Puzzle", *American Economic Review*, Vol. 93, No. 1 (2003), pp. 170–192.

³¹João M. C. Santos Silva and Silvana Tenreyro, "The Log of Gravity", *The Review of Economics and Statistics*, Vol. 88, No. 4 (2006), pp. 641–658.

³²Elhanan Helpman, Marc Melitz and Yona Rubinstein, "Estimating Trade Flows: Trading Partners and Trading Volumes", *Quarterly Journal of Economics*, Vol. 123 (2008), pp. 441–487.

that they cannot distinguish the short-run contemporaneous effect from the long-run steady-state effect".³³ There are pros and cons in the arguments regarding the adoption of both, and there is an abundant literature about the choice of one of them. The main difference between the two is inherent in the error term. In the fixed effects, it is associated with the single predictors, and since it assigns a dummy to every individual case, the fixed effects model is also called Least Square Dummy Variable (LSDV) estimator. In the random effects model, on the other hand, they are not correlated with the explanatory variables, and they allow for an estimation of the effects of time-invariant variables.³⁴ One of the main decisions to be made is therefore the choice of using the fixed effects or random effects panel model. Generally, but not necessarily, when the appropriate tests, discussed later on in the section "The Econometric Model Selected for Analysis", signal the presence of random effects, it is appropriate to use the random effects model. Another option for deciding the best model is employing the very general but still useful Hausman test. More specifically, the Hausman test verifies the null hypothesis of no correlation between the unobservable unit effects and the error term; if the null hypothesis is rejected, then the fixed effects model is preferred.

However, sometimes, the Hausman test cannot be used; therefore, other methods, asymptotically equivalent, can be instead employed. Finally, every empirical application of the gravity trade equations has to come to terms with avoiding the three "medals of trade",³⁵ namely, some typical and avoidable but still common mistakes now identified in the literature. These are some caveats, which

³³ Hyun-Hoon Lee, Mo Koo Chung and Euijeong Park, "Are Exports of China, Japan and Korea Diverted in the Major Regional Trading Blocs?", *The World Economy*, Vol. 31, No. 7 (2008), pp. 841–860.

³⁴ In more technical terms, we can define $E[y_{it}|x_{it}, c_i]$ as the unobserved individual effects in regression. In the case of fixed effects, we will have $E[c_i|X_i] = g(X_i)$, with the errors correlated to the individual predictors, while for the random effects, it will be instead $E[c_i|X_i] = \mu$, with uncorrelated effects.

³⁵ Richard Baldwin and Daria Taglioni, "Gravity for Dummies and Dummies for Gravity Equations", NBER Working Paper No. 12516 (Cambridge, MA: National Bureau of Economic Research, 2006).

apply to generally all trade gravity equations. In this chapter, all the necessary precautions have been taken in order to avoid the three “medals” of errors commonly made in these cases.

In order to steer clear of them, a decision about how to address the issue of multilateral resistance terms³⁶ — which is underestimated by using the GDP proxy — needs to be taken. The choice here uses a series of dummies to correct for them; this will avoid the gold medal, the most worrying of the mistakes. The silver medal is related instead to the properties of the logarithms often used in the gravity equations; if the $\ln$ log-linear form is to be used, it should be applied in the appropriate way, and not averaging the reciprocal of the trade flows (and taking the log of the sum and not the sum of the log). Finally, the measures should be calculated in real price and not nominal-deflated ones by the U.S. GDP deflator (the bronze medal). It has been noticed, however, that taking care for the gold medal automatically solves the problem of the bronze error, thus simplifying matters.³⁷

Nowadays, the accepted procedure is to analyze the data set and to provide a comparison of the various models to test the best one in practice, i.e., taking into account the specific characteristics of the data under examination.³⁸ This has been the policy adopted in this chapter as well.

³⁶The multilateral resistance terms (MTR) were first proposed by Anderson and Wincoop in 2003. They account for the so-called “relative trade costs”, namely, the propensity of country j and i to trade among themselves compared to the overall trade costs. These aspects need to be taken into account in order to avoid bias in estimation.

³⁷Both country effects and time dummies are an effective way in this sense.

³⁸There are more discussions here that have been left out for reasons of space, and for regarding more specifically the econometrics than the article's findings. One concerns the adoption of standardized or unstandardized variables — and coefficients. There are pros and cons in both cases. In this chapter, the adoption of unstandardized variables has been favored, based on considerations provided in leading analyses of the same kind mentioned in the section “The Econometric Model Selected for Analysis” (see e.g., Santos Silva and Tenreyro, “The log of gravity”). However, a simulation done on the OLS model for both sets of variables has provided comparable results. The tables provided here are with unstandardized variables.

The Econometric Model Selected for Analysis

In this chapter, the examination will start with the standard form of the trade gravity equations, to which a series of predictors have been added to form an augmented model which can effectively test the hypothesis about the effect of the ACFTA agreement on the trade exchanges of Southeast Asia. The data set taken into examination here considers the external trade of the state that considered itself harmed by the treaty, Indonesia, as mentioned before.

The most general and simplest form of the trade gravity equation is as follows:

$$F_{ij}t = G \left(\frac{M_1\beta_1 t * M_2\beta_2 t}{D_{ij}\beta_3} \right) \cdot \eta_{ij}t \quad (1)$$

where, as in the original Newtonian form, $F_{ij}t$ (here represented by the bilateral trade between Indonesia and its trade partners) is the function of M_{ij} , the mass (i.e., the GDP of the two states) and D_{ij} , which is the distance among the two. η is the error term, and t is the time component in the panel.

Now, this simple form is normally augmented by a series of other variables, considered case by case, the most relevant for the specific research questions. In this occasion, since the aim is to measure if ACFTA, and more generally FTAs, had a significant impact, negative or positive, on the Indonesian external trade, some predictors — the ones normally included in the analysis of FTA effects on trade — have been added to this basic form, namely, Pop_{ij} , the population of both trade partners, and $Exchr_{ij}$, the exchange rates of both countries toward the U.S. dollar.

In this estimation, a series of different models have been compared with the typical OLS (Ordinary Least Squares) regression, namely the WLS (Weighted Least Squares) with panel data with random effects and Poisson estimators.

This is because the statistical diagnostic (presented later on) confirmed that the OLS is not the best linear unbiased estimator (BLUE) for this data set, and that assumptions are most likely violated.

This point is well known in the literature considered above, and therefore a couple of alternative estimators/models have been presented for analysis.

The first one is a WLS panel data with random effects. This assumed the familiar, log-linear form:

$$\begin{aligned} n(F_{ij}) = & \beta_0 + \beta_1 \ln(\text{GDP}_i) + \beta_2 \ln(\text{GDP}_j) + \beta_3 \ln(D_{ij}) \\ & + \beta_4 \ln(\text{Pop}_i) + \beta_5 \ln(\text{Pop}_j) + \beta_6 \ln(\text{Exchr}_i) \\ & + \beta_7 \ln(\text{Exchr}_j) + \varepsilon_{ij}t \end{aligned} \quad (2)$$

Another and more radical model takes instead into account a criticism recently raised against the conventional use of the log-linearized form in estimating trade gravity equations. This is because the log-linear form when applied to the trade data set becomes problematic in the already discussed issue of the presence of zeros, as in this data set. Also, the heteroscedasticity, another quite common problem when using the panel data and present here, is known to produce some biased results. The exponential form proposed in a recent and very influential paper by Santos Silva and Tenreyro handles both problems quite effectively and avoids the likely bias in the coefficient provoked by the transformations necessary for log-linearizing the variables.³⁹ This is true even when, say, the country pairs with zeros are dropped,⁴⁰ since this can lead to underestimation of the parameter when there are more than a few cases.

³⁹ João M. C. Santos Silva and Silvana Tenreyro, "The Log of Gravity", *The Review of Economics and Statistics*, Vol. 88, No. 4 (2006), pp. 641–658.

⁴⁰ Greenaway David, Aruneema Mahabir and Chris Milner, "Has China Displaced Other Asian Countries Exports?", *China Economic Review*, Vol. 19 (2008), pp. 152–169; Gert-Jan M. Linders and Henri L. F. de Groot, "Estimation of the Gravity Equation in the Presence of Zero Flow", Tinbergen Institute Discussion Paper, TI 072-3, 2006.

The exponential model in this specific case will assume the following form:

$$\begin{aligned}
 E_{ij} = \exp[& \beta_0 + \beta_1 \ln(\text{GDP}_i) + \beta_2 \ln(\text{GDP}_j) + \beta_3 \ln(D_{ij}) \\
 & + \beta_4 \ln(\text{Pop}_i) + \beta_5 \ln(\text{Pop}_j) + \beta_6 \ln(\text{Exchr}_i) \\
 & + \beta_7 \ln(\text{Exchr}_j) \cdot \eta_{ij} t
 \end{aligned} \quad (3)$$

Now, the model needs the respect of a few assumptions; one of the most important is the proportionality of the variance to the conditional mean. However, Santos Silva and Tenreyro showed that even when this assumption does not hold, and when there are more than a few zeros in the data set,⁴¹ the resulting estimation still remains consistent and can be usefully used.⁴² While the theoretical arguments here lead to a neat preference for the Poisson pseudo-maximum likelihood (PPML) estimator, the analysis of the models will take all three of them into account for a more analytical comparison.

As often in trade gravity models, the insertion of dummy variables helps in measuring specific effects. In this case, four dummy variables have been used, namely *DLang* (to control the effect of a common language), *DCont* (continuity, i.e., when the two countries are sharing borders, since this is known to lower transaction and transportation costs), *DFTA* (when the two states are part of the same FTA) and *DACFTA*, to measure the specific effect of the ACFTA treaty on the Indonesia trade.

The chapter follows the accepted convention for these variables and the names normally used for them in the majority of articles on trade gravity equations. Table 1 lists all the variables used in the text in tabular form, for easier identification.

⁴¹ This was another criticism toward the use of a PPML. See Will Martin and Cong S. Pham, Estimating the gravity model when zero trade flows are frequent. Working paper, 2001. Available at http://mpr.ub.uni-muenchen.de/9453/1/MPRA_paper_9453.pdf

⁴² Santos Silva, M. C. João and Silvana Tenreyro, "Further Simulation Evidence on the Performance of the Poisson Pseudo-maximum Likelihood Estimator", *Economics Letters*, Vol. 112, No. 2 (2011), pp. 220–222.

Table 1. List of Variables

Variables	Code
Distance	D
Population	Pop
Exchange Rate	Exchr
Common Border	DCont
Common Language	DLang
FTA Membership	DFTA
ACFTA Membership	DACFTA

Source: Authors' elaboration on STATA output.

The abundant literature existing on trade gravity equations allows one to predict the sign, even though not the strength, of the coefficient of the single predictors; surprises do occur, however. Also, while generally the equation specification form has no effect on the sign, provided that there are no important biases for some of the models, it is known that the different estimators and models do have a measurable effect on the strength of the coefficient.⁴³ Single coefficients will be discussed in detail when the results of the different methods are discussed.

Regarding the predictors' sign and their statistical significance, it is generally accepted that GDP is always significant and with a positive sign, given that the availability of income affects positively the acquisition power of the trading countries. Similarly, for distance, this variable is always significant and negative in sign, given it is a proxy for trading costs (transportation costs and other geographically linked issues). Other factors, however, have a less-defined impact, significance and sign; they depend heavily on the specific topic in examination. Population is a good example of a mixed effect variable, as it can be negative when it has a stimulus impact on production, thus resulting in import substitution.⁴⁴ However, it can, on the contrary, increase the need for importing goods, should the augmented demand not

⁴³ João M. C. Santos Silva and Silvana Tenreyro, "The Log of Gravity", *The Review of Economics and Statistics*, Vol. 88, No. 4 (2006), pp. 641–658.

⁴⁴ Masahiro Endoh, "The Transition of Post-War Asia-Pacific Trade Relations", *Journal of Asian Economics*, Vol. 10, No. 4 (2000), pp. 571–589.

being covered by the domestic output, and the resulting effect would be instead positive.

A final, quick note on the time series used to construct the data set used for the analysis, which represents, therefore, the number of cases available for estimation. Trade data have been drawn from the *World Trade Atlas*,⁴⁵ using bilateral trade exchanges from 1996 until 2011 between Indonesia and 43 other partner countries, which account for more than 95% of the whole Indonesian trade. Exchange rates and population data come from World Bank's *World Development Indicators*, 2012, while real GDP figures are from the IMF online data set. Distance, finally, was retrieved from the Penn Tables database.

Before proceeding with the results of the model, a brief discussion about the diagnostics used in this chapter is necessary. A series of tests have been conducted to evaluate the suitability of the different estimators. As shown in Table 2, the Breusch–Pagan test for heteroscedasticity unequivocally rejects the null hypothesis, and, as a result, the OLS then yields biased results, which have been anyway presented here for comparison.

A different test, the Breusch and Pagan LM test, tested instead the hypothesis, on the log-linear version of the trade equation, for the presence or not of random effects (Table 3).

The result, rejecting the null hypothesis of the lack of random effects, gave strong suggestions for the adoption of them in the panel

Table 2. Diagnostic for Heteroscedasticity

Breusch–Pagan/Cook Weisberg Test for Heteroscedasticity					
Ho: Constant variance					
Variable: lg1 lg2 ld lp1 lp2 lex1 lex2 d_langd_contd_ftad_acfta					
Chi ² (11) = 138.46					
Prob > Chi ² = 0.000					

Source: Authors' elaboration on STATA output.

⁴⁵ Global Trade Information (GTI), *World Trade Atlas* (Columbia, SC: Global Trade Information Services, 2012).

Table 3. Diagnostic for Random Effects
 $lie [country1,t] = Xb + u [country1] + e [country1,t]$

	Var	sd = sqrt (Var)
Estimated Results		
Lie	4.900819	2.213779
E	0.2745442	0.5220576
U	0.741608	0.8611666

Notes: Test: Var (u) = 0.

$\chi^2 (1) = 2432.37$.

Prob > $\chi^2 = 0.0000$.

Source: Authors' elaboration on STATA output.

equation model. This test, together with the Hausman test run on panel data to compare fixed effects and random effects models of the same equation, produced a strong evidence that a random effects model is more suitable in this specific situation. Finally, since the proportionality of variance was proved not essential for the adoption of the Poisson estimators, the test has been left out of this presentation, even if it yielded a negative result.

Results: Econometric Evidence on ACFTA Preliminary Data and Recent Trade Data for Further Consideration

The set of hypotheses to be tested are: if any measurable impact of the ACFTA membership on Indonesia's foreign trade does exist (H1); if it is significant (H2); and last but not the least, if these effects are in line with what the literature would suggest as reasonable expectations (H3). More on this last point, the theory suggests that ACFTA does significantly affect the trade exchanges between the two countries, and when a trade deficit results afterward, the free trade treaty is often responsible in this sense. Answering this question, and affirming if this is what happened because of the ACFTA between China and Indonesia, is therefore essential, and the trade gravity equation has been proven to be the right tool in this regard.

Table 4. Regression Model with OLS Estimators

Lie	Coeff.	Std. Err.	<i>t</i>	<i>P</i> > <i>t</i>	95% Conf.	Interval
lg1	5.736	3.158	1.820	0.070	-0.465	11.937
lg2	1.590	0.055	29.150	0.000	1.483	1.697
Id	-1.252	0.172	-7.270	0.000	-1.590	-0.914
Idp1	-14.637	11.434	-1.280	0.201	-37.087	7.812
Idp2	-0.256	0.059	-4.330	0.000	-0.372	-0.140
Iex1	1.215	0.551	2.210	0.028	0.133	2.296
Iex2	0.161	0.033	4.910	0.000	0.096	0.225
d_lang	0.313	0.431	0.730	0.468	-0.053	1.158
d_cont	0.933	0.284	3.280	0.001	0.375	1.492
d_fta	0.168	0.249	0.670	0.500	-0.321	0.657
d_acfta	0.064	1.212	0.050	0.958	-2.316	2.445
_cons	43.875	39.205	1.120	0.263	-33.102	120.853

Source: Authors' elaboration on STATA output.

As for the reasons discussed above, three different models have been proposed to measure the same effects, and their statistical results (STATA outputs) are presented in Table 4, in order to be able to take into account their differences. The statistical significance level selected is, as usual, 0.05. Table 4 provides the results of an ordinary regression by OLS estimators, with the coefficients of Eq. (2) considered not appropriate but inserted for comparison purposes.

Tables 5 and 6 present the results of the adoption of WLS on Eq. (2), estimating panel data with random effects.

An alternative version (Table 6) provides it with correction for the heteroscedasticity in data sets, by adjusting for clustering.

Again, following the point made earlier regarding the need for different estimators, Table 7 is about Eq. (3) — exponential form — with the use of a Poisson estimator on the same panel data set.

Finally, Table 8 runs the same PPML estimator regression, this time only considering the Indonesian imports as the dependent variable, in order to check if there are significant differences with the results, taking into account the whole trade exchange.

Table 5. Regression Model, Random Effects

Random Effect u _i ~ Gaussian				Wald chi ² (11) = 493.45		
Corr(u _i ,X) = 0 (assumed)				Prov > chi ² = 0.0000		
Lie	Coeff.	Std. Err.	Z	P > z	95% Conf.	Interval
lg1	5.317	2.392	2.220	0.026	0.630	10.004
lg2	1.796	0.139	12.900	0.000	1.523	2.069
Id	-1.901	0.424	-4.490	0.000	-2.731	-1.071
Idp1	-12.837	8.676	-1.480	0.139	-29.841	4.167
Idp2	-0.449	0.155	-2.900	0.004	-0.751	-0.146
Iex1	1.158	0.415	2.790	0.005	0.343	1.972
Iex2	0.262	0.065	4.030	0.000	0.134	0.389
d_lang	-0.098	1.208	-0.080	0.935	-2.465	2.269
d_cont	0.908	0.782	1.160	0.245	-0.624	2.440
d_fta	-0.635	0.282	-2.250	0.024	-1.187	-0.083
d_acfta	-0.369	0.960	-0.380	0.701	-2.251	1.513
_cons	42.232	30.105	1.400	0.161	-16.772	101.236

Source: Authors' elaboration on STATA output.

A comparative analysis of the four outputs yielded some significant findings which enable the initial research questions to be answered and the three hypotheses tested.

The first finding is related to the output of the four different models. First of all, there are no dramatic differences between them. This may be a surprise after all the caveats made regarding the presence of bias in general and in this specific data set, which called for a more sophisticated approach than a plain OLS regression. As expected, the GDP variable consistently affects the trade exchanges in a positive way, even if the coefficients vary, and the negative effects of the distance are confirmed in all five tables. The dummy variable of the language appears statistically not significant in all of them. In the case of the population, the import substitution effect generally seems to prevail when the population grows.

Table 6. Regression Model, Adjusted Random Effects (Std. Err. Adjusted for Clustering on Country 1)

Lie	Coeff.	Robust Std. Err.	Z	$P > z $	95% Conf.	Interval
lg1	5.317	1.888	2.820	0.005	1.616	9.017
lg2	1.796	0.204	8.790	0.000	1.396	2.196
Id	-1.901	0.419	-4.530	0.000	-2.723	-1.079
Idp1	-12.837	7.124	-1.800	0.072	-26.800	1.126
Idp2	-0.449	0.168	-2.670	0.008	-0.778	0.119
Iex1	1.158	0.526	2.200	0.028	0.126	2.189
Iex2	0.262	0.091	2.880	0.004	0.084	0.440
d_lang	-0.098	0.693	-0.140	0.887	-1.456	1.260
d_cont	0.908	0.334	2.720	0.007	0.253	1.564
d_fta	-0.635	0.176	-3.600	0.000	-0.980	-0.289
d_acfta	-0.369	0.178	-2.070	0.039	-0.718	-0.019
_cons	42.232	23.919	1.770	0.077	-4.648	89.112

Source: Authors' elaboration on STATA output.

Another important area of analysis concerns the evaluation of the dummy variables measuring the effect of free trade agreements, and the ACFTA among them. Clearly, a more difficult interpretation is required for the FTA dummy variable, which measures the relevance of the Indonesian trade with another country sharing the same trade-preferential treaty. This dummy is not statistically significant in the OLS, while it is in the WLS panel model, with a surprisingly negative sign. However, when measured with the PPML, it presents a strong positive sign, as expected in the trade literature.

The ACFTA dummy variable, the variable of specific interest in this chapter, does not appear statistically significant in the OLS and WLS models, while it does in the two versions of the Poisson regression, but with a negative sign. This seems to deny the concerns of the Indonesian government of a flooding of Chinese goods to the country as a result of the trade agreement. Even when measured only on

Table 7. Regression Model, Poisson Estimator

Ie	Coeff.	Std. Err.	Z	$P > z $	95% Conf.	Interval
lg1	3.747	0.041	91.410	0.000	3.666	3.827
lg2	1.578	0.007	216.980	0.000	1.563	1.592
Id	-2.897	0.031	-93.700	0.000	-2.958	-2.837
Idp1	-8.336	0.150	-55.510	0.000	-8.630	-8.041
Idp2	-0.245	0.017	-14.080	0.000	-0.279	-0.211
Iex1	0.203	0.007	27.690	0.000	0.189	0.218
Iex2	0.037	0.002	20.430	0.000	0.034	0.041
d_lang	-1.243	0.954	-1.300	0.192	-3.112	0.626
d_cont	-0.987	0.698	-1.410	0.158	-2.356	0.382
d_fta	0.095	0.003	32.140	0.000	0.090	0.101
d_acfta	-0.014	0.005	-2.720	0.006	-0.024	-0.004
_cons	47.192	0.627	75.230	0.000	45.963	48.422

Notes: Log likelihood = -46820.265.

Wald χ^2 (11) = 679154.08.

Prob > χ^2 = 0.0000.

Source: Authors' elaboration on STATA output.

the Indonesian imports data, the sign remains negative. While this may be due to the limited data series available (only two years since the ACFTA agreement is in force), it is still worth considering.

There are other considerations, less significant but still relevant, suggested by these econometric outputs. It is known from literature that the variable distance generally accounts for a decrease of 0.9% on average.⁴⁶ In this case, it is consistently higher, always superior to the unit. However, the findings of Santos Silva and Tenreyro that the role of distance appears to be less relevant by using the Poisson estimator than the OLS (or WLS in this specific case), with the coefficient significantly smaller, are clearly confirmed here. The same can be said for the relevance of contiguity, clear in the WLS and OLS, but not

⁴⁶ Anne-Celia Disdier and Keith Head, "The Puzzling Persistence of the Distance Effect on Bilateral Trade", *Review of Economics and Statistics*, Vol. 90 (2008), pp. 37-41.

Table 8. Regression Model, Poisson Estimator, Only Import

I	Coeff.	Std. Err.	Z	$P > z $	95% Conf.	Interval
lg1	5.733	0.065	88.160	0.000	5.605	5.860
lg2	1.686	0.011	153.700	0.000	1.664	1.707
Id	-3.607	0.052	-69.160	0.000	-3.709	-3.504
Idp1	-14.491	0.239	-60.670	0.000	-14.959	-14.023
Idp2	0.199	0.025	8.020	0.000	0.150	0.247
Iex1	0.311	0.012	26.590	0.000	0.288	0.334
Iex2	0.089	0.003	33.060	0.000	0.083	0.094
d_lang	1.449	1.517	0.950	0.340	-1.525	4.422
d_cont	-2.954	1.111	-2.660	0.008	-5.132	-0.775
d_fta	0.167	0.005	34.130	0.000	0.157	0.176
d_acfta	-0.037	0.007	-5.210	0.000	-0.051	-0.023
_cons	72.384	1.017	71.190	0.000	70.391	74.377

Notes: Log likelihood = -44201.24.

Wald Chi² (11) = 391253.32.

Prob > Chi² = 0.0000.

Source: Authors' elaboration on STATA output.

statistically significant in PPML, as again Santos Silva and Tenreyro had already demonstrated.⁴⁷

Based on these results, a series of conclusions can be presented on the initial hypotheses. Both hypotheses H1 and H2 have proved correct under the PPML model, the one considered better suited for the analysis, regarding a measurable impact of the treaty on the bilateral trade. Also, the third hypothesis H3 results were not conclusive in one sense or another, opening up another set of discussions.

More statistical evidence can be offered for analysis of a different kind but relevant of the same. More specifically, the results from the econometric analysis just discussed, carried out on data up to 2012 — therefore on

⁴⁷João M. C. Santos Silva and Silvana Tenreyro, "The Log of Gravity", *The Review of Economics and Statistics*, Vol. 88, No. 4 (2006), pp. 641-658.

two full years of treaty implementation — suggested that ACFTA had no stimulating effect on Chinese–Indonesian trade and that no harm was came to Indonesia by the Chinese exports under the ACFTA provisions. However, to come out with a stronger claim in a sense of in another, a longer series of data needs to be taken into account, together with taking into account in the model other factors could have been affecting the results. Short of doing a rerun of the model in an extended form on a more extensive database, however, a few additional evidence coming from recent trade data can be offered here for consideration.

Figures 1 and 2 display time series of trade exchanges between China and Indonesia, coming from two different sources (Indonesian and Chinese database, and covering overlapping trade years).⁴⁸

The statistics over the last 10 years also shows that the bilateral relations over the two countries soared, but that ACFTA was not necessarily the cause of it. More in detail, at present, China does represent Indonesia's second largest export market, and its largest sources of imports are from Japan and Singapore. This was not always the case. The transition of Indonesia's trade balance with China from a surplus to a deficit started in 2007 and not in 2010, while the imports from China have started to grow substantially in 2004 until they reached a peak in 2015. Since ACFTA, however, the deficit has certainly grown bigger, due to a fall in China's imports.

The trade statistics show that over the years, ASEAN's goods trade with China has gone from a long-term surplus to a deficit. In 2013, for instance, it amounted to US\$ 45 billion. The only countries that could still show a positive trade surplus with China are Thailand

⁴⁸ The reason for having two different sources here is not just for the different years covered (earlier in time in case of Chinese sources). It is because even trade data are often highly controversial — especially when discussed in a context of trade agreements — and, even when politics is not the main concern, there are objective issues to record exchanges in terms of origin and destination over long period of time. This can be easily observed in the different values the two dataset offer for the same years — and this is one of the reason why more recent data could not be integrated into the econometric model discussed above. But they can be still useful if considered in a more general way, and while different in figures, they both confirm the observed trends as evaluated in the text.



Figure 1. China-Indonesia Trade Exchange 1992–2014

Source: China Ministry of Commerce, 2015.

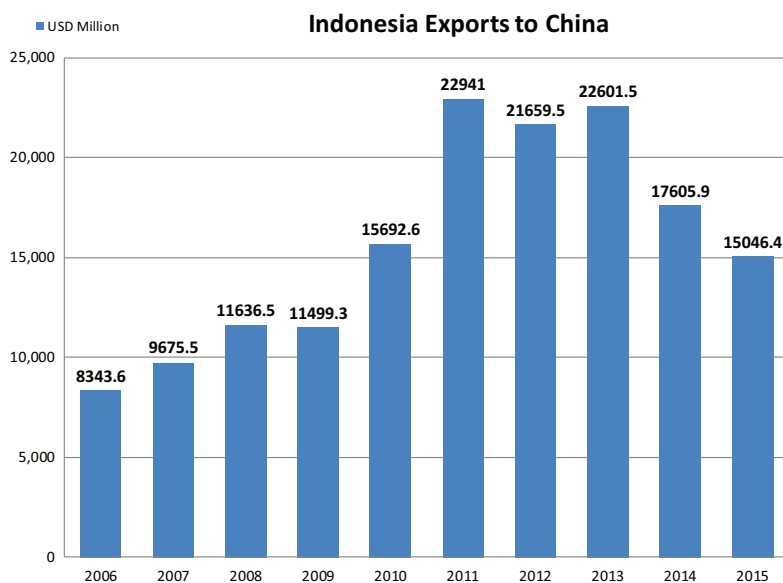


Figure 2. Indonesian Exports to China (2006–2016)

Source: Indonesian Ministry of Trade, 2016.

and Malaysia. As concluded in a recent report about ASEAN, “the causal link between ASEAN’s deficit and ACFTA merits scrutiny”.⁴⁹

This may well be the case, and indeed these more recent data offer a more substantial, even though not conclusive, claim. But, it is also the case to note, when discussing the treaty’s consequences from an objective point of view, that the utilization rates of these agreements and preferential rates are still low, and many of the states — especially the wealthier and more dynamic ones — have entered into different trade agreements — such as the TPP.

This is why it is important at this point to consider the more general context of ACFTA in the overall picture of the Asian regional integration, as discussed below.

Scenarios and Effects on Asian Regional Integration

The econometric results and the statistical analysis of the two data sets explored above have proven two things: the undeniable decline of Indonesian exports to China after 2010 and that the phenomenon itself needs a thoughtful investigation to understand the causes of it. It is unlikely that the treaty caused it all, if any, and not only because nothing in the econometric result suggests this conclusion, but because the utilization of the treaty itself has been lower than expected.

Nonetheless, the point is still highly controversial, and the political outcomes of this trade dispute between China and Indonesia are not clear yet. There have been, in the past, conflicting positions even among Indonesian industrial associations, some in favor and some opposing a renegotiation of the treaty, and it is always a possibility that internal pressures might become too strong, which prompts the government to ask for some protective measures and for a partial suspension of the treaty. While Singapore, Malaysia and Thailand have always looked more committed to the ACFTA, Indonesia found allies

⁴⁹ Nargiza Salidjanova and Iacob Koch-Weser, “China’s Economic Ties with ASEAN: A Country-by-Country Analysis”. Available at <http://origin.www.uscc.gov/sites/default/files/Research/China's%20Economic%20Ties%20with%20ASEAN.pdf>. Accessed 21 November 2016.

in the Philippines and Vietnam, which are also increasingly concerned about the recent expansion of China in the neighboring seas.

Furthermore, the importance of the ACFTA is not limited to the trade relations between Indonesia and China. The issues raised by the treaty may have important repercussions on the ongoing regional integration process in East Asia, which was previously thought to be accelerating, but may be drawing to a halt now. As a matter of fact, there are a few possible scenarios of Asian integration, three of them coming from an already existing association and have at least one major promoter — two in some cases.

The first, and at the moment the one enjoying the best prospects, is the East Asia Free Trade Area (EAFTA), proposed by Beijing. It represents actually the conversion in an FTA of the Summit ASEAN+3, started in 1997 and including the 10 ASEAN countries (Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Singapore, Thailand, the Philippines and Vietnam) plus China, Japan and South Korea.

Negotiations about the FTA have already begun since 2006, but the main obstacle, apart from political considerations, is the fact that to date only the FTA between China and ASEAN is functioning, while the ones with Japan and South Korea are still in the itinerary. Also, the fact that China is the main sponsor creates diffidence in some of the partners, especially Japan. This solution, considered by many the most viable, has recently evolved in an ASEAN-led Regional Comprehensive Economic Partnership (RCEP), which included, together with ASEAN+3 countries, also Australia, New Zealand and India in the framework. The official negotiations for RCEP were launched in end-2012, and they are due to completed by the end of 2017.

The alternatives are more challenging to achieve and presumably farther away in time, but still quite possible in the presence of significant shifts of foreign policy of the major players.

One is represented by the Comprehensive Economic Partnership in East Asia (CEPEA), proposed by Japan and consisting of a FTA including, other than ASEAN+3, India, Australia and New Zealand, and capable of matching the economic relevance of the North American Free Trade Agreement (NAFTA) and the European Union (EU). The privileged forum for the negotiation is, quite naturally, the East Asia Summit (EAS), where Japan has already presented a feasibility

study. However, the scenario encounters the opposition from China, suspecting the influence of the U.S. (not invited in EAS even as observer) and of other members wary of a resurgent Japan leadership.

Another is the creation of an FTA of the Asia Pacific (FTAAP), which will include all 21 Asia-Pacific Economic Cooperation (APEC) members and was originally proposed by the U.S. in the APEC meeting of 2006.⁵⁰ While this clearly represented — and still probably is — the best solution in terms of free trade and relative gain, it was originally regarded as a U.S.-led containing strategy by most Asian countries,⁵¹ even if everybody expressed favor to the proposal. An interesting evolution of this proposal was in the endorsement — less surprising than it seems *prima facie* — by Chinese President Xi Jinping in 2014, as clearly a strategy to counter the rising popularity by the U.S.-sponsored TPP.⁵²

As a matter of fact, the Trans-Pacific Strategic Economic Partnership (TPSEP), favored by the U.S., currently represents the most advanced regional integration solution. Negotiations started in 2007, and it is becoming increasingly popular in the area. More and more countries have signed for it — already four of ASEAN, i.e., important states such as Brunei, Malaysia, Singapore and Vietnam — and a few more are currently discussing their accession. However, TPP presents the difficult condition that the countries cannot renegotiate what has been already agreed by the others, and can only accept the full package of the agreements as they are. This may prove an insurmountable hurdle for China to join TTP and can, as a consequence, undermine the whole trade framework.

One fundamental issue that has been evaluated in very different ways is the definition of the area itself,⁵³ which will have implications

⁵⁰ Bergsten, C. Fred, *Toward a Free Trade Area of the Asia Pacific*, Policy Briefs in International Economics 07-2 (Washington, D.C.: Peterson Institute for International Economics, 2007).

⁵¹ Bin Sheng, "The Political Economy of a Free Trade Area of the Asia-Pacific: A China perspective", in Charles E. Morrison and Eduardo Pedrosa (eds.), *An APEC Trade Agenda? The Political Economy of a Free Trade Area of the Asia-Pacific* (Singapore: ISEAS Publishing, 2007), pp. 73–98.

⁵² *Xinhuanet*, 10 November 2014.

⁵³ Amitav Acharya, *Asia Rising: Who is Leading?* (Singapore and New York: World Scientific, 2007).

for the form of integration. The issue is not new, but the novelty resides in the changing external conditions which would be able to exert a great influence on further evolutions.⁵⁴ As noted in a few reports,⁵⁵ the leading force is economic integration, while the political and institutional factors are weaker and just follow the already established economic and commercial frameworks. For this reason, different hypotheses of a future integration all stem from existing models of commercial arrangements. Each one of the three scenarios generally encounters suspicions depending on the promoter. So, the EAS had been criticized by the Chinese⁵⁶ that regards Japan as acting as the U.S. proxy by including other democracies and American allies in the consultations, while other members praised the initiative for bringing in India, Australia and New Zealand as a non-American balance to Chinese influence. Almost everybody warned, too, about the danger of an excessive competition between China and Japan that could polarize regional politics, as well as about the necessity for Japan to come to terms with a rising China.⁵⁷ Encircled by these powerful actors, the ASEAN states have for a long time oscillated between balancing and bandwagoning strategies, careful to maintain equilibrium between all the forces — a policy now synthetically indicated as “hedging”. As for the lack of a powerful state in the ASEAN itself, it is quite likely that it will be the ASEAN itself to constitute the center of the integration process, as has been the case so far. Therefore, a majority of the Asian scholars share the view of the former ASEAN Secretary-General, Rodolfo

⁵⁴ Alyssa Greenwald, “The ASEAN-CHINA Free Trade Area (ACFTA): A Legal Response to China’s Economic Rise?”, *Duke Journal of Comparative and International Law*, Vol. 16 (2006), pp. 193–218; Stefania Paladini, *op. cit.*

⁵⁵ Stella Vettori, “Economic Regionalism, East Asia: An Empirical Analysis of the ASEAN+3 Case”, Quaderni di ricerca ISESIO (Università Bocconi, 2003).

⁵⁶ Xinbo Wu, “East Asia: Building a Community in the 21st Century: A Chinese Perspective”, CSIS Working Paper (Washington, D.C.: Center for Strategic and International Studies, 2006).

⁵⁷ Peter J. Katzenstein, “East Asia — Beyond Japan”, in Peter J. Katzenstein and Takashi Shiraishi (eds.), *Beyond Japan: The Dynamics of East Asian Regionalism* (Ithaca, NY: Cornell University Press, 2006), pp. 1–36; Peng Er Lam (ed.), *Japan’s Relations with China: Facing a Rising Power* (Abingdon, UK: Routledge, 2006).

Severino, that the ASEAN will remain the center of the Asian integration.⁵⁸

Finally, a crucial point to consider is the aftermath of the global economic crisis, with a world growth still somehow wobbling, can be either positive or adverse to integration. As for the Asian crisis in 1997, the financial meltdown could quite possibly have the final effect of strengthening the financial cooperation between Asian countries to protect themselves from major external damage. Still, it is too early for a definitive evaluation of the crisis, since the sovereign debt emergency in the Euro zone keeps affecting the East Asian export-led economies. It is also useful here to remember that the Chiang Mai Initiative (CMI), a direct consequence of the 1997 Asian Crisis, currently represents, short of the European Monetary Union, the most advanced regional financial mechanism of cooperation around the world. Active since 2000, it was launched by the ASEAN+3 and consists essentially in a Regional Financial Agreement (RFA) with two-way swap currencies, which can alleviate temporary currency problems among members without resorting to the IMF. The global economic crisis, the worst since World War II, has reinvigorated the interest in the mechanism in an even stronger way, pushing for an upgrade of the CMI. So, in December 2008, the ASEAN declared that an institution officially denominated Asian Monetary Fund would eventually be established. At the end of 2009, a currency swap mechanism was put in place and endowed with US\$ 120 billion to cope with short-term monetary crisis. Apparently, the crisis had the effect of pushing East Asian countries in the direction of overcoming the main obstacles to regional integration, even if traditional security concerns, historical grievances and political rivalries still remain. Something to be highlighted is the changing attitude of China regarding the CMI itself. It refused to join at the beginning and saw it as a tentative step toward the establishment of a yen-dominated zone. China now has given major support and funding (contributing with a share of 32%, same as Japan).

⁵⁸ Akiko Fukushima, "Japan's Perspective on East Asian Regionalism", CSIS Working Paper (Washington: Center for Strategic and International Studies, 2006).

However, the evaluation of the effects of the global crises on commercial integration is far less positive, as the crises have in general the consequences of raising trade barriers and strongly advocating for protectionist measures. There are some evidences that this is what that happened between Asian countries in the latest global economic turmoil,⁵⁹ and if these conditions persist, they are likely to affect the integration process, as well as the FTA negotiations between the ASEAN and the EU, now substantially stalled.

Conclusions

A trade gravity analysis model, tested on the Indonesian trade data from 1996 to 2011, has not produced conclusive results about the harming effects on the ACFTA for Indonesia, a somehow surprising outcome considering the existing literature and the ongoing disputes between the two countries. This remains true, even though the statistical analysis of the latest available data provided some more substantial claims of a damaging effect for Indonesian trade as a result.

Any future evaluation in this sense will need to take into account and consider the effects of the global economic crisis, which has not been yet fully analyzed in the literature, and the variation in trade exchanges provoked by the prolonged slowdown in international trade between 2011 and 2013. Future studies will need to measure it and discount its effects from the other variables under examination.

Whatever the truth, it is difficult to overestimate the relevance of the ACFTA in the context of the ongoing regional integration in East Asia. Until the entry into force of the ACFTA (ASEAN-China Free Trade Agreement) in January 2010, there was little doubt that it would have been the first regional integration option (the EAFTA, with China as the leading country in the region), the one with the

⁵⁹ Chad P. Brown, "The Global Resort to Antidumping, Safeguards, and Other Trade Remedies Amidst the Economic Crisis", in Simon Evenett, Bernard Hoekman and Olivier Cattaneo (eds.), *Effective Crisis Response and Openness: Implications for the Trading System* (London, UK: World Bank and Centre for Economic Policy Research, 2009), pp. 91–118.

higher probability of success. However, the preliminary results of the ACFTA, combined with a growing unease of some ASEAN countries toward China, which seems now heading toward an expansionist maritime policy, and the new TPP that naturally sees an exclusion of China in its framework, will probably challenge solutions previously taken for granted.

The coming years will be crucial in determining the future of the ACFTA and regional integration in East Asia, and the possible outcomes seem now more open than ever.

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Chapter 7

China–ASEAN Economic Cooperation and the Role of Provinces

Joseph Yu-Shek Cheng

Introduction

Since the 1908s, China–ASEAN relations have been a bright spot in China’s foreign policy. Chinese leaders are acutely aware of the widely held perception of the “China threat” in ASEAN countries, and they have been working hard to diffuse such a perception.¹ The perceived “China threat” has evolved through a three-stage process. First, from the 1950s to the early 1970s, Maoist China was eager to export revolution to its Southeast Asian neighbors, based on the “people’s war” model, as part of the Chinese Communist Party (CCP)’s desire to achieve the downfall of Western capitalist imperialism. Second, since the launch of economic reforms and opening to the external world by Deng Xiaoping and his supporters, Beijing has professed that China would pursue an independent foreign policy emphasizing peace. This was

¹H. S. Yee and I. Storey (eds.), *The China Threat: Perceptions, Myths and Reality* (London: RoutledgeCurzon, 2002).

because the leadership in China needed a peaceful international environment to concentrate on its economic development. This was largely credible in the eyes of policy-makers in the ASEAN countries, but there was still a serious concern that China's economic rise would eventually push it onto the road of overseas expansion. There was also fear that China's experience of industrialization would result in a demand for resources which would become the motivation for expansionism. The controversial naval exercises in the South China Sea and China's assertiveness in the territorial disputes since 2010, for example, highlight that such a concern lingers and can be exacerbated.² Finally, in the past decade and a half, China as "the international workshop" and "the black hole of foreign investment" have been seen as "developments at ASEAN's expense;" the latter considers that Chinese exports reduce its share in international markets, and investment funds flowing into China reduce those flowing into ASEAN.

In response to these perceptions of threat and economic hegemony, China's leaders have been asserting that its own development should be an asset rather than a liability to the ASEAN economies. Ideally, China would serve as an engine in support of regional growth, and its imports from ASEAN countries certainly have been rising. China's expanding middle class would also generate a need for quality agricultural products from ASEAN and offer an increasing number of tourists to the region. In fact, China and most ASEAN countries have become integrated parts of global production chains while they all strive to move to the higher value-added parts of these production chains.³

Despite relatively slow progress and inadequate political will to overcome the obstacles, leaderships in China and ASEAN have dedicated their support for strengthening regional economic cooperation. In October 2000, at the Fourth "ASEAN plus China" summit in Singapore, some ASEAN leaders expressed concerns regarding the

² M. J. Valencia, "High-Stakes Drama: The South China Sea Disputes", *Global Asia*, Vol. 7, No. 3, (2012), pp. 56–73.

³ International Relations Department and Economic Diplomacy Research Centre, Tsinghua University, *Zhongguo Jingji Waijiao 2008 (China's Economic Diplomacy 2008)* (Beijing: China Economic Publishing House, 2008).

economic impact on ASEAN from the impending World Trade Organization membership of China. To pacify these worries, Chinese leaders proposed to “strengthen trade, build investment links and establish a free trade area (FTA)”.⁴ In the following November, both sides reached a consensus on the establishment of the “China–ASEAN Free Trade Area (CAFTA)”.⁵ In November 2002, Chinese and ASEAN leaders formally concluded the China–ASEAN Comprehensive Economic Cooperation Framework Agreement that was to establish CAFTA covering Thailand, the Philippines, Indonesia, Singapore, Malaysia and Brunei by 2010, and involving all 10 ASEAN members by 2015.⁶ As observed by Alice Ba, among all the major powers involved in Southeast Asia, China seemed to have been most successful in developing closer ties with the regional countries.⁷

Over the same period, China and some ASEAN countries continued to develop subregional economic cooperation projects. In 1992, the Asian Development Bank (ADB) proposed cooperation to develop the so-called Greater Mekong Basin Subregion (GMS), but China’s involvement was not significant until the end of the first decade in this century. At the end of March 2008, the third leaders’ meeting on GMS economic cooperation was held in Vientiane, and a Leaders’ Declaration was signed reflecting China’s keen interest and commitment to the project.⁸ The month before, the Chinese

⁴ *Renmin Ribao*, 30 October 2002.

⁵ Xinhua, *FACTBOX: China–ASEAN Free Trade Area* (2010). <http://english.people.com.cn/90001/90776/90883/6857673.html> (downloaded on 12 October 2012).

⁶ X. Wang, “Zhongguo-Dongmeng Ciquyu Jingji Hezuo de Zhanlue Dongyin (The Strategic Motivations for China–ASEAN Sub-regional Economic Co-operation)” in International Relations Department and Economic Diplomacy Research Centre, Tsinghua University (eds.), *Zhongguo Jingji Waijiao 2008 (China’s Economic Diplomacy 2008)* (Beijing: China Economic Publicity House, 2008), p. 245.

⁷ A. Ba, “China and ASEAN: Renavigating Relations for a 21st-Century Asia”, *Asian Survey*, Vol. 43, No. 4 (2003), p. 646.

⁸ Xinhua News Agency, *Wen Jiabao Chui Meigonghe Ciquyu Jingji Hezuo Lingdaoren Huiyi Kaimoshi (Wen Jiabao Attends the Opening Ceremony of the Third Leaders’ Meeting on GMS Economic Co-operation)*, 2008. Available at <http://politics.people.com.cn/GB/1024/7065660.html>. Accessed 9 October 2012.

government formally endorsed the Guangxi Beibu Gulf Economic Region Development Program, indicating that the development program had become a part of the national development strategy.⁹ The Pan-Beibu Gulf Area (PBGA) has become the focus of another sub-regional economic cooperation project between China and some ASEAN countries.

In the decade of 2010s, tension over the disputes in the South China Sea remains and will continue to remain high. One cause of tension involved institutions for international bids in disputed areas. In February 2012, e.g., the Philippine Department of Energy announced an invitation for bids to develop resources in the waters near Reed Bank, which includes some areas for which China claims territorial rights. In the following June, the China National Offshore Oil Corporation invited international bids on an ocean area which Vietnam claims as part of its exclusive economic zone.

Meanwhile, both Vietnam and China have sought to strengthen their own claims of territorial rights by applying domestic law and setting up administrative bodies. In June 2012, the Vietnamese national legislature passed a Law of the Sea stipulating that the Paracel and Spratly Islands were subject to Vietnam's sovereignty and administration. In response, the Chinese authorities on the same day announced that it had established an administrative unit called Sansha City covering the Paracel, Macclesfield and Spratly archipelagoes.

During a naval confrontation between China and the Philippines in April–June 2012 near Scarborough Shoal about 200 km west of Luzon Island, the Philippines government called for a legal solution by submitting the disputes to the United Nations International Tribunal for the Law of the Sea. The Chinese authorities refused to enter into the legal process, and they were satisfied that Vietnam did not follow the Philippines example.

The Chinese authorities severely criticized this legal approach, which was supported by the U.S. and Japan. In July 2016, the Permanent Court of Arbitration in Hague ruled in favor of the Philippines, while Beijing reiterated its position in refusing the recognition of the verdict and would not implement it. The territorial

⁹ *Renmin Ribao* (Beijing), 22 February 2008.

dispute remains in a state of impasse. However, with the election of Rodrigo Duterte as the Philippines President, the atmosphere regarding Sino-Philippines relations improved. Duterte's anti-American statements, his willingness to negotiate with Beijing and his visit to China in late 2016 softened the Chinese authorities' position. At this time, Philippine fishing boats have returned to fish in the vicinity of the Scarborough Shoal.¹⁰

Vietnam, however, has been developing security cooperation with the U.S. in recent years, like other member states of ASEAN. In 2011, the two countries signed a memorandum pledging cooperation in areas including combined exercises, a regular strategic dialogue and regular port calls on Cam Ranh Bay by U.S. naval vessels. In June 2012, the then U.S. Secretary of Defense Leon Panetta visited Vietnam, including a stop at Cam Ranh Bay.¹¹

The hedging strategy of Vietnam includes the strengthening of its own defense capacities. In January 2012, the Vietnamese navy received the first patrol boat constructed in Vietnam with Russian assistance.¹² It also began production of anti-ship missiles with Russian cooperation. The most prominent cooperation item has been the building at the Russian naval shipyards in St. Petersburg of an improved version of kilo-class submarines which was contracted in 2009; the first submarine was delivered at the end of 2013, and the second and third in 2014. In return, Russia has secured arrangements similar to those for the U.S. concerning Russian naval ships calling on Cam Ranh Bay for maintenance.¹³

Vietnam sought to enhance security cooperation with Japan and India too. Japanese Prime Minister Abe Shinzo's first foreign visit in

¹⁰ "China Says 'Situation' at Disputed Scarborough Shoal Has Not Changed", *Reuters*, 31 October 2016. Available at <http://www.reuters.com/article/us-southchinasea-china-philippines-idUSKBN12V0YT>. Accessed 26 November 2016.

¹¹ The National Institute for Defense Studies, Japan (ed.), "Southeast Asia: ASEAN and Greater US Engagement", in *East Asian Strategic Review 2013* (Tokyo: The Japan Times Ltd., 2013), pp. 224–231.

¹² *Ibid.*

¹³ The National Institute for Defense Studies, Japan (ed.), "Southeast Asia: South China Sea Grows More Complicated", in *East Asian Strategic Review 2014* (Tokyo: The Japan Times Ltd., 2014), pp. 153–158.

his second term was to Vietnam. In response to Vietnam's request for patrol boats, Japan suggested that the Vietnamese Coast Guard has to be separated from the People's Army so as to meet Tokyo's official development assistance guidelines; and Hanoi obliged by removing the Coast Guard from the direct administration of the defense ministry in August 2013.¹⁴

India offers its cooperation in bolstering the Vietnam navy's operations and support capabilities. Beginning in October 2013, it conducted training for the Vietnamese navy in submarine technology, escape and warfare at its submarine school, INS Satavahana.¹⁵ This was announced in 2013 when the Vietnam Communist Party General Secretary Nguyen Phu Trong visited India, and the two governments cited this as a defense cooperation measure to strengthen the two countries' strategic partnership.

China's response to the strengthening of its neighbors' hedging strategies and their exacerbating strategic anxiety regarding its increasing assertiveness in foreign policy as well as the hardship of territorial disputes has been the Silk Road Economic Belt and the 21st Century Maritime Silk Road schemes. The latter was announced by President Xi Jinping in October 2013 when he visited Indonesia and in the same month Premier Li Keqiang was in Vietnam. According to China's leading Asian studies experts, building the 21st Century Maritime Silk Road is part of China's major power strategy leading to the establishment of a new oceanic order based on freedom in maritime navigation, maritime common security and common development of oceanic resources. The Maritime Silk Road aims to promote cooperation among countries concerned in promoting a maritime economic development belt.¹⁶

¹⁴ *Ibid.*

¹⁵ *The Times of India*, 23 November 2013.

¹⁶ Zhang Yunling, "Ruhe Renshi 'Yidai Yilu' de Dazhanlue Sheji (How to Understand the Grand Strategic Design of 'One Belt, One Road')", in Zhang Jie (ed.), *Zhongguo Zhoubian Anquan Xingshi Pinggu — 'Yidai Yilu' Zhoubian Zhanlue (2015) (China's Regional Security Environment Review: 2015)* (Beijing: Social Sciences Academic Press (China), 2015), pp. 3–11.

The grand design of the Maritime Silk Road intends to realize interconnectivity in the regional transport infrastructure, convergence in institutions, systems and norms and freedom in personnel exchange; these experts acknowledge that the concept of interconnectivity was first introduced by ASEAN and has eventually become an important element of the Maritime Silk Road. The Silk Road Economic Belt and the 21st Century Maritime Silk Road provide the economic base for China's further development and the foundation of a new community of common destiny.

Chinese leaders realized that the "one belt, one road" scheme has to overcome significant challenges including minimizing the strategic anxiety of China's neighbors and the major powers involved in the region. These countries are suspicious of China's expansionist ambitions. China has to take the initiatives to resolve the traditional disputes or at least to prevent them from being obstacles to regional economic cooperation. Finally, China has to offer innovative and sustainable modes of development for itself and the region. In sum, China has to convince its neighbors that these two schemes can be of mutual benefit in which they can participate as equal partners.

In the promotion of these two schemes, subregional economic cooperation projects with ASEAN countries would become their constituent elements and receive further support from the Chinese authorities. There are other subregional economic cooperation projects enjoying similar support within the two schemes, like the Bangladesh-China-India-Myanmar subregional cooperation project, the China-Pakistan economic corridor and the China-Mongolia-Russia economic corridor.

This chapter attempts to study the rationales and strategies of China's involvement in subregional economic cooperation projects with ASEAN countries, using the GMS and the PBGA as examples. It analyzes China's diplomatic and economic motivations, as well as its strengths and weaknesses in this involvement. It will also study China's involvement at the provincial level, and in particular the motivations, strategies, strengths and limitations on the part of the Guangxi Zhuang Autonomous Region (henceforward Guangxi) in its participation in the PBGA project.

The chapter is partly based on interviews with China's provincial experts in Southeast Asian studies. In June 2009, the author visited the provincial academy of social sciences of Guangxi and Yunnan and interviewed five Southeast Asian experts in the two academies, respectively. The interviewees had to toe the central government's foreign policy line, but they also offered provincial perspectives on subregional economic cooperation projects which were designed to some extent to promote local development and whose success has to depend on local initiatives and commitment.

China's Foreign Policy Objectives

Reducing External Pressures

The Southeast Asian experts who were interviewed argued that, from China's point of view, it would prefer to take a more active role in regional cooperation initiatives and mechanisms involving ASEAN as the most effective way of laying a foundation for better China-ASEAN relations. But China considers that its more active role may attract resistance from major regional players, especially the U.S. and Japan. Hence, the Chinese leadership displays an enthusiasm to engage in cooperation to generate the so-called win-win situations. It stresses "peace and development" as well as "a harmonious world". This emphasis on peace and harmony may be based on idealism or pragmatism; but certainly there is an understanding that, given China's current stage of development and its modernization goal, the country has to avoid conflicts, especially those with the major powers.¹⁷

Even so, China's actions have prompted competitive responses from other powers in the region. In response to the launch of the CAFTA project, Japan immediately signed the ASEAN-Japan Comprehensive Economic Partnership Relations Framework Agreement in 2002. Japan and the U.S. had already concluded free trade agreements with Singapore in January that year, and they were

¹⁷ Joseph Cheng, "China's Foreign Policy after the Seventeenth Party Congress", in D. Hickey and B. Guo (eds.), *Dancing with the Dragon — China's Emergence in the Developing World* (Lanham: Lexington Books, 2010), pp. 23–52.

engaged in negotiating similar agreements with other ASEAN states.¹⁸ Some of China's foreign policy experts consider that the major powers in the Asia-Pacific region would try to counter and limit China's attempts to enhance its influence in the region (a low-key "containment" strategy). While it is difficult to establish a causal relationship, these experts tend to believe that China's enthusiasm to participate in the GMS and the PBGA subregional economic cooperation projects is related to its lack of progress in pursuing further cooperation within the broader Asia-Pacific framework.¹⁹

China's rapid economic growth, the appeal of the "Beijing Consensus" as well as the associated enhancement of its "soft power"²⁰ and its increasing economic influence among its neighbors make it the most likely challenger of the U.S.'s global hegemony. After its involvement in the Vietnam War, the U.S. gradually reduced its commitment to Southeast Asia, but the combat of international terrorism since 11 September 2001 persuaded the then Bush administration to reverse the trend. The core interests of the U.S. government in Southeast Asia are to ensure that the region would not be dominated by another hegemon, and that it would not be excluded from the region by another hegemon or a coalition of other major powers.²¹

¹⁸ J. Xiong, "CAFTA de Jianli Zhangai he Zhongguo Celue Sikao (Obstacles to the Establishment of CAFTA and China's Tactical Considerations)", *Dangdai Jingji* (*Contemporary Economics*), Vol. 7 (2005), p. 60; R. Armitage and J. Nye, *The U.S.-Japan Alliance — Getting Asia Right through 2020* (Center for Strategic and International Studies, 16 February 2007); E. Chanlett-Arery, K. Dumbaugh and W. Cooper, *Sino-Japanese Relations: Issues for US Policy* (U.S.: Congressional Research Service, 19 December 2008).

¹⁹ X. Wang, "Zhongguo-Dongmeng Ciquyu Jingji Hezuo de Zhanlue Dongyin (The Strategic Motivations for China-ASEAN Sub-regional Economic Co-operation)", in International Relations Department and Economic Diplomacy Research Centre, Tsinghua University (eds.), *Zhongguo Jingji Waijiao 2008 (China's Economic Diplomacy 2008)* (Beijing: China Economic Publicity House, 2008), p. 246.

²⁰ Chinese leaders and foreign policy experts have been much influenced by the Joseph Nye Jr.'s concept of "soft power" (see Joseph Nye, *Soft Power: The Means to Success in World Politics* (New York: Public Affairs, 2004).

²¹ B. Vaughn, and W. M. Morrison, *China-Southeast Asia Relations: Trends, Issues and Implications for the United States, 2006*. Available at <http://fpc.state.gov/documents/organization/65772.pdf>. Accessed 10 October 2012.

Some foreign policy experts in China argued that since the 1990s, China had been pursuing a regional policy successfully in terms of reducing U.S. suspicions about its ambitions. In the first place, they argued, the Chinese government has demonstrated its acceptance of pluralistic and overlapping concepts of regionalism, which was in line with the U.S.'s idea of "open regionalism". Further, China supported ASEAN's leading role in the region, which satisfied ASEAN's core interests without reducing the U.S. influence in the region in a significant manner. Finally, the Chinese government had been active in promoting cooperation with ASEAN with a recent emphasis on non-traditional security, but it had refrained from any efforts undermining the U.S. government's emphasis on APEC's progress.²² These views, however, may appear overly optimistic since the end of the previous decade.

While China's regional policy has been to avoid clashes over the fundamental strategic interests of the U.S., it is probably believed that subregional economic cooperation is unlikely to pose any serious challenges to the U.S. Hence, China's attention to projects at this level offers more room for its initiatives as memberships of these projects are more flexible, and they do not directly compete with existing free trade areas and economic blocs.²³ The GMS and the PBGA projects allow overlaps with other subregional and even regional economic cooperation arrangements.

From the perspective of the Chinese government, even though these subregional economic cooperation projects are open to the U.S., its participation is not always effective, and it is understood that the U.S. will maintain its influence through the advocacy of larger regional organizations. For China, it is felt that, despite the U.S.'s formidable economic power and international influence, subregional economic cooperation projects, which depend much more on

²² X. Sun and H. Chen, "Zhongguo Diquzhuyi Zhengce de Zhanlue Xiaoying (The Strategic Effects of China's Policy of Regionalism)", *Shijie Jingjiyu Zhengzhi* (World Economics and Politics), Vol. 5 (2006), p. 30.

²³ T. Li, *Bianjie Xiaoyingyu Kuabianjie Ciquyu Jingji Hezuo Yanjiu* (A Study of the Border Impact and Cross-border Sub-regional Economic Co-operation) (Beijing: China Financial Publishing House, 2005), p. 113.

geographical proximity and close transport networks, offer considerable opportunities.

Further, while subregional projects are mainly economic in orientation, they usually also include non-traditional security cooperation such as the prevention and combat of cross-border crime, campaigns against drug trafficking and protection of animal and plant diversity, which are all in conformity with the mainstream U.S. values but do not involve military or security cooperation. Hence, subregional arrangements tend not to be sensitive for the governments of the U.S. and other Western countries. China also hopes that this cooperation may spill over and enhance interdependence in the political and security arenas. In the case of the PBGA project, e.g., Guangxi has been active in offering regional diplomatic initiatives without attracting any particular suspicions from the U.S. and Japan.

According to the Chinese experts interviewed, since the early 1990s, China had been quite successful in its approach to ASEAN, upgrading the relationship from “dialogue partners” to a “strategic partnership”. However, there was an awareness that mutual trust was far from strong. These Chinese experts considered that the ASEAN countries were concerned about Chinese economic competition, especially as integration would continue. Strategically and diplomatically, ASEAN countries wanted to maintain a regional balance of power among the major powers involved so as to allow them the retention of the initiative. China’s rise might threaten this capability on the part of ASEAN, thus weakening its leading role in various regional organizations and cooperation mechanisms. Finally, unresolved territorial disputes between China and some ASEAN countries continued to fester, and the economic dominance of the ethnic Chinese communities in several ASEAN states could sometimes be seen as problematic.²⁴

The Chinese experts interviewed considered that the Chinese government hoped that subregional economic cooperation projects

²⁴L. Li, “Huan Beibuwan Jingjiqian Kaifayu Zhongguo Wuda Guojia Zhanlue (The Development of the Pan-Beibu Gulf Economic Circle and China’s Strategies Regarding the Five Major Countries)”, *Kaifang Daobao (China Opening Herald)*, Vol. 1 (2006), p. 63.

would contribute to the strengthening of the mutual trust. Economically, ASEAN countries, especially the less developed ones, hoped to exploit the opportunities generated by China's growth, but remained worried that China's investment in natural resources might damage the environment, and that its manufacturing operations challenge their competitive edge in the export of labor-intensive products. Subregional economic cooperation projects, however, limit China's advantage in terms of the economy of scale as only some of its provinces are involved. But they allow China's neighbors to take part on a more equal basis. In the case of the GMS and PBGA projects, for example, China's participation is largely limited to the two bordering provincial units of Guangxi and Yunnan. These are relatively backward provinces, and their competitiveness is far less threatening in the eyes of the ASEAN countries concerned; certainly, the amounts of trade and investment involved would remain limited for a considerable period of time.

China's foreign policy experts argued that subregional economic cooperation has distinct advantages. It is based on border areas where there are already frequent interactions and flows of goods and people, and this may lead to conflicts. Hence, economic cooperation in the border areas may help to strengthen mutual understanding, build trust, enhance mutual prosperity and reduce friction. Further, subnational cooperation can broaden the networks of cooperation involving both the public and private sectors. Finally, Chinese leaders consider that subnational cooperation involves few concessions in contrast to, for example, state-to-state or regional free trade agreements, allowing China to more easily avoid sensitive sovereignty issues and territorial disputes.²⁵

In view of the rising tension over the territorial disputes, keen competition from the major powers in the region, and the hedging strategies of China's neighbors discussed above and in the previous chapters, economic cooperation including subregional economic cooperation becomes even more significant in China's approach to

²⁵ Z. Chen, *Ciguojia Zhengfuyu Duiwai Shiwu (Sub-national Governments and External Affairs)* (Beijing: Changzheng Chubanshe, 2001), pp. 148 and 151.

ASEAN. Vietnam differs from the Philippines in its handling of the territorial disputes with China because of the socialist nature of the regime, its historical ties with China, the common land border and proximity between the two countries, etc., but the close bilateral economic relations undeniably have been an important consideration.

According to China's official statistics, in 2013, Sino-Vietnamese trade amounted to US\$ 65.48 billion, with China's exports reaching US\$ 48.59 billion and imports US\$ 16.89 billion. In 2013, Vietnam was the fourth trading partners and the largest destination for exports for China among ASEAN states, as well as the ninth largest market for China's global exports. China, since 2005, had been Vietnam's largest trading partner, and the fourth largest market for its exports after the European Union, the U.S. and Japan. China was Vietnam's largest foreign project contractor, and Vietnam was the largest engineering contract market for China in Southeast Asia, and the third in Asia. At the end of June 2014, China's enterprises concluded engineering project contracts amounting to US\$ 30.57 billion cumulatively, and completed contracts amounting to US\$ 22.12 billion; these contracts are mainly related to thermal electricity generation plants, cement plants, road projects and bauxite mines. Mutual investment is more modest. China's non-financial investment in Vietnam reached US\$ 2.03 billion by June 2014, and Vietnam's actual investment in China amounted to US\$ 120 million by May 2013. According to Vietnamese statistics, China's direct investment in Vietnam was US\$ 4.7 billion by February 2013, ranking 14th among Vietnam's foreign investors.²⁶

Both China and Vietnam intend to contain their territorial disputes and establish mechanisms to limit the conflicts. In June 2013, Vietnamese President Truong Tan Sang visited China and signed an "Implementation of the Sino-Vietnamese Comprehensive Strategic Cooperation Partnership Action Plan"; earlier, both governments had

²⁶Lei Xiaohua, "Yuenan yu Zhongguo Jiaowang yu Hezuo (Association and Co-operation between Vietnam and China)", in Guangxi Academy of Social Science (ed.), *Yuenan Guoqing Baogao (2014) (Annual Report in Vietnam's National Situation (2014))* (Beijing: Social Sciences Academic Press (China), 2014), pp. 69 and 72–73.

concluded an “Agreement on Basic Principles on Guiding the Resolution of the Sino-Vietnamese Maritime Issues”. The two countries would like to rely on their existing border negotiation mechanisms to resolve the disputes through friendly consultations and negotiations; they also agreed to control and limit their differences so as to avoid escalation of the conflicts. On this basis, the two foreign ministries established a hotline to manage maritime crises; and the two agriculture ministries set up another hotline for communication regarding incidents related to maritime fishery activities.

In 2013, both governments agreed to form a consultative work group on joint maritime development within the framework of their border negotiation delegations, promoting negotiations on the boundary demarcation of the areas outside the Beibu Gulf and their joint development, as well as joint research on the environmental management of Beibu Gulf and its islands. The idea was to start from less seen issues.²⁷

Despite the goodwill and progress, serious incidents could not be prevented because both governments continued to adopt measures to strengthen their territorial claims and refused to stop maritime resource exploration and exploitation activities. Mutual distrust and rising nationalism in both countries exacerbated the situation. In May 2014, the China National Offshore Oil Corporation dispatched an oil drilling platform into water claimed by Vietnam as part of its exclusive economic zone near the Paracel Islands. The incident led to a confrontation involving scores of vessels on both sides.

Worse still, the confrontation caused anti-China demonstrations in Vietnam resulting in the death of 16 Chinese nationals. Nonetheless, the Chinese State Councillor Yan Jiechi visited Hanoi on 18 June 2014 to make preparations for regular bilateral discussions and met Phan Binh Minh, Deputy Prime Minister and Minister of Foreign Affairs. Both sides concerned that the dialogue should be maintained, but the problem of the drilling operation remained. Later in July 2016, the Chinese authorities announced the removal of the drilling rig.

Subsequently, on 27 August 2014, Le Hong Anh, Politburo member and a standing member of the Secretariat of the Communist

²⁷ *Ibid.*

Party of Vietnam, acting as the special envoy of Party General Secretary Nguyen Phu Trong, visited China. He met President Xi Jinping and indicated Vietnam's hopes that the bilateral relationship be repaired. In addition, Vietnamese Prime Minister Nguyen Tan Dung met his Chinese counterpart Li Keqiang at the Asia–Europe Meeting on 16 October in Milan, Italy. In contrast to Japan and Philippines, Vietnam had no difficulty in maintaining dialogue at high levels with China during the rising tension over the territorial disputes.²⁸

Conflicts however continue. Apparently, Vietnamese fishing boats continued to be harassed by Chinese vessels around the Paracels. A Chinese company started offering tourist cruises to the Paracels in September 2014. In early October 2014, the Chinese authorities completed their expanded construction projects on Woody Island in the Paracels, building an airstrip, fuel tanks, radar installations and other facilities. These and similar following projects in the Paracels and Spratlys have vastly enhanced China's defense capabilities around the two island groups.²⁹

Strengthening Regional Influence

From a more aggressive point of view, China hopes to use the GMS and PBGA projects to strengthen ties with the ASEAN countries involved and to limit the influence of China's competitors in the region.³⁰ Like the Boao Forum for Asia and the Shanghai Cooperation Organization (SCO), these projects are considered to be major initiatives meant to strengthen China's regional influence, and the government expects to assume a leadership role in them.

²⁸ "Southeast Asia: China–Vietnam Confrontation Grows Ever More Apparent", in The National Institute for Defense Studies, Japan (ed.), *East Asian Strategic Review 2015* (Tokyo: The Japan Times Ltd., 2015), pp. 136–141.

²⁹ *Xinhua News Agency dispatch* (via People's Daily Online), 9 October 2014; *South China Morning Post* (Hong Kong), 9 September 2014.

³⁰ S. Y. Chia and T. Y. Lee, "Sub-regional Economic Zones: A New Motive Force in Asia-Pacific Development", in F. Bergsten and M. Noland (eds.), *Pacific Dynamism and the International Economic System* (Washington, D.C.: Institute for International Economics, 1993), pp. 225–269.

China's ASEAN relationship tends to be divided into two levels: interactions with advanced countries like Singapore and links with the less developed member countries, namely, Cambodia, Laos, Myanmar and Vietnam, the CLMV Group.³¹ China has been offering these states grants and interest-free and low-interest loans as well as support for infrastructural projects.³² In addition, Chinese leaders offer the group subregional economic cooperation projects including assistance in the building of railways, electricity transmission grids and other infrastructural projects, funding for improving the navigation of the Mekong, unilateral preferential tariff, and funding support for human resources development and poverty alleviation within the framework of the projects.³³

In offering support for the CLMV Group, the central government in China considers that the involvement of local governments contributes to the reduction of costs as well as political and economic risks. In this way, the positive benefits of cooperation may spread to the provinces rapidly, while the negative impact would be limited to the subnational level; hence, it is an example of "smart power" in the eyes of Chinese academics.³⁴

Most foreign policy experts in China consider that the CLMV economies share their strongest complementary relationship with

³¹T. Mya, "China and the CLMV Countries: Relations in the Context of the Mekong Sub-region", in Saw Swee-Hock (ed.), *ASEAN-China Economic Relations* (Singapore: Institute of Southeast Asian Studies, 2007), pp. 269–294.

³²H. Zhong, "China's Aid to Southeast Asia", in S. H. Saw (ed.), *ASEAN-China Economic Relations* (Singapore: Institute of Southeast Asian Studies, 2007), pp. 250–268.

³³*Quyue Hezuo Tuxian Zhongguo Wushi Zhoubian Waijiao* (Regional Co-operation Highlights China's Pragmatic Diplomacy towards Neighbouring Countries), 2005. Available at http://www.yn.xinhuanet.com/topic/2005-07/06/content_4578066.htm. Accessed 9 October 2012.

³⁴L. Li, "Huan Beibuwan Jingjiqian Kaifayu Zhongguo Wuda Guojia Zhanlue (The Development of the Pan-Beibu Gulf Economic Circle and China's Strategies Regarding the Five Major Countries)", *Kaifang Daobao* (*China Opening Herald*), Vol. 1 (2006), p. 184.

Yunnan and Guangxi provinces because of geographical proximity.³⁵ Further, as these provincial governments have been given greater flexibility in dealing with these states, they probably have a better grasp of local circumstances than the distant central government.³⁶ The ambassadors to China of the CLMV countries and ADB officials also share this view in their endorsement of the subregional projects.³⁷

Until the turn of the century, Japan had been the most important trade partner and source of investment for ASEAN. Now it sees China as a serious competitor. Japan was worried that it might have been left behind with the establishment of CAFTA; the then Japanese Prime Minister Koizumi Shunichiro immediately declared his government's plan to create a Japan–ASEAN FTA before 2012. In January 2002, during Koizumi's visit to the ASEAN countries, he proposed to realize comprehensive economic cooperation leading to a closer economic union. Some Chinese scholars bluntly stated that China would find it difficult to tolerate Japan's unrestrained expansion of influence in Southeast Asia.³⁸ Samuel Kim also considered that China and Japan would more directly and actively engage in competition for regional

³⁵ See G. Lu, "Dameigonghe Cidiqu Hezuo de Guoji Zhengzhi Jingjixue Fenxi (An International Political Economy Analysis of the Greater Mekong Sub-regional Co-operation)", *Dongnanya Yanjiu* (Southeast Asian Studies), Vol. 2 (2006), pp.16–17.

³⁶ T. Shu, "Meigonghe Hezuo de Zhengzhi Yiyi: Quyunei Shijian Heping Fazhan Zhanlue (The Political Significance of Mekong Co-operation: Implementing a Peace and Development Strategy in the Region)", *Liaowang Dongfang Zhoukan* (Oriental Outlook), 2005. Available at <http://qkzz.net/article/e69ca20b-731a-49af98-e14ea470dd5e.htm> (Updated 3 March 2009).

³⁷ C. Liu, "Qinru Xiongdi Jiemei-Siguo Zhuhua Dashiye Yahang Guanyuan Zhuanfanglu (As Close as Brothers and Sisters — Special Interviews of Four Ambassadors to China and Officials of the Asian Development Bank)", *Renmin Ribao*, 24 June 2005.

³⁸ X. Wang, "Zhongguo-Dongmeng Ciqyu Jingji Hezuo de Zhanlue Dongyin (The Strategic Motivations for China–ASEAN Sub-regional Economic Co-operation)", in International Relations Department and Economic Diplomacy Research Centre, Tsinghua University (eds.), *Zhongguo Jingji Waijiao 2008* (China's Economic Diplomacy 2008) (Beijing: China Economic Publicity House, 2008), p. 251.

economic leadership in East Asia, especially in the ASEAN Plus Three process.³⁹

Chinese leaders in the beginning of the century decided that China had to adopt a soft approach, securing an edge while avoiding open confrontation. Japan's advantages were obvious: it had been the largest investor in ASEAN, the largest trading partner and the principal source of official development assistance. There was also a strong complementarity between the trade structure of Japan and that of ASEAN. China's strengths, on the other hand, were less prominent. It had been enjoying impressive economic growth; in the aftermath of the Asian economic crisis of 1997, it behaved as a "responsible major power" and refrained from further devaluing its currency, thus winning more trust in the ASEAN region at that time. China also has geographical advantage over Japan, in that it has a long coastal and land border, which means it has many neighbors at different levels of economic development, implying opportunities for various models of economic cooperation. Border-spanning ethnic groups offer networks of ties based on common ethnicity, language and culture, thus possibly reducing transaction costs in regional economic exchanges. Hence, in the GMS and the PBGA projects, China has strong power projection capabilities and is perceived by its subregional partners to be more willing to make economic concessions, while domestic political pressures have prevented Japan from relaxing its protectionist policies in the agricultural sector.⁴⁰ China's Ministry of Agriculture has also been active in offering training programs within the GMS framework on the prevention and treatment of animal diseases, the cultivation of marine products, and the development of rural resources and rural information technology.⁴¹ From the beginning of 2004 to the

³⁹S. Kim, "Regionalization and Regionalism in East Asia", *Journal of East Asian Studies*, Vol. 4, No. 1 (2004), p. 51.

⁴⁰H. Liu, "Ping Xiaoquan de Dongya Diqu Hezuo Gouxiang (A Critique of Koizumi's Thinking on East Asian Regional Co-operation)", *Nanyang Wenti Yanjiu (Southeast Asian Affairs)*, Vol. 3 (2002), p. 74.

⁴¹Department of Foreign Trade and Economic Cooperation of Guangdong Province. Available at <http://www.gddoftec.gov.cn>, 2007. Accessed 14 November 2012.

end of 2009, China implemented its “early harvest program” and reduced its tariffs on agricultural imports from the ASEAN countries⁴²; and the Chinese leadership viewed slow progress in a FTA covering East Asia as an opportunity for China to catch up with Japan.

In recent years, China’s participation in the GMS cooperation project has been stepped up partly because its economic and financial capabilities have been growing, and so is its desire to strengthen its influence in the GMS. As China’s rise and its assertiveness in territorial disputes with its neighbors have prompted the latter to engage in “hedging” strategies, its willingness to spend resources to cultivate them economically has been enhanced, as demonstrated by the “one belt, one road” schemes.

In the handling of its relationship with ASEAN, China has often adopted “divide and rule” tactics, and its relations with Laos, Cambodia and Myanmar are obviously stronger than those with the Philippines and Indonesia. Hence, resources spent on GMS may help to maintain stronger ties with the countries concerned.⁴³

Since 2014, Yunnan Province in China has been exporting electricity to Vietnam, and by the end of 2013, such electricity sales amounted to US\$ 1.44 billion. Since 2001, Yunnan has been exporting electricity to northern Laos, and by the end of 2013, such electricity sales amounted to US\$ 38.48 million. On the other hand, Yunnan has been purchasing electricity from Myanmar, and by the end of 2013, such electricity purchases amounted to 9.54 billion kW-h. On this basis, member countries of GMS established a GMS electricity purchase coordination center and included a memorandum of understanding on an intergovernmental basis.⁴⁴

⁴² G. Shang, *Zhongguo-Dongmeng Zimaogu de Shiyantian: Zaoqi Shoubuo Jihua* (An Experimental Pad of the CAFTA: The Early Harvest Programme). Available at <http://fta.mofcom.gov.cn/dongmeng/annex/zaqijihua.pdf>. Accessed 10 October 2012.

⁴³ Liu Zhi and Shao Jianying, “Dameigonghe ci quyue hezuo: jinzhuan yu zhanwang (2013–2014), (Achievements and Prospects of GMS Co-operation (2013–2014))”, in Liu Zhi and Lu Guangsheng (eds.), *Dameigonghe ci Quyue Hezuo Fazhan Baogao* (2014) (Report on the Co-operation and Development in the Greater Mekong Sub-Region (2014)) (Beijing: Social Sciences Academic Press (China), 2014), pp. 1–11.

⁴⁴ *World Journal* (a Chinese newspaper with a Bangkok version), 19 December 2013.

In July 2013, the Sino-Myanmar natural gas pipeline began operation, followed by the oil pipeline in 2014. China considers that substantial development potential exists among GMS member states in hydropower, solar power, wind power and biofuel. It was reported, for example, that the Ministry of Electric Power of Myanmar and the China Three Gorges Group signed a memorandum of agreement on the development of wind power in Chaungtha area of Ayeyarwady Region, Myanmar.⁴⁵

In terms of trade and investment flows between China and the other GMS member countries, there has been considerable growth in recent years, and China enjoys a predominant position. In 2013, China was Thailand's largest trading partner, its largest exports market and second source of imports. Similarly, China was the most significant trading partner of Myanmar and Vietnam in the same year. In 2013, China was the largest source of foreign investment for Cambodia and Laos, and the third largest source of foreign investment for Vietnam.⁴⁶

Non-traditional security has been a priority concern for China, and also in its relations with the other GMS member countries, especially in the combat of drug trafficking. The cultivation of opium has been spreading in Myanmar and Laos; and in response, China and the five member countries of GMS released a Naypyidaw Declaration on cooperation in the combat of drug use in May 2013.⁴⁷ In Tengchong in Yunnan Province, a border liaison office for the prohibition of drug use was established at the same time for Sino-Myanmar coordination. Bilateral police cooperation for this purpose at the city/county level has been strengthening.

⁴⁵ "Myanmar's Ministry of Electric Power (MOEP) signs a memorandum of agreement (MoA) with China Three Gorges Corporation...", *Thai Biz Myanmar*, 6 March 2016. Available at <http://www.thaibizmyanmar.com/en/news/detail.php?ID=397>. Accessed 15 November 2016.

⁴⁶ See the website of the Asia Bureau of China's Ministry of Commerce. Available at http://countryreport.mofcom.gov.cn/record/view110209.asp?news_id:38362.

⁴⁷ For the text of the declaration, see *Xinhuanet*, 19 May 2013. Available at <http://world.Ruanqiu.com/regions/2013-05/3919855.html>.

In response to the tragic case in Mekong River in October 2011, joint law-enforcement activities for the combat of crime along the subregional river course have become frequent involving the law-enforcement agencies of China, Laos, Myanmar and Thailand. Another area of GMS multilateral cooperation has been the prevention and control of diseases. As demonstrated by the first GMS contagious diseases prevention and control seminar held in Kunming, China, in October 2013, the public health ministries of the GMS member states and China were able to line up the World Health Organization, the Gates Foundation, the Australian Agency for International Development, the British Department for International Development, Save the Children, etc. Subregional cooperation through the GMS apparently has its international appeal.

GMS has gradually been able to offer itself as an important platform for various economic cooperation initiatives involving China. The GMS agricultural scientific and technological exchange and cooperation group is a good example; China is represented by the Yunnan Academy of Agricultural Sciences. As China is willing to provide more funding support, the group has become more active.

Tourism is another significant area for cooperation through the GMS states tourism working group and the Mekong River Tourism Forum. China's influence lies in its serving as an important source of tourists for the GMS member states, and the latter hope that China would offer manpower training for their tourism industry as well as the promotion of their tourist attractions.⁴⁸ Tertiary institutions in the Guangxi Zhuang Autonomous Region bordering Vietnam now specialize in offering the training in demand.

Transport is the key sector facilitating interconnectivity between China and ASEAN. Highway and railway transport, in turn, are the priority areas. In the early years of this decade, bridges and sections of highways linking Yunnan and Thailand as well as Yunnan and Laos were completed, thus ensuring the smooth operation of the highway system running from Kunming to Bangkok, and facilitating the

⁴⁸ *China News Net*, 19 June 2013. Available at <http://finance.chinanews.com/cj/2013/06-19/4947397.shtml>.

development of the Kunming–Bangkok economic corridor. Similarly, completion of various sections of railways linking Yunnan and Vietnam in the same period has allowed efficient railway links to operate between China and Vietnam. China has been helping the CLMV countries to remove various bottlenecks to develop the railway system linking Kunming and Bangkok, and eventually Singapore.

The GMS states transport facilitation joint committee is now an important platform to promote agreements on the facilitation of cross-boundary transport of goods and people. It covers agreements among the GMS member states and China, as well as various bilateral and trilateral agreements, including those on quotas of car permits.

Finally, environmental protection emerges as a priority area as the regional countries become aware of the undesirable impact of development on the environment as well as the need for regional cooperation to protect the environment.⁴⁹ Cooperation in this area has certain special characteristics as it involves international institutions like the Asian Development Bank which takes a keen interest in the cause, as well as international non-governmental organizations (NGOs) and national NGOs which are often tolerated by the respective authoritarian regimes concerned.

In 2005, the first GMS environment ministries' meeting was held in Shanghai, and a joint declaration was released, endorsing the launch of core environment programs (CEP) and biodiversity conservation corridors initiatives (BCI); the latter was first proposed by the Chinese government. The parties concerned realize that effective environmental protection requires legal mechanisms, but law enforcement and program implementation have not been satisfactory.

Within the board framework of environmental protection, the sharing of water of the Mekong River has become a serious controversy as China and various countries engage in dam-building projects in the upper reach of the river. In 2010, there was a severe drought

⁴⁹Lu Guangsheng and Deng Han, "Zhongguo yu Meigonghe Liuyu Guojia Huanjing Hezuo de Jinzhan Jizhi yu Chengxiao (China's Environment Co-operation with Other GMS Countries: Progress, Mechanism and Achievement)", in Liu Zhi and Lu Guangsheng (eds.), *op. cit.*, pp. 38–60.

in southwestern China, and the other GMS states also suffered droughts of various degrees while the flow of the Mekong reached the lowest level in two decades. China was severely criticized and understood that it has to offer effective reassurances.

In the second Mekong River Commission summit in 2014, China proposed four measures: strengthen the convergence of development strategies, expand the coordination and planning of pragmatic cooperation, deepen the cooperation in the development of hydropower and jointly cultivate a good atmosphere for cooperation.⁵⁰ Apparently, the Chinese authorities are willing to develop a political and foreign policy dialogue with the GMS member states as well as a framework for cooperation. In 2015, a foreign ministries conference and senior officials' conference were organized. The Chinese authorities are reluctant to make concessions on sovereignty issues nor terminate its dam-building programs, but are ready to offer information.⁵¹ The controversy has been contained for the time being, but not resolved; and tension may well rise again when another drought occurs.

The Provincial Approach to Economic Cooperation

The GMS project was initiated by the ADB in 1992, in the context of the restoration of peace in Cambodia and following the end of the cooperation between ASEAN and China in opposing the People's Republic of Kampuchea government. At the eighth GMS ministerial meeting in 1998, the economic corridor concept was raised, proposing an integration of the construction of transport routes and economic development. Three economic corridors were planned: the

⁵⁰ *Xinhuanet*, 6 April 2014. Available at http://newsxinhuanet.com/2014-04/06/c_1110121092.htm.

⁵¹ Guo Yanjun, "Zhongguo Canyu Lancangjiang-Meigonghe shui Ziyuan zhili: Zhengce Pinggu yu Weilai Zoushi (China's Participation in the Water Governance of the Lancang-Mekong River: Policy Evaluation and Future Trends)", *Journal of China's Neighbouring Diplomacy* (Centre for China's Relations with Neighbouring Countries, Fudan University, Shanghai), Vol. 1 (2015), pp. 153–168.

North–South Economic Corridor, the East–West Economic Corridor and the Southern Economic Corridor. Interest in the GMS has strengthened since then, especially on the part of China, and the construction of the transport networks has also been accelerated. In March 2008, the Kunming–Bangkok highway was completed, and it is expected that it would facilitate economic exchanges among China, Laos and Thailand.⁵²

The concept of economic corridors has been filtering down to bilateral state-to-state relations and even to the provincial economic plans in China. In May 2004, then Vietnamese Premier Phan Van Khai visited China and proposed the construction of the Nanning–Hanoi Economic Corridor, the Kunming–Haiphong Economic Corridor and the Beibu Gulf Economic Circle as bilateral cooperation projects. Chinese leaders welcomed the proposals, and when Premier Wen Jiabao visited Hanoi the following October, it was stated in the Joint Communiqué released that the two governments would establish expert groups under the Sino-Vietnamese Economic and Trade Cooperation Committee to engage in feasibility studies on these projects.⁵³

Vietnam is the largest country within the CLMV Group, and its trade and economic ties with China are considered by China's experts as likely to help contain the territorial and other disputes between the two countries. As both countries need a peaceful international environment to concentrate on economic development, the diplomatic and security spillover effects of their economic cooperation are significant. Hence, Sino-Vietnamese economic ties and their related diplomatic and security considerations have been a significant element in their participation in the GMS project.

⁵²S. Bi, "Dameigonghe Xiquyu Jingji Zoulang Jianshe: Hezuoyu Fazhan' Guoji Xueshu Yantaohui Zongshu (A Summary of the International Academic Conference on 'The Construction of the GMS Economic Corridor: Co-operation and Development')", *Dangdai Yatai* (*Journal of Contemporary Asia-Pacific Studies*), Vol. 2 (2008), pp. 130–140.

⁵³J. Liu, "Zhongguo-Dongmeng 'M' Xing Quyu Jingji Hezuo Zhanlue de Tantaohui (On China-ASEAN 'M' Strategy of Regional Economic Co-operation)", *Dongnanya Zhongheng* (*Around Southeast Asia*), Vol. 1 (2007), p. 3.

The “two economic corridors and one economic circle” proposal in turn attracted much attention in Guangxi Zhuang Autonomous Region bordering Vietnam. Guangxi has been holding an annual China-ASEAN Expo in its capital Nanning since 2004. In July 2006, at the “PBGA Economic Cooperation Forum” in Nanning, the then Guangxi Party Secretary Liu Qibao advocated the “M strategy” for the autonomous region’s external economic cooperation and opening to the outside world. There were two interpretations of this “M Strategy”: in terms of content, it referred to maritime economic cooperation, mainland economic cooperation and the Mekong subregion economic cooperation. It also referred to “one axis and two wings”: the axis of the Nanning-Singapore Economic Corridor, the GMS economic cooperation project west of the axis and the PBGA economic cooperation project east of the axis.⁵⁴ This chapter will use Guangxi as an important provincial participant in the GMS project in a detailed case study.

The perspectives and foci among China’s participation in the GMS and PBGA projects, Vietnam’s “two economic corridors and one economic circle” proposal and Guangxi’s “one axis, two wings” strategy are different, arising from their divergent positions and interests.⁵⁵ China has broad foreign policy objectives of reducing external pressures and strengthening regional influence in the context of pursuing the influence and status of a major power while maintaining a peaceful international environment to concentrate on its modernization.⁵⁶ Vietnam focuses more on bilateral economic cooperation with an emphasis on accelerating economic growth in its less developed northern and central provinces. Leaders in Hanoi have attempted to achieve the latter objective through its taxation policy too. While Vietnam’s normal corporate tax rate is 28%, it is reduced to 20% in

⁵⁴ *Ibid.*

⁵⁵ J. Wong, “The Nanning-Singapore Economic Corridor: Challenges for China and ASEAN”, *East Asian Policy*, Vol. 2, No. 3 (2010), pp. 67-72.

⁵⁶ F. Chen, “Woguozaizai Quyu Hezuo zhong de Jingji Liyiyu Zhanlue Xuanze (The Economic Benefits and Strategic Choices of China in Regional Co-operation)”, in Zhang Yunling (ed.), *Shijie Quyu huade Fazhanyu Moshi (The Development and Model of World Regionalization)* (Beijing: Shejie Zhishi Chubanshe, 2004), p. 57.

regions with difficult economic and social conditions, and is further reduced to 15% in regions with extremely difficult economic and social conditions. The regions enjoying corporate tax concessions are mainly located in the Red River Basin, as well as the northeastern, northwestern and central provinces.⁵⁷ China's investment, before the middle of the previous decade, mainly concentrated in northern Vietnam, while 60% of Taiwan's investment concentrated in the south, centering around Ho Chi Minh City; subsequently, more Chinese investment has gone to southern Vietnam.⁵⁸ Strong Sino-Vietnamese economic ties serve to promote mutual trust and contain territorial disputes. Guangxi's rationale is simple; it wants to enhance economic growth and catch up with its rich coastal neighbors like Guangdong.

The Guangxi Zhuang Autonomous Region, in fact, has achieved impressive economic growth in recent years. In 2013, its GDP grew 10.3% and reached 1.4 trillion yuan. Its economic growth has been higher than the national growth rate (7.7% in 2013) and is expected to remain so for some years. Its foreign trade amounted to US\$ 32.84 billion in 2013, indicating an annual growth rate of 11.4%. In the same year, its gross industrial output value exceeded 2 trillion yuan, doubling in just three years; nine industries achieved an output value of over 100 billion yuan each.

Guangxi's fast developing trade links with neighboring ASEAN countries have been supporting various infrastructure projects, especially the construction of high-speed railways and highways. In 2013, high-speed railway mileage in operation in Guangxi reached 1,067 km, about one-tenth of the national total. Four high-speed highways were also completed in the same year. The volume of freight handled by

⁵⁷ Z. Wu, "Zhongguo dui Yuenan FDI de Qiye Suodeshui Shuishou Chouhua Tanxi (Corporate Tax Planning on China's FDI in Vietnam)", *Dongnanya Zhongheng (Around Southeast Asia)*, Vol. 7 (2008), pp. 66–68.

⁵⁸ *Ibid.*, p. 68; Y. Deng, "Jinnianlai Zhongguo Taishangzai Yuenan de Touzi Zhuangkuang (Study on the Investment of Businesses from Taiwan, China in Vietnam in Recent Years)", *Dongnanya Zhongheng (Around Southeast Asia)*, Vol. 6 (2008), p. 34.

the Port of Beibu Gulf reached a historic high of 174.37 million tons in 2012, showing an annual growth of 13.8%, when the international freighter transport market was in a gloomy state.⁵⁹

Guangxi's Positioning in SubRegional Economic Cooperation

Guangxi is a less developed province in China. When Liu Qibao advocated the “M Strategy” in 2006, its development ranking was 22nd among China’s 31 provinces. Its per capita GDP was 10,296 yuan, compared with the national average of 16,084 yuan and 28,332 yuan in Guangdong.⁶⁰ From 1992, Guangxi’s western neighbor, Yunnan, was already participating in the GMS project, while Guangxi had to wait until the end of 2004 before it had Beijing’s endorsement to do so. In February 2008, the central government also approved the Guangxi Beibu Gulf Economic District (GBGED) Development Program; the GBGED was China’s first important international economic cooperation district.⁶¹ In July 2008, representatives from Brunei, China, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam and the ADB met in Beihai in Guangxi and established a Pan-Beibu Gulf Economic Cooperation Joint Experts Group. In the Experts Group’s first meeting, it discussed its work plan and

⁵⁹Luo Shengrong, “2013 nian Guangxi Jingji Shehui Fazhan ji qi dui Dameigonghe ci Quyu Hezuo de Canyu (Guangxi’s Economic and Social Development and Its Participation in GMS Co-operation in 2013)”, in Liu Zhi and Lu Guangsheng (eds.), *op. cit.*, pp.167–170.

⁶⁰Q. Zhu, “Shehui Hexie Zhibiao Tixi Zonghe Pingjia he Fenxi (1978–2006) (General Evaluation and Analysis of the Index of Harmonious Society (1978–2006))”, in X. Ru, X. Lu and P. Li (eds.), *2008 Nian: Zhongguo Shehui Xingshi Fenxiyu Yuce (2008 Society of China: Analysis and Forecast)* (Beijing: Social Sciences Academic Press, 2008), pp. 350–351.

⁶¹J. Liu, “Guangxi zai Zhongguo-Dongmeng de Ciquyu Jingji Hezuozhong de Diwei he Zuoyong (Guangxi’s Status and Role in China–ASEAN Exchanges and Co-operation)”, *Dongnanya Zhongheng (Around Southeast Asia)*, Vol. 11 (2008), pp. 28–29.

the guidelines for its preparation of a feasibility study report on Pan-Beibu Gulf Economic Cooperation.⁶²

Beijing's strong support for Guangxi in the recent decade has been related to its keen interest in the promotion of subregional economic cooperation with ASEAN countries and its desire to accelerate economic growth in central and western China. At the same time, the Guangxi leadership has positioned its economic development strategy in line with China's regional and subregional economic cooperation objectives. Guangxi claimed that it could assume an important role in China-ASEAN cooperation in view of the two parties' strategic partnership agreement signed in 2002 and the conclusion of their Comprehensive Economic Cooperation Framework Agreement in the same year, leading to the CAFTA. With the emphasis on transport networks in regional and subregional economic integration, Guangxi exploits the axis of the Nanning-Singapore economic corridor through highways and railway lines, extending the Nanning-Hanoi economic corridor in the Vietnamese "two economic corridors and one economic circle" proposal southward through Laos, Cambodia to Thailand and then further southward to Malaysia and Singapore.

Guangxi's east wing, the GBGED, intends to converge with the Beibu Gulf Economic Circle proposal of Vietnam and involve the maritime states of Thailand, Malaysia, Singapore, Indonesia, the Philippines and Brunei, and exploits Guangxi's port facilities at Fangcheng, Qinzhou and Beihai in support of the development of trade and logistics. Guangxi also wants to participate in the GMS project, and it considers the project as its west wing in approaching Indochina and the countries around the Bay of Bengal.

Guangxi trumpets its geographical location: it borders Vietnam; it is only about 170 km from the provincial capital Nanning to the Friendship Gate border and then 150 km or so to Hanoi. Nanning joins the border city Pingxiang by railway where it is linked to

⁶²X. Gu, "Beibuwan Qiannian Fuxing? — Beibuwan Hezuo Fazhanyu Dongmeng Guojia de Canyu Yanjiu (Beibu Gulf, A Millennium Renaissance? — On the Participation of ASEAN Countries in the Co-operation and Development of Beibu Gulf)", *Dongnanya Zhongheng (Around Southeast Asia)*, Vol. 7 (2008), p. 11.

Vietnam's north-south railway trunk line and then connected to the Pan-Asian railway system to Singapore. It is hoped that the 418 km Nanning-Hanoi railway will eventually become a busy line linking the pan-Asian railway system; Nanning in turn has railway lines joining the neighboring southwestern provinces of Yunnan, Guizhou and Sichuan as well as Hunan to the north and Guangdong to the east.

Similarly, Nanning has a highway linking it to Guangzhou (provincial capital of Guangdong) and then to Hong Kong; Beihai is linked to Chengdu (provincial capital of Sichuan) by another highway passing through Guizhou and the municipality of Chongqing; Nanning is also linked to Kunming by highway; and the Guilin-Liuzhou highway connects Guangxi and Hunan. Nanning has highways linking the port cities of Fangcheng and Qinzhou; and the Nanning-Pingxiang highway joins the No. 1 North-South Highway in Vietnam passing through the border town of Mong Cai and the port city of Haiphong. This highway network then converges with those of Laos, Cambodia and Thailand, and leads to Myanmar, Malaysia and Singapore.

Guangxi initiated major plans to improve its port facilities in Fangcheng, Qinzhou and Beihai, and the airport facilities in Nanning, Guilin and Beihai.⁶³ Among Guangxi's coastal cities, Fangcheng probably has the best natural conditions for development; and the Nanning-Bangkok air route is considered commercially profitable, partly because Thailand is a major attraction for Chinese tourists and partly because Bangkok is truly a regional aviation hub. But in general, much investment is needed, and Guangxi still has difficulty raising the necessary development funds.

Guangxi has many ethnic groups, and some of these groups are located in neighboring countries including Vietnam. These ethnic communities are seen in Guangxi as a positive factor contributing to Sino-Vietnamese border trade; their significance, however, will decline in the long term as economic exchanges expand. Moreover, these linkages also serve as assets for Guangxi's tertiary institutions to develop language specializations and attract foreign students from

⁶³ *Ibid.*

neighboring countries. Cooperation in education in turn has strengthened Guangxi's ties with these countries.

Since the beginning of this decade, the government of Guangxi has intended to develop resource-related industries in its western district which is rich in natural resources including the aluminum industry, hydroelectric power generation and non-ferrous metal industries, especially manganese. The development of the Beibu Gulf economic district has been perceived as a strong support for that of western Guangxi because of the former's district advantage in maritime transport. Finally, the Lijiang Economic Belt (along the upper reach of the Pearl River) is prepared to take over the labor-intensive industries to be relocated from China's coastal region.

There is awareness that economic restructuring and industrial upgrading are the key to Guangxi's further economic development. China and the CLMV countries agreed to apply zero tariffs from the beginning of 2015; this means that the marginal impact of trade expansion by tariff reduction would soon disappear. China's investment in the GMS has been steadily growing, and it is considered an important source of economic growth for Guangxi and a great momentum for its economic cooperation with the CLMV countries.

Innovation has been much promoted by the Chinese leadership in recent years, and Guangxi has been able to benefit from its economic ties with ASEAN, as the China-ASEAN technology and professional center has been located in Guangxi. Liuzhou has also been developed into an engineering machinery manufacturing model base. Guangxi expects to benefit from the investment funding from the central government to GMS projects, like the Sino-ASEAN tourism industry park, the Sino-Vietnamese cross-boundary economic cooperation district, etc. In fact, some of these projects receive funding support from the Asian Development Bank too.⁶⁴

⁶⁴Luo Shengrong, "2013 Nian Guangxi Jingji Shehui Fazhan ji qi dui Dameigonghe ci Quyu Hezuo de Canyu (Guangxi's Economic and Social Development and Its Participation in GMS Co-operation in 2013)", in Liu Zhi and Lu Guangsheng (eds.), *op. cit.*, pp. 170–173 and 178–182; see also http://www.gxzf.gov.cn/zjgx/jrgx/201301/t20130122_419180.htm.

While ASEAN countries attempt to attract tourists from China, Guangxi plans to serve the reverse tourist flow. The tourism industry supports the expansion of the Nanning airport which has the capacity of handling 16 million passengers per annum. Nanning expects to attract 31–38.5 million tourists per annum by 2020, generating an income of 36.2–43.5 billion yuan.⁶⁵

Guangxi, ASEAN and Vietnam

Trade development since the turn of the century has provided solid grounds for optimism on the part of the Guangxi authorities, and the central government too has adequate justification for granting Guangxi preferential policies, especially in comparison with Yunnan. Table 1 shows the rapid growth in trade between China and the ASEAN countries. The trade expansion between China and the CLMV countries is even more impressive. It is noteworthy that China enjoys an expanding surplus in its trade with the CLMV countries, except Myanmar in 2014. CLMV countries' trade deficits, especially in the case of Vietnam, have become a friction of their relations with China. China suffers a consistent trade deficit in its trade with the entire ASEAN group until 2011 and started to enjoy trade surpluses with the ASEAN as a whole since 2012, and the trend has accelerated rapidly up till 2014.

China's provincial trade with ASEAN and Vietnam is shown in Table 2. It reveals that trade between Guangxi and ASEAN and that between Guangxi and Vietnam since 2001 have been expanding faster than the national rates. Vietnam and ASEAN are much more important trade partners for Guangxi than for Guangdong (the export engine of China). This demonstrates that subregional economic cooperation between China and ASEAN has contributed to the development of the less developed southwestern China region. As shown in Table 2, Guangxi, which has been much more active than Yunnan

⁶⁵See website of Tourism Development Committee of the Guangxi Zhuang Autonomous Region. Available at http://www.gxta.gov.cn/Public/Article/ShowArt.asp?Art_ID:68868.

Table 1. Trade between China and ASEAN and with the CLMV Group, 1991–2014 (US\$ million)

Year	China and ASEAN		China and Cambodia		China and Laos		China and Myanmar		China and Vietnam	
	Total Trade	China's Trade Surplus/Deficit	Total Trade	China's Trade Surplus/Deficit	Total Trade	China's Trade Surplus/Deficit	Total Trade	China's Trade Surplus/Deficit	Total Trade	China's Trade Surplus/Deficit
1991	8,009.10	283.76	2.65	1.69	13.37	8.93	392.09	180.25	32.23	10.57
1996	20,429.97	-978.67	70.24	56.50	34.84	18.52	658.53	383.71	1,150.63	533.67
2001	41,614.73	-4,843.89	240.42	170.81	61.87	46.95	631.54	363.16	2,815.20	793.70
2002	54,765.92	-7,628.99	276.11	227.01	63.95	44.66	861.71	587.93	3,264.15	1,033.58
2003	78,252.36	-16,401.42	320.65	268.65	109.44	87.04	1,077.25	738.18	4,634.31	1,722.72
2004	105,879.77	-20,075.53	482.43	422.57	113.54	88.23	1,145.49	731.69	6,742.80	1,778.88
2005	130,370.06	-19,627.82	563.32	508.70	128.92	77.83	1,209.33	660.53	8,196.40	3,092.56
2006	160,839.70	-18,212.23	732.90	662.71	218.36	119.07	1,460.07	954.77	9,950.54	4,978.72
2007	202,548.27	-14,190.44	932.81	830.64	262.44	92.38	2,062.04	1,319.92	15,117.46	8,685.54
2008	231,219.70	-2,686.15	1,134.37	1,056.71	402.37	133.85	2,625.32	1,330.22	19,458.45	10,785.81
2009	178,185.40	-15,003.3	944.15	870.37	751.80	2.54	2,900.12	1,607.86	21,045.18	11,550.12
2010	232,013.20	-6,013.60	1,440.97	1,253.71	1,085.12	-118.87	4,442.07	2,508.97	30,086.08	16,117.00
2011	363,088.70	-22,947.48	2,499.11	2,130.51	1,200.88	-348.34	6,501.40	3,141.60	40,207.84	17,972.44
2012	400,146.19	8,362.97	2,923.43	2,492.79	1,720.78	147.51	6,971.94	4,375.48	50,439.41	17,976.82
2013	443,598.13	44,481.53	3,773.14	3,045.87	2,732.66	712.50	10,195.56	4,481.82	65,478.19	31,694.41
2014	480,286.14	63,805.20	3,757.65	2,781.83	3,617.36	61.60	24,968.93	-6,233.63	83,636.41	43,823.61

Note: Vietnam joined ASEAN on 28 July 1995; Lao PDR and Myanmar on 23 July 1997; and Cambodia on 30 April 1999.

Sources: National Bureau of Statistics of China (1992, 1997 and 2011); Ministry of Commerce of the People's Republic of China (2012).

Table 2. China's Provincial Trade with ASEAN and Vietnam, 1991–2014 (US\$ million)

Year	Guangxi and ASEAN		Guangxi and Vietnam		Yunnan and ASEAN		Yunnan and Vietnam		Guangdong and ASEAN		Guangdong and Vietnam	
	Trade Amount	As a % of Its Total Trade	Trade Amount	As a % of Its Total Trade	Trade Amount	As a % of Its Total Trade	Trade Amount	As a % of Its Total Trade	Trade Amount	As a % of Its Total Trade	Trade Amount	As a % of Its Total Trade
1991	—	—	—	—	0.35**	0.06%**	—	—	516	2.32%	—	—
1996	—	—	442.63	15.80%	14.95**	0.77%**	3.56**	0.18%**	1,164	1.16%	—	—
2001	408.88*	22.75%*	287.75	16.01%	708.54	35.62%	160.99	8.09%	14,958	8.48%	295	0.17%
2002	623.13*	25.64%*	486.07	20.00%	822.44	36.94%	162.64	7.31%	19,924	9.01%	—	—
2003	821.74*	25.75%*	665.55	20.85%	1,021.17	38.28%	221.14	8.29%	26,486	9.34%	—	—
2004	995.72*	23.22%*	752.52	17.55%	1,268.47	33.89%	338.61	9.05%	32,293	9.04%	—	—
2005	1,224.04	23.62%	987.41	19.05%	1,556.87	32.86%	322.89	6.81%	36,901	8.62%	1,120	0.26%
2006	1,826.69	27.37%	1,466.86	21.98%	2,174.54	34.89%	507.45	8.14%	44,149	8.37%	1,602	0.30%
2007	2,908.46	31.35%	2,377.22	25.62%	2,978.80	33.93%	971.67	11.07%	55,958	8.83%	2,452	0.39%
2008	3,987.54	30.02%	3,123.93	23.52%	2,763.82	28.79%	644.91	6.72%	62,610	9.16%	3,360	0.49%
2009	4,943.62	34.70%	3,984.57	27.97%	3,151.29	39.30%	790.00	9.85%	63,303	10.36%	—	—
2010	6,525.59	36.86%	5,128.15	28.96%	4,575.45	34.22%	949.40	7.10%	80,627	10.27%	5,831	0.74%
2011	9,558.23	40.97%	7,574.60	32.47%	5,954.00	37.09%	1,214.00	7.56%	93,155	10.20%	7,680	0.84%

(Continued)

Table 2. (Continued)

Year	Guangxi and ASEAN		Guangxi and Vietnam		Yunnan and ASEAN		Yunnan and Vietnam		Guangdong and ASEAN		Guangdong and Vietnam	
	Trade Amount	As a % of Its Total Trade	Trade Amount	As a % of Its Total Trade	Trade Amount	As a % of Its Total Trade	Trade Amount	As a % of Its Total Trade	Trade Amount	As a % of Its Total Trade	Trade Amount	As a % of Its Total Trade
2012	12,048.65	40.88%	9,727.14	33.00%	6,764.00	32.53%	1,046.00	5.03%	92,365	9.39%	8,750	0.90%
2013	15,914.75	48.47%	12,697.44	38.67%	10,893.00	42.56%	1,333.00	5.21%	102,221	9.36%	12,290	1.13%
2014	19,886.01	49.04%	16,337.72	40.29%	14,315.00	48.33%	1,562.00	5.27%	112,286	10.43%	14,580	1.35%

Notes: *Guangxi and ASEAN trade figures for 2002–2004 include trade with only 6 ASEAN countries (Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam); figures for 2001 include trade with Indonesia, Malaysia, Singapore, Thailand and Vietnam only.

**Yunnan and ASEAN trade figures for 1991 include trade with Thailand, Malaysia, Singapore and Indonesia only; figures for 1997 are presented here since 1996 figures are not available, and they include Vietnam, Thailand, Malaysia and Singapore only.

Sources: Editorial Board of the Almanac of China's Foreign Economic Relations and Trade (1997–1999); *Guangxi Statistical Yearbook* (various issues); Yunnan Statistical Yearbook (various issues); *Guangdong Statistical Yearbook* (various issues); Department of Foreign Trade and Economic Cooperation of Guangdong Province (2007); Manage.org.cn (2007); Chinavietnam.gov.cn (2009); China-ASEAN Expo website http://www.caexpo.org/gb/cafta/t20120116_99146.html (2010–2011); Southcn.com http://www.southcn.com/economy/c/2015-07/03/content_127608338.htm (2013–2014).

in promoting trade with ASEAN and Vietnam since the turn of the century has been rewarded for its efforts. In 2001, the total trade volume between Guangxi and ASEAN was only 57.7% of that between Yunnan and ASEAN; but in 2010 and 2014, the ratios became 142.6% and 138.9%, respectively. Similarly, in 2001, the trade volume between Guangxi and Vietnam was 1.79 times of that between Yunnan and Vietnam; but in 2010 and 2014, e.g., the ratios expanded to 5.4 times and 10.46 times, respectively.

Meanwhile, Yunnan Province's trade with ASEAN has still been growing at a highly satisfactory rate, though Vietnam is less an important market to Yunnan when compared with Guangxi. In 2010, Yunnan's trade volume with Vietnam (US\$ 949.40 million) was 18.5% of Guangxi's total trade with Vietnam (US\$ 5,128.15 million), but only 7.1% of Yunnan's total; Guangxi has obviously developed Myanmar and other ASEAN countries as its major trade partners because ASEAN as a group is equally important as trade partners to both provincial units (36.86% and 34.22% of Guangxi's and Yunnan's respective total trade in 2010; 49.04% and 48.33% of Guangxi's and Yunnan's respective total trade in 2014) (see Table 2).

Economists and policy-makers want a division of labor to develop among China's provinces in developing export markets in accordance with their "comparative advantages". Though Guangdong's trade is over one-fifth of the country's total and ASEAN is the third largest trading partner of China after the European Union and the U.S. since 2011, trade with ASEAN is only 8%–9% of Guangdong's total. Hence, Chinese experts hope that other provinces may concentrate more in developing the ASEAN market, with Guangxi focused on Vietnam, Yunnan on Myanmar and Thailand, and so on.

Table 3 shows that Guangxi's trade with Vietnam has expanded significantly since 2001 and has generally managed a substantial trade surplus. This surplus provides foreign exchange for industrial upgrading and the development of Guangxi's enterprises as well as funds for investment in Vietnam. It is significant that exports of mechanical and electrical machinery constituted about one-third of Guangxi's exports

Table 3. Guangxi's Trade with and Exports of Mechanical and Electrical Machinery to Vietnam, 2001–2014 (US\$ million)

Year	Total Trade	Imports	Exports (B)	Trade Surplus/Deficit	Exports of Mechanical and Electrical Machinery (A)	A/B in %
2001	287.75	115.91	171.84	55.93	—	—
2002	486.07	145.49	340.58	195.09	—	—
2003	665.55	225.39	440.16	214.77	153	34.76
2004	752.52	298.15	454.37	156.22	147	32.35
2005	987.41	343.54	643.88	300.34	227	35.26
2006	1,466.86	717.12	749.74	32.62	266	35.48
2007	2,377.22	953.48	1,423.74	470.26	—	—
2008	3,123.93	856.85	2,267.08	1,410.23	—	—
2009	3,984.00	886.43	3,097.57	2,211.14	—	—
2010	5,128.15	1,049.35	4,078.80	3,029.45	—	—
2011	7,574.60	1,613.42	5,961.18	4,347.76	—	—
2012	9,727.14	1,455.74	8,271.40	6,815.66	—	—
2013	12,697.44	1,262.97	11,434.47	10,171.50	—	—
2014	16,337.72	1,039.12	15,298.60	14,259.48	—	—

Sources: Nanning Customs District, People's Republic of China, <http://nanning.customs.gov.cn>; Guangxi Statistical Bureau (comp.), *Guangxi Statistical Yearbook* (various issues).

to Vietnam in the 2003–2006 period (the years when statistics are available). Guangxi's machinery plants are not the most advanced in China, but geographical proximity and price competitiveness have enabled the development of export markets in Vietnam.

Since 2010, ASEAN has been Guangxi's largest trade partner. In 2013, ASEAN became Guangxi's largest exports market and source of imports, and its share of Guangxi's total foreign trade amounted to 49% in 2014 (Table 2) with a trade deficit of US\$ 9.25 billion. Vietnam has been the largest trade partner of Guangxi among the ASEAN states, taking up a share of 82.6% in 2014. The principal mode of Guangxi–ASEAN trade has been small-scale trade

transactions along the border; in the first 11 months of 2013, for example, small trade transaction contributed to 90.2% of the Guangxi–Vietnam trade.⁶⁶ This means that the development of banking and trade finance along the Sino-Vietnamese border is expected to make a major contribution to bilateral trade expansion.

Chinese leaders now regard the upgrade of the GMS cooperation as the early stage harvest of the “one belt, one road” schemes. In March 2015, the National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce of the Chinese government released an action plan concerning the “one belt, one road” schemes entitled *Vision and Actions on Jointly Building Silk Road and Economic Belt and 21st Century Maritime Silk Road*. This document states that the unique advantage of Guangxi as a neighbor of ASEAN countries should be fully exploited; the development and of the opening up of the Beibu Gulf economic district and the Pearl River–Xinjiang Economic Belt should thus be accelerated. They would serve as an international corridor opening to ASEAN, creating new strategic anchors for the development and opening up of southwestern China and mid-south China, and forming an important gateway connecting the “one belt, one road”.⁶⁷ Similarly, Yunnan’s geographical advantage should also be utilized, and the construction of an international transport corridor connecting China and its neighbors should be promoted, so as to enhance economic cooperation within the GMS, making it a pivot of China’s opening to South and Southeast Asia.

In view of the setbacks in Sino-Vietnamese relations due to the worsening South China Sea territorial dispute, and the regime change in Myanmar which is now courted by the U.S., Japan and other Western countries, Guangxi plans to strengthen its approach to other

⁶⁶See the website of China–ASEAN Expo. Available at http://www.caexpo.org/html/2014/gimaoqudongtai_0122/202753.html.

⁶⁷National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the People’s Republic of China, *Vision and Actions on Jointly Building Silk Road and Economic Belt and 21st-Century Maritime Silk Road* (Beijing: People’s Publishing House, 2015), p. 10.

ASEAN countries making use of the “one belt, one road” schemes.⁶⁸ Already its trade with Malaysia and Singapore doubled in 2014.

In August 2015, China and Laos officially signed the Mohan–Boten Economic Cooperation Zone Construction Overall Scheme; the zone is located at the border between Yunnan in China and the Luang Namtha Province in Laos.⁶⁹ The China Development Bank has also increased investment in Laos and developed more than US\$ 10 billion worth of projects related to power stations, transportation, economic development zones, etc.

In response to Thailand's initiative, the first Lancang–Mekong Cooperation (LMC) Foreign Ministers' meeting was held in Jinghong, Yunnan, in November 2015. The joint communique states that China, Laos, Myanmar, Thailand, Vietnam and Cambodia will develop the LMC to become a subregional cooperation platform for joint consultation to meet the interest of all. The five priority areas for cooperation promotion are interconnectivity, production capacity, cross-border economic cooperation, water resources cooperation, as well as agricultural cooperation and poverty reduction.⁷⁰

During President Xi Jinping's visit to Vietnam in November 2015, the two governments agreed to engage in a feasibility study for a railway project joining Vietnam to China's border city, Lao Cai, and extending it to Haiphong, Vietnam's third largest city. China also offers US\$ 250 million in loan to the Vietnamese urban rail project, and provinces US\$ 300 million in loan to the Mong Cai–Van Don highway project.⁷¹

⁶⁸ Lu Guangsheng, *China Seeks to Improve Mekong Sub-Regional Co-operation: Causes and Politics*, Policy Report from S. Rajaratnam School of International Studies, Nanyang Technological University, Singapore, February 2016, p. 9.

⁶⁹ *People's Daily* (Beijing), 1 September 2015.

⁷⁰ “The Joint Communique of the First Lancang-Mekong River Cooperation Foreign Ministerial Meeting (Full text)”, *Xinhua Net*, 12 November 2015. Available at http://xinhuanet.com/world/2015-11/12/c_1117126335.htm/#0-tsina-1-43291-397232819ff99a47a7b7e80a40613cfe1.

⁷¹ “China and Vietnam Research the Project of Hanoi-Lao Cai Railway, the Total Investment is US\$ 2.8 Billion”, *The Paper* (Shanghai), 6 November 2015. Available at http://www.thepaper.cn/newsDetail_forward_1393584.

Challenges in China–ASEAN Subregional Cooperation

China's subregional approach is intended to reduce external pressures (i.e., countries like the U.S. and Japan in competition with China and eager to contain China's influence in the region) and strengthen its regional influence, but its success depends a lot on the responses of the U.S. and Japan. There is an increasingly strong awareness in these countries that China's rise challenges the *status quo* and the U.S. hegemony. According to Kindleberger, the existence of a hegemon will contribute to the stability of the international system and even its economic prosperity and interdependence.⁷² The U.S. will not accept a decline of its regional influence, as reflected by its "return to Asia" strategy of the Barack Obama administration. It has the support of its formal Asian allies and other countries, like India, which share a "China threat" perception.⁷³ At the same time, they will try to persuade China to follow the existing international norms and exert pressure on it concerning issues ranging from trade surpluses and yuan revaluation, to intellectual property rights.⁷⁴ Hence, China's efforts to enhance its influence in the Asia-Pacific region will be countered by resistance from the U.S.,⁷⁵ as is seen in the Obama administration's efforts to "rebalance" and "pivot" toward Asia.⁷⁶

Japan also sees China's rise as a challenge to its leadership in Asia. Since the turn of the century, U.S.–Japan security cooperation has been

⁷²C. Kindleberger, *The World in Depression 1929–1939*. (London: Allen Lane, The Penguin Press, 1973), p. 28.

⁷³W. Callahan, "How to Understand China: The Dangers and Opportunities of Being a Rising Power", *Review of International Studies*, Vol. 31, No. 4 (2005), pp. 701–704.

⁷⁴G. Segal, "East Asia and the 'Constraint' of China", in M. E. Brown, O. R. Cote, S. M. Lynn-Jones and S. E. Miller (eds.), *The Rise of China* (Cambridge: The MIT Press, 2000), pp. 262–265.

⁷⁵J. Wanandi, "China and Asia Pacific Regionalism", in K. Ryosei and J. Wang (eds.), *The Rise of China and a Changing East Asian Order* (Tokyo: Japan Centre for International Exchange, 2004), pp. 38–40.

⁷⁶S. J. Hadley, "China, the US and the Rise of Asia", *Global Asia*, Vol. 7, No. 2 (2012), pp. 80–87.

strengthening while Sino-Japanese relations have been a weak link in China's diplomacy.⁷⁷ In January 2008, Japan invited the foreign ministers of the five Mekong region countries to Tokyo for the first Mekong–Japan Foreign Ministers' meeting.⁷⁸ The absence of China illustrates Tokyo's intention to compete with Beijing for influence in the GMS and the Japanese leadership's intention to maintain its established influence in the region. In June 2008, Japan ratified its economic partnership agreement with ASEAN, presumably as Japan's means of balancing the CAFTA. The lack of mutual trust between China and Japan is probably the most significant factor adversely affecting economic integration in East Asia.⁷⁹ The resistance to China's growing regional influence by the U.S. and Japan has been supported by several Southeast Asian governments which appear to prefer a hedging strategy in view of lingering suspicions about China's intentions.⁸⁰

In 2010, China felt the pressure acutely as its expanding naval strength and assertiveness in territorial disputes aroused concern. Its relations with Japan and the U.S. deteriorated, and the ASEAN countries' hedging strategy became more prominent. In early June 2010, at the informal annual Shangri-La Dialogue in Singapore, there were open verbal clashes between the Chinese and the American delegates over the Korean and Taiwan situations, leading to a postponement of the planned visit to China by the then U.S. Defense Secretary Robert Gates.⁸¹ In July 2010, at the foreign ministerial meeting of the

⁷⁷ Sir J. Boyd, "China and Japan", *Asian Affairs*, Vol. 36, No. 3 (2005), pp. 277–286.

⁷⁸ Ministry of Foreign Affairs of Japan, *Memorandum for Cooperation on the Cambodia–Lao PDR–Viet Nam Development Triangle Using the Assistance by Japan through the Japan–ASEAN Integration Fund*, 2008. Available at <http://www.mofa.go.jp/region/asia-paci/mekong/meet0801-2.html>. Accessed 11 November 2012.

⁷⁹ Sir J. Boyd, "China and Japan", *Asian Affairs*, Vol. 36, No. 3 (2005), pp. 277–286.

⁸⁰ See E. Goh, *Meeting the China Challenge: The US in Southeast Asia Regional Security Strategies* (Washington, D.C.: East-West Centre, 2005); R. Sokolsky, A. Rabasa and R. C. Neu, *The Role of Southeast Asia in US Strategy Toward China* (Santa Monica, California: Rand Corporation, 2001).

⁸¹ Y. Huang, "Cong Xiang Ga Li La dui hua Guan Cha Yatai Qing Kuang Fazhan (Observing Developments in the Asia-Pacific Situation from the 'Shangri-La Dialogue')", *Asia-Pacific Peace Studies Monthly*, Vol. 2, No. 7 (2010), pp. 12–14.

ASEAN Regional Forum in Hanoi, the then U.S. Secretary of State Hillary Clinton declared that U.S. national interests were involved in the South China Sea, while the Chinese Foreign Minister Yang Jiechi maintained China's position of rejecting external involvement in regional affairs. In a parallel meeting with Vietnamese Vice-Premier and Foreign Minister Pham Gia Khiem, Japanese Foreign Minister Okada Katsuya also indicated Japanese concerns about the South China Sea question.⁸² Meanwhile, in response to a U.S.–Vietnamese naval exercise involving the aircraft carrier USS George Washington, China's North Sea, East Sea and South Sea fleets conducted a large-scale exercise in the South China Sea.⁸³ These developments demonstrate that China's increasing strategic influence in Southeast Asia is not perceived as benign by other states in the region.

These confrontational naval exercises have become more regular. The Hanoi government has accused China of harassing PetroVietnam oil survey ships in Vietnam's exclusive economic zone. In 2011, it was said that Chinese vessels twice deliberately severed the cables of a Vietnamese survey ship.⁸⁴ The incidents provoked demonstrations at China's embassy in Hanoi and at the Ho Chi Minh City consulate-general. Hanoi soon permitted port calls by U.S. naval ships.⁸⁵ In June 2012, U.S. Defense Secretary Leon Panetta visited Hanoi, symbolizing a new tilt toward the U.S. in Vietnam's hedging strategy.

Even so, Vietnam understands that it has to maintain a balancing act. In the escalation of tension, Hu Jintao and Nguyen Phu Trong, top Party leaders in China and Vietnam, signed the "Agreement on Basic Principles Concerning the Guidance for the Resolution of

⁸² "Beijing: South China Sea Belongs to Core Interests, First Indication to U.S.; Academics Consider that the Same Applies to East China Sea", *Ming Pao*, 5 July 2010; "Verbal Clashes Over the South China Sea, Foreign Ministry Attempts to Reduce Impact", *Ming Pao*, 28 July 2010.

⁸³ *South China Morning Post*, 31 July 2010.

⁸⁴ B. S. Glaser, *Armed Clash in the South China Sea*, Contingency Planning Memorandum No. 14, U.S. Council on Foreign Relations, 2012, pp. 1–11. Available at <http://www.cfr.org/east-asia/armed-clash-south-china-sea/p27883>. Accessed 14 November 2012.

⁸⁵ *The Straits Times* (Singapore), 31 August 2012.

Sino-Vietnamese South China Sea Issues” in October 2011. They also agreed to establish a hotline to deal with crises and semiannual talks to discuss their maritime disputes.⁸⁶

The U.S.–South Korean naval exercise (with Japan participating as an observer) and that of China in the Sea of Japan/Yellow Sea in the summer of 2010 revealed the potential security conflicts and rising tensions in Northeast Asia.⁸⁷ This potential was again demonstrated for Sino-Japanese relations in 2010. The detention of a Chinese fishing boat and its crew by the Japanese authorities after its bumping onto a Japanese Coast Guard vessel in the exclusive economic zone of the disputed Diaoyutai Islands caused uproars among nationalists in both countries. The territorial dispute reached a new peak in mid-2012 over the Japanese government's formal purchase of the islands from a private citizen to whom it had previously paid “rent”. Neither Beijing nor Tokyo could afford to be seen to be “weak” as they pandered to the nationalists in their respective countries. These incidents exacerbated distrust and the difficulties of resolving the territorial and associated resources disputes through negotiations. There have been further military exercises in recent years. These developments in Northeast Asia have a spillover impact in Southeast Asia as the U.S. and Japan are more concerned with the “containment” of China's expanding influence in the Asia-Pacific region, and they believe that their efforts are welcomed in Southeast Asia.

China is implementing an anti-hegemony regional diplomacy designed to shape a regional security environment where the U.S. alliance system will no longer be relevant or necessary.⁸⁸ An important

⁸⁶D. C. McCornac, “Vietnam's Relations with China: A Delicate Balancing Act”, *China Research Centre*, Vol. 10, No. 2 (2011), pp. 1–4.

⁸⁷“US, South Korea Conduct Military Manoeuvres Tomorrow with Japan Self-Defense Forces Participation, China Objects Strongly with New Actions to Follow”, *Hong Kong Economic Times*, 24 July 2010; “US–Japan–South Korea Enhance Military Solidarity Aiming at China”, *Ming Pao*, 26 July 2010; *China Daily* (Beijing), 31 July 2010.

⁸⁸S. Xiao, “Zhongnanhai Wenjianyu Qiangying Shuanquan Bingju (Chinese Leaders Demonstrate a Stable and a Hard Line)”, *The Mirror*, Vol. 379 (2009), pp. 22–23.

element of this diplomacy has been to reassure China's neighbors of its constructive regional role and the value of their economic ties with China. An opinion survey conducted in July and August 2003 by the U.S. State Department's Office of Research and Intelligence revealed that China's image had significantly improved in Japan, South Korea and Australia. A majority of those polled — 54% in Japan, 68% in South Korea and 67% in Australia — had an overall favorable opinion of China.⁸⁹ Another poll by the British Broadcasting Corporation in March 2005 reported that 22 countries across continents believed that China was playing a more constructive role in international affairs than the U.S.⁹⁰ In short, the above indicates that China's charm offensive in East Asia had made considerable progress until 2010 or so. But the Bush administration in its second term already allocated more resources to project U.S. soft power, and China now expects much keener competition from the Obama administration which has been working hard to "return to Asia".⁹¹

Nye offered an assessment of the weaknesses of China's "soft power" appeal as follows:

China does not have cultural industries like Hollywood, and its universities are not yet the equal of U.S. higher educational institutions. It lacks the many non-governmental organizations that generate much of America's soft power. Politically, China suffers from corruption, inequality, lack of democracy, human rights, and the rule of law. While that may make the Beijing consensus attractive in authoritarian and semi-authoritarian developing countries, it undercuts China's soft power in the West.⁹²

⁸⁹ *Global Times*, 27 June 2009.

⁹⁰ A. Walker, *China's New Economic Power Fans Fear, BBC Poll Finds*, 2011. Available at <http://www.bbc.co.uk/news/business-12867892>. Accessed 10 October 2012.

⁹¹ Y. Qin (ed.), *Daguo Guānxi yǔ Zhōngguó Waijiāo* (*Great Power Relations and China's Diplomacy*) (Beijing: Shijie Zhishi Chubanshe, 2011), p. 306.

⁹² J. Nye, "The Rise of China's Soft Power", 2005. Available at http://belfercenter.ksg.harvard.edu/publication/1499/rise_of_chinas_soft_power.html. Accessed 9 October 2012.

One may easily lengthen the list. While the inadequacies of China's soft power are considerable, the issue of sovereignty in international cooperation in natural disaster relief posed a serious challenge for the Chinese leadership, with implications for China's relations with Southeast Asian countries. The devastation of Cyclone Nargis which struck Myanmar in early May 2008 was a good example. Under what circumstances would China accept that human security, which the international community has increasingly adopted as the norm for its actions in recent years, takes precedence over traditional security based on national sovereignty? In the Myanmar case, China, Russia, South Africa and Vietnam opposed the Responsibility to Protect Doctrine and the United Nations Security Council intervention to deliver relief supplies to stricken areas in Myanmar without the consent of its government.⁹³ In the foreseeable future, China's strict defense of the traditional concept of sovereignty and its veto in the United Nations Security Council would continue to serve as assets in Beijing's approach to the CLMV Group of countries.

Beijing's approach also has a demonstration effect. Its long support for Myanmar's military junta and refusal to exert pressure on it regarding human rights issues had been followed by India, and, to a lesser extent, Japan as well. They were mainly influenced by the consideration to maintain their respective influences in Myanmar so as to "contain" China.⁹⁴ China's position in turn has strengthened that of the ASEAN states which choose to uphold the traditional "non

⁹³ H. Dieter, "Changing Patterns of Regional Governance: From Security to Political Economy?", *The Pacific Review*, Vol. 22, No. 1 (2009), pp. 73–90.

⁹⁴ D. I. Steinberg and H. Fan, *Modern China–Myanmar Relations: Dilemmas of Mutual Dependence* (Hawaii, University of Hawaii Press, 2012); S. McCarthy, "Myanmar and ASEAN: Estranged Bedfellows", *Asian Survey*, Vol. 48, No. 6 (2008), pp. 911–935; T. Apiwong and Y. Bamba, *The Role of the Japanese in Myanmar: Economic Relations Between Japan and Myanmar in Historical Perspective*, 2009. Available at <http://libdspace.biwako.shiga-u.ac.jp/dspace/bitstream/10441/8174/1/jinbun59pp.9-.pdf>. Accessed 10 November 2012); D. I. Steinberg, "The United States and Myanmar: A 'Boutique Issue'?", *International Affairs*, Vol. 86, No. 1 (2010), pp. 175–194; S. B. du Rocher, "The European Union, Burma/Myanmar and ASEAN: A Challenge to European Norms and Values or a New Opportunity?", *Asia Europe Journal*, Vol. 10, No. 2 (July 2012), pp. 165–180.

interference in domestic affairs” line. Myanmar’s recent opening to the West implies that the attempts to “contain” China’s influence in the country would be stepped up.

China’s “resource diplomacy” and its pursuit for economic security at this stage represent another controversy and challenge. They are reminiscent of Japan’s policy in Southeast Asia in the 1960s and early 1970s. When Prime Minister Tanaka Kakuei visited Southeast Asia in 1974, he encountered massive protests; this taught the Japanese leadership a lesson, and Prime Minister Fukuda Takeo returned in 1977 with the proposal for “heart to heart diplomacy”. However, unlike Japan, the People’s Republic of China has been strongly identifying itself with the Third World, and this remains an important theme of Chinese foreign policy.

Rhetoric alone is inadequate. There are already complaints in the GMS and by international NGOs. The World Wide Fund for Nature based in Switzerland observed that the “New City Development Project” in Luang Namtha Province in Laos would damage the marshland in the area and bring about more floods and other environmental damages.⁹⁵ In Cambodia, environmentalists and local residents are condemning China’s hydroelectric power projects there. Residents near the development sites perceived the projects as unnecessary; they told Western journalists that they did not want to see their ancestral lands “stolen” by the projects. The International Rivers Network in the U.S. criticized the dam projects as “poorly conceived...needlessly and irreparably damaging Cambodia’s river system with serious consequences”.⁹⁶

Competition for water resources can become a serious problem between China and the mainland Southeast Asian countries. In March 2010, while southwestern China was suffering from one of the worst

⁹⁵S. Biba, “China’s Continuous Dam-building on the Mekong River”, *Journal of Contemporary Asia*, Vol. 42, No. 4 (2012), pp. 603–628.

⁹⁶T. S. Lim, “China’s Active Role in the Greater Mekong Sub-region: Challenge to Construct a ‘Win-win’ Relationship”, *East Asian Policy*, Vol. 1, No. 1 (2009), p. 46. For a more optimistic view, see Edward Friedman, “How Economic Superpower China Could Transform Africa”, *Journal of Chinese Political Science*, Vol. 14, No. 1 (March 2009), pp. 1–20.

droughts in the past century, the water level of the Mekong River also fell to a 50-year low. Thailand, Vietnam, Laos and Cambodia jointly complained to China against its dam construction projects in the Lancang River, which is the upstream segment of the Mekong within China. The Chinese authorities rejected the complaint and refused to release water from its upstream reservoirs, though they agreed to attend a meeting to discuss the issues.⁹⁷

The Lower Mekong Initiative launched in July 2009 is a good example of the Obama administration's efforts to restore American influence in the region and the type of competition that China faces in Southeast Asia. In July 2010, U.S. Secretary of State Hillary Clinton announced at the ARF Foreign Ministers' meeting in Hanoi that the U.S. would spend US\$ 187 million on projects to help Cambodia, Laos, Thailand and Vietnam reduce the impact of climate change on water resources, food security and the health and livelihoods of their populations in the Lower Mekong River Basin.⁹⁸ Earlier, in May, a sister-river partnership was also established between the Mekong River Commission and the Mississippi River Commission in the U.S. It is expected that the tensions in the South China Sea will further encourage the U.S. to increase its inputs to projects of this kind.⁹⁹

Trade and investment are positive factors in China–ASEAN relations, though some problem areas remain. China as a trade partner and a source of investment enhances the Southeast Asian countries' bargaining power *vis-à-vis* the developed countries, which tend to take a common stand regarding demands for democracy, human rights and the rule of law. China's demand for energy and raw

⁹⁷T. Fuller, "Countries Blame China, Not Nature, for Water Shortage", *New York Times*, 1 April 2010. Available at <http://www.nytimes.com/2010/04/02/world/asia/02drought.html>. Accessed 10 November 2012.

⁹⁸U.S. Department of State, *U.S. To Spend \$187 Million on Lower Mekong Initiative*, 2010. Available at <http://iipdigital.usembassy.gov/st/english/article/2010/07/20100722134433dmslahrellek0.2057459.html#axzz2CB3uhMSf>. Accessed 10 November 2012.

⁹⁹U.S. Army Corps of Engineers, *Mississippi River Commission Agreement Creates Unique Partnership a World Apart*, 2010. Available at <http://www.state.gov/documents/organization/143484.pdf>. Accessed 10 November 2012.

materials has been a significant factor in driving up their prices in international markets, which has benefitted many Southeast Asian countries in recent years. Some Chinese experts consider that China can be an important source of intermediate technology, which is cost-effective and appropriate for the stage of development of the less-developed ASEAN countries. China has yet to demonstrate that it can serve as a generous and effective source of technology transfer for them in household electrical appliance industries, textiles and apparel industries, infrastructural construction and so on.¹⁰⁰

To deal with the emergence of the “ugly Chinese” syndrome, i.e., the exploitative aspects of China’s trade and investment activities, Beijing’s limited aid program in Southeast Asia may not be enough. The Chinese authorities, while directing their state-owned enterprises (SOEs) to expand and invest internationally, had not directed them to operate as “model business partners”. However, Chinese experts now assert that some of China’s aid money should go to the SOEs so that they will be able to behave as “model employers” and contribute to community projects. This requires effective coordination at the central government level and new mechanisms have to be built to achieve the desirable outcomes. The Chinese leadership is obviously aware of the emerging adverse publicity and will try to reverse the trend. This is one of the major challenges to the Chinese leadership’s attempt to enhance China’s appeal and good image through subregional economic cooperation with ASEAN countries.

There are other types of challenges and difficulties at the provincial level. Power remains highly concentrated in the central leadership in China, especially when foreign affairs are involved. Hence, the initiatives on the part of the provincial leadership in foreign economic relations are usually limited. Guangxi had to work very hard to get the green light from Beijing at the beginning of 2007. In May that year, there was a Guangxi–Vietnam investment conference held in Vietnam, and Guangxi claimed to have concluded contracts amounting to US\$ 500 million; and in the following June, a Vietnam–Guangxi Economic

¹⁰⁰ E. Friedman, “How Economic Superpower China Could Transform Africa”, *Journal of Chinese Political Science*, Vol. 14, No. 1 (2009), pp. 1–20.

Cooperation Forum was organized in Guangxi with active participation by Vietnamese provincial leaders. In May 2007, Party and government leaders of Guangxi visited Indonesia, the Philippines, Malaysia and Singapore to discuss Pan-Beibu Gulf Cooperation. The Guangxi authorities then claimed that their projects had secured the support of the concerned ASEAN governments.

The Guangxi authorities have ambitious plans, but these plans have to secure the approval of the Chinese leadership. The latter has to balance the requests from various provinces. In May 2008, the State Council approved Guangxi's request that its Qinzhou port would be China's sixth tax-free port, which would enjoy the benefits of a tax-free district, export-processing zone, tax-free logistics center, tax-free warehouses/storage facilities, etc. This was the only tax-free port in central and western China, and then it began operation at the end of 2009. Guangxi would like to establish a "China-ASEAN Border Comprehensive Tax-free District" at Pingxiang, a brand new concept for the Chinese authorities, as well as tax-free logistics parks in Nanning, Fangcheng, Beihai and Dongxing. It would also like to seek visa-free access for citizens of ASEAN countries entering the GBGED and staying for no more than seven days; similarly, it hopes that the Chinese authorities would secure visa-free treatment or visa-application-on-arrival treatment for Chinese citizens entering Vietnam and then other ASEAN countries through the border point at the Friendship Gate, Dongxing.

These ambitious plans easily arouse the jealousy of other provinces. It is significant to note that the Guangxi leadership does not seem to enjoy the support like that of leaders in Yunnan, Guangdong and other provinces in all these plans. Obviously, there is keen competition for "special policies" from Beijing among all provinces. In contrast to Guangdong and Shanghai, Guangxi as a relatively poor autonomous region also needs funding support from the central leadership which makes its task even more difficult. It seemed that Guangxi understood that in the first decade of the twenty-first century, the central leadership's priority would go to the development of Tianjin, while the GBGED would be given its turn in this decade.

Planning and securing the central leadership's approval are the initial steps; much effort is still required in the implementation stage. Guangxi is a late starter in development among China's provinces. Despite substantial investment in its port facilities, about half of the trade of China's southwestern provinces goes through the port of Zhanjiang in Guangdong, and about 70% of their imports of iron ore are downloaded there. Moreover, these provinces which are the hinterland of Guangxi's ports are the poorer provinces in China; their trade growth will remain limited for some years. Efficiency of Guangxi's ports is low; electronic commerce and container electronic inspection systems are not well developed; professionals with a good command of English and other foreign languages are also in short supply.

The inadequacies of banking facilities are still a severe problem. The central banks of China and Myanmar have no agreement on payment settlement involving their national currencies, and there are no direct settlement channels between their banks. Border trade between China on one hand, and Vietnam, Laos and Myanmar on the other, has been much handicapped by inadequate banking facilities in the border towns offering trade settlement services. These services are often offered by underground banks and even street stalls which are illegal in China, but the Vietnamese government is flexible enough to give them business licenses, so that they can serve as money-changers and offer a limited range of banking services.

In 2008 and 2009, because of Vietnam's economic difficulties in the global financial crisis, it suffered from a shortage of U.S. dollars; many Vietnamese corporations asked their Chinese counterparts to settle their transactions in Renminbi. This is in accord with China's interest to promote the regionalization of the Renminbi and raise its international status. Further, settlement in Renminbi will facilitate trade and reduce the currency risks in trade. Since China enjoys a substantial trade surplus in the bilateral trade, it will also encourage Chinese enterprises to invest in Vietnam with Renminbi.

Though the GMS Economic Cooperation Program was launched in 1992, the first GMS summit was only held in Phnom Penh, Cambodia, in 2002. The heads of government participating in the summit endorsed the first 10-year Strategic Framework (2002–2012)

as the 'key means through which closer economic co-operation and prosperity will be achieved'. The primary goals of GMS cooperation are identified: fulfilling the region's vast potential; lifting people from poverty; and promoting sustainable development for all.

At the second GMS summit held in Kunming, China, in 2005, the Kunming Declaration was adopted, with 'connectivity, competitiveness and community' being laid down as the building blocks for achieving the GMS vision. At the third GMS summit held in Vientiane, Laos, in 2008, the Vientiane Plan of Action for GMS Development for 2008–2012 was endorsed, which was aimed at accelerating economic growth, reducing poverty, promoting social development and enhancing environmental protection in the subregion.

At the fourth GMS summit held in Naypyidaw, Myanmar, in 2011, a joint declaration was approved, as well as a new 10-year Strategic Framework (2012–2022).¹⁰¹ At the fifth GMS summit held in Bangkok, Thailand, in December 2014, the released leaders' declaration pledged to promote a more open and inclusive partnership for the GMS economic cooperation. Ninety-two priority investment projects were identified in the Regional Investment Framework (2013–2022) and the Implementation Plan (2014–2018). A regional railway alliance and an assessment report on regional transportation strategy for 2006–2015 were significant agenda items at the summit.¹⁰²

China's important role in GMS cooperation has been widely acknowledged. In 2013, trade between China and the other GMS member states reached US\$ 153.4 billion; and direct investment from China to the latter rose to US\$ 2.3 billion. At the Bangkok summit, Chinese Premier Li Keqiang offered US\$ 1 billion for infrastructure interconnectivity, US\$ 490 million in grant for poverty alleviation and

¹⁰¹ "Backgrounder: Greater Mekong Sub-regional Summit — World", *Xinhua News Agency*, 19 December 2014. Available at http://www.chinadaily.com.cn/world/2014livisitkst/2014-12/19/content_19123136.htm.

¹⁰² "GMS Eyes Better Connectivity, China's Bigger Role", *China Daily* (Beijing), 18 December 2014. Available at http://www.chinadaily.com.cn/world/2014livisitkst/2014-12/18/content_19117309.htm; Zhao Yanrong, "Larger Role Seen for China-World", *China Daily* (Beijing), 19 December 2014. Available at http://www.chinadaily.com.cn/world/2014livisitksl/2014-12/19/content_19121343.htm.

US\$ 1.6 billion for China's production capacity exports. The Chinese and Thai governments also agreed to build Thailand's first standard-gauge railway lines with a total length of more than 800 km, estimated to cost US\$ 10.6 billion.¹⁰³

Despite its impressive economic inputs, China, however, has to be aware that economic development may not rapidly solve all political and security issues, while economic cooperation may not resolve security problems. Competition from the U.S. and Japan has been stepped up due to their strategic anxiety concerning China's rising influence in the region. This and the increasing criticisms from the civil society organizations in the GMS member states have exacerbated the difficulty of achieving deeper cooperation between China and its GMS neighbors. Experts in China have articulated that China's policy of 'promoting political relations by developing economic cooperation' has to be reconsidered, and a better balance between meeting the subregion's economic and political/security demands has to be secured.¹⁰⁴

In the eyes of Southeast Asian international relations scholars, China's assertiveness in both the Mekong mainland and the South China Sea "may end up forcing smaller states that want to avoid conflict into a regional alliance against it".¹⁰⁵ This may well be an exaggeration at this stage, but the hedging strategies of many ASEAN countries are obvious.

Conclusion

When the ASEAN Regional Forum was being organized in 1993, the Chinese leadership was hesitant to become involved in multilateral regional organizations. China subsequently participated because it

¹⁰³ *Ibid.*; "China to Offer Funds, Production Capacity Aid to Neighbors", *China Daily* (Beijing), 20 December 2014.

¹⁰⁴ Lu Guangsheng, *China Seeks to Improve Mekong Sub-Regional Cooperation: Causes and Policies*, *op. cit.*, pp. 6–7.

¹⁰⁵ Thitinan Pongsudhirak, "China's its Own Worst Enemy in Regional Relations", *East Asia Forum*, 31 March 2016. Available at <http://www.eastasiaforum.org/2016/03/31/chinas-its-own-worst-enemy-in-regional-relations/>, p. 3.

considered that it would be more advantageous to exercise its influence within these organizations than being excluded from them. By 2001, when the Shanghai Cooperation Organization was established, China's leadership was convinced that multilateral and regional organizations were important mechanisms for articulating its interests, enhancing its influence and promoting multipolarity. China has moved from a passive and defensive participant to an active organizer with a well-defined set of agenda items and strategies. Later, Chinese leaders considered that participation in subregional economic cooperation projects along its borders would be useful in its pursuit of the above objectives. It would further allow a relatively low profile while seeking leadership and reducing external pressures. This approach has been in line with the Chinese economic strategy of "going out" to enhance economic security through investment to secure supplies of resources to support its economic growth and markets for its expanding exports. In the case of the less-developed ASEAN countries, there are the additional considerations of reducing China's aid commitments and accelerating the development of China's central and western provinces.

China has been successful to some extent in reducing its neighbors' "China threat" perception. If its impressive economic growth remains sustainable, this process is expected to be enhanced. But its success has attracted considerable attention from the major powers involved in the Asia-Pacific region, and China anticipates keen competition. Like China's venture into Africa, its activities in Southeast Asia have been criticized in the West for neglecting democracy, good governance and human rights, as well as for its selfish exploitation of natural resources at the expense of environmental protection. Apparently, the Chinese authorities are aware of these shortcomings, and a more sophisticated strategy to improve China's image is being implemented.

At the provincial level, the major obstacles are coordination and resources. In the approach to the CLMV Group of countries, the Chinese provinces concerned are relatively poor. They have an uphill battle fighting for preferential policies and resources from the central government. Keen competition among them makes effective coordination even more difficult. But the situation is improving,

given the favorable shift in priorities to their development on the part of the Chinese leadership, and the economic benefits are impressive despite a low starting point. Higher economic growth rates have moved from the coastal provinces in China to its central and western provinces; similarly, they have moved from the four little dragons of Asia to countries like Vietnam and Cambodia. The appreciation of an export-oriented growth strategy based on the attraction of foreign investment and the development of transport infrastructure is obvious.

Regarding China-ASEAN subregional economic cooperation, the learning curve in China has been steep at both the central and provincial levels, and China's engagement has been extensive and growing. Nationalist reactions to the escalation of the territorial disputes in the South China Sea and other sovereignty concerns — in the region and China itself — may mean that Chinese leaders may have to adopt a more assertive position which does not conform to their claimed harmonious world perspective.

Traditional national interest considerations still dominate Chinese foreign policy and China's approach toward ASEAN. However, in the recent decade and more, increasing elements of liberalism/institutionalism and constructivism have emerged in Chinese foreign policy as the leadership makes substantial efforts to engage in multilateral diplomacy to enhance China's influence. Chinese foreign policy experts consider that despite the territorial and other disputes with ASEAN states, their economic cooperation will continue to strengthen, especially in view of the implementation of the CAFTA in 2010 and the development of the regional transport infrastructure. This strengthening cooperation may not lead to the satisfactory resolution of the disputes, but it will probably help to restrain the parties concerned because of common economic interests.

From a more constructive perspective, the best way for China to enhance mutual trust with its ASEAN neighbors including the GMS member states is to demonstrate a commitment to engage in rule-making to address the latter's concerns. Concluding a binding code of conduct in the South China Sea is an important example, and unfortunately, China has been perceived to have been dragging its feet in the process.

Similarly, after supporting the initiative to set up the LMC Foreign Ministries' meeting in 2015, China should take a bold step to offer guidelines on the use of the Lancang–Mekong water. This would be a significant driving force to promote collaboration and joint action. Instead, there is a cynical view that the LMC Foreign Ministries' meeting has been exploited to push aside the Mekong River Commission (MRC), in which China and Myanmar are the only dialogue partners. Naturally, China is concerned about the influence of Western countries and Japan over the MRC.¹⁰⁶

Poverty alleviation has now been highlighted as a GMS development goal since its third summit in 2008; and this is certainly an area that China can make a substantial contribution. If a higher proportion of China's economic assistance funding goes to poverty reduction within the GMS instead of to infrastructure projects like high-speed railways, it may benefit more people in the lower socioeconomic strata and better enhance the sense of China–ASEAN “destiny community”.

It has sometimes been suggested that Chinese leaders may learn from the Japanese experience in dealing with the rise of anti-Chinese sentiments in the subregion. Chinese leaders have become quite sophisticated in developing multilateral institutions and forums as well as coining attractive phrases in their official discourses to articulate Beijing's position and interests, but genuine concessions are essential to convince the small countries in the subregion to work together with China in an asymmetrical relationship. In short, the latter have not felt China's sincerity yet.

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¹⁰⁶Thitinan Pongsudhirak, *op. cit.*, pp. 2–3.

Part II

China and the World

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Chapter 8

The Shanghai Cooperation Organization: China's Initiative in Regional Institutional Building

Joseph Yu-Shek Cheng

The Shanghai Cooperation Organization (SCO) is the first and only regional organization initiated by China. Originating from the Shanghai Five group of Eurasian states (China, Kazakhstan, Kyrgyzstan, Russia and Tajikistan) since 1996, the SCO was founded in 2001 with the addition of the sixth state of Uzbekistan. Afghanistan, India, Iran, Mongolia and Pakistan are observer states, with India and Pakistan becoming full members by 2017.¹

This chapter examines China's objectives in establishing the Shanghai Cooperation Organization (SCO), its plans for the development of the SCO in the context of its policy toward Central Asia then,

¹ *Brief Introduction to the Shanghai Co-operation Organization*, <http://www.sectsc.org/EN123/brief.asp>, accessed 2 February 2015; Galiya Ibragimova, "After 15 Years, the SCO is Ready to Expand", *Russia Direct*, 30 June 2016. Available at <http://www.russia-direct.org/analysis/after-15-years-shanghai-cooperation-organization-ready-expand>.

its approach in dealing with other powers in the region in that period, the difficulties it had encountered and its efforts to mitigate them. Chapter 9 concentrates on the challenges faced by the SCO in its development, and China's efforts in furthering institutional building, economic cooperation and its handling of the challenge from security issues with particular reference to the Afghanistan situation.

Following the breakup of the Soviet Union in December 1991, China has engaged in increasingly close cooperation with the five Central Asian republics (Kazakhstan, Tajikistan, Kyrgyzstan, Turkmenistan and Uzbekistan). This cooperation has been perceived by the Chinese leadership as essential to the maintenance of security along its western border, the promotion of the economic development of western China, the diversification of the sources of China's energy imports and those of other raw materials, and the securing of a peaceful and friendly international environment along its frontiers.

Experts from China's official think tanks² claim that China's Central Asian policy follows the following principles³:

- (a) Respect for the sovereignty and independence of the countries concerned, respect for the cultural traditions and diversity in civilizations in the region, non-interference in the countries' domestic affairs, and non-interference in their choice of social systems and development models;
- (b) Avoidance of establishing alliances with the Central Asian republics or establishing exclusive spheres of influence in the region,

²In January–February 2009, I visited the Chinese Academy of Social Sciences, Beijing University, the Central Party School, the China Institute for International Strategic Studies and the Shanghai Institute of International Studies. I held extensive discussions with over 50 academics and research workers on Chinese foreign policy, with a special focus on China's approach to SCO. To facilitate exchange of ideas, they will not be quoted directly. Instead, their views will be summarized and presented as those of the Chinese research community on China's foreign policy and its SCO policy.

³Yu Zheng (ed.), *Zhong E Mei zai Zhongya: Hezuo yu Jingzheng (1991–2007)* (*Co-operation and Competition: China, Russia and U.S. in Central Asia (1991–2007)*) (Beijing: Social Sciences Academic Press, 2007).

- maintenance of regional stability and security for common development;
- (c) Economic assistance without preconditions, refraining from interfering in the political and economic policies of the Central Asian republics using aid and investment as tools;
 - (d) Engaging in bilateral and multilateral economic and trade cooperation as well as trade facilitation on the basis of voluntary cooperation taking into account of their present economic situation;
 - (e) In the handling of long-standing border issues, taking into consideration history and reality, consultation on an equal basis, mutual understanding and actual concessions, while accepting the need for essential adjustments in specific areas;
 - (f) The pursuit of political security cooperation and economic cooperation simultaneously, securing mutual support among the policy objectives of counterterrorism, maintenance of stability and common development, expanding cooperation with Central Asian countries and also with Russia.

Chinese leaders also emphasize that their Central Asian policy would concentrate on economic cooperation and would involve, to a certain extent, security cooperation.

The above policy outline contains elements of China's general policy framework with a strong appeal to the developing countries of the region and a message that China will limit its claims to regional and global hegemony. Essentially, it follows the Five Principles of Peaceful Coexistence and China's position on the settlement of border disputes.⁴ Finally, there are also features which specially cater for the situation in Central Asia with an attempt to provide reassurances for Russia.

In the early 1990s, when Chinese leaders began to engage with the republics of Central Asia, they gradually accepted that regionalism had become an inevitable trend. As a result, China had to be prepared

⁴The Five Principles of Peaceful Coexistence were jointly initiated by China, India and Burma in 1953–1954; initially, they were to apply to relations among countries with different social systems. They are respect for territorial integrity and sovereignty, non-interference in domestic affairs, equality and mutual benefit, non-aggression and peaceful coexistence.

to actively participate in regional organizations and practice multilateral diplomacy. Obviously, the regional organizations most important to China are those in Asia. While China slowly became more involved in the ASEAN Regional Forum (ARF), the Shanghai Cooperation Organization (SCO) was very much the brainchild of the Chinese leadership.

On the basis of the achievements in its approach to Central Asia in the 1990s, China was able to take the lead in June 2001 to formally establish the SCO involving China, Russia, Kazakhstan, Tajikistan and Uzbekistan. Since then, the SCO has evolved into an economic, energy and security forum. In contrast to the ARF, the SCO has been more ready to engage in institutional development. In the third Heads of State meeting in Moscow in May 2003, agreement was reached on the establishment of a General Secretariat (with a budget and a Secretary-General) in Beijing and an anti-terrorism center in Tashkent. There have been regular meetings at the foreign minister, prime minister and head of state level. In the July 2005 meeting, Iran, Pakistan, India and Mongolia were invited to take part as observers, a possible sign of ambitious expansion plans for the organization.

Historical Background and China's Objectives

When the Soviet Union disintegrated at the end of 1991, the Chinese government promptly recognized the Russian Federation and the other 11 republics. Diplomatic relations with them were established rapidly. The Chinese government actively cultivated good relations with these countries and offered them loans and commodity credits. Leaders from these countries were invited to visit China, and in 1992–1993, there were top leaders from these countries visiting Beijing almost monthly.⁵ In 1994, then Premier Li Peng visited Uzbekistan, Turkmenistan, Kyrgyzstan, Kazakhstan and Mongolia.

⁵ Xing Qu, "Shilun Dong'ou Jubian he Sulian Jieti Hou de Zhongguo Duiwai Zhengce (Discussion of China's Foreign Policy since the Radical Changes in Eastern and the Disintegration of the Soviet Union)", *Waijiao Xueyuan Xuebao (Journal of Foreign Affairs College)*, Vol. 4 (1994), pp. 16–22.

During the visits, he enunciated the four major principles governing China's relations with the Central Asia republics. They were: to maintain good-neighborly relations and peaceful coexistence; to promote equality and mutually beneficial cooperation 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.⁶ Li Peng's visit was followed by that of President Jiang Zemin to Uzbekistan, Kyrgyzstan and Kazakhstan in July 1996. Joint statements were concluded with all three governments during Jiang's visit.

In the eyes of the Chinese leadership, the breakup of the Soviet Union left a security vacuum in Central Asia, which was exacerbated by the ongoing war in Afghanistan and the spread of radical Islam. To reinforce these fears, a civil war erupted in Tajikistan in 1992 when an Islamic opposition challenged the government. Chinese leaders were concerned with the potential "Balkanization" of Central Asia which would adversely affect stability and security in the ethnically troubled Xinjiang Province and other western provinces.⁷

An analysis of diplomatic documents indicates that China wanted friendly, good-neighborly relations with the Central Asian republics and was concerned to eliminate any concerns these new states had about having a major socialist power along or not far from their borders.⁸ There was the usual concern over Taiwan, with China's diplomatic relations with the Central Asian countries meaning that they would not seek formal ties with "the renegade province". The

⁶ Qichen Qian, "Shizhong Buyu de Fengxing Duli Zizhu de Heping Waijiao Zhengce (Forever Implementing a Peaceful Foreign Policy of Independence and Self-reliance)", *Qiusbi Zazhi (Seeking Truth)*, Vol. 12 (1995), p. 5.

⁷ R. Sutter (ed.), "Relations with Central Asia", in *China's Rise in Asia — Promises and Perils* (Lanham, Maryland: Rowman & Littlefield Publishers, Inc., 2005), pp. 249–264.

⁸ The Policy Research Office of the Chinese Ministry of Foreign Affairs publishes an annual report in Chinese *Zhongguo Waijiao (China's Diplomacy)* through the Shijie Zhishi Chubanshe in Beijing. In every report, there is a chapter on China's relations with the Eastern European and Central Asian countries. This series of publications offers a good starting point.

Chinese authorities also succeeded in securing the recognition and acceptance of agreements reached in the past Sino-Soviet border negotiations from Kazakhstan, Kyrgyzstan and Tajikistan, which share a common boundary with China. In return, China offered limited economic assistance.

What is more interesting is that in the significant bilateral agreements concluded between China and the Central Asian republics in the 1991–1997 period is that there were two types of provisions. The first was that both parties pledged that they would not take part in hostile actions directed against the other party and that they would not allow any third country to use their respective territories to damage the other party's sovereignty and security interests. The second was that both parties opposed any form of ethnic separatism and would not allow any organization or force to engage in separatist activities directed against the other party within their respective territories; both parties also declared that they would not incite contradictions among states, ethnic groups and religions. These provisions were considered to reflect mutual interests in the combating of ethnic separatism, religious extremism and international terrorism.⁹

Settling the border issue was certainly the key to their good-neighborly relations. In May 1991, China and Russia signed an agreement concerning the eastern section of their boundary. In October 1992, China on one side, and Russia, Kazakhstan, Kyrgyzstan and Tajikistan on the other, began border negotiations.¹⁰ In April 1994, China and Kazakhstan concluded a border agreement during Premier Li's visit; the agreement was then ratified by their respective legislatures

⁹ See Joseph Y. S. Cheng, "China's Asian Policy in the Early Twenty-first Century: Adjusting to its Increasing Strength", *Journal of Asian Public Policy*, Vol. 1, No. 3 (November 2008), pp. 252–254; see also Qu Xing, "Shilun Dong's ou Jubian he Sulian Jieti Hou de Zhongguo Duiwai Zhengce (Discussion of China's Foreign Policy Since the Radical Changes in Eastern Europe and the Disintegration of the Soviet Union)", *Journal of Foreign Affairs College*, No. 37 (25 December 1994), p. 21.

¹⁰ After the breakup of the Soviet Union, the 3,300-km western section of the Sino-Soviet order became the boundary between China and four countries: China and Kazakhstan share a boundary of 1,770 km; China and Kyrgyzstan have a 1096-kilometer boundary; and China and Tajikistan share a 430-km border.

and became effective in September 1995. In July 1996, China and Kyrgyzstan signed a border agreement during President Jiang's visit, and the agreement became effective in April 1998. Joint boundary demarcation committees were then established to complete the respective boundary demarcation work. Border negotiations between China and Tajikistan proved more complicated as the territories in dispute amounted to 28,000 sq km, about 20% of Tajikistan's total area, and furthermore, the latter was also preoccupied with its civil war.¹¹

It was on this basis that the heads of state of these five countries met in Shanghai (the "Shanghai Five") in April 1996 and concluded an agreement to build confidence in the military sphere along their borders. The governments agreed to notify one another of important military activities undertaken within 100 km of China's border with the other four countries as well as exchange information on the troops and military equipment deployed.¹² One year afterward, the heads of state met again in Moscow and concluded an agreement to mutually reduce the total deployment of troops to a maximum of 134,000 within 100 km of China's border with the four countries.¹³ The foundation in the annual summits of the "Shanghai Five" was thus laid for the establishment of the SCO in 2001.

Economic cooperation and trade were important aspects of China–Central Asia relations. Bilateral economic and trade agreements were signed between China and Uzbekistan, Tajikistan, Kyrgyzstan and Turkmenistan, respectively, the day after the release of their respective joint communiqués on the establishment of diplomatic relations. But progress in these areas was initially limited. Experts in China admitted that Central Asia was not a diplomatic priority for China as it was preoccupied with difficult adjustments in

¹¹ Jiakuan Tang (ed.), *Zhongguo Waijiao Cidian (A Dictionary of China's Foreign Affairs)* (Beijing: Shijie Zhishi Chubanshe, 2000), pp. 528, 693.

¹² Shanghai Academy of Social Sciences Center of SCO Studies (ed.), *Compilation of Materials and Documents of Shanghai Five — Shanghai Co-operation Organization April 1996 — August 2003* (in Chinese) (Shanghai: Center of SCO Studies, Shanghai Academy of Social Sciences, 2003), p. 1.

¹³ *Ibid.*, p. 2.

relations with the U.S. as well as with the containment of Taiwan's pro-independence orientation.¹⁴ In China's relations with the Commonwealth of Independent States (CIS), China concentrated on strategic cooperation with Russia, as Chinese leaders accorded a priority to the promotion of multipolarity then. In terms of resource diplomacy, again the Chinese authorities first targeted Russia for oil and natural gas. The Chinese foreign policy establishment lacked expertise in Central Asia, and the major state-owned enterprises did not have any major foreign investment plans at this stage. Economic and social instability in Central Asia was also a disincentive for Chinese enterprises to set up in the region.

However, in September 1997, China and Kazakhstan signed two agreements worth US\$ 9.5 billion for the development of two major oil and gas fields and the construction of two pipelines in Kazakhstan during the visit of Premier Li and Vice-Premier Li Lanqing. One pipeline was to cover 3,000 km to western China, and the other would extend 250 km to the Turkmen border and be connected to another pipeline into Iran.¹⁵ China's experts on Central Asia considered this a significant event, as it marked the beginning of an enhancement of China's cooperation with the region in the energy and trade sectors. In 1993, China became a net oil importer; at the same time, Chinese leaders attempted to accelerate the development of China's western provinces. Central Asia hence became a much more important economic partner.¹⁶

A significant deepening of relations came with the rise of the Taliban and events in Afghanistan that prompted Chinese leaders to switch their attention to the entire Central Asian region instead of just concentrating on border issues. Ethnic separatism, religious extremism and international terrorism were perceived to be a severe threat. Meanwhile, as the Central Asian economies improved and the prospects for trade, investment and economic cooperation became brighter, China stepped up its aid commitments to the region (see Table 2).

¹⁴ Refer to Footnote 1.

¹⁵ R. Sutter, *Chinese Policy Priorities and Their Implications for the United States* (Lanham, Maryland: Rowman & Littlefield, 2000), p. 142.

¹⁶ Refer to Footnote 1.

In line with the concern for the U.S.'s "containment" of China after the Tiananmen crackdown and the end of the Cold War, China carefully monitored the growing Western economic and military presence in Central Asia. It strongly criticized a military exercise in Kazakhstan and Uzbekistan in September 1997, sponsored by the Partnership for Peace, involving the Central Asian Peacekeeping Battalion and troops from four countries including Russia. The Chinese authorities were sensitive to the long-distance air transport of 500 U.S. soldiers to Kazakhstan in the exercise, as they were naturally worried about the expansion of U.S. influence in the region, exploiting the opportunity offered by the breakup of the Soviet Union.¹⁷ To this point, Beijing had considered the power balance in Central Asia to be in Russia's favor and advantageous to China's own security, and it was worried that Russia might be too weak to stand up to the eastward expansion of North Atlantic Treaty Organization (NATO), incorporating the former continent republics of the Soviet Union. However, it was cautious to avoid alienating Russia through expanding China's influence in the region.

As China's ties with Central Asia strengthened, the two parties also began to coordinate in international affairs. For example, China and the Central Asian republics jointly condemned the Indian nuclear test in May 1998. Regarding the war in Kosovo in 1999, there was joint advocacy for the respect for state sovereignty and against interference in another country's domestic affairs. Moreover, they opposed "humanitarian intervention" and the position of "human rights above state sovereignty".¹⁸ They were concerned about the escalation of the conflicts in Afghanistan in the latter half of the 1990s, and jointly argued that the "six plus two" mechanism within the United Nations framework—referring to China, Uzbekistan, Tajikistan, Turkmenistan,

¹⁷Guang Wan, "Meiguo de Xin Zhong Ya Zhanlue (The U.S. New Central Asian Strategy)", *Xiandai Guoji Guanxi (Contemporary International Relations)*, Vol. 11 (1997), pp. 13–16.

¹⁸I. Komissina and A. Kurtov, *China and Central Asia: Problems and Prospects for Cooperation/New Eurasia: Russia and Neighbouring Countries* (Moscow: Russian Institute for Strategic Research, 2003), p. 31; and see <http://www.wcfia.harvard.edu/fellows/papers/1999-00/rath.pdf>.

Pakistan and Iran plus the U.S. and Russia — should be an important channel in securing a peaceful resolution in Afghanistan. In response to the Taliban's power consolidation in 1998, the "Shanghai Five" summit, the following year, endorsed a proposal from Kyrgyzstan to set up an anti-terrorism center to coordinate the measures adopted by the five countries.¹⁹

China also indicated support for the various regional security initiatives proposed by the Central Asian republics, including the Asian Mutual Cooperation and Confidence Measures Conference initiated by Kazakhstan,²⁰ the Tashkent Forum on Central Asian Security and Cooperation Issues as well as the dialogue on the Central Asian Nuclear-Free Zone proposed by Uzbekistan in 1993 and the Lake Issyk Kul Forum called for by Kyrgyzstan in 1995. These gestures of support proved to be valuable in facilitating the establishment of the SCO.

Finally, border negotiations continued to progress, reflecting a strengthening of mutual trust between China and its Central Asian neighbors. Two supplementary border agreements were concluded between China and Kazakhstan in September 1997 and July 1998; in November, the following year, during President Nursultan Nazarbayev's visit to Beijing, a joint communiqué declaring the complete settlement of the border issue was issued. Similarly, a supplementary border agreement between China and Kyrgyzstan was signed in August 1999, representing the final resolution of the border question. In the same month, Imamali Rakhmonov, President of Tajikistan, visited China, and the two countries concluded a border agreement.

SCO and the Major Powers in Central Asia

China

The increasing significance of Central Asia to China and its strengthening ties with the region prompted Beijing to initiate the establishment of the SCO. In the fifth summit of the "Shanghai Five" in Dushanbe

¹⁹ *Renmin Ribao*, 16 June 2001.

²⁰ In 1996, 17 states participated in the conference and drafted the basic document. The first CICA summit was held in 2002.

in July 2000, China's then President Jiang suggested transforming the "Shanghai Five" annual summits into a regular and institutionalized mechanism for regional cooperation.²¹ As a result, the SCO was formally established in Shanghai on 15 June 2001 with the inclusion of Uzbekistan, granted observer status in the previous "Shanghai Five" summit, as a formal member. The six heads of state concluded the "Declaration on the Establishment of the SCO" and the "Shanghai Convention on the Combat of Terrorism, Separatism and Extremism".²² This was the first time that China became a member of a formal regional organization which was not exclusively an economic group.

China's Central Asian experts admitted that the momentum for China–Central Asian cooperation encountered a setback after the September 11 incident, and China had to adjust its policy toward Central Asia.²³ In the first place, the stationing of U.S. troops in Central Asia offered more strategic space for the Central Asian republics, and they adopted a more balanced approach toward various major powers. They attempted to strengthen their relations with the U.S. to secure more political support and economic assistance, and they appeared less enthusiastic in cooperating with China. Indeed, these Chinese experts believed that Central Asian cooperation with the U.S. in combating terrorism saw security cooperation with China weakened, threatening the very survival of the SCO.²⁴ When these states decided to accept the deployment of U.S. troops in their territories near their borders with China in the autumn of 2001, they had not consulted China, demonstrating the ineffectiveness of their established bilateral political and military cooperation mechanisms as well as those within the SCO framework.²⁵ The U.S.'s impressive military

²¹Ying Ma, *Qiyu Zhuyi yu Fazhanzhong Guojia* (Regionalism and Developing Countries) (Beijing: Zhongguo Shehui Kexue Chubanshe, 2002), p. 216.

²²Shanghai Academy of Social Sciences Center of SCO Studies (ed.), *op. cit.*, pp. 17–25.

²³Refer to Footnote 1.

²⁴Refer to Footnote 1.

²⁵Yu Zheng (ed.), *Zhong E Mei zai Zhongya: Hezuo yu Jingzheng 1991–2007* (Co-operation and Competition: China, Russia and U.S. in Central Asia 1991–2007) (Beijing: Social Sciences Academic Press, 2007), pp. 62–63.

prowess demonstrated in the initial invasion of Afghanistan and the substantial security assistance offered strongly appealed to the Central Asian governments, which recognized that the U.S. would be a permanent and significant factor in the regional balance and that it could allow them to reduce their dependence and subordination to Russia.

China's official response was to strengthen its political ties with the region and engage in competition with the U.S. in a low-key, nonconfrontational manner. In May 2002, Tajikistan's President Rakhmonov visited China, and the two states released a joint statement. In the following June, Kyrgyzstan President Askar Akayev visited Beijing, and the two countries concluded a treaty of cooperation. In December 2002, Nursultan Nazarbayev, President of Kazakhstan, visited, and the two countries also signed a treaty of cooperation. In July 2005, Chinese President Hu Jintao returned the latter visit, and the two states upgraded their relationship to one of strategic partnership. In June 2004 and May 2005, the heads of state of China and Uzbekistan exchanged visits, and the two countries concluded a treaty on their partnership relationship of friendship and cooperation.²⁶ Besides the bilateral summits, within the SCO framework, there were annual meetings of heads of state and those of prime ministers.

The final touches were made on the border issue in the early years of the new century. In May 2002, China and Tajikistan signed a supplementary border agreement, and in September 2004, China and Kyrgyzstan concluded a protocol on the demarcation of the boundary. At this point, the demarcation of the 3,300-km boundary between China, Kazakhstan, Kyrgyzstan and Tajikistan was completed. China also worked hard to promote exchanges among political parties, government ministries, local governments and civic groups.

Economic cooperation was also expanded, especially in the energy sector, which included the construction of pipelines, development of oil fields, increase in investment and so on. China's trade with the five Central Asian countries increased from US\$ 0.46 billion in 1992 to

²⁶ See http://www.chinadaily.com.cn/china/2010sco/2010-06/09/content_9957694.htm (July 21/2001).

US\$ 8.73 billion in 2005 (see Table 1). At the beginning of 2006, China's cumulative investment in Central Asia amounted to almost US\$ 7 billion (see Table 2), mainly in oil and gas, transport, communications, agriculture, chemical industries, railways and locomotives, electricity generation plants and equipment, urban infrastructural projects, labor services in engineering projects, etc. In line with the expansion of economic exchanges, China also stepped up its provision of aid and preferential loans.

To combat terrorism and separatism, China concluded some related agreements with the Central Asian governments aimed at the promotion of cooperation, the conducting of joint exercises, the sharing of intelligence and similar initiatives. China also offered limited amounts of military equipment in support of regional anti-terrorism activities. At the same time, cooperation in non-traditional security areas was enhanced, including combating the narcotics trade, smuggling and illegal immigration.

What turned the diplomatic tide in favor of China's position and influence in the region were the "Rose Revolution" in Georgia in 2003 and the "Orange Revolution" in Ukraine in 2004. The regimes in Central Asia were worried about the spread of these "color revolutions" and resented the democracy promotion efforts of the U.S. and other Western countries in the region. In response, these regimes turned back to China and Russia. After the Andijan protests in Uzbekistan in May 2005, China promptly showed its support for President Islam Karimov when the U.S. and other Western governments called for an independent inquiry into the state's violent suppression in eastern Uzbekistan. As an indication of its strong support for President Karimov, when he later visited Beijing on 19–20 April, he was offered a US\$ 600-million contract for an oil and gas joint venture with China.

Russia

China's approach to Central Asia has demonstrated considerable respect for Russian interests in the region. In the eyes of China's experts on the region, it is believed that Russia's regional policy has

Table 1. Trade of China and Russia with Five Central Asian Republics, 1992–2008 (US\$ million)

Year	Kazakhstan				Kyrgyzstan				Tajikistan				Turkmenistan				Uzbekistan			
	China		Russia		China		Russia		China		Russia		China		Russia		China		Russia	
	Total Trade	Trade Balance	Total Trade	Trade Balance	Total Trade	Trade Balance	Total Trade	Trade Balance	Total Trade	Trade Balance	Total Trade	Trade Balance	Total Trade	Trade Balance	Total Trade	Trade Balance	Total Trade	Trade Balance	Total Trade	Trade Balance
1992	368	-86	—	—	—	—	—	—	3	1	—	—	—	—	—	—	—	—	—	—
1996	459	-269	5,568	-484	106	32	286	16	12	4	239	63	11	5	209	-32	187	-111	1,731	429
2001	1,289	-633	4,378	710	119	35	144	22	10	0	198	-60	32	30	178	100	59	43	944	-216
2002	1,956	-754	4,355	469	202	90	178	30	13	1	133	3	88	86	175	111	131	77	795	111
2003	3,278	-155	5,932	608	314	176	263	57	39	3	196	60	83	75	249	193	347	-53	983	23
2004	4,498	-74	8,105	1,191	603	383	415	115	69	39	259	107	99	71	285	199	575	-231	1,379	155
2005	6,801	997	9,739	3,319	971	761	542	252	158	130	335	145	109	71	301	147	681	-221	1,763	-41
2006	8,359	1,145	12,794	5,146	2,226	2,000	755	367	324	288	502	252	178	146	308	150	972	-160	2,376	-204
2007	13,866	1,028	16,556	7,312	3,779	3,553	1,169	589	524	504	769	445	351	253	453	315	1,129	403	3,193	265
2008	17,552	2,097	19,731	6,991	9,333	9,091	1,803	819	1,500	1,459	1,003	585	830	774	910	710	1,607	949	3,360	776
2009	14129	1537			5330	5232			1407	1036			957	880			1921	1219		

Note: “—” indicates that the statistical data are unavailable, unknown or negligible.

Sources: Figures for 1992 were from Economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in the Republic of Kazakhstan, “Zhong-Ha 1992–2007 Linian Shuangbian Maoyi (Zhongfang Tongji) [China–Kazakhstan 1992–2007 Annual Bilateral Trade (China's Statistics)]”. 10 April 2008, <http://kz.mofcom.gov.cn/aarticle/ddgk/tjsj/fazzn/200804/20080405470975.html> and Economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in the Republic of Tajikistan, “Zhong-Ta Jianjiao yilai Shuangbian Jingmao Fazhan Huigu [A Review of Bilateral Economic and Trade Development Since the Establishment of Diplomatic Relations Between China and Tajikistan]”. 24 February 2004, <http://tj.mofcom.gov.cn/aarticle/zxhz/tjsj/200402/20040200185745.html>. Figures for 1996–2007 were from IMF Statistics Department, Directions of Trade Statistics Yearbook, Washington, D.C.: International Monetary Fund, 1997 and IMF Statistics Department, Directions of Trade Statistics Yearbook, Washington, D.C.: International Monetary Fund, 2008.

Figures for China for 2008 were from State Statistical Bureau, People's Republic of China, China Statistical Yearbook 2009, Beijing: China Statistics Press.

Figures for Russia for 2008 were from Federal State Statistics Service, Russian Federation, “Foreign Trade of the Russian Federation with the CIS Countries”, 2009, http://www.gks.ru/bgd/regl/b09_12/IssWWW.exe/stg/d02/26-06.htm.

Table 2. Investment of China and Russia in the Five Central Asian Republics, 2000–2008 (US\$ million)

Year	Kazakhstan		Kyrgyzstan		Tajikistan		Turkmenistan		Uzbekistan	
	China	Russia	China	Russia	China	Russia	China	Russia	China	Russia
	Investment	Investment	Investment	Investment	Investment	Investment	Investment	Investment	Investment	Investment
2000	—	3.45	—	0.01	—	—	—	2.93	—	15.03
2001	(211.90)	211.60	—	—	—	—	—	—	—	—
2002	(64.73)	214.45	—	—	—	—	—	—	—	—
2003	2.94 (248.61)	197.56	2.44	—	—	—	—	—	0.72	—
2004	2.31 (387.80)	200.60	5.33	—	4.99	—	—	—	1.08	—
2005	94.93 (195.00)	223.00	13.74	1.25	0.77	0.50	—	—	0.09	155.18
2006	46.00 (359.50)	487.50	27.64	—	6.98	—	−0.04	—	1.07	—
2007	279.92 (351.50)	445.07	14.99	207.72	67.93	105.68	1.26	—	13.15	513.58
2008	496.43	762.16	7.06	386.03	26.58	171.96	86.71	6.36	39.37	2,397.85

Notes: (a) “—” indicates that the statistical data are unavailable, unknown or negligible. (b) Figures in brackets were from *Statistical Yearbook of Kazakhstan*, various issues.

Sources: Ministry of Commerce, National Bureau of Statistics and State Administration of Foreign Exchange, People’s Republic of China, 2008 Niandu Zhongguo Duiwai Zhijie Touzi Tongji Gongbao [2008 Statistical Bulletin of China’s Outward Foreign Direct Investment], <http://hzs.mofcom.gov.cn/accessory/200909/1253868856016.pdf>; Federal State Statistics Service, Russian Federation. 2009b. “Investment of Russia in the Economy of the CIS Countries”, http://www.gks.ru/bgd/regl/b09_12/IssWWW.exe/stg/d02/24-12.htm; Agency on Statistics of the Republic of Kazakhstan, Statistical Yearbook of Kazakhstan 2003, Astana: Agency on Statistics of the Republic of Kazakhstan, 2003; Agency on Statistics of the Republic of Kazakhstan, Statistical Yearbook of Kazakhstan 2005, Astana: Agency on Statistics of the Republic of Kazakhstan, 2005; Agency on Statistics of the Republic of Kazakhstan, Statistical Yearbook of Kazakhstan 2007, Astana: Agency on Statistics of the Republic of Kazakhstan, 2008.

gone through three stages.²⁷ In the first stage (1991–1995), Russian leaders were keen to reduce their economic burden in the region and concentrated on building a collective security treaty system on military front. In the second stage (1995–2001), the Russian leadership began to adjust its foreign policy because its enthusiastic approach to the West had not been reciprocated; instead, the eastward expansion of NATO was exerting pressure on Russia's attempt to maintain its sphere of influence. In this period, the U.S. and the European Union (EU) stepped up their efforts to enhance their influence in Central Asia, while the situation deteriorated in Afghanistan. In September 1995, President Boris Yeltsin endorsed a strategic guideline on the Russian policy toward the CIS, the comprehensive development of relations with the Central Asian countries being regarded as a cultivation of the strategic foundation for the restoration of Russia's major power status.²⁸

The third stage began with the establishment of SCO in 2001. The Russian leadership accepted the SCO probably because it perceived that the involvement of China might balance the rise of Western influence in the region. However, it had no intention to allow China dominate the SCO nor let it develop into the most important multilateral organization in the region.²⁹ Just a few days

²⁷ See Footnote 1.

²⁸ "According to the 1993 foreign policy concept (the official foreign policy position paper of the government), Russia is a great power with several foreign policy priorities: ensuring national security through diplomacy; protecting the sovereignty and unity of the state, with special emphasis on border stability; protecting the rights of Russians abroad; providing favorable external conditions for internal democratic reforms; mobilizing international assistance for the establishment of a Russian market economy and assisting Russian exporters; furthering integration of the Commonwealth of Independent States (CIS — see Glossary) and pursuing beneficial relations with other nearby foreign states, including those in Central Europe; continuing to build relations with countries that have resolved problems similar to those that Russia faces; and ensuring Russia an active role as a great power". See <http://countrystudies.us/russia/77.htm>.

²⁹ *Ibid.* The goal of furthering integration of the Commonwealth of Independent States obviously meant that it should not be challenged by China's domination of SCO.

after the 11 September terrorist attack, China's then Premier Zhu Rongji, in the SCO prime ministers' meeting in Almaty, proposed the enactment of the SCO Charter and the establishment of an anti-terrorism center in Bishkek. While the Kazakhstan delegation initially stressed that the SCO should mainly focus on economic cooperation and Russia argued that the CIS already had an anti-terrorism coordinating body, both were won over by China.³⁰

Russia has attempted to expand its trade with Central Asia, seeing it increasing from US\$ 5.46 billion in 2002 to US\$ 13.23 billion in 2005 (see Table 1). It enhanced cooperation in the energy sector and tried to secure a monopolistic position in the regional energy network. It also waived Tajikistan's debts and increased aid to the region. In October 2004, Russia formally joined the Central Asian Cooperation Organization, terminating the Central Asian states' endeavor to push for economic integration excluding Russia. Though Russia allowed the U.S. and the anti-terrorism coalition the use of land and air corridors in Central Asia in the war in Afghanistan, the U.S. did not make use of the Collective Security Treaty Organization, led by Russia, to coordinate its anti-terrorism operations in the region, and instead chose to establish direct military ties with Uzbekistan, Kyrgyzstan and Tajikistan. Russia also failed to make the CIS anti-terrorist center in Moscow effective.

According to the analysis of China's experts, it was also NATO's eastward expansion and the "color revolutions" which convinced President Vladimir Putin that the U.S. was working hard to prevent the revival of Russia as a major power. Resistance against pressure for democratization following the "color revolutions" became a priority for Sino-Russian cooperation, and the SCO was thus perceived as the most significant mechanism for collaboration and deterring more "color revolutions". In this desire, Russia's caution about SCO was

³⁰ Guang Pan, "Xin Xingshi xia de Shanghai Hezuo Zuzhi: Tiaozhan, Jiyu he Fazhan Qianjing (The SCO in a New Situation: Challenges, Opportunities and Future Development), *Guoji Wenti Yanjiu (International Studies)*, Vol. 5 (2001), pp. 38-39.

reduced, and the acceptance of China's prominent role in the regional organization correspondingly enhanced.³¹

As evidence of this change, experts point to the 20 May 2005 roundtable discussion held in Russia on improving the SCO. It was stated that "raising the SCO's functions is in accord with Russia's interests, it is a significant focal point of Russia's international activities in the coming decade, and shaping the SCO as one of the centres in a multi-polar world is an important objective of Russian diplomacy".³² Further evidence is seen in the observation that, before July 2005, Russian authorities refused to refer to the head of the SCO secretariat as Secretary-General. Instead, in Russian, they referred to an Executive Secretary. The change took place at the July 2005 SCO summit and was included in the "SCO Heads of State Declaration".³³

In the July 2005 SCO summit in Astana, President Karimov of Uzbekistan proposed the withdrawal of U.S. forces from the SCO

³¹ See, e.g., Zhiping Pan and Hongping Hu, "Zhongya Jiang Hequhecong: 'Yanse Geming' Haishi 'Fankong'? (Whither Central Asia — 'Colour Revolutions' or 'Anti-terrorism')", *Eluosi Zhongya Dongou Yanjiu* (Russian, Central Asian and East European Studies), Vol. 2 (2006), pp. 51–56; Dahui Wu, "Meiguo zai Dulianti Diqu Cedong Yansegeming de Sanzhong Suqiu — Jianlun Zhong E zai Shanghai Hezuozuzhi Kuangjiaxia Diyu Yansegeming de Dangwu Zhiji (The Three Demands of the U.S. in Launching 'Colour Revolutions' in the CIS Region — Also a Commentary on the Urgent Task of China and Russia in the Defence against 'Colour Revolutions' within the SCO Framework)", *Eluosi Zhongya Dongou Yanjiu* (Russian, Central Asian and East European Studies), Vol. 2 (2006), pp. 1–8; Jingjie Li, "Kuaru Xinshiji de Zhong E Guanxi (Sino-Russians Entering the New Century)", *Eluosi Zhongya Dongou Yanjiu* (Russian, Central Asian and East European Studies), No. 2 (2007), pp. 55–65.

³² Dahui Wu, "Meiguo zai Dulianti Diqu Cedong Yansegeming de Sanzhong Suqiu — Jianlun Zhong E zai Shanghai Hezuozuzhi Kuangjiaxia Diyu Yansegeming de Dangwu Zhiji (The Three Demands of the U.S. in Launching 'Colour Revolutions' in the CIS Region — Also a Commentary on the Urgent Task of China and Russia in the Defence against 'Colour Revolutions' within the SCO Framework)", *Eluosi Zhongya Dongou Yanjiu* (Russian, Central Asian and East European Studies), Vol. 2 (2006), p. 6.

³³ "Declaration of Heads of States of SCO, Astana, 5 July 20015", *China Daily*, updated 12 June 2006. Available at http://www.chinadaily.com.cn/china/2006-06/12/content_6020345.htm. Accessed 3 October 2016.

region, and this was strongly supported by China and Russia. The summit also decided to invite President Mahmoud Ahmadinejad of Iran to attend the SCO summit in 2006 as Head of State of an observer member. These two decisions generated speculation that SCO might develop into an anti-U.S. alliance.³⁴ Chinese experts however opined that this would be an exaggeration because China did not want the SCO to be directed against any third party, and Russia shared this position. Both the Russian and Chinese leaderships understood that the SCO had neither the political will nor the military capability to take over the U.S.'s role in Afghanistan, and therefore could not afford to demand the withdrawal of the U.S. from Central Asia.³⁵ The resurgence of the Taliban since the middle of the 1990s was definitely considered a more serious threat than the U.S. military pressure in Central Asia.³⁶

The United States

China's international relations experts and the intelligentsia have generally believed that the U.S. would like to maintain its global hegemony and would prevent the emergence of any other power capable of challenging it.³⁷ It would prefer Russia be a democracy, gradually reducing any imperialistic ambitions, and be willing to maintain good relations with Europe.³⁸ In fact, NATO's eastward expansion and the "color revolutions" in the former CIS region were both believed to be directed against the revival of Russia as a superpower.³⁹ In Central Asia, the U.S. has been working on expanding its influence in recent years and has maintained the mission of exporting democracy to the

³⁴ See <http://www.foreignaffairs.com/articles/65724/alexander-cooley/cooperation-gets-shanghaied> (July 21/2001).

³⁵ See the respective chapters on China's relations with the Eastern European and Central Asian countries in the recent issues of *Zhongguo Waijiao* (*China's Diplomacy*).

³⁶ See <http://www.airpower.au.af.mil/airchronicles/apj/apj10/spr10/frickenstein.html> (July 21/2001).

³⁷ See <http://www.asianperspective.org/articles/v28n3-d.pdf> (July 21/2001).

³⁸ Z. Brzezinski, "Russia Stumbles Toward Reform", *The Wall Street Journal*, 7 April 1998.

³⁹ See <http://www.eusec.org/baranovsky.htm> (July 21/2001).

region.⁴⁰ In the decade of 1993–2003, the U.S. provided the CIS states with US\$ 9 billion for promoting political reforms. According to the Advance Democracy Act passed by the U.S. Congress in 2005, the U.S. assumed a “sacred mission” of transforming partially democratic states into full-fledged democracies. Clearly, the Central Asian republics were in this target category. The Chinese Communist regime, ever since the fall of the Berlin Wall in 1989, has viewed such a democratization agenda as a severe security threat as it has always been concerned with the American policy of “peaceful evolution”.

Moreover, there emerged a new issue of oil security. Chinese experts argue that the U.S. has no urgent need of oil from Central Asia. Hence, the U.S. maneuvering in the region is primarily about the U.S. strategy to manipulate and control other powers and rivals, in particular, the rapidly industrializing and rising China. During the Cold War era, Chinese leaders considered Europe the focus of super-power rivalry. In the Middle East, the U.S. wanted to control oil supplies in order to ensure its domination of Europe which was heavily dependent on oil imports. China's international relations experts are inclined to still follow this line of thinking. The U.S.'s control of Central Asia would help to guarantee a stable oil supply to satisfy the needs of the Western world and would serve as an insurance against the erosion of the U.S.'s hegemony in the Middle East.⁴¹

Much has been written about China's oil needs, oil imports and supply routes. It was estimated that the share of China's oil imports from the CIS would rise from 10.1% in 2004 to 28.9% in 2015.⁴² It

⁴⁰The Obama administration continues this policy, and its official position is as follows: first, to expand cooperation with Central Asian states to assist coalition efforts in Afghanistan; second, to increase development and diversification of the region's energy resources and supply routes; third, to encourage political liberalization and respect for human rights; fourth, to foster competitive market economies and economic reform; and finally, to prevent the emergence of failed states, or in more positive terms, to increase the capacity of states to govern themselves effectively. See <http://www.state.gov/p/sca/rls/rmks/2010/145463.htm> (July 21/2001).

⁴¹See Footnote 1.

⁴²Yong Wang, *Zhongguo Duiwai Shiyon Zhanlue Yanjiu (A Study of China's External Oil Strategy)* (Hangzhou: Zhejiang University Press, 2009), p. 100.

is also significant that oil from the CIS does not have to pass through the easily controlled, busy and costly Malacca Straits. Hence, American oil companies investing in Central Asia tend to be perceived as depriving China of the oil it needs for sustainable economic development in the future.⁴³

Chinese leaders consider that Central Asia became a new focus of the U.S.'s global strategy only after the September 11 incident, based on the analysis of the Central Asian policy of successive American administrations. When the Central Asian republics became independent in 1991, the position of the George W. Bush administration was to support their independence, encourage denuclearization and promote cooperation in various fields. The major concern of the Bush administration then was that these new states would be controlled by the neighboring powers, especially Russia and Iran.⁴⁴ In February 1992, the then Secretary of State James Baker visited the five countries, and embassies were soon established. China's experts noted⁴⁵ that the latter all had defense attaché offices. After Congressional approval of the Freedom Support Act in the following October, aid began to be offered to the region. In 1992–1993, the U.S. also concluded bilateral trade agreements with all five countries. Apparently, oil was not yet considered an important factor, as reflected by the small amount of its oil imports from and energy investment in this region at this stage.

As discussed earlier, the military exercise termed the "Partnership for Peace" in September 1997 caught the attention of Beijing, which believed that the exercise signalled that the U.S.'s Central Asian policy reached a new stage. In March 1999, Stephen Sestanovich, the ambassador responsible for CIS affairs, in his testimony to the U.S.

⁴³ See Footnote 1.

⁴⁴ J. Nichol, Central Asia: Regional Developments and Implications for U.S. Interests, Library of Congress Congressional Research Service, Washington, D.C., *Issue Brief for Congress*, 12 May 2006. Available at <http://digital.library.unt.edu/ark:/67531/metacrs10334/?q=Central%20Asia%3A%20Regional%20Developments%20and%20Implications%20for%20U.S.%20Interests>.

⁴⁵ See Footnote 1.

Congress, explained the objectives of the Clinton administration's Central Asian policy as follows: (i) democratization; (ii) market-oriented reforms; (iii) involvement in the Western political and military mechanisms to a greater extent; and (iv) adopting a responsible attitude in the combat of the proliferation of weapons of mass destruction (WMD), terrorism and the narcotics trade.⁴⁶ China's experts considered that the progress achieved in the eastward expansion of NATO earlier allowed more resources and attention devoted to CIS issues on the part of the Clinton administration. The termination of the civil war in Tajikistan in 1997 most likely also reduced the Clinton administration's worries about involvement in the region as it had wanted to avoid commitment through taking sides in a civil war.

In 1997, the U.S. concluded new military cooperation agreements with Uzbekistan and Kazakhstan; subsequently, the U.S. offered military transport vehicles to Uzbekistan and coastal defense boats to Kazakhstan and Turkmenistan. Since 1999, the U.S. Central Command has assumed responsibility for the military situation in Central Asia. When the U.S. Secretary of State, Madeleine Albright, visited Central Asia in April 2000, she announced the implementation of the "Central Asian Border Security Initiative", offering an additional US\$ 3 million to each of the Central Asian republics.⁴⁷

Oil began to become an important consideration of the U.S. at the end of the 1990s. In February 1998, the Sub-committee on Asia and the Pacific of the House Committee on International Relations conducted hearings on the interests of the U.S. in Central Asia, and their focus was the energy policy of the U.S. in the region. This reflected governmental and corporate interests in the regional oil resources. The Subcommittee Chairman, Doug Bereuter, indicated that the U.S. policy objectives would include the cultivation of the

⁴⁶J. Nichol, *Central Asia's New States: Political Developments and Implications for U.S. Interests*, *Library of Congress Congressional Research Service, Washington, D.C., Issue Brief for Congress*, 18 May 2001. Available at <http://digital.library.unt.edu/ark:/67531/metacrs1762/?q=Central%20Asia%E2%80%99s%20New%20States%3A%20Political%20Developments%20and%20Implications%20for%20U.S.%20Interests>.

⁴⁷See <http://www.state.gov/p/eur/rls/rpt/23630.htm> (July 21/2001).

independence of the regional states and their ties with the West, abolition of the Russian monopoly over the transport routes of the region's oil and gas, promotion of the Western countries' energy security through the diversification of supplies, encouragement of the construction of pipelines to the West bypassing Iran and opposition to the involvement of Iran in the regional economy.⁴⁸ The stepping up of American influence in the region and its intention to compete with Russia probably prompted China to establish the SCO and facilitated the Russian acceptance of China's initiative.⁴⁹

After the 11 September incident, the Central Asian states declared their approval of the use of their military bases by the U.S., making the region significant in the global anti-terrorism campaign of the George W. Bush administration. Pascoe, Deputy Assistant Secretary of State responsible for Central Asia, presented the U.S. objectives in the region as follows: (i) prevention of the spread of terrorism; (ii) assistance for the Central Asian republics in the promotion of economic and political reforms as well as the rule of law and (iii) assurance of the security and transparent development of the energy resources in the Caspian region.⁵⁰ There was a view that after 11 September, the emphasis of the Bush administration was on the cultivation of the Central Asian countries' anti-terrorism capabilities and not on their democratic and economic reforms; in fact, U.S. officials often exaggerated the progress of their reforms in the latter areas.⁵¹ In realistic terms, the priorities of the Bush administration were:

⁴⁸ U.S. House of Representatives, *U.S. Interests in the Central Asian Republics, Hearings before the Subcommittee on Asia and the Pacific of the Committee on International Relations, U.S. House of Representatives*, 12 February 1998. Available at http://commdocs.house.gov/committees/intlrel/hfa48119.000/hfa48119_0.htm.

⁴⁹ B. Rumer, "Central Asia: At the End of the Transition", in B. Rumer (ed.), *Central Asia: At the End of the Transition* (New York: M.E. Sharpe, 2005), p. 41.

⁵⁰ B. Lynn Pascoe, The U.S. Role in Central Asia: Testimony before the Senate Foreign Relations Committee, Subcommittee on Central Asia and the South Caucasus, Washington, D.C., 27 June 2002. Available at <https://2001-2009.state.gov/p/eur/rls/rm/2002/11535.htm>. Accessed 23 September 2016.

⁵¹ E. Wishnick, *Growing U.S. Security Interests in Central Asia* (Carlisle: U.S. Army War College, 2002), p. 29.

(i) to establish a military center in Central Asia to facilitate rapid troop deployment to deal with Islamic terrorism and the military situations in Afghanistan and the Middle East; (ii) to maintain the independence of the Central Asian republics and regional stability and (iii) to exploit the energy resources in the Caspian region and to ensure their transport through corridors friendly to the U.S., for example, the completion of the Baku–Tbilisi–Ceyhan oil pipeline in May 2005.⁵²

In the first term of President Bush, the U.S. concluded a series of agreements with Central Asian governments to facilitate the long-term, legal stationing of U.S. troops in the region and to strengthen bilateral military cooperation. Aid to Central Asia increased from 13% in the period 1992–2002 to 27% in 2004 from funding within the Freedom Support Act program and other sources.⁵³

In the analysis of China's authoritative mainstream media reflecting the official view, the Bush administration was seen as having been encouraged by the success of the “color revolutions” in Georgia and Ukraine, and wanted to repeat the model in Central Asia in 2005 when general elections were scheduled in some of the countries.⁵⁴ Beijing obviously⁵⁵ considered that the Bush administration's campaign encountered severe setbacks in Central Asia. After the suppression of the Andijan protests, in July 2005, the Uzbekistan government demanded the withdrawal of U.S. troops from the Karshi-Khanabad Air Base within 180 days, terminating the U.S. military presence which had lasted for four years. The newly elected President of Kyrgyzstan, Kurmanbek Bakiyev, emerging from the “Tulip Revolution”, rejected a pro-U.S. policy line; in fact in July 2005, he indicated that the U.S. and Kyrgyzstan should review the issue of U.S. troops stationed in Kyrgyzstan. The authoritarian leaders believed that

⁵² Rumer, *op. cit.*, pp. 42–44.

⁵³ See http://www.soros.org/initiatives/cep/articles_publications/publications/occasional-paper-20101015/OPS-No-1-20101015.pdf (July 21/2001).

⁵⁴ Xiaochun Li and Cheng Chen, “Yanase Geming Jinqian Gonglao Da, Mei Yong Zhongjin Shentou Zhongya Wuguo (Money Played a Major Role in Colour Revolutions, the U.S. Infiltrated the Five Central Asian Countries with Massive Funding)”, *Huanqiu Shibao* (*Global Times*) (Beijing), 6 March 2006.

⁵⁵ Media is usually highly controlled by central government as a mouthpiece.

the U.S. had been behind these “color revolutions” and considered the security ties with Washington, D.C. a liability rather than an asset.

Chinese experts observed that the U.S. Secretary of State Condoleezza Rice had to engage in self-reflection, admitting that the U.S. had to recognize the limitations of its power and to remain cautious, and that democracy could not be imposed on others.⁵⁶ They interpreted this self-reflection as an admission of failure. Subsequently, Richard A. Boucher,⁵⁷ Assistant Secretary of State for South and Central Asian affairs, indicated that the U.S. policy objectives in the region were security cooperation, commercial and energy interests, and political and economic reforms. China’s researchers noticed that political and economic reforms became the third priority instead of the second, compared with Boucher’s earlier statement after 11 September.⁵⁸ On this basis, the Bush administration was perceived to have considerably toned down its ambition of bringing democracy to Central Asia and began to work to repair its ties with the existing regimes in Central Asia.

China’s international affairs experts believed that despite the setbacks and adjustments, as well as the distractions caused by the deteriorations in the nuclear crises in Iran and North Korea, the George W. Bush administration’s Central Asian policy in its final phase had gradually developed a comprehensive set of objectives without going through any fundamental change.⁵⁹ The U.S. would continue to support the independence of Central Asian countries away from the control by neighboring powers including Russia, China and Iran to promote political and economic reforms so as to cultivate the institutional basis transforming the region into a sphere of influence of the

⁵⁶C. Rice, “The Promises of Democratic Peace: Why Promoting Freedom is the Only Realistic Path to Security”, *The Washington Post*, 11 December 2005.

⁵⁷R. Boucher, . *U.S. Policy in Central Asia: Balancing Priorities (Part II). Statement to the Subcommittee on the Middle East and Central Asia of the Committee on International Relations, U.S. House of Representatives*, 26 April 2006. Available at <http://2001-2009.state.gov/p/sca/rls/rm/2006/65292.htm>.

⁵⁸Yu Zheng (ed.) *Zhong E Mei zai Zhongya: Hezuo yu Jingzheng 1991–2007* (*Co-operation and Competition: China, Russia and U.S. in Central Asia 1991–2007*) (Beijing: Social Sciences Academic Press, 2007), p. 119.

⁵⁹See Footnote 1.

U.S.; to successfully combat terrorism and the proliferation of WMD; to ensure Central Asia would become an important source of the U.S.'s energy supply in its diversification efforts through investment in the energy sector and the construction of pipelines; and to strengthen regional cooperation in non-traditional security issues such as the elimination of the narcotics trade.

The European Union

The EU began to be interested in Central Asia, probably earlier than the U.S. and China. In 1986, it proposed to conclude a “partnership and cooperation agreement” with Uzbekistan. After the breakup of the Soviet Union, the EU concluded bilateral partnership and cooperation agreements with all five Central Asian republics. In the eyes of China's think tank researchers, the EU was prepared to offer economic and technical assistance with the objective of promoting human rights and democracy so that the Central Asian governments' economic policies and legal systems would converge with those of the West. They also observed that when the EU Commission released its strategic framework document on EU's Asian policy in September 2001, Central Asia was not covered. Instead, it was included in EU's policy toward the CIS. In fact, the EU's aid to Central Asia was within its “Technical Assistance in CIS” framework.⁶⁰

In October 2002, the EU Commission for the first time released a strategic document on its Central Asian policy in the following four years. According to the second strategic document in 2007 and the EU Commission's regional assistance plan covering the period 2007–2013, the EU stipulated that human rights, good governance, democracy and social development would be the priorities in EU–Central Asian cooperation. The plan also doubled the EU's assistance to €750 million to Central Asia for the period. But Central Asia is still not part of the EU's “Wider European” plan meaning that it is still not a priority in EU's global strategy and foreign policy. The EU's

⁶⁰ Lifan Li, “Oumeng Xin de Zhongya Zhanlue Wanjia (The EU: A New ‘Strategic Player’ in Central Asia)”, *Eluosi Zhongya Dongou Yanjiu (Russian, Central Asian and East European Studies)*, No. 4 (2008), pp. 47–53, especially p. 48.

objectives in Central Asia, in the eyes of China's researchers, are limited to stabilizing the political situation, improving the economic environment and strengthening technical assistance. These researchers implicitly place the principal responsibility for the promotion of "color revolutions" in Central Asia on the U.S.⁶¹

In October 2006, Germany's Foreign Minister, Frank-Walter Steinmeier, became the first European Foreign Minister to visit all five Central Asian republics. Germany then had an air force base in Termez, Uzbekistan, used as a staging-post for peacekeepers en route to Afghanistan.⁶² In the following March, Steinmeier, EU External Relations Commissioner, Benita Ferrero-Waldner and EU Special Representative for Central Asia Pierre Morel arrived at Astana for talks with Central Asian foreign ministers. These visits reflected the EU's enhanced interest in Central Asia, and the EU was perceived to try to balance its energy interests with pressure on the authoritarian regimes in Central Asia to improve their human rights records.⁶³ In terms of the former, the development of a new transport corridor, labeled "Caspian Sea–Black Sea–Europe", was a priority, and the EU would take part in the construction of additional pipelines and networks for transporting energy resources.

The assessment of China's researchers was that since 2006, the abrupt severance of natural gas for the EU due to the quarrels between Russia on one hand and Ukraine on the other over transit rights and related compensation has altered the balance, and the energy issue has been given a higher priority.⁶⁴ At the same time, Central European countries intended to strengthen cooperation with the EU to balance the influences of Russia and China. China's Central Asian experts also considered that non-traditional security issues such as terrorism, religious extremism, illegal immigration, proliferation of

⁶¹ *Ibid.*, p. 48; *Agence Europe*, 9 June 2007.

⁶² *Associated Press*, 30 October 2006; *Central Asia News* (Russia), 10 November 2006.

⁶³ *Europe Information Service*, 30 March 2007.

⁶⁴ Guangping Qian, "Oumeng Zhuanxiang: Zhongya Nengyuan Zhongyu Renquan (The EU Changing Its Direction: Central Asia's Energy Supply Takes Precedence over Human Rights)", *Dongfang Zaobao* (*Oriental Morning Post*) (Shanghai), 6 February 2007. See also www.breakingnewsenglish.com/0601/060102-ukraine.doc (July 21/2001).

WMD and the spread of the AIDS have become increasingly important regional concerns of the EU which seems to have adopted a long-term view of its interests in the region.⁶⁵

China, SCO and Economic Cooperation

Significance

Economic cooperation is the key to the development of the SCO from China's perspective. China's trade with and investment in the SCO member countries remained limited, despite respectable expansion in the decade of 2000s (see Tables 1 and 2); the potential of cooperation in the energy sector was great. But more importantly, Beijing policy-makers understand that the realization of other significant objectives of the Chinese Central Asian policy largely depend on achievements in economic cooperation. They believe that stability in Central Asia has to be built on the foundation of economic development. China's influence in the region as well as the maintenance of a regional balance of power in its favor would have to rely on the progress in its economic ties with the region. An overemphasis on the security and military aspects of the SCO might touch on Russia's sensitivities and does not reflect China's "comparative advantage".

Since 1999, Russia and the four Central Asian members of the SCO gradually emerged from the shadow of Russia's financial crisis in 1998. From 2004–2007, they all achieved respectable economic growth rates (see Table 3). In per capita GDP terms, the figure in 2007 for Russia was US\$ 2,868; for Kazakhstan, US\$ 2,324; for Kyrgyzstan, US\$ 347; for Tajikistan, US\$ 262; and for Uzbekistan, US\$ 783.⁶⁶ China's per capita GDP in the same year amounted to US\$ 2,592.⁶⁷

⁶⁵ Li, "Oumeng Xin de Zhongya Zhanlue Wanjia (The EU: A New 'Strategic Player' in Central Asia)", *op. cit.*, pp. 49–53.

⁶⁶ Guangcheng Xing (ed.), *Eluosi Dongou Zhongya Guojia Fazhan Baogao 2009 (Annual Report on Development of Russia, East Europe and Central Asia 2009)* (Beijing: Social Sciences Academic Press, 2009), pp. 334–335.

⁶⁷ China National Bureau of Statistics, *China Statistical Yearbook, 2008*. (China Statistics Press, 2008). Available at <http://www.stats.gov.cn/tjsj/ndsj/2008/indexeh.htm>.

Table 3. Economic Growth Rates of Russia and the Four Central Asian Countries, 2004–2009

Country/Year	2004	2005	2006	2007	2008	2009
Russia	15	6	8	20	8	–14
Kazakhstan	5	5	19	17	–3	17
Kyrgyzstan	4	–3	1	9	16	5
Tajikistan	7	0	2	7	7	14
Uzbekistan	15	–31	—	—	—	—

Source: Figures compiled by the software in the World Bank website. Available at <http://data-bank.worldbank.org/ddp/home.do?Step=3&id=4>.

Hence, the Chinese government considered that regional economic cooperation within the SCO as South–South cooperation.⁶⁸

Given the fact that the four SCO members in Central Asia were similar in economic structure, their economies were competitive rather than complementary as they much relied on energy products and were at roughly the same level of development. The major trading partners of China, Russia and Kazakhstan were the developed countries of the West, and the respective shares of intra-SCO trade for the respective foreign trade of all SCO member countries remained limited. Hence, the promotion of regional economic cooperation remained a challenge.

Trade Barriers and Trade Facilitation

In the mid-2000s, only China and Kyrgyzstan were members of the World Trade Organization (WTO), with Russia in the process of joining. All other five SCO members (Kazakhstan, Russia, Kyrgyzstan, Tajikistan and Uzbekistan⁶⁹) were also members of the Eurasian

⁶⁸ Joint Research Group of the Bureau of Europe and the Institute for International Trade and Economic Cooperation, Ministry of Commerce, People's Republic of China, "Shanghai Hezuozuzhi Quyu Jingji Hezuo Yanjiu (A Study of Regional Economic Co-operation of the SCO)", *Eluosi Zhongya Dongou Yanjiu (Russian, Central Asian and East European Studies)*, No. 1 (2004), p. 5.

⁶⁹ Uzbekistan joined the EEC in October 2005 and later withdrew in 2008.

Economic Community (EurasEC) which merged with the Central Asian Cooperation Organization in October 2005.⁷⁰ EurasEC (2000–2014) was basically a customs union where members waived all tariffs against each other, and their import tariffs were directed against non-members including China. Russia also offered aid to EurasEC members. Central Asian countries have not abandoned their efforts to achieve economic integration, though hitherto progress had been painfully slow; this economic integration objective did not include China.

A study by China's Ministry of Commerce observed that since China's imports from the other SCO members were largely primary products, their tariff rates were substantially below the average rate of 10%. Further, a considerable amount of China's imports from Russia and Kazakhstan entered China through border trade in small quantities; these imports could usually enjoy preferential treatment in the form of reductions in tariffs and half value-added tax offered by China. On the other hand, SCO members' imports from China consisted mainly of textiles, apparel and light industrial goods; their import tariff rates were usually above the average level. Russian tariff rates on imports of textiles, apparel, shoes, toys and household electrical appliances, for example, normally fell within the range of 15%–20%. Hence, the Chinese government believed that high tariff rates constituted an important barrier for China's trade with other SCO members.⁷¹

The Ministry of Commerce's research group also considered that non-tariff barriers remained a serious obstacle to trade expansion among SCO members, and China tried to push for the reduction of non-tariff barriers as a significant focus for cooperation in trade facilitation. The study group adopted a gravity model often used by the Organization for Economic Cooperation and Development and the World Bank to analyze the quantitative impact of customs procedures,

⁷⁰The EEC has six members. The other member is Belarus.

⁷¹Joint Research Group of the Bureau of Europe and the Institute for International Trade and Economic Cooperation, Ministry of Commerce, People's Republic of China, *op. cit.*, pp. 9–10.

regulatory environment, standard conformity and business mobility on trade facilitation within the SCO. The results of the study released in 2004 showed that if the value of the customs procedure variable improved by 10%, intra-SCO trade would increase by US\$ 10.07 billion; if the value of the standard conformity variable was raised by 10%, intra-SCO trade would rise by US\$ 10.21 billion, and if the value of the business mobility variable increased by 10%, intra-SCO trade would expand by US\$ 0.898 billion.

According to the study, a substantial proportion of China's investment in the SCO members was in trade, catering, apparel, agricultural plantation and the processing of agricultural products, assembly of household electrical appliances and the like. These investment projects were small in scale, but their risks were less, since they could often recover the capital rapidly. However, their impact on trade expansion was more limited. It was expected that major investment in energy and infrastructural projects in the pipeline would help to increase trade.

SCO Free Trade Agreement

In September 2001, when the prime ministers of the SCO member countries first met in Almaty, it was proposed to set up a meeting mechanism among the economic and trade ministers to discuss regional economic cooperation with a focus on trade facilitation and investment in the transport, energy, agriculture, environmental protection, finance and water resources sectors. In the first ministerial meeting held in May 2002, it was agreed that trade and investment facilitation would be the initial priorities. China then proposed the establishment of the SCO free trade area (FTA) within 10–15 years. This ambitious goal was incorporated into the “Outline of Multilateral Economic and Trade Cooperation among the SCO Member States (the Outline)” endorsed by the SCO prime ministers’ conference in September 2003, setting 2020 as the date for realizing the free movement of goods, services, capital and technology.⁷²

⁷² See <http://www.sectSCO.org/EN/show.asp?id=146> (July 21/2001).

In the SCO summit in June 2004 in Tashkent, President Hu offered US\$ 900 million of buyers' credit to other SCO members. In the SCO prime ministers' conference the following September, an implementation measures plan for the Outline was approved, including 127 projects in 11 sectors including trade, investment, customs, quality inspection and certification, transport, energy and information technology. Then at the SCO summit in 2006, it was agreed to set up the entrepreneurs' committee and the bankers' committee.

Chinese experts believe that regional economic cooperation within the SCO should adopt a gradualist approach, starting from the removal of non-tariff barriers and obstacles to investment, and concentrating on trade facilitation and investment promotion. It is hoped that the fruits of the first stage of regional economic cooperation may generate broad support for the establishment of the SCO FTA. On this basis, China has proposed in December 2015 for the realization of the SCO FTA in 2020.⁷³ Obviously, if economic cooperation within the SCO proceeds well, there is a possibility that it may also eventually merge with the EurasEC.⁷⁴ In other words, the SCO has to prove its value to its Central Asian members which at this stage are keeping their options open.

Chinese policy-makers understand the challenge ahead. They realize that the trade structure in the past with its emphasis on natural resources might exhaust its potential in the future. Moreover, as the less developed Central Asian countries have established their fundamental industrial bases, they would be largely self-sufficient in most consumer goods. China therefore has to upgrade its export structure,

⁷³ Lizheng Jia, "Goujian Shanghai Hezuo Zuzhi Ziyu Maoyiqu de Zhanlue Sikao (Strategic Considerations on the Establishment of the SCO Free Trade Area)", *Eluosi Zhongya Dongou Yanjiu* (Russian, Central Asian and East European Studies), No. 1 (2007), p. 78; "Experts say China's proposal on free trade area within SCO needs careful study", *Tass*, 16 December 2015. Available at: <http://tass.ru/en/opinions/844612>. Accessed 18 October 2016.

⁷⁴ Ning Zhang, "Zhongya Yitihua Hezuo Jizhi Jiqi dui Shanghai Hezuo Zuzhi de Yingxiang (Co-operation Mechanisms Regarding Central Asian Integration and Their Impact on the SCO)", *Eluosi Zhongya Dongou Yanjiu* (Russian, Central Asian and East European Studies), No. 6 (2006), p. 72.

improve the quality of its consumer goods, cultivate its own famous brands and so on. More important still, China's major enterprises have to build their own international production chains, with a division of labor among SCO member countries. China also hopes to develop joint ventures in the transport, financial services, information technology and tourism sectors. To strengthen future business networks, China has been offering to train managers and professionals for other SCO members.

Building a New Silk Road?

Though China's Central Asian experts tended to perceive investment from the U.S. and the EU in the region as competition, they welcomed the latter's "Europe-Caucasus-Asia Transport Corridor Technical Assistance Plan", which is commonly known as the Second Eurasian Continental Bridge or the "New Silk Road". This plan is a part of the EU's global strategy whose purposes is to build a trunk route linking Europe and Asia bypassing Russia. It has the political objective of encouraging and supporting the political and economic independence of countries previously within or under the control of the Soviet Union. At this stage, the plan's members include Ukraine, Moldova, Azerbaijan, Armenia, Georgia, the five Central Asian republics, Bulgaria, Romania, Turkey and Mongolia. The EU has mobilized support from the European Bank for Reconstruction and Development, the World Bank, the Asian Development Bank and the Islamic Development Bank for the project.

Chinese authorities had been keeping a low profile regarding this plan in the 2000s partly because this was originally a EU project and partly because this would adversely affect Russia's strategic interests. But if the transport corridor were to develop, it would facilitate China opening up its market in the Caspian region and Eastern Europe. At that stage, Xinjiang has been closely involved in China's trade with Central Asia, and Xinjiang is among the less developed provincial units in China. Chinese policy-makers hope that the New Silk Road will attract the interest of the coastal provinces to get more involved in the Central Asian market and beyond. Chapter 9 elaborates on

China's latest approach in the Silk Road Economic Belt initiative as a means to combat terrorism.

Oil and Gas Negotiations, and the International Financial Crisis

Oil and gas constitute an important element of China's relations with Russia and the Central Asian states, and they play an increasingly important role in the trade and investment flows among the countries concerned. Though arguably the energy issue enhanced Chinese leaders' enthusiasm in establishing and promoting the development of the SCO, energy negotiations have been bilateral and outside the multilateral organization's framework. In the energy market in Central Asia, China regarded the U.S. and the EU as competitors. In the case of the Russian energy market, Japan and, to a lesser extent, South Korea have also been keen competitors.⁷⁵

Though China felt let down by Russia in the long negotiations over the Siberia–Pacific coast pipeline to China in the decade of 2000s, the Chinese authorities had not protested publicly at that time.⁷⁶ There was a clear understanding that Russia has been trying to maximize its profits in the energy deals. In fact, it was the keen Sino-Japanese competition which provided Russia the opportunity to strengthen its bargaining power.

In the wake of the global financial crisis, the (albeit temporary) fall in energy prices and Russia's economic difficulties weakened the latter's bargaining strength. As a result, several major deals were reached in 2009. In February, state-owned OAO Rosneft, Russia's biggest oil

⁷⁵ Simon Xu Hu Shen, "Qualitative Energy Diplomacy in Central Asia: A Comparative Analysis of the Policies of the United States, Russia and China", Center for Northeast Asian Policy Studies Visiting Fellow Working Paper, The Brookings Institution, Washington, D.C. April 2011, pp. 1–24. Available at <http://www.brookings.edu>.

⁷⁶ *Ibid.*; see also Alexander Cooley, "Co-operation Gets Shanghaied — China, Russia, and the SCO", *Foreign Affairs*, 14 December 2009. Available at <https://www.foreignaffairs.com/articles/china/2009-12-14/cooperation-gets-shanghaied>.

producer, and OAO Transneft, its oil pipeline operator, secured a US\$ 25 billion loan from China Development Bank. In return, Russia was to provide China an additional 15 million metric tons of crude oil a year for 20 years, amounting to almost 10% of China's 2009 volume of oil imports. The loan would allow Rosneft to invest in its relatively undeveloped East Siberian fields and refineries which had been neglected for lack of investment funds; Rosneft realized that it had to step up exploration and exploitation activities to ensure a stable supply in the future. In September 2010, Transneft and China National Petroleum Corporation each completed their sections of the 900+ km pipeline linking Russian oil fields to the Chinese refineries.⁷⁷

When the Russian Prime Minister Putin met his Chinese counterpart Wen Jiabao in October 2009, Gazprom and China National Petroleum Corporation reached a tentative gas supply agreement and deals worth US\$ 3.5 billion. The agreement would lead to Russia supplying 70 billion cubic meters of natural gas per annum to China from Siberia and the Russian Far East, including Sakhalin. China would become the biggest purchaser of Russia's natural gas.⁷⁸

The then Visiting Chinese Vice Premier Wang Qishan subsequently met with his Russian counterpart Igor Sechin in November 2010, on the basis of the Sino-Russian energy negotiation mechanism, and the pipeline began operation by the end of 2010.⁷⁹ These deals demonstrated that Russia was in need of investment funds to maintain its energy output, and China had foreign exchange reserves in excess of US\$ 2 trillion looking for investment outlets overseas. Negotiations were often affected by fluctuating market conditions, however, and took years to complete.

⁷⁷ Gleb Bryanski, "Russia's Putin Launches New Pacific Oil Terminal", *Reuters*, 27 December 2009. Available at <http://www.reuters.com/article/us-russia-putin-terminal-idUSTRE5BR0GJ20091228>.

⁷⁸ *Reuters*, 13 October 2009.

⁷⁹ "CNPC Announces Kenkiyak-Kumkol Section of Kazakhstan-China Oil Pipeline becomes Operational", *Yours Oil and Gas News*, 15 July 2009. Available at http://www.youroilandgasnews.com/cnpc+announces+kenkiyak-kumkol+section+of+kazakhstan-china+oil+pipeline+becomes+operational_35798.html. Accessed 3 October 2016.

In Central Asia, Kazakhstan is the most important energy supplier for China, making it China's largest trading partner in the region. In September 1997, an agreement was reached to build an oil pipeline from Kazakhstan to China, although the project was put on hold until enough Kazakh reserves could be shown to make it viable. In 2004, China National Petroleum Corporation and Kazakhstan's state-owned KazMunai Gas signed an agreement to complete the remaining 625-mile section of the pipeline from central Kazakhstan to the Chinese border at Alashankou. It was then extended to the city of Dushanzi in Xinjiang.⁸⁰ The pipeline started operation in December 2009, and by February 2011, China had imported 5.82 billion cubic meters of natural gas. China is now the largest consumer of natural gas in the world, and the above pipeline is designed to transport 30–40 billion cubic meters by 2015. The 1,833-km pipeline now runs through Turkmenistan, Uzbekistan and Kazakhstan to China's Xinjing, and is its first large pipeline project to transport natural gas from overseas to meet its demand.⁸¹ Bringing oil from Kazakhstan to the coastal cities in China is relatively expensive.

Turkmenistan, not a SCO member, has also become an important natural gas supplier for China. In June and July 2008, a natural gas pipeline from Turkmenistan to China began construction in Turkmenistan, Uzbekistan and Kazakhstan. In August 2009, when President Hu visited Turkmenistan, an agreement was reached to increase export of natural gas to China from 30 billion cubic meters per annum to 40 billion cubic meters per annum for 30 years.⁸² The above-mentioned gas pipeline has ensured the implementation of the agreement.

In the wake of the global financial tsunami which began in the autumn of 2008, China with its ample financial reserves has emerged as a considerably more important source of investment funds and trade partner, in view of the economic difficulties of Western

⁸⁰ *South China Morning Post* (Hong Kong), 19 May 2004; *The Washington Times*, 20 May 2004.

⁸¹ Zhou Yan, "A Lifeline from Central Asia", *China Daily*, 17 February 2011; see http://www.chinadaily.com.cn/bizchina/2011-02/17/content_120. (July 21/2001).

⁸² Xing, *op. cit.*, p. 35.

governments and corporations. China enjoys the advantage too that it is ready to put money into projects which are not necessarily immediately commercially valuable, like roads in Tajikistan, developing oil and gas in Uzbekistan, etc.⁸³

The global crisis has prompted the abandonment of the use of the U.S. dollar in the settlement of trade accounts. China and Russia have been actively promoting the use of their own national currencies in the settlement of their trade accounts within the SCO. Other countries of the BRIC group are also interested.⁸⁴ Central Asian republics followed the initiative in a limited way.⁸⁵

Fund-raising, however, remains a severe challenge in economic cooperation within the SCO. The establishment of the SCO Development Bank was raised earlier and discussed in some detail in the SCO meetings among the finance ministers and central bank governors of the member countries since 2012. The idea has been welcomed by SCO member countries, but China was expected to make a major contribution, and the consideration was what the returns would be. To date, no practical steps have been taken.^{86,87}

Russia has obviously suffered a decline in its economic influence in Central Asia, as the financial crisis hit Russia hard. Beijing's challenge is to ensure that Moscow will not feel too threatened, because

⁸³ Bruce Parrier, "Chinese-Central Asian Relationship Requires Delicate Balancing Act", 4 April 2010; see http://www.rferl.org/content/ChineseCentral_Asian_Relationship_Requires_Delicate_Balancing_Acct/2002215.html (July 21/2001).

⁸⁴ *Ming Pao*, 17 and 18 June 2009.

⁸⁵ Zhong Nan and Chang Xueqing, "Yuan Settlement Expands Along the Belt and Road", *China Daily Asia*, 21 September 2016. Available at http://www.chinadailyasia.com/business/2016-09/21/content_15498427.html. Accessed 18 October 2016.

⁸⁶ Zhuoyun Zhao and Jin Shao, "Guoji Guancha: Beijing Fenghui — Shanghe Zuzhi Fazhan De Xinqiji (International Observation: Beijing Summit — SCO's New Opportunity for Development)", *Xinhua Net*, 4 June 2012, euroasia.cass.cn/news/571102.htm.

⁸⁷ "SCO Countries to Continue Working on Establishing Development Bank, Fund", *Tass*, 10 July 2015. Available at <http://tass.com/economy/807813>; "SCO Summit in Bishkek to Discuss Establishment of SCO Development Bank", *KazInform*, 27 May 2016. Available at http://new.inform.kz/en/sco-summit-in-bishkek-to-discuss-establishment-of-sco-development-bank_a2908216. Accessed 19 October 2016.

the latter still has *de facto* control of the pipeline network coming out of Central Asia. Another challenge for Beijing is to contain the regional economic nationalism which seems to be emerging.

Conclusion

China's initiative in establishing and promoting the development of the SCO is an interesting case study of China's attempt at regional institution building. Its increasing interest in Central Asia has coincided with its gradual acceptance and rising enthusiasm regarding participation in regional organizations. The "Shanghai Five" mechanism and the SCO were seen by Chinese leaders and policy-makers as appropriate mechanisms in pursuing China's multiple interests in the region, including the improvement in Sino-Russian relations. Without the endorsement of Russia, China's approach to Central Asia would have been much more problematic.

The "Shanghai Five" mechanism and the SCO were exceptions in China's diplomacy because they had not been launched as regional organizations with economic cooperation as the principal function.⁸⁸ However, Chinese leaders soon realized that economic cooperation would be the foundation for the regional organization as well as the principal channel to ensure China's regional influence. Nonetheless, external events assumed an important role in influencing the SCO's evolution, especially after 11 September and the development of the U.S.'s regional policy.

The Chinese leadership is aware of China's weak projection capabilities in Central Asia and the limited policy instruments available.⁸⁹ While it has been the principal architect of the SCO, it understands that Russia remains the predominant regional power. Even when the Central Asian republics sought to balance against the Russian influence, they mainly turned to the U.S. and EU. China's approach to

⁸⁸ Chien-peng Chung, "The Shanghai Co-operation Organization: China's Changing Influence in Central Asia", *The China Quarterly*, No. 180 (December 2004), p. 994.

⁸⁹ Fenghua Liu, "Zhongguo zai Zhongya: Zhengce de Yanbian (China in Central Asia: Evolution of Its Policy)", *Eluosi Zhongya Dongou Yanjiu (Russian, Central Asian and East European Studies)*, Vol. 6 (2007), pp. 63–72.

Central Asia has enhanced the options available to the Central Asian countries to maintain a favorable regional balance, but so far they had not been acting in a highly concerted manner when compared with, for example, ASEAN. Turkmenistan prefers to remain more neutral and passive; it is not even a member of the SCO. Kazakhstan, Kyrgyzstan and Tajikistan show more deference to Russian interests, while Uzbekistan, at least before the Andijan protests in May 2005, wanted to maintain a distance from Russia.

With regard to regional economic cooperation, the Central Asian republics still entertain the distant goal of regional integration without a role for China. To them, the EurasEC was more developed and important than the SCO. China's experts admitted that the SCO encountered keen competition, and there was a danger that its significance would decline unless it continues to deliver to its member countries.

Despite China's historical relative passivity in regional organizations, Chinese leaders have been skillful in the development of the SCO's institutional framework, and they seem to be getting value for the resources spent. They demonstrated considerable patience when the SCO's development encountered setbacks. The initiatives in regional institutional building have been a successful example of China's development of its soft power.⁹⁰ Yet, China has to bear the risk of supporting unstable authoritarian regimes, whose collapse may severely undermine its influence in the region. Chapter 9 focuses on the extent to which China realizes its goals in terms of economic development and energy security as a means to safeguard the international security environment (with particular reference to the Afghanistan situation).

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⁹⁰Joseph S. Nye Jr., "Soft Power and American Foreign Policy." *Political Science Quarterly*, 119: 255–270, 2004.

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Chapter 9

China's Approach to SCO: Institutional Development, Economic Cooperation, Security and the Challenge from Afghanistan

Joseph Yu-Shek Cheng

The original mission of the Shanghai Cooperation Organization (SCO) to combat the common threats of terrorism, religious extremism and separatism within the region has been strengthened by the situation in Afghanistan. Chapter 8 discusses China's plans in institutional building in the SCO, the issues encountered and its efforts to overcome the initial difficulties. This chapter analyzes the challenges to SCO's maintenance and development, then goes on to examine China's exploitation of economic cooperation both to combat terrorism and enhance its influence within the regional organization. The common concern of the Afghanistan situation among SCO members and their joint efforts to maintain stability in Central Asia are explored. While this common concern has been exacerbated by the emergence of the ISIS, China's cautious approach, the balancing of different interests and efforts in mobilizing SCO members' cooperation are considered in turn.

Institutional Development of the SCO

SCO has been active throughout its history in institution building (see Chapter 8). The number of committees and meeting mechanisms established is indeed impressive; however, the actual achievements of the regional organization is not commensurate with the apparent progress in institutional building. Arguably, the committees and meeting mechanisms help to establish a sense of community and goodwill among the member countries and contribute to the momentum of development of SCO. It is significant that because of the general lack of transparency, differences in the interests and positions of the member countries in their meetings are not revealed to the media. Hence, it is difficult for outside researchers to have a good understanding of the argument and decision-making processes within the SCO.

Within the SCO, there are institutionalized annual meetings among member countries at the heads of state, heads of government, foreign ministers and country coordinators level. There are many ministerial meetings, including attorney generals, defense ministers, presidents of supreme courts, transports ministers, education ministers, cultural ministers, agricultural ministers, as well as finance ministers and central bank governors. The SCO has established a secretariat and a regional anti-terrorism agency which are permanent organs; it has also formed a banks community, an entrepreneurs committee, a SCO forum, and an unofficial industrial and commercial forum and Eurasian economic forum.¹

In its history of over 15 years, a number of important treaties and documents have been signed. These important treaties help to maintain a satisfactory relationship among the member countries, but the general orientation seems to sign a grand document first, then fill in the details later. Under such circumstances, while the top leaders' posturing usually encounter no resistance, effective implementation has not been guaranteed by detailed research work, careful planning

¹ Cheng Guoping, "Shang Hai He Zuo Zu Zhi: Ji Wang Kai Lai, Qian Jing Guang Kuo (SCO: Review, Prospects and a Bright Future)", *Guo Ji Wen Ti Yan Jiu (Studies of International Issues)*, No. 1 (2012), pp. 6–11. Cheng was an Assistant Foreign Minister when he published the article.

and deliberations, and strong support by the bureaucracies concerned. The economic and trade cooperation program guidelines were one of the good examples; it was signed in 2003, and was followed by an implementation measures plan and then the approval of an implementation mechanism.

SCO was initially formed to combat terrorism, extremism and separatism, hence meeting mechanisms have been well developed in the security area including scheduled meetings of secretaries of national security councils, presidents of supreme courts, attorney generals, public security and interior ministers, defense ministers and heads of anti-narcotics agencies. Following the example of ASEAN, these meetings should help to build multilateral policy communities, facilitating multilateral exchanges, communication and coordination. Apparently, exchanges of anti-terrorism intelligence have been progressing well, given the perception of the common threat. The SCO member countries have expressed an intention to strengthen cooperation in Internet information security in view of the “colored revolutions” and the Arab Spring revolutions.² The terrorist attacks in the region in recent years, like the one in the Moscow international airport in January 2011 and that in Astana outside the National Security Bureau headquarters in the following May, as well as the scheduled American military withdrawal from Afghanistan, continued to highlight the importance of close security cooperation. The latter has also expanded to cover the combat of narcotics smuggling and transnational organized crimes in view of the deterioration of these regional problems.

In the early years of SCO, there were established seven specialized working groups to promote cooperation in customs, quality inspection, electronic commerce, investment promotion, development of cross-border exchanges, energy, and modern information and telecommunications. These working groups have been given the task of proposing joint projects, but apparently they have not been accorded

²Ting Xiaoxing, “Shang Hai He Zuo Zu Zhi An Quan He Zuo (Security Co-operation in the SCO)”, in Jin Feng Li and Hongwei Wu (eds.), *Shanghai Hezuo Zuzhi Fazhan Baogao 2012* [2012 Report on the Shanghai Cooperation Organization] (Beijing: Social Sciences Academic Press (China), 2012), p. 87.

adequate support by the respective governmental bureaucracies, and the groups simply do not have the resources to engage in satisfactory research and feasibility studies.

This in fact has been a general problem among SCO institutions. Following the normal practice of rotating the chairmanship of the regional organization among its member countries, it is difficult for small countries like Kyrgyzstan and Tajikistan to provide effective leadership and services during their chairmanships; Uzbekistan's organizational resources are not much better, and its commitment toward SCO varies considerably during its history. Hence, for almost half of the time, SCO has not been able to provide the needed organizational support to effectively promote and implement its activity plans.

In view of the power asymmetry among SCO member countries and the Sino-Russian mutual suspicions, many Chinese scholars recognize the significance of Sino-Russian coordination and cooperation in the promotion of SCO's development. Some Chinese experts consider that China accords a higher priority to SCO's role in maintaining security and stability in Central Asia through economic development, while Russia places more emphasis on SCO's push for multipolarity and the containment of the U.S.'s influence in Central Asia. These differences in priorities have led to policy and interests divergences between the two countries within the SCO.³ Others argue that Russia's role in the SCO only stays at the abstract plane of political and economic cooperation; it relies much more on the political and military functions of the Commonwealth of Independent States Collective Security Treaty Organization (CIS CSTO) and the economic integration functions of the Eurasian Economic Community (which became the Eurasian Economic Union since 2014). Hence, the implementation of SCO resolutions depends mainly on Russia and its Central Asian policy, despite China's enthusiasm.⁴

³ Zheng Yu, *Zhong E Mei Zai Zhong Ya: He Zuo Yu Jing Zheng (China, Russia and the U.S. in Central Asia: Co-operation and Competition)* (Beijing: Social Sciences Academic Press (China), 2007), p. 408.

⁴ Xing Guang Cheng and Sun Zhuang Zhi, *Shang Hai He Zuo Zu Zhi Yan Jiu (A Study of the SCO)*, (Changchun: Changchun Chubanshe, 2007), p. 178.

China's experts on Russia and Central Asia therefore propose that the SCO and the CIS CSTO should cooperate, though no concrete progress has yet been made despite some discussions. This cooperation should begin with better coordination and a division of labor between the two to avoid mutual competition and attempts to replace each other. Further, the SCO should try to develop its capability to manage Central Asian affairs.⁵ The domestic riots in Kyrgyzstan in spring 2010 was often cited as an example by these experts. The CIS CSTO assumed an important role in handling the crisis, including sending a delegation in April 2010 to negotiate with various political factions and the military and law enforcement authorities in Kyrgyzstan. In the following June, the CIS CSTO indicated its plan to send experts to Kyrgyzstan to help resolve the crisis, and decided to offer helicopters and non-lethal weapons to Kyrgyzstan's law enforcement agencies. In contrast, the SCO could do no more than merely release a statement.

Beijing is also aware of the Russian position that the American military presence in Central Asia poses a threat to Russian interests in the region and therefore demands to get rid of the U.S.'s regional influence. Chinese leaders believe that this hard-line position prevents a dialogue between the SCO on one hand, and the U.S. and NATO on the other in the fields of security and nuclear non-proliferation. They consider that the best way to reduce the Western countries' suspicions against the SCO is to engage in cooperation with them; Chinese scholars tend to support proposals for cooperation among China, Russia and the U.S. over Central Asia to reduce the trilateral competition in the region.⁶ Chinese experts argue that the U.S.'s eagerness to withdraw from Afghanistan offered a good opportunity

⁵Yang Shu and Zhang Jin Li, "Ping Shang Hai He Zuo Zu Zhi Yu Du Lian Ti Ji Ti An Quan Tiao Yue Zu Zhi Jian De Guan Xi (Commentary on the Relationship between the SCO and the CIS CSTO)", *E Luo Si Zhong Ya Dong Ou Yan Jiu (Studies on Russia, Central Asia and Eastern Europe)*, No. 1 (2012), pp. 68–76.

⁶For an example of this type of proposal, see Ariel Cohen, "The Dragon Looks West: China and the Shanghai Cooperation Organization", <http://www.heritage.org/research/lecture/the-dragon-looks-west-china-and-the-shanghai-cooperation-organization>.

for this cooperation as the Barack Obama administration needed the international community's support.

Similarly, the SCO needs to establish a cooperative relationship with the Eurasian Economic Community. In the wake of the global financial crisis in the autumn of 2008, Russia has become much more active in the promotion of integration among the former Soviet socialist republics. The integration is mainly based on the Eurasian Economic Community (EurasEC), proceeding from a customs union to a common economic space, Eurasian Economic Union (EurasEU) and finally Eurasian Union. China's Central Asian experts recognize that the then EurasEC poses a serious question to the SCO, as it affects the commitment of its members to economic cooperation and integration within the SCO. These experts believe that Russia has considerable reservations concerning economic cooperation within the SCO, and is not even interested in economic integration.⁷

In fact, these experts observe that there is a view in Russia, Central Asia and the West that the EurasEC and the SCO are in competition or even opposing each other: the latter is an instrument for China's economic expansion in Central Asia and an obstacle to Eurasian integration pursued by Russia, whereas the former is Russia's counteroffensive, representing its attempts to block China's expansion in Central Asia, a kind of protection umbrella for the Central Asian countries to prevent them from becoming attached to China's economy.⁸ A more pessimistic view is that Central Asia would become the focus of Sino-Russian economic competition in the near future, and a conflict between the EurasEC and China would be inevitable.⁹

As reflected by President Xi Jinping's visit to Russia in March 2013, China certainly wants to avoid a confrontation with Russia, and

⁷ Zhao Huasheng, "Shang Hai He Zuo Zu Zhi De Fa Zhan Lu Jing (Development Approach of Shanghai Cooperation Organization)", *Journal of Xinjiang Normal University (Social Sciences)*, Vol. 33, No. 2 (March 2012), pp. 42–44.

⁸ *Ibid.*, p. 43; Roman Muzalevsky, "Russian-led Customs Union Intensifies Sino-Russian Rivalry in Central Asia", *Eurasia Daily Monitor*, Vol. 8, No. 147 (1 August 2011).

⁹ Dina Tokbaeva, "Central Asia Focus of Russia–China Rivalry", 27 December 2011. Available at <http://iwpr.net/report-news/central-asia-focus-russia-china-rivalry>.

that between the EurasEC and the SCO.¹⁰ China's Central Asian experts consider that SCO's significant mission at this stage is not integration, but only economic cooperation, and that Sino-Russian cooperation as well as EurasEC–SCO cooperation are in the interest of all parties concerned. They also argue that the Eurasian customs union emerged in 1995 well before the SCO, and yet the two organizations have been able to develop in parallel in the past decade and more, demonstrating that they are not opposed to each other. They do admit, however, that the EurasEC enjoys a distinct advantage because it involves most of the SCO member countries, develops faster with a higher quality and has more clear-cut prospects.¹¹ Hence, it is likely that the Chinese leadership would try to accommodate Russian interests and promote cooperation between the two regional organizations while respecting the objectives of the EurasEC. It will offer incentives to attract the SCO member countries to engage in economic cooperation within the SCO framework.

SCO's expansion poses a serious challenge to its development too. China seems to prefer to admit Mongolia and Turkmenistan, but the former shows no enthusiasm and the latter is unwilling to abandon its neutrality. Other countries that have revealed an eagerness to join are India, Pakistan and Iran, which are also worried about the Afghanistan situation. Apparently, Sino-Russian differences were relevant. Russia and especially President Vladimir Putin were keen to promote the expansion of the organization. It wanted to accept India, and in this connection, did not oppose the admission of Pakistan.

¹⁰ See, for example, David M. Herszenhorn and Chris Buckley, "China's New Leader, Visiting Russia, Promotes Nations' Economic and Military Ties", *The New York Times*, 22 March 2013,

¹¹ Li Fu Chuan, "E, Bai, Ha Guan Shui Tong Meng Dui Shang Hai He Zuo Zu Zhi De Ying Xiang (The Russia–Belarus–Kazakhstan Customs Union's Impact on the SCO)", *E Luo Si Zhong Ya Dong Ou Shi Chang (The Russian, Central Asia and Eastern European Market)*, No. 7 (2011), pp. 1–9; Wang Shuchan and Wan Qingsong, "Shang Hai He Zuo Zu Zhi Yu Ou Ya Jing Ji Gong Tong Ti De Guan Xi Tan Xi (On the Relationship between Shanghai Cooperation Organization and Eurasian Economic Community)", *Shi Jie Jing Ji Yu Zheng Zhi (World Economics and Politics)*, No. 3 (2012), pp. 20–38.

China adopted a more cautious attitude regarding expansion; it was perceived to be lukewarm in involving India because of their bilateral territorial disputes and other differences between India and Pakistan. China's SCO experts considered that its caution was due to its concern for expansion's adverse impact on SCO's internal solidarity and operational efficiency. Chinese leaders believed that their counterparts in Kazakhstan and Uzbekistan shared their position.¹² The common interests regarding the Afghanistan situation, pressure from the West on Russia and China, and the combat of terrorism apparently have facilitated the overcoming of the controversy.

At the 14th meeting of the Council of Heads of State of the SCO held in Dushanbe in September 2014, the legal documents on the admission of new members were approved, paving the way for SCO's expansion.¹³ China and Russia have reached agreement on the admission of India probably in 2015, and the Vladimir Putin administration was happy with the progress of the construction of the Russia–India–China trilateral political structure proposed by Moscow 15 years ago. It is significant that on the eve of the Dushanbe summit, Russia presented the draft SCO Medium-Term Development Strategy through 2025 to be adopted in Ufa in 2015.¹⁴ At the same time, Pakistan will likely follow India in joining the SCO as a full member, and it has to make adjustments to the closer Sino-Indian relations. After the landslide victory of the National Democratic Alliance led by the Bharatiya Janata Party in the general election in

¹²Wu Zhaoli, "Yin Du Yu Shang Hai He Zuo Zu Zhi (India and the SCO)", in Jinfeng Li and Hongwei Wu (eds.), *op. cit.*, pp. 311–313.

¹³Ministry of Foreign Affairs of the People's Republic of China, "President Xi Jinping Attends the 14th Meeting of the Shanghai Cooperation Organization Heads of State Council and Pays State Visits to Tajikistan, Maldives, Sri Lanka and India, September 12, 2014". Available at http://www.fmprc.gov.cn/mfa_eng/topics_665678/zjpcxshzzcygyslshdsschybdtkjstmedfslkydjxgsfw/t1190100.shtml. The procedure for granting the SCO membership was approved; and the standard memorandum on obligations of applicant states for obtaining member status was amended.

¹⁴"Was There Any Progress at SCO Summit 2014?", Interview of former SCO Deputy Secretary-General Vladimir Zhaharov by Maria Gurova, Russian International Affairs Council, 2 October 2014. Available at <http://russiancouncil.ru/en/inner/?id=4=4491#top>.

May 2014, the Modi government has adopted a more active "Connect Central Asia Policy."¹⁵

At the June 2016 SCO summit in Tashkent, Uzbekistan, India and Pakistan were admitted to the regional organization as full members in 2017. Afghanistan, Iran and Mongolia may follow suit, with Iran standing a greater chance with the strong support from Russia. The Central Asian countries had declared their region a nuclear weapons-free zone; now, with the four nuclear powers within the SCO, these countries naturally would feel uneasy with their position. There is also a serious concern that SCO would not be able to absorb the Indo-Pakistani confrontation in South Asia.

The lack of a clear mission, however, remains the challenge for the SCO if it wants to avoid serving merely as a symbolic organization where a forum in which many bilateral agreements can be reached. Despite the signing in Tashkent of the Action Plan for the Implementation of Development Strategies for the SCO until 2025, competition for its Central Asian members between China and Russia continues; through the Silk Road Economic Belt scheme, China may concentrate on its bilateral approach toward the SCO members, while Russia steps up integration efforts through the EurasEU. Meanwhile, deteriorations in U.S.–Russian relations and, to a lesser extent, in U.S.–China relations provide the momentum for Sino-Russian compromises in the SCO, including the decision on new members.¹⁶

The terrorist attacks in the region in recent years and the scheduled American and NATO's military withdrawal from Afghanistan continue to highlight the importance of close security cooperation. In view of the deterioration of these regional problems, security

¹⁵ Raj Kumar Kothari, "India's 'Connect Central Asia Policy': Emerging Economic and Security Dimensions", *Sociology and Anthropology*, Vol. 2, No. 6 (2014), pp. 239–245. Available at <http://www.brpub.org>.

¹⁶ Galiya Ibragimova, "After 15 Years, the SCO is Ready to Expand", *Russia Direct*, 30 June 2016. Available at <http://www.russia-direct.org/analysis/after-15-years-shanghai-cooperation-organization-ready-expand>; Galiya Ibragimova, "What are the Implications of India's and Pakistan's Accession to the SCO?", *Russia Direct*, 13 July 2016. Available at <http://www.russia-direct.org/debates/what-are-implications-indias-and-pakistans-accession-sco>.

cooperation has also expanded to cover the combat of narcotics smuggling and transnational organized crimes. China's experts on Russia and Central Asia therefore propose that the SCO and the CIS CSTO should cooperate, though no concrete progress has yet been made. The domestic riots in Kyrgyzstan in spring 2010 were often cited as an example by these experts. The CIS CSTO assumed an important role in handling the crisis, while the SCO could do no more than merely release a statement. Exchanges of anti-terrorism intelligence within the SCO have made progress, however, given the perception of the common threat. The SCO member countries have expressed an intention to strengthen cooperation in Internet information security in view of the "color revolutions" and the Arab Spring revolutions.¹⁷

China's Central Asian experts consider that SCO's significant mission at this stage is not integration, but only economic cooperation; as reflected by President Xi Jinping's visit to Russia in March 2013, China certainly wants to avoid a confrontation with Russia and any conflict between the EurasEC and the SCO.¹⁸ Sino-Russian cooperation and EurasEC-SCO cooperation are therefore in the interest of all parties concerned.¹⁹ Hence, it is likely that the Chinese leadership would try to accommodate Russian interests and promote cooperation between the two regional organizations while respecting the objectives of the EurasEC. It will offer incentives to attract the SCO member countries to engage in economic cooperation within the

¹⁷Ting Xiaoxing, "Shanghai Hezuo Zuzhi Anquan Hezuo (Security Co-operation in the SCO)", in Jinfeng Li and Hongwei Wu (eds.), *op. cit.*, p. 87.

¹⁸See, for example, David M. Herszenhorn and Chris Buckley, "China's New Leader Visiting Russia, Promotes Nations' Economic and Military Ties", *The New York Times*, 22 March 2013.

¹⁹Li Fuchuan, "E-Bai-Ha Guanshui Tongmeng Dui Shanghai Hezuo Zuzhi De Yingxiang (The Russia-Belarus-Kazakhstan Customs Union's impact on the SCO)", *Eluosi Zhongya Dongou Shichang (The Russian, Central Asia and Eastern European Market)*, Vol. 7 (2011), pp. 1-9; Wang Shuchan and Wan Qingsong, "Shanghai Hezuo Zuzhi Yu Ouya Jingji Gongtongti De Guanxi Tanxi (On the Relationship Between Shanghai Cooperation Organization and Eurasian Economic Community)", *Shijie Jingji Yu Zhengzhi (World Economics and Politics)*, Vol. 3 (2012), pp. 20-38.

SCO framework. President Xi Jinping's Silk Road Economic Belt initiative has been presented in this context.

China's interest in SCO lies in enhancing its influence and maintaining stability in Central Asia. Working through SCO is more effective than working through bilateral relations with the individual countries concerned, and the two are not mutually exclusive. Moreover, involving Russia and respecting its interests within the SCO are essential to ensure the smooth functioning of the SCO. Combat of terrorism is a significant common interest, and the situation in Afghanistan strengthens this common interest contributing to the stability of the region and in turn helps in the combat of terrorism. The Silk Road Economic Belt initiative, for example, is expected to involve Afghanistan, India, Pakistan and Iran as well.

Economic Cooperation and the Combat of Terrorism within the SCO

The combat of terrorism, religious extremism and separatism as well as border security was the basic common interest prompting the establishment of SCO. In 2002, China and Kyrgyzstan conducted the first joint military exercise within the SCO framework, and in June 2004, an SCO Anti-Terrorism Agency was established in Tashkent, Uzbekistan. Anti-terrorism joint military exercises among SCO member countries like the Sino-Russian Peace Mission series since 2005 have become more routine, institutionalized and larger in scale. Experts in China claim that they have enhanced trust among SCO member countries.²⁰

China has been the most enthusiastic member country in the promotion of economic cooperation within the SCO mainly because Russia and other members have other plans. The Vladimir Putin administration intends to exploit the EurasEC/EurasEU as a platform to achieve the economic integration of the CIS. This economic integration process excludes China, and that was why China failed to persuade the SCO member countries to establish a free trade area.

²⁰ *Ibid.*, pp. 197–202.

China realizes that economic cooperation is the most important means to enhance and maintain its influence within the regional organization. The Chinese authorities also believe that economic development and raising people's living standards are the best ways to maintain domestic and regional stability which they practice in China, and they have been pouring subsidies and payment transfers into Xinjiang and Tibet to contain the ethnic unrest in these two autonomous regions. Other authoritarian regimes within the SCO share the latter position of the Chinese authorities, and they therefore support China's efforts of promoting regional economic cooperation and strengthening the SCO, implicitly accepting an enhancement of China's influence within the regional organization.

China too has the economic and financial resources, and it needs the energy supply and other raw materials from its SCO neighbors to support its economic growth. The reliable flow of oil, gas and other resources demands stability and the will to combat terrorism. The Silk Road Economic Belt proposal is probably also a viable alternative. The initiatives in the promotion of trade and investment hopefully will strengthen SCO member countries' domestic stability and enhance China's regional influence.

In the trade and investment facilitation process, there were many obstacles to overcome. The first SCO meeting was held in Almaty, Kazakhstan in September 2001, which formally set up the annual heads of government meeting mechanism. At the same time, the SCO member countries concluded a memorandum of understanding on the fundamental objectives and directions of regional economic cooperation and the launching of the trade and investment facilitation processes. It is significant that Article 7 of the memorandum states that cooperation within SCO would not contravene the rights and obligations of member countries incurred by their participation in other international treaties. The latter throughout the history of SCO mainly involve the agreements among the member countries of the EurasEC and those on the customs union and the united economic space among CIS member countries. Obviously, these international treaties and agreements have a higher international legal status than the SCO memorandum of understanding.

The SCO Charter signed in 2002 assigned the SCO heads of government (prime minister) meeting the task of studying and determining the principal issues regarding mutual cooperation in the economic arena. In September 2003, the SCO member countries adopted the “SCO Member Countries Multilateral Economic and Trade Cooperation Program Guidelines (henceforward Program Guidelines)” on the basis of the above memorandum. The key words of the Program Guidelines are “support, encourage and facilitate”, and its modest objective is to “gradually realize the free flow of commodities, capital, services and technology”. China had formally proposed the establishment of a free trade area among the SCO member countries, but there was no strong support.²¹

In the second SCO heads of government meeting in Bishkek, Kyrgyzstan, in September 2004, an implementation measures plan was agreed upon for the Program Guidelines. In the following meeting in Moscow in October 2005, an implementation mechanism for the above plan was adopted; basically, various specialized working groups would propose common projects to be coordinated by a senior officials committee for final approval by the heads of government meeting. In the SCO summit in Shanghai in June 2006, it was broadly agreed that the emphasis in regional economic cooperation would be the promotion of regional networks of infrastructural facilities, linking various member countries’ oil, natural gas, electricity, transport and telecommunications networks; at the same time, energy, information technology and transport were identified as the priority areas for cooperation within the regional organization.

A survey of Chinese enterprises’ assessment of the trade and investment environment in the SCO member countries in 2008 revealed that trade systems, tariff levels, customs procedures, and goods inspection and certification processes posed major obstacles to the enterprises’ business activities. Nineteen out of twenty-eight

²¹Li Fu Chuan, “E, Bai, Ha Guan Shui Tong Meng Ji Dui Shang Hai He Zuo Zu Zhi De Ying Xiang (The Russia–Byelorussia–Kazakhstan Customs Union and Its Impact on SCO)”, *E Luo Si Zhong Ya Dong Ou Shi Chang (The Russian, Central Asian and Eastern European Market)*, No. 7 (2011), p. 6.

assessment indicators (67.9%) were identified as having an adverse impact, and eight assessment indicators (28.6%) were identified as having a very serious adverse impact. Regarding the investment environment, 20 assessment indicators were said to have a relatively positive impact, but concerning foreign investment access, Chinese enterprises had encountered restrictions of various degrees in the finance, mineral resources exploitation, telecommunications, automobile assembly and sales sectors. Difficulties in obtaining working visas were a common problem and probably the most serious.²²

Economic cooperation within SCO is expected to face considerable competition from that within the EurasEC/EurasEU, especially in view of the operation of the Russia–Byelorussia–Kazakhstan Customs Union since July 2010. This customs union has established tariff barriers against goods and services from China, Kyrgyzstan, Tajikistan and Uzbekistan. Since Kyrgyzstan and Tajikistan are members of the EurasEC/EurasEU, it is probably a matter of time before they also join the customs union. Uzbekistan too may eventually resume its full membership; China's sole economic partner within SCO will be the EurasEC/EurasEU.

In February 2011, the Russia–Byelorussia–Kazakhstan Customs Union Committee initiated an anti-dumping investigation into the exports of colored steel plates from China, the first from the customs union. The latter considered that its share of imports of colored steel plates from China rose from 39.6% in 2008 to 66.9% in the first half of 2010, constituting a threat to the steel industry of the member countries of the customs union. Actually, in recent years, there were some cases of anti-dumping investigations between China and Russia.²³

The operation of the customs union reflects Russia's rapid economic rise in the recent decade which enhances its attraction and impact on the CIS member countries. Vladimir Putin intends to exploit the EurasEC/EurasEU as a platform to achieve the economic

²²Guangcheng Xing (ed.), *Shanghai Hezuo Zuzhi Fazhan Baogao 2009 (Annual Report on the Shanghai Co-operation Organization 2009)* (Beijing: Social Sciences Academic Press (China), 2009), p. 104.

²³Li Fuchuan, *op. cit.*, p. 8

integration of the CIS. Putin considers that Russia has the economic power to lead the EurasEC/EurasEU, and strengthening the integration of the CIS is an important goal of Russia's foreign policy in the coming decade. This economic integration process excludes China, and that is why China fails to persuade the SCO member countries to establish a free trade area. In fact, this Russian-led economic integration process will likely become a serious obstacle to SCO's further development.

Transport has been a priority area, and an international highway transport facilitation agreement is being negotiated. Most highways projects involve Chinese capital reflecting Beijing's financial power, and they allow Chinese enterprises to better penetrate into the Central Asian market. The most important projects include the E-40 highway running from Kazakhstan, Uzbekistan and Russia joining the European highway system, such as the China-Kyrgyzstan-Uzbekistan highway and the China-Tajikistan highway.

There has been a common understanding that the development of transport infrastructure is essential to economic growth; hence, this should be a natural priority in SCO cooperation. But, progress has been slow reflecting the disparities in financial resources and economic interests among member countries. Further, differences in standards and modes of operations also adversely affect efficiency. Despite appeals for their unification, the necessary political will and close cooperation among the bureaucracies concerned are still inadequate, revealing the general problem of multilateral cooperation within the SCO.²⁴

Parallel to this cooperation in transport, the SCO member countries concluded an agreement on cooperation and mutual assistance among their customs authorities in November 2011; and earlier in May 2011, China organized a customs authorities management seminar for the officials of the SCO member countries. In April in the same year, China also organized seminars in Hainan on quality

²⁴Shi Xiehong, "Shanghai Hezuo Zuzhi De Jiaotong Hezuo (Co-operation on Communications in the SCO)", in Jinfeng Li and Hongwei Wu (eds.), *op. cit.*, pp. 116-124.

inspection, standardization and certification to promote cooperation within the SCO.

Foreign Trade and Financial Cooperation

According to Zhu Xianping and Zou Xiangyang, in the period 1995–2006, trade among SCO member countries ranged from 4.6% to 7.2% of their respective total world trade. This proportion does not compare favorably in the same period with about 10% for African countries, about 25% for Latin American and Caribbean countries (excluding Mexico), and about 40% for East and Southeast Asian countries. Trade with China amounted to about 40% of that of the SCO member countries in this period; but China's trade with other SCO member countries only constituted 2% to 2.7% of its total trade. Trade with Russia amounted to about 10% of that of the SCO member countries in this period, and Russia's trade with other SCO member countries constituted about 10% of its total trade. For Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, their respective shares of intra-SCO trade in their total trade in this period are 35%–58%, 44%–69%, 35%–55% and 31%–47%.²⁵

Table 1 reveals that intra-SCO trade as a percentage of total trade had been increasing between 2001 and 2011 for the five countries with the exception of Kazakhstan which had been trying hard to diversify its energy exports. Even for China whose foreign trade had been increasing in an impressive manner since its entry into the World Trade Organization in 2001, its intra-SCO trade had been expanding faster than its overall trade in the decade. For the five countries (excluding Tajikistan), their intra-SCO trade as a share of their total trade reached 6.21% in 2011. Hence, the promotion of economic cooperation within SCO achieved some results. The significance of the economic ties among SCO member countries is even more

²⁵ Zhu Xianping and Zou Xiangyang, "Shanghai Hezuo Zuzhi Kuangjia Xia De Quyu Jingji Yitihua: Jinzhan Yu Dongli (Regional Economic Integration Under the SCO Framework: Progress and Momentum)", *Eluosi Zhongya Dongou Yanjiu (Research on Russia, Central Asia and Eastern Europe)*, Vol. 3 (2010), p. 48.

Table 1. The Weight of Trade with SCO Members in Each SCO Member's Total Trade, 2001, 2011 and 2014

Country	Trade With Other SCO Members in 2014		2011		2001
	(US\$ billion)	% of Total Trade	(US\$ billion)	% of Total Trade	% of Total Trade
China	129.81	3.02	113.41	3.1	2.4
Russia	116.60	14.86	109.5	13.3	9.3
Kazakhstan	41.21	34.13	48.22	38.2	43.2
Kyrgyzstan	3.59*	65.08*	3.59	57.8	53.4
Uzbekistan	10.34	54.86	13.68	48.4	25.4

*Statistics of 2015. Trade statistics of Kyrgyzstan in 2014 is not available.

Sources: Statistics from official websites of governments of SCO member countries; those of Tajikistan are not available.

prominent as demonstrated by Table 2. Russia was the top trading partner for the other four Central Asian countries in 2011; China was the largest trading partner of Russia, second largest for Kazakhstan, Kyrgyzstan and Tajikistan, and third for Uzbekistan. China's importance as a trading partner for the other SCO member countries had much improved since the founding of SCO.

Today, China further improves its trading position as it has emerged as the top trade partner with all the other SCO member countries except Uzbekistan, mainly because of their recent significant energy deals with China. Since August 2012, China has been importing gas from Uzbekistan, the second largest gas producer in Central Asia. While Central Asia accounts for a very modest share of China's foreign trade (about 1% compared with 4% of Russia's external trade), the absolute amount will rise very rapidly in the foreseeable future.²⁶ In the eyes of China, these trade ties are an important component of its influence in the region, and without holding considerable influence, China cannot perceive that regional stability is

²⁶ Georgiy Voloshin, "Hidden Dragon: The Chinese Era in Central Asia", *Global Asia*, Vol. 9, No. 4 (Winter 2014), pp. 63 and 65.

Table 2. Rankings of Top Five Trade Partners of SCO Members, 2001 and 2011

Country	Rankings of Principal Trade Partners, 2001	Rankings of Principal Trade Partners, 2011	Rankings of Principal Trade Partners, 2014
China	Japan, U.S., EU, Hong Kong, ASEAN	EU, U.S., Japan, South Korea, Taiwan	EU, U.S., ASEAN, Hong Kong, Japan
Russia	Germany, Byelorussia, Ukraine, Italy, U.S.	China, Germany, Holland, Ukraine, Italy	China, Germany, Italy, Holland, Belarus
Kazakhstan	Russia, Italy, Germany, Switzerland, U.S.	Russia, China, Italy, Holland, France	Russia, China, Holland, France, Germany
Kyrgyzstan	Russia, Germany, Uzbekistan, China, Kazakhstan	Russia, China, Switzerland, Kazakhstan, U.S.	China, Russia, Kazakhstan, Turkey, Switzerland
Uzbekistan	Russia, South Korea, Uzbekistan, Kazakhstan, U.S.	Russia, Kazakhstan, China, South Korea, Turkey	China, Russia, Switzerland, South Korea, Kazakhstan
Tajikistan	Uzbekistan, Russia, Holland, Kazakhstan, Turkey	Russia, China	China, Russia, Kazakhstan, Turkey, Switzerland

Sources: Statistics from websites of customs authorities of SCO member governments.

maintained in view of other major powers' substantial interest in this resource-rich region bordering China.

Deterioration in relations between Russia and the Western countries has contributed to the strengthening of Sino-Russian cooperation including that in the energy sector. In June 2013, the two countries concluded a long-term contract increasing the Russian oil supply to China from 15 million tons per annum to 30 million tons per annum by 2010 through the eastern route oil pipeline; the contract covers a 25-year period which may be extended for a further five years. Another agreement was concluded to increase the Russian oil supply to China from 2014 onward by an amount of seven million

tons per annum through the Sino-Kazakhstan oil pipeline (the western route); the agreement covers a five-year period which may be extended for another five years.

Despite the earlier challenges, there have been some bright spots. In early 2011, the Sino-Russian oil pipeline began to operate; in September 2011, the China–Central Asian natural gas pipeline also started operation. The southern China–Kazakhstan gas pipeline began construction work too, which was then linked to the China–Central Asian gas pipeline with an annual transport capacity of 10 billion cubic meters upon completion in 2013. The third China–Central Asian gas pipeline costing US\$ 2.2 billion started construction work in Uzbekistan in December 2011, with an annual transport capacity of 25 billion cubic meters, and it was completed at the end of 2013.

In October 2013, China National Petroleum Corporation (CNPC) acquired a 20% share of the Yamal LNG Company, thus entering the upstream segment of natural gas exploration in the Russian energy sector. CNPC and Rosneft also engaged in a joint venture in establishing an oil refinery in Tianjin; two more significant gas deals were concluded between China and Russia in 2014. In May, Russia's Gazprom and CNPC signed a contract after 10 years of tough negotiations, sending 38 billion cubic meters of natural gas per annum to China for 30 years, starting around 2018. No official price was given, but it was estimated to be worth over US\$ 400 billion, and was regarded as the biggest contract in the entire history of the U.S.S.R. and Gazprom.²⁷ Regarding Kazakhstan, CNPC acquired an 8.33% share of its Kashagan oil field. China would help Kazakhstan to build an oil refinery, and offered a US\$ 3 billion loan for Kazakhstan's national oil company to complete its second-stage development of the Kashagan oil field.²⁸

²⁷ "Russia's Putin signs a 30 year deal with China", *BBC News*, 21 May 2014.

²⁸ Huang Xiaoyong, Liu Qiang, Wan Wei and Ren Chaowang, "Shijie Nengyuan Xianzhuang yu Nengyuan Anquan (World Energy Situation and Energy Security)", in Xiaoyong Huang, Shuhui Su and Guangcheng Xing (eds.), *Shijie Nengyuan Fazhan Baogao 2014 (Annual Development Report on World Energy 2014)*, (Beijing: Social Sciences Academic Press (China), 2014), pp. 18–19.

When President Xi Jinping visited Kazakhstan in September 2014, he outlined his Silk Road Economic Belt initiative at Nazarbayev University. Later, at the Beijing APEC summit, he announced a US\$ 40 billion Silk Road Fund to provide funding for the key infrastructural projects. At the same time, the Asian Infrastructure Investment Bank (AIIB) advocated by China will also help supply capital for infrastructure construction. The AIIB has an authorized capital of US\$ 100 billion, and it is expected to be in operation before the end of 2015.

The first phase of the internationalization of Renminbi began in 2010, with the currency being used for trade settlement. In June 2011, the Russian Central Bank and the People's Bank of China reached an agreement to settle bilateral trade accounts with their own currencies and the removal of restrictions on their nationals using their national currencies in bank transfers. This was meant to set an example for trade among SCO member countries too. A three-year yuan–ruble settlement agreement was signed in October 2014 between Russia and China for trade and oil payments.²⁹

As China intends to spread its influence to Central Asia and beyond, it will likely engage in direct negotiations with SCO member countries, Afghanistan and Pakistan to involve them in the Silk Road Fund framework and even the AIIB perimeter. The security of energy imports becomes an increasing priority on the part of China as the region's share of its energy imports rises and the region's role in the supply route expands, maintaining regional stability including regime stability, and the combat of terrorism becomes correspondingly significant.

At the 13th meeting of the Council of Heads of State of the SCO held in Bishkek in September 2013, the released declaration emphasized defense and security cooperation in response to international terrorism, separatism and extremism, and a cooperation program guideline for 2013–2015 on the above was concluded. Meetings among defense ministers of SCO member countries are often held, and these meetings usually approve cooperation plans among the

²⁹ "Ruble-yuan settlements booming, set to reshape global finance", *RT News*, 11 May 2015. Available at <https://www.rt.com/business/254305-russia-china-trade-business/>. Accessed 18 October 2016.

defense ministries concerned, with the preparation and organization of anti-terrorism joint military exercises as important items of the plans. In June 2013, the Standing Committee of the National People's Congress in Beijing approved two SCO agreements on the procedures of organizing and conducting anti-terrorism joint military exercises and joint actions.³⁰

These developments naturally strengthen cooperation within SCO, and they reinforce the significance of peace and stability in the region including the situation in Afghanistan.

Challenges from the Afghanistan Situation

The situation in Afghanistan, like the Arab Spring revolutions and the “color revolutions” which have been perceived by some Chinese scholars to be instigated by the U.S. “to contain China”,³¹ aroused the concern of the Chinese leadership. The leaders in the SCO member countries are also concerned. In view of population growth, deteriorating inflation and worsening ecology within SCO member countries, it is expected that economic and social problems would become more conspicuous, giving rise to terrorism and adversely affecting domestic and regional stability.³²

³⁰Li Shuyin and Wang Jichang, “Shanghai Hezuo Zuzhi Junshi Hezuo Congshu (SCO's Military Co-operation Series]”, in *Shanghai Hezuo Zuzhi Fazhan Baogao 2014 (2014 Annual Report on the Shanghai Co-operation Organization)* (Beijing: Social Sciences Academic Press (China), 2014), pp. 194–196.

³¹Crisis Group interview, Beijing, June 2012. Cited in International Crisis Group, Belgium, *China's Central Asia Problem*, 27 February 2013. Available at <http://www.crisisgroup.org/en/regions/asia/north-east-asia/china/244-chinas-central-asia-problem.aspx>; Luo Xizheng and Lei Lin, “Fan Alabo Geming ji Qi Dui Zhongya he Zhongguo Xinjiang de Yingxiang (The Effect of the Arab Spring on Central Asia and Chinese Xinjiang)”, *CASS Guowai Lilun Dongtai (Foreign Theory Development Trends)*, June 2011. Available at <http://euroasia.cass.cn/news/388302.htm>.

³²Sun Changhong, “Zhongdong Beifei Jushi Dui Shanghai Hezuo Zuzhi De Yingxiang (The Impact of Situation in the Middle East and North Africa on the SCO)” in Jinfeng Li and Hongwei Wu (eds.), *Shanghai Hezuo Zuzhi Fazhan Baogao 2012 (2012 Report on the Shanghai Cooperation Organization)*, (Beijing: Social Sciences Academic Press (China), 2012), pp. 33–47.

In this context, the original SCO mission to combat the common threats of terrorism, religious extremism and separatism remains relevant; economic cooperation is gradually seen both in support of the mission and a new important objective of the regional organization. The development of economic cooperation which has been firmly promoted by China is to ensure regional stability and an indicator of the adaptability and vitality of SCO.

The U.S. and NATO's 2011 plan to withdraw troops from Afghanistan by the end of 2014 is perceived by SCO member countries as a security threat. They realize that this would have an adverse impact on Central Asia because the Taliban and other radical forces operating along the Afghan–Pakistan border are expected to gain ground.³³ In fact, at the end of 2011, the Obama administration had withdrawn 10,000 troops, and by the summer of 2012, 23,000 more troops left Afghanistan. The war burden was too heavy for the U.S. to bear; by the end of 2011, according to Pentagon estimates, 2,753 coalition troops had lost their lives, and the coalition had spent US\$ 323.2 billion.³⁴

Although the SCO and the international coalition led by the U.S. did not have any substantial military cooperation, some SCO member countries offered limited services to the coalition. In the autumn of 2001, Kyrgyzstan and the U.S. reached agreement for the latter to lease the Manas International Airport in the Kyrgyz capital Bishkek. Uzbekistan too offered two air force bases for the coalition, one 200 km away from the Afghan border for the U.S. and another at the Uzbek–Afghan border for Germany. The former was closed in November 2005. The SCO member countries claim that they only support the war against terrorism which is endorsed by the United Nations Security Council.

³³ “Remarks by President Barack Obama on ‘The Way Forward in Afghanistan,’ East Room of the White House”. Available at www.whitehouse.gov/the-press-office/2011/06/22/remarks-president-way-forward-afghanistan.

³⁴ “Afghan Zhanzheng 10 Nian 33877 Ren Sangsheng, Meijun Ri Hao Jin Yi Meiyuan (33,877 People Died in Ten Years of Afghanistan War; U.S. Military Spent Almost US\$100 Million a Day). Available at <http://news.sohu.com/20111010/n321709100.shtml>.

After the September 11 incident, cooperation between the U.S. and Russia in the combat of terrorism had been quite close. The tide turned in March 2005 because of the “tulip revolution” in Kyrgyzstan.³⁵ In the following May, massive protests occurred in Andijan in Uzbekistan, and the George W. Bush administration exerted pressure on President Islam Karimov to allow an international investigation. The U.S. also initiated a “Great Central Asia Plan” with Afghanistan serving as a bridge linking Central Asia and South Asia to establish a reliable energy corridor among various objectives.

These developments alarmed the SCO member countries, and the strongest reaction came from Uzbekistan which closed the air force base for the U.S. military in November 2005.³⁶ Since then, Chinese leaders are pleased to see that in Central Asia, competition between the U.S. and Russia has been stronger than their cooperation. In recent years, this competition seems to have been strengthened, and the Central Asian members of SCO also increasingly share the Russian position.

Kazakhstan is perhaps a good example. Kazakhstan used to pursue a multidirectional, balanced foreign policy, and it was proud to host the seventh summit conference of the Organization for European Security and Cooperation (OESC) in Astana in December 2010. But the criticisms against the presidential election in April 2011 from OESC and the U.S. probably alienated President Nursultan Nazarbayev. At the end of 2011, riots occurred in the western oil city of Zhanaozen, leading to many deaths. The Barack Obama administration also expressed “serious concern” over the riots and the communication blockage (including Internet communications) by the

³⁵ “Mei Zhuanjia Shuo Ji Zhengju Bianhua Tigao Mei Zai Zhongya Yingxiangli Sunhai Ji Yu ZhongE Guanxi (U.S. Experts Say That Changes in the Political Situation in Kyrgyzstan Would Raise U.S. Influence in Central Asia and Damage Kyrgyzstan’s Relations with China and Russia)”, 4 April 2005. Available at <http://www.cetin.net.cn/cetin2/servlet/cetin/action/HtmlDocumentAction?baseid=1&docno=224904>.

³⁶ “Buman Mei Ganyu Neizheng, Wu Dui Meijun Shiyong Kongjun Jidi Shexian (Dissatisfied with U.S. Interferences in its Domestic Affairs, Uzbekistan Sets Limits on the Use of its Air Force Base by the U.S. Military)”, 17 June 2005. Available at <http://news.sohu.com/20050617/n225986262.shtml>.

Nazarbayev administration in the rioting area.³⁷ Since the beginning of this decade, Kazakhstan and Kyrgyzstan seem to have been enhancing their respective economic ties with Russia, while those between Uzbekistan and the U.S. have been warming up quietly.

In line with the U.S. military withdrawal from Afghanistan, the Barack Obama administration transformed its earlier "Great Central Asia Plan" into a "New Silk Road Plan". In the eyes of China's experts, this is an attempt to pull Central Asia southward, away from the CIS. The first element of the U.S. plan is the building of infrastructure establishing Afghanistan as a regional hub linking the resources and markets in Central and South Asia, thus promoting regional economic integration. This demands investment in railways, highways, oil and gas pipelines, electricity grid systems, etc., passing through Afghanistan, as well as pulling down tariff barriers among Central and South Asian countries to facilitate freer trade. The second element of the strategy is to attract foreign investment to participate in the development of the Afghan economy, create employment, promote private entrepreneurship and build an autonomous and sustainable economic system. The final element is to promise that under U.S. leadership, other countries may also enjoy the economic benefits of the economic reconstruction of Afghanistan. The infrastructural projects involving the building of railways and highways will facilitate regional trade; the oil and gas pipelines and the electricity grid system will help meet the demands of India and Pakistan and promote exports from Turkmenistan, Tajikistan and Kyrgyzstan.³⁸

China and Russia are skeptical of the plan because they are reluctant to accept U.S. leadership. In view of the difficulties in the U.S.–Pakistani relationship, Islamabad has been boycotting the plan. The

³⁷ "Hasakesitan: 'Zhongya Dakuaitou' Nengfou Wenzhu Zhenjiao (Kazakhstan: Can 'the Big Guy in Central Asia' Hold its Position)", 21 December 2011. Available at http://www.china.com.cn/international/txt/2011-12/21/content_24212642_2.htm. See also "Kazakh Zhanaozen Oil Unrest Spreads to Regional Capital", *BBC News — Asia*, 18 December 2011. Available at www.bbc.co.uk/news/world-asia-16235282?print=true/.

³⁸ Wong Cong, "Mei Tichu Chejun Jihua Hou De Afuhan Yu Shanghai Hezuo Zuzhi (Afghanistan in the Face of U.S. Withdrawal Plan and its Relations with the SCO)", in Jinfeng Li and Hongwei Wu (eds.), *op. cit.*, p. 66.

huge investment funds required also pose a problem for the U.S. Meanwhile, Russia has also indicated its own Central Asian Strategy, which is mainly based on the Eurasian Union with the customs union among Russia, Byelorussia and Kazakhstan as the starting point.³⁹

Russia also proposed a mechanism to combat narcotics among Russia, Tajikistan, Afghanistan and Pakistan. Presidents of the four countries met in Sochi in Russia in August 2010 for their second quadrilateral talks on Afghanistan, and released a joint statement on the combat of terrorism and narcotics activities. In September 2011, the four heads of state held their third summit in Dushanbe in Tajikistan to enhance their efforts combating the production, smuggling and consumption of narcotics, and strengthen their aid for Afghanistan.⁴⁰

China's concern about the Afghan situation can be easily understood. China is directly adjacent to Afghanistan, Pakistan, Tajikistan and Kyrgyzstan, the most unstable countries in Central Asia. It was China which first proposed the Shanghai Convention on the combat of terrorism, extremism and separatism within the framework of the SCO. The Chinese authorities in the recent decade have been offering generous funding to support economic development programs in the region (such as mining and petroleum) to enhance China's influence, and also to help reduce the social problems which give rise to radicalism. Relative to the financial difficulties of Russia and the U.S., China is in the best position to continue to strengthen its investment and foreign aid flows to the region; it is also interested to increase energy imports from the region to support its economic growth and to reduce its dependence on the Middle East.⁴¹

³⁹ "Pujing Founen Yu Zhongjian Sulian, Cheng Ouya Lianmeng Bingfei Zhengzhi Yitihua (Putin Denies Attempting to Rebuild the Soviet Union, Indicating that the Eurasian Union is Not Political Integration)", 18 October 2011. Available at <http://news.sina.com.cn/w/2011-10-18/115723321749.shtml>.

⁴⁰ "E-A-Ba-Ta Lingdaoren Huiwu: Siguo Qianghua Anquan Yu Shiwu Hezuo (Meeting Among Leaders of Russia, Afghanistan, Pakistan and Tajikistan: The Four Countries Would Strengthen Security and Practical Co-operation)", 3 September 2011. Available at http://news.xinhuanet.com/mil/2011-09/03/c_121959081.htm.

⁴¹ Georgiy Voloshin, "From Observer to Stabilizer: China's New Role in Central Asia", *Global Asia*, Vol. 7, No. 4 (Winter 2012), pp. 80–86.

A review of the volumes of trade and economic cooperation between China and Afghanistan confirms this trend. Even though the volume of trade with Afghanistan over China's total trade in 2014 has been negligible (0.0009% and 0.017%, respectively), China's imports from and exports to Afghanistan in 2014 compared with 2004 have expanded 18-fold and nearly 7-fold, respectively. The value of turnover in economic cooperation projects by Chinese corporate enterprises in Afghanistan has also shown a dramatic growth by 82-fold until 2013, despite the fact that its weight to China's total overseas projects was also a negligible 0.32% in that year (see Table 3 and Figure 1).

The value of economic cooperation with Afghanistan dropped to US\$ 16.3 million in 2014 (0.11% of total). The anticipated withdrawal of U.S. forces from Afghanistan at the end of 2014 and the deterioration in security probably resulted in a temporary sharp decline in China's investment and economic cooperation projects in the country. Bilateral trade, however, still grew. It is expected that China's economic stakes in Afghanistan would continue to expand, partly because of "one belt, one road" initiatives.

The SCO members and their related states have been significant trading partners to Afghanistan, as shown in Tables 4 and 5. The largest markets for Afghan exports have been Pakistan and India, accounting for 73% of the total exports in 2015–2016 (compared with 66% in 2011–2012). Six out of the top ten export markets of Afghanistan in 2015–2016 belonged or were related to the SCO (member, observer, dialogue and attendant states included), and they took up 86% of Afghanistan's total exports. All these markets have been growing rapidly, with the exception of Russia. Russia's importance as Afghanistan's export market fell from being the third (2011–2012) to the fifth position (2015–2016), accounting for only 3% of Afghanistan's total export value, as compared with 9% in 2011–2012. New export partners from non-SCO member countries started to emerge in 2015–2016, with the UAE and Germany becoming the fourth (4% of total export value) and ninth (1% of total export value) top export markets in 2015–2016 (see Table 4).

Table 3. Foreign Trade and Economic Cooperation between China and Afghanistan (US\$ million)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	% China Total Trade
China imports from Afghanistan	0.95	1.51	0.19	2.38	2.69	1.38	3.68	4.4	5.19	9.6	17.37	0.0009
China exports to Afghanistan	56.97	51.2	100.5	169	152	214	175	230	464.1	328.26	393.56	0.017
Economic cooperation with Afghanistan ^a	35.21	55.7	46.54	77.8	40.8	34.5	37.66	58.1	155.5	432.4	16.30	0.011

Note: ^aValue of turnover fulfilled in contracted projects by corporate enterprises in cooperation with Afghanistan at various levels approved by China Ministry of Commerce).

Source: *China Statistical Yearbook*, 2004–2015, (Beijing: China Statistical Press, 2004–2015). Available at <http://www.stats.gov.cn/english/Statisticaldata/AnnualData/>.

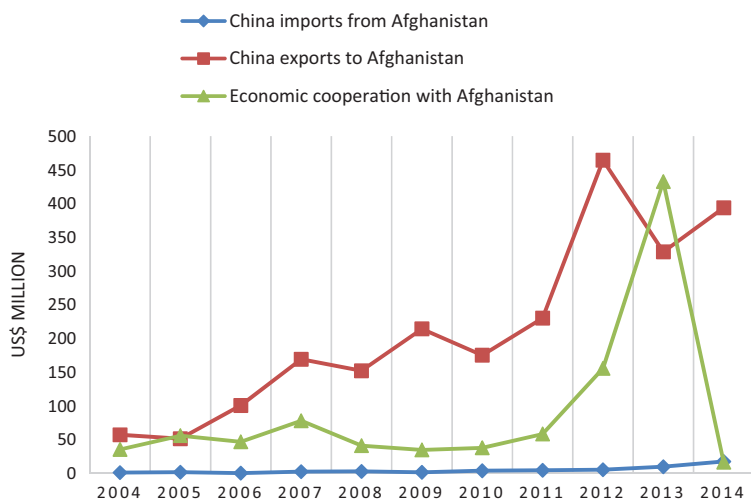


Figure 1. Foreign Trade and Economic Cooperation between China and Afghanistan (US\$ million)

The SCO members and associated states have supplied Afghanistan with 74% (in value) of Afghanistan's imports from these countries in 2015–2016, and accounted for 74% of Afghanistan's total trade deficits in the same year. Six of the top ten trade creditors of Afghanistan in 2015–2016 (compared with eight in 2011–2012) were SCO member, observer, dialogue or attendant states. Iran has overtaken Pakistan to become the top import source, accounting for 23% of Afghanistan's total import value and 25% of its trade deficits. China gained the third position as Afghanistan's import source in 2015–2016, up from the fifth position in 2011–2012. Iran, Pakistan and China (the top three) have taken up 55% of Afghanistan's trade credits, and this trend has been fast accelerating, while Afghanistan's negative trade balances with Russia seemed to have improved with its reduced imports from Russia (see Table 5).

While the SCO's and China's economic ties with Afghanistan have been strengthening, the Chinese leadership apparently intends to influence the Afghanistan situation through the SCO. Its declaration released by its 10th summit meeting in Tashkent in Uzbekistan

Table 4. Afghanistan's Top 10 Export Markets

Trade Partner	Share in Afghanistan's Total Export Value (%)			
	2015–2016		2011–2012	
	Rank	%	Rank	%
Pakistan ^a	1 st	39.75	1 st	48.14
India ^a	2 nd	33.10	2 nd	18.62
Iran ^a	3 rd	5.08	4 th	5.32
UAE	4 th	4.20	—	—
Russia ^b	5 th	3.33	3 rd	8.78
Turkey ^c	6 th	3.15	6 th	2.93
Iraq	7 th	2.98	5 th	3.99
China ^b	8 th	1.75	7 th /8 th	1.60
Germany	9 th	1.05	—	—
Tajikistan	10 th	0.88	9 th	1.33
Finland	—	—	7 th /8 th	1.60
Turkmenistan ^d	—	—	10 th /11 th	1.06

Note: SCO's ^a Observer state; ^b Full member; ^c Dialogue member; ^d Attendant state.

Source: Afghanistan Yearbook (various issues). Available at <http://cso.gov.af/en/page/economy-statistics/6323>.

in June 2010 indicates that the SCO considers that the continued deterioration of the Afghan situation and the terrorism, narcotics smuggling and transnational organized crimes originating from Afghanistan pose “a serious threat” to the region.⁴²

In the 12th SCO summit held in Beijing in June 2012, Afghanistan was admitted as an observer country and Turkey as a new dialogue

⁴² “Shanghai Hezuo Zuzhi Chengyuanguo Yuanshou Lishihui Di Shici Huiyi Xuanyan (Declaration of the Tenth Meeting of the SCO Member Countries Heads of State Council)”, 11 June 2010. Available at http://www.gov.cn/jrzg/2010-06/11/content_1625891.htm. See also Kathleen Collins, “The Limits of Cooperation: Central Asia, Afghanistan, and the New Silk Road”, *Asia Policy*, Vol. 17 (January 2014), p. 19.

Table 5. Afghanistan's Top 10 Import Partners and Trade Deficits

Trade Partner	Share in Afghanistan's Total Import Value				Trade Deficits			
	2015–2016		2011–2012		2015–2016		2011–2012	
	Rank	%	Rank	%	US\$ million	%	US\$ million	%
Iran ^b	1 st	23.43	4 th	9.11	-1779	24.88	-585	9.34
Pakistan ^b	2 nd	17.44	1 st	13.74	-1120	15.66	-697	11.59
China ^a	3 rd	13.53	5 th	9.03	-1034	14.46	-571	9.49
Turkmenistan ^c	4 th	8.19	7 th	5.52	-632	8.84	-357	5.80
Kazakhstan ^a	5 th	5.53	8 th	5.21	-416	5.82	-332	5.80
Uzbekistan ^a	6 th	4.25	3 rd	11.46	-328	4.59	-822	12.17
UAE	7 th	4.16	—	—	-296	4.14	—	—
Japan	8 th	3.78	6 th	6.45	-292	4.08	-412	6.85
Malaysia	9 th	3.59	—	—	-277	3.87	—	—
United State of America	10 th	3.27	—	—	-249	3.48	—	—
Russia ^a	—	—	2 nd	12.58	—	—	-771	12.82
Germany	—	—	9 th	3.82	—	—	-243	4.04
Tajikistan ^a	—	—	10 th	3.55	—	—	-226	3.69

Notes: SCO's ^a Full member; ^b Observer state; ^c Attendant states.

Source: *Afghanistan Statistical Yearbook* (various issues). Available at <http://cso.gov.af/en/page/economy-statistics/6323>.

partner.⁴³ A survey of the official think tank publications and mainstream media reports reveals the worries and assessment of the Afghanistan situation on the part of the Chinese authorities. Since 2009, the Afghan security situation has been perceived to be deteriorating, as reflected by the increases in the Taliban suicide bombing cases and the assassinations of senior officials responsible for the peace

⁴³ “Shanghai Hezuo Zuzhi Fenghui Zai Jing Juxing, Hu Jintao Zhuchi Huiyi Bing Fabiao Zhongyao Jianghua (SCO Summit Held in Beijing, Hu Jintao Presided Over the Meeting and Made an Important Speech)”, 7 June 2012. Available at <http://euroasia.cass.cn/news/550049.htm>.

negotiations with the rebel forces including former President Burhanuddin Rabbani. Analysts in China also believe the riots in Xinjiang in July 2009 and those in Osh, Kyrgyzstan, in June 2010 as well as the general deterioration in the domestic security scene among the SCO member countries to be related to the developments in Afghanistan.⁴⁴

The Chinese analyses, however, downplay the possibility of the Taliban returning to power, while acknowledging Western observations of the Taliban expanding its control in the suburbs of major cities like Kandahar as well as the loss of control on the part of the Afghan security forces in many places after dark. The spread of Sharia law⁴⁵ and the emergence of Taliban “shadow governments” in some areas were also noted.⁴⁶ But Chinese analyses do not consider that the Taliban has much room for significant reforms to rid itself of the international image as a terrorist organization and abandon its ties with Al Qaeda. Further, it does not have the strength and resources to defeat all the other political forces in the country. Finally, after its earlier unsuccessful administration, its political appeal is now more limited; and it does not have an attractive policy platform to tackle Afghanistan's problems, nor even a road map for peace. According to a public opinion survey in 2011 conducted by the Asia Foundation, about three-quarters of the population were in support of peace negotiations, but only a quarter of the Afghan people felt optimistic about Taliban rule.⁴⁷

⁴⁴Anand Gopal, “Some Afghans Live under Taliban Rule — and Prefer It”, 15 October 2008. Available at <http://www.csmonitor.com/World/Asia-South-Central/2008/1015/p01s01-wosc.html>.

⁴⁵Antonio Giustozzi, “Hearts, Minds, and the Barrel of a Gun: The Taliban's Shadow Government”, *PRISM Security Studies Journal*, Vol. 3, No. 2 (March 2012), p. 71.

⁴⁶Mohammad Osman Tariq, Najla Ayoubi and Fazel Rabi Haqbeen, “Afghanistan in 2011: A Survey of the Afghan People”, 15 November 2011. Available at <http://asiafoundation.org/publications/pdf/989/>.

⁴⁷See, for example, Thomas H. Johnson and M. Chris Mason, “Democracy in Afghanistan is Wishful Thinking”, 20 August 2009. Available at <http://www.csmonitor.com/Commentary/Opinion/2009/0820/p09s01-coop.html>.

Another scenario often appears in the Chinese analyses, that Taliban cooperates with the local warlords to overthrow the Hamid Karzai government or its successor and joins a succeeding coalition government, and is a repetition of the scenario in late 1980s after the withdrawal of the Soviet forces. According to the Chinese analyses, this outcome would not be the completion of the reconstruction process, but likely be the beginning of a period of chaos and civil war; Chinese analyses tend to believe that this will pose a serious challenge to the SCO member countries.

The U.S. hopes to see the Western democratic model being established in the new Afghanistan, but the challenge is formidable. The realization of this goal will likely require a permanent stationing of the U.S. military in Afghanistan, which will not be welcomed by the SCO member countries. China's regional experts argue that the Western democratic model must integrate with the traditional political culture; establish a correct relationship between the state and Islam; demonstrate tolerance for a multiethnic state; and maintain a balance among the influences of the major powers involved.

Immediately after the 2012 summit, on June 8, China and Afghanistan signed a joint declaration announcing the establishment of their bilateral strategic cooperation partnership. Subsequent statements by Chinese and Russian officials and leaders indicated that the SCO member countries would not assume a military role in Afghanistan's reconstruction. On 7 June 2012, Chinese Vice Foreign Minister Cheng Guoping stated in Beijing that the SCO would not replace or fill the vacuum created by the departure of the International Security Assistance Force in 2014.⁴⁸

The SCO member countries would in the intermediate and long-term future engage in economic aid and economic cooperation in Afghanistan. The Central Asian members of SCO do not have the economic resources to participate in the reconstruction of Afghanistan in a significant manner. They are more interested in cooperation in

⁴⁸ "Pujing Cheng E Jiang Tigong Guojing Yunshu, Zhuo Beiyue Zhengdun Afuhan Zhixu (Putin Stated that Russia Would Provide Cross-border Transport to Help NATO to Restructure the Order in Afghanistan)", *Huanqiu Net (Global Times Net)*, 2 August 2012. Available at <http://world.huanqiu.com/exclusive/2012-08/2980150.html>.

anti-terrorism and the combat of narcotics use and traffic. In 2012, China offered 150 million yuan as a gift in support of reconstruction in Afghanistan, and major state-owned enterprises would be encouraged to invest in the country.⁴⁹ A senior Afghan diplomat indicated that although the two countries had no direct security cooperation, they had been exchanging anti-terrorism intelligence since the Beijing Olympics; hence, Kabul adopted a very positive attitude toward cooperation with China and Pakistan.⁵⁰

China's Central Asian experts are especially interested in the Barack Obama administration's approach to the moderates in the Taliban organization through the Afghan Peace and Reintegration Program. They observed that in 2012 the U.S. allowed the Taliban to establish *chargé d'affaires* offices in the Gulf States and released a batch of Taliban prisoners of war to facilitate negotiations. These experts consider that absorption of the Taliban moderates into the future Afghan government would be an arrangement favorable to the maintenance of U.S. influence in the country. In July 2012, Afghanistan was given the status of an important U.S. ally outside NATO, enjoying the same favorable position as Israel and Japan.

At the end of 2014, Afghanistan seemed to have avoided the political crisis created by the controversy over the run-off presidential election in June. U.S. Secretary of State John Kerry brokered a compromise in August and September, resulting in Dr. Ashraf Ghani serving as the new President and Dr. Abdullah Abdullah as the Chief Executive. The new president soon signed the bilateral security agreement with the U.S. and the status of forces agreement with NATO.

⁴⁹ He Ming, "Shanghai Hezuo Zuzhi Yu Afuhan Zhongjian Wenti (SCO and the Issues of Afghanistan Reconstruction)", *Nan Ya Yan Jiu (South Asian Studies)*, Vol. 4 (2012), p. 82.

⁵⁰ UNODG, "World Drug Report 2010". Available at https://www.unodc.org/documents/wdr/WDR_2010/1.2_The_global_heroin_market.pdf; UNODG, "Afghanistan Opium Survey 2010: Summary Findings". Available at http://www.unodc.org/documents/crop-monitoring/Afghanistan/Afg_opium_survey_2010_exsum_web.pdf; UNODG, "Afghanistan Opium Survey 2011: Winter Rapid Assessment for the Central, Eastern, Southern and Western Regions". Available at http://www.unodc.org/documents/crop-monitoring/Afghanistan/ORAS_report_2011.pdf.

The donor countries and international organizations committed to providing over US\$ 16 billion through 2015 and sustaining support through 2017. In October 2014, China agreed during the visit of the Afghan President Ashraf Ghani to provide grants of more than US\$ 300 million to Afghanistan in the next three years.⁵¹

Afghanistan's economic growth, however, dropped from 14.4% in 2012 to 3.6% in 2013 and an estimated 3.2% in 2014. For 2014, its budget was US\$ 7.5 billion, with revenues amounting to below US\$ 2.4 billion. A record trade deficit of US\$ 8.2 billion was reported in 2014.⁵² International donors funded more than 60% of its national expenditures. Kabul naturally hopes to benefit from the energy deals in the region and China's Silk Road Economic Belt initiative. China's Central Asia experts continue to believe that their concerns over the Afghanistan situation remain justified. Corruption and effective governance remain serious problems, and narcotics production had expanded; according to the United Nations Office on Drugs and Crime, in 2013, opium poppy cultivation had increased and its area had grown to a record high of 209,000 hectares.⁵³ The situation in Afghanistan poses a serious threat to SCO member countries.

China's Position on ISIS and Its Common Interests with SCO

The ISIS is seen to be a threat by the Chinese authorities as it was claimed that Uighur militants from Xinjiang left China for "training" by ISIS to conduct attacks in China.⁵⁴ ISIS's leader, Abu Bakr al-baghdadi, also declared on 4 July 2014 that "Muslim rights are

⁵¹Tom Kutsch, "As Afghanistan Looks for Investment, China Eyes Stability", *Al Jazeera America*, 29 October 2014. Available at <http://america.aljazeera.com/articles/2014/10/29/as-afghan-looks-forinvestmentchinaeyesbusinessstability.html>.

⁵²Central Statistics Organization of Afghanistan, "*Afghanistan Statistical Yearbook 2013-14*". Available at <http://cso.gov.af/en/page/1500/4722/2013-2014>.

⁵³Kutsch, "As Afghanistan Looks", p. 2.

⁵⁴The claim was first made by *Global Times* in Beijing on 22 September 2014. See Li Hui and Sui-Lee Wee, "Chinese Militants Get Islamic State 'Terrorist Training': Media", *Thomson Reuters*, 22 September 2014.

forcibly seized in China, India and Palestine”, and “your brothers all over the world are waiting for your rescue, and are anticipating your brigades”.⁵⁵ It was noted that China was mentioned first on the list of al-Baghdadi. Under such circumstances, it is expected that China in principle would support the idea of curbing ISIS.

Chinese leaders naturally have to avoid the perception that they are abandoning the principle of non-interference in other countries’ domestic affairs. China and Russia have been blocking UN Security Council action on Syria during its civil war which began in 2011. Hence, China would likely endorse a general resolution of the UN Security Council which condemns terrorist atrocities and authorizes an international force targeting ISIS.

Iraqi news reports showed pictures of what they said was captured Chinese national fighting for ISIS. In the recent two years, Chinese leaders have been increasingly concerned with terrorist activities by Islamist extremists at home. Hence, it was speculated that China was unlikely to oppose U.S. plans to build a “broad coalition” to “degrade” and “destroy” ISIS. In response to the query whether China would join the U.S. to combat terrorism, China’s foreign ministry spokesperson, Hua Chunying, indicated: “Abiding by the principles of mutual respect and equal cooperation, China is willing to enhance anti-terrorism communication and cooperation with the international community so as to safeguard international security and stability”. The Obama administration was critical of China’s lack of commitment, and in August 2014, the president called China a “free rider” for its inadequate contribution to international security while importing oil and other resources from countries like Iraq. In early September 2014, U.S. National Security Advisor Susan Rice made her first visit to China; a part of her mission was to convey hope that China might join an international coalition to combat terrorism collectively.⁵⁶

⁵⁵ Gary Sands, “China and the ISIS Threat”, *The Diplomat*, 26 September 2014, p. 2.

⁵⁶ Katie Hunt, “U.S. Likely to Get Beijing’s ‘Quiet’ Support in Bid to Destroy ISIS, Analysts Say”, *CNN*, 11 September 2014. Available at <http://www.cnn.com/2014/09/11/world/asia/china-us-isis/>.

Ironically, weapons used by ISIS actually came from the U.S., Russia and China. ISIS's weaponry had been purchased from groups who got them from outside donors, from groups which were absorbed into ISIS or from the black market, including from ostensible enemies. ISIS often fought battles with the expectation of the spoils of enemy war materials.⁵⁷

China's position, as expected, remained cautious. The Bashar al-Assad administration and its allies in Moscow and Tehran warned the Obama administration that an offensive against ISIS within Syria would violate international law, immediately after its announcement of an open-ended campaign of air strikes against militants on both sides of the border with Iraq. The Chinese government also stated that the world should fight terrorism but that national sovereignty must be respected.⁵⁸

While the Chinese authorities' interest in Syria rose as Islamist terrorist attacks spread in China, this connection served to strengthen cooperation within the SCO. In the year to September 2014, over 200 people were killed in the clashes between the People's Liberation Army and the Uighur community in Xinjiang. A series of bombings occurred on 28 September 2014, followed by a complete media black-out for the whole week. It was said that the bombings resulted in 54 deaths, and bombings/suicide operations are still rare in China.⁵⁹

Member states of SCO share the same fears as their fellow citizens who have joined the ISIS return to their respective home countries. In the SCO summit in September 2014 in Dushanbe, Tajikistan, President Xi Jinping confirmed that SCO should make concerted

⁵⁷ Elliot Jager, "Much of ISIS' Weaponry Comes from US, Russia and China", 6 October 2014. Available at <http://www.newsmax.com/Newsfront/ISIS-weapons-ammunition/2014/10/06/id/598793/>; C.J. Chivers, "ISIS' Ammunition Is Shown to Have Origins in U.S. and China", *The New York Times*, 5 October 2014.

⁵⁸ Dan Roberts, "ISIS Air Strikes: Obama's Plan Condemned by Syria, Russia and Iran", *The Guardian (London)*, 12 September 2014. Available at <http://www.theguardian.com/world/2014/sep/11/assad-moscow-tehran-condemn-obama-isis-air-strike-plan/>.

⁵⁹ "The Real Reason China Is So Interested in Syria...", 29 September 2014. Available at <http://isisstudygroup.com/?p=2317>.

efforts to crackdown on the rising radicalism and the “three evil forces of terrorism, extremism and separatism” in light of the rise of ISIS. Zhang Xinfeng, SCO's Director of its Regional Antiterrorism Agency, openly articulated the above concern: “These people (returning ISIS soldiers) have started returning to their homeland, which constitutes a major threat to regional security”.⁶⁰

Conclusion

The birth of the SCO was based on the perception of the common threat of terrorism, separatism and religious extremism of its member countries. This perception persists among its members because domestic stability remains a common concern and is exacerbated by the Afghanistan situation. The authoritarian nature of the regimes thus constitutes a common bond as domestic stability is interpreted to include regime stability. Though all member countries desire expansion of economic exchanges with the Western world, their resentment against pressures from the West for democratization has contributed to their incentives for cooperation within the SCO.

While cooperation in security and non-traditional security has made considerable progress,⁶¹ economic cooperation has gradually emerged as a new and significant objective of the regional organization. Economic difficulties in the West have made it more important, and China's enthusiasm supported by its huge financial resources has contributed much momentum to related endeavors. In contrast to the development of the European Union, SCO members adopt very practical and utilitarian attitudes toward trade and investment among them, and there have been few concessions made to promote SCO's development and regional solidarity. Negotiations on bilateral energy deals are perhaps the best examples of these attitudes.

⁶⁰ Gary Sands, *op. cit.*

⁶¹ Yang Tao, “Jiaqiang Shanghai Hezuo Zuzhi Fankong Hezuo Mianlin De Tiaozhan Yu Yingdui Cuoshi (The Challenges and Response Measures in Strengthening Anti-terrorism Co-operation in the SCO)”, *Hubei Jingguan Xueyuan Xuebao (Journal of Hubei University of Police)*, Vol. 126 (March 2012), pp. 96–98.

The real challenge to SCO's development has been the inadequate commitment to regional solidarity on the part of its members. Russia is more interested in the promotion of the CIS CSTO and the EurasEC/EurasEU, while the Central Asian countries are mainly concerned with the maintenance of their respective autonomy and diplomatic options. China seems to be the most enthusiastic member and has been more willing to promote regional economic cooperation with its financial resources. The initiatives of a SCO Development Bank, a SCO Development Fund and the Silk Road Economic Belt are perhaps the best examples.⁶² Yet, the rise of China has often been looked upon with suspicion.

Despite the divergence in Sino-Russian interests in regional institution building, the common global strategic interests of SCO member countries have prompted them to accommodate each other in Central Asia and within the SCO, and are well demonstrated by their recent agreements related to SCO. For the other Central Asian member countries, the benefits of participation outweigh their costs which have not been demanding.

The Afghanistan situation exacerbates the common threat, and the "shale revolution" strengthens the incentive for cooperation in the energy sector. Economic growth supported by trade and investment contributes to domestic stability, and therefore economic cooperation and the cooperation in the combat of terrorism go hand in hand within the SCO.

The significance of the Afghanistan situation to China is well illustrated by the fact that the Afghanistan issue has been an important agenda item in all the bilateral and multilateral dialogues that China has engaged within the SCO, namely: (a) the bilateral consultative mechanism between China and Pakistan; (b) that between China and Iran; (c) the dialogue mechanism among China, Afghanistan and Pakistan; (d) that among China, Russia and Pakistan; (e) the meeting mechanism among China, India and Russia; (f) the "six plus one"

⁶²Fang Yang, "SCO Should Accelerate Trade, Investment Facilitation: Expert", *People's Daily Online*, 19 April 2013. Available at <http://english.peopledaily.com.cn/90883/8214475.html>.

dialogue mechanism in Geneva involving China, Russia, Afghanistan, India, Iran, Pakistan and the U.S.; and (g) the Istanbul Process.

On this basis, the SCO survives and somewhat manages to overcome its inadequacies. The survival has even attracted neighboring countries to join, and China's efforts in supporting the SCO both in economic cooperation and those in the combat of terrorism have largely paid off in terms of China's influence within the SCO. With the alert that the security situation in Afghanistan has visibly deteriorated with the military drawdown at the end of 2014,⁶³ it is less certain that the engagement in dialogues within the SCO will lead to a clear-cut and concrete plan to combat terrorism and ensure stability in Afghanistan and the surrounding region.

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⁶³Chinese Academy of Social Sciences Institute of Russian, Eastern European and Central Asian Studies, *2014 Annual Report on Development of Central Asia* (Yellow Book of Central Asia) (Beijing: Social Sciences Academic Press (China), 2014).

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Chapter 10

China's Relations with the Gulf Cooperation Council States: Multilevel Diplomacy in a Divided Arab World

Joseph Yu-Shek Cheng

Introduction and Historical Background

The significant developments in the Arab world since the “Arab Spring” have prompted the Chinese authorities to improve their understanding of the complexities of the Arab world, and especially the Gulf Cooperation Council (GCC) states.¹ Chinese leaders are concerned with the developments and trends such as the Arab Spring which, like the fall of the Berlin Wall and the “color revolutions”, may threaten the survival and the monopoly of political power of the party regime. The Arab Spring highlights the new significance of the Middle East and North Africa to China. The former is more than just a source of energy supply, as political developments there may have an

¹The Gulf Cooperation Council was formed on 25 May 1981 and currently has six members: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE).

impact on those in China. At least, China's official think tanks have to examine the relevant implications and the lessons to be drawn.

The fall of the Gaddafi regime in Libya and the recent Syrian crisis forced Chinese leaders to become more involved in the Middle East and North Africa to better protect Chinese interests; at the same time, in pursuit of China's major power status and to avoid being marginalized in the competition for influence among major powers in the region, China intends to assume a role in the region. In both crises, China's veto in the United Nations (UN) Security Council enabled China to influence the situations, and Chinese leaders were forced to consider China's principles and positions regarding interventions. China's influence has presented new challenges.

The GCC has been and remains important to China because of oil. Saudi Arabia is obviously a key player in the Arab world, and the GCC states have significant influence in the region because of their wealth. As economic ties between China and the GCC states are expected to grow, and as China intends to play an increasingly important role in the region, it will certainly accord a high priority to its relations with the GCC states and exploit the bilateral relationship to enhance China's influence in the region. The GCC states appreciate China's significant role in global affairs, and they too want to enhance their strategic maneuverability through limiting the predominant U.S. role; improving relations with China therefore becomes an attractive option.

This chapter intends to examine China's relations with the GCC states that are not yet well researched.² China's approach is multilevel: it maintains diplomatic relations with individual GCC states; it initiated formal mechanisms of regular meetings with the GCC in 1990; and it also established the China–Arab States Cooperation Forum in 2004, and the Arab League represents its 22 members in this forum.³ Student

² The annual Gulf Research Meetings held at Cambridge University offer very useful background materials.

³ The Arab League is the oldest functioning regional organization and was formed in March 1945. At present, it has 21 members: Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Tunisia, the UAE and Yemen. Syria was recently expelled from the organization.

exchanges and Confucius Institutes are the usual aspects of people-to-people diplomacy. On 14 August 2012, U.S. Under-Secretary of State for Political Affairs Wendy Sherman and Chinese Vice-Foreign Minister Zhai Jun launched the inaugural round of U.S.–China Middle East Dialogue in Beijing.⁴ Hence, China's approach to the GCC states also includes dialogue with other major powers and participation in important multilateral conferences on regional affairs.

China's approach to the GCC states demands the maintenance of a delicate balance. China wants to avoid a confrontation with the U.S. while limiting its regional hegemony; it intends to uphold its foreign policy principles while enhancing its appeal to various groups of countries in the region, and it plans to expand its economic interests and influence and cultivate a good international image. But in the complex major power competition and regional rivalries, fulfilling all these objectives becomes a serious challenge while the Chinese authorities are still trying to better understand the region.

This multilevel diplomacy calls for close coordination between the various levels of foreign policy-making and policy implementation, and apparently China's official think tank experts acknowledge that this has been a weakness. The establishment of the National Security Commission in January 2014 chaired by President Xi Jinping is generally praised as an important step to strengthen this coordination. Better coordination is also needed among various policy systems including foreign affairs, national security and the military intelligence and commerce. Establishing a good community image on the part of the major state-owned enterprises (SOEs), for example, may require some guidance from the ministry of commerce, which is in charge of the foreign aid programs, as well as the ministry of foreign affairs.

The GCC states present an interesting case study of this multilevel diplomacy at work. They had not been accorded a high priority within China's foreign policy framework before, but their importance has been increasingly appreciated. Conflicts of interests for China are many, and maintaining a balance is obviously challenging. Crises

⁴Office of the Spokesperson, U.S. Department of State, "U.S.–China Middle East Dialogue", *Media Note*, 14 August 2012.

frequently occur in the region, and China's role and its articulation of its positions often come under close scrutiny by Western media, thus affecting China's image as a responsible major power.

Before the era of economic reforms and opening to the external world which began at the very end of 1978, China's Third World policy was guided by its general principles defined by its ideology and world view. In the context of the Sino-Soviet breakup between 1960 and 1963 and the subsequent competition in the Third World among revolutionary movements, Soviet penetration in the Middle East was probably the most important factor in China's relations with the GCC states.⁵

In 1971, China established relations with Kuwait, which then supported China's entry into the UN. In 1978, China established diplomatic relations with Oman, probably with an implicit pledge not to support the latter's rebel group as in the 1960s. In the 1980s, in line with China's modernization diplomacy, that is, exploiting China's diplomatic work and foreign relations to serve its objective of modernization,⁶ it established diplomatic relations with the United Arab Emirates (UAE) in 1984, Qatar in 1988 and Bahrain in 1989. Saudi Arabia was the last among the GCC states to establish formal ties with China in 1990, unaffected by the Tiananmen incident in the year before.

In view of the setback in relations with the West because of the domestic turmoil, China was eager to secure diplomatic achievements in the Third World. It was said that diplomatic relations with Saudi Arabia would facilitate Chinese Muslims to attend the hajj, sending Islamic scholars to participate in Islamic conferences abroad, dispatching trade delegations to Riyadh and even selling missiles to the country.⁷

In 1993, China became a net oil importer, and energy security naturally became an important factor in China–GCC states relations. In

⁵ See Joseph Y. S. Cheng, "The Evolution of China's Foreign Policy in the Post-Mao Era: From Anti-Hegemony to Modernization Diplomacy", in Joseph Y. S. Cheng (ed.), *China: Modernization in the 1980s* (Hong Kong: The Chinese University Press, 1989), pp. 190–194. See also Mohammed Bin Huwaidin, *China's Relations with Arabia and the Gulf, 1949–1999* (New York: RoutledgeCurzon, 2002).

⁶ Cheng, *op. cit.*, pp. 161–201.

⁷ Huwaidin, *op. cit.*, pp. 213–236.

June and July that year, the then Chinese Deputy Premier Li Lanqing toured all six GCC states and Iran, and the obvious policy objective was to secure a supply of oil.⁸ In these years, China's approach to the Gulf did not reveal a well-defined strategic pattern or a coherent regional policy well defined and articulated within its foreign policy framework. Oman, for example, rather suddenly emerged as an important source of oil imports, which continued to increase after 1995, and by 1997 China became the third largest market for Oman's oil exports.⁹

China's labor-intensive products were eager to find new markets. Since the 1990s, the UAE has become the most important location for China's manufactured products to be re-exported to the neighboring countries. The UAE's imports from China rapidly increased from US\$ 2.1 billion in 2000 to about US\$ 24 billion in 2008. The basic trade pattern has been clear-cut; China imports oil, natural gas and chemical products from the GCC states, and exports garments, textile fabrics, electronic and telecommunication equipment to them.

China's Arab-world experts often examine the strategic configuration in the Gulf region within a framework of five periods: from 1949 to 1958, the region was dominated by pro-Western monarchies; from 1958 to 1979, the revolution in Iraq brought a confrontation between the radical republic and conservative monarchies based on ideological contradictions; from 1979 to 1990, the Islamic revolution in Iran brought back the traditional confrontation between the Arab states and Persia based on national religious schisms; from 1990 to 2001, the invasion of Kuwait by Iraq produced a triangular structure among Iran, Iraq and the GCC states premised on political and strategic conflicts; and from 2001 to the present, the September 11 attacks have renewed the enmity between the Sunnis and the Shiites, and religious contradictions have become dominant.

⁸ Martin Harrizon, "Relations between the Gulf Oil Monarchies and the People's Republic of China (1971–2005)" (Doctoral thesis, Lancaster University, 2006), quoted by Zhang Mei, "China's Interests in the Gulf: Beyond Economic Relations?" (Singapore: Middle East Institute, National University of Singapore, November 2009), p. 5.

⁹ Huwaidin, *op. cit.*, p. 210.

In line with the above strategic configuration, China's Gulf policy may be divided into the following stages: from 1958 to 1967, it focused on Iraq because of the regime's ideological position and revolutionary orientations in the context of the Cold War; from 1967 to 1971, it focused on the revolutionary movements in the Gulf region during a period of extreme radicalization of Chinese foreign policy; from 1971 to 1979, it centered on the broad united front against the expansion of Soviet imperialism in the context of the strategic triangle symbolized by the Nixon visit to China; from 1979 to 1990, China was much absorbed by the Iran–Iraq war and in fact was a major arms supplier to both sides; from 1990 to 2001, Iran tended to be the focus of China's attention in the region; and from 2001 to the present, Saudi Arabia and Iran have become the twin pillars of China's approach to the Gulf.¹⁰

China's interests in the Gulf region have been evolving too, and in the twenty-first century they cover geopolitical interests, economic and trade interests, energy security interests and non-traditional security interests. In regard to geopolitical interests, the basic considerations are the recognition of the People's Republic of China as the sole legitimate representative of China, the maintenance of friendly relations with all countries in the region, the promotion of multipolarity in the region thus ensuring China's regional interests and the coordination of China's Gulf policy with the broad goals of supporting China's modernization and the enhancement of China's international status and influence. Obviously, the last two broad goals have become much more significant in the recent decade.

The release of "China's Arab Policy Paper" in January 2016, the first of its kind, demonstrates the increasing importance of the Arab world in China's foreign policy framework.¹¹ The issue of the policy

¹⁰Wu Bingbing, "Cong Zhongguo yu Haiwan Baguo Guanxi de Fazhan Kan 'Zhong A, Hezuo Luntan' (Examining the "China–Arab States Cooperation Forum" from the Perspective of the Development of Relations between China and the Eight Countries in the Gulf Region)", *Alabo Shijie Yanjiu* (*Arab World Studies*), No. 1 (January 2011), p. 11.

¹¹China's Arab Policy Paper (Beijing: Xinhua, January 2016). For the English full text of the policy paper, see http://news.xinhuanet.com/english/china/2016-01/13/c_135006619.htm.

paper was immediately followed by Chinese President Xi Jinping's visit to Saudi Arabia, Egypt and Iran. The visit not only symbolizes the region's rising significance in China's foreign policy, but also the need to maintain balances in Beijing's approach to the region.

According to China's "1+2+3" formula for China–Arab cooperation which naturally also applies to that between China and the GCC states, energy cooperation would be the "core" of the relationship, with infrastructure construction and trade and investment facilitation as the "wings" supporting the core. The "3" refers to "three breakthroughs", indicating future cooperation in nuclear energy, new and clean energy, and aerospace (satellites and "cooperation on manned spaceflights"). The recent Silk Road Economic Belt and 21st Century Maritime Silk Road schemes are supposed to show China's commitment as well as to serve as a framework covering the cooperation projects.¹²

Oil and Economic Interests

Oil is naturally a very important factor in the relations between China and the GCC states. The latter now export more oil to Asia than to Europe and North America combined. About two-thirds of GCC states' oil exports are channeled to Asia. OPEC data reveal that the GCC states produced about 13 million barrels of crude oil each day in 2012, and they provided China with 36% of its oil imports, with Saudi Arabia being the top supplier satisfying 20% of China's oil import demand.¹³ Other East Asian countries are also heavily dependent on oil from the GCC states (see Table 1); hence, the latter consider not only China's importance, but that of Asia as a whole.

China's oil demand is expected to continue to grow (see Table 2), rising to 15.5 million barrels per day (mb/d) in 2030 and 17.5 mb/d in 2040. China will eventually be importing around 10–12 mb/d, roughly 70%–80% of its future oil consumption. Similarly, India's oil

¹² "Revealed: China's Blueprint for Building Middle East Relations", 20 April 2016, <http://thediplomat.com/2016/01/revealed-chinas-blueprint-for-building-middle-east-relations/>.

¹³ OPEC, "Oil Market Report", http://www.opec.org/opec_web/en/publications/338.htm.

Table 1. Major Asian Countries' Crude Oil Imports from GCC States and Saudi Arabia, 2012 (Millions of Barrels per Day (mb/d))

	China		India		Japan		South Korea	
	mb/d	%	mb/d	%	mb/d	%	mb/d	%
World	5.44	100	3.76	100	3.60	100	2.60	100
GCC States	1.88	35	1.56	42	2.73	76	1.77	68
Saudi Arabia	1.08	20	0.67	18	1.19	33	0.86	33

Source: International Trade Centre, May 2013, <http://www.trademap.org/Index.aspx>.

Table 2. World Oil Consumption in Selected Regions, 2011–2040 (Millions of Barrels per Day)

	2011	2020	2025	2030	2035	2040	Annual Growth 2011–2040 (%)
U.S.	18.6	19.4	19.1	18.7	18.5	18.6	0.0
OECD Europe	14.2	13.8	13.8	13.9	14.1	14.2	0.0
China	9.8	13.2	14.7	15.5	16.6	17.5	2.0
India	3.2	4.2	4.9	5.6	6.2	6.8	2.6
Japan	4.46	4.41	4.3	4.2	4.1	3.9	–0.4
South Korea	2.3	2.5	2.61	2.66	2.69	2.4	0.6

Note: Consumption includes natural gas plant liquids, crude oil and lease condensate.

Source: U.S. Energy Information Administration, *Annual Energy Outlook 2013*, April 2013, p. 159.

consumption will expand rapidly, rising from 3.2 mb/d in 2011 to 6.8 mb/d in 2040; eventually importing around 5–6 mb/d, about 90% of its future petroleum needs (Table 2). On the other hand, Japan's oil needs have been in decline since 2005, and the trend will continue, while those of South Korea will rise moderately till 2035 and then decrease.¹⁴ In view of the technological breakthroughs in

¹⁴Energy Information Administration (EIA), "Country Analysis Briefs", <http://www.eia.gov/countries/>; International Energy Agency (IEA), "The Oil Market", 11 April 2013, <http://omrpublic.iea.org/>; EIA, "Annual Energy Outlook 2013", April 2013.

the exploitation of shale gas and oil, oil imports of the U.S. will drop sharply in the future, and it may even become self-sufficient in terms of energy resources. Hence, the oil trade between China and the GCC states will become increasingly significant.

Natural gas is also an important item in the trade between China and the GCC states. Japan, South Korea, China and India accounted for two-thirds of global liquefied natural gas (LNG) demand in 2012.¹⁵ In the longer term, however, North American producers may become keen competitors for the GCC states in Asia, especially after the widening of the Panama Canal. Australia too has a number of LNG export projects under development and may surpass Qatar by 2020.

East and South Asia will continue to diversify their sources of LNG to North America, Australia and East Africa. Shale gas production in the United States is expected to expand very rapidly, and China is developing its coal-to-olefin technology. Iraq is expected to exploit its gas to enhance its petrochemicals industry, and this would likely offer some competition to Saudi Arabia and other GCC states.¹⁶

According to the U.S. National Intelligence Council (NIC)'s report entitled *Global Trends 2030: Alternative Worlds* published in December 2012, the U.S. is likely to become energy-independent due to its rising production of shale gas. The NIC also considers that expanding domestic production of crude oil will lead to its reduction in imports, resulting in global excess export capacity of over eight million barrels per day; OPEC under such circumstances may lose its price control in the international oil market. The GCC states are naturally very much worried about this kind of scenario.

Javier Solana, former EU High Representative for the Common Foreign and Security Policy, observed in 2013 that if the U.S. achieves energy independence, this would be adequate to induce it to implement a phased withdrawal from the Middle East. The gist of Solana's arguments is that the focus of U.S. foreign policy would surely shift to Asia; as the U.S. has to respond to the rise of China and to

¹⁵ IEA, *Developing a Natural Gas Trading Hub in Asia: Obstacles and Opportunities* (Paris: IEA, 2013), p. 20.

¹⁶ Naser Al-Tamimi, "Asia-GCC Relations: Growing Interdependence" (Italian Institute for International Political Studies (ISPI), Analysis No. 179, June 2013), p. 11.

maintain political stability in the Middle East, the shale revolution would offer it greater freedom of action in foreign policy.¹⁷

The potential of expanding the trade and investment flows between China and the GCC states can best be appreciated if one examines the respective sizes of the two economies and their recent achievements. China has become the second largest economy in the world in 2010; it surpassed Germany as the largest exporter in 2009 and leapfrogged the U.S. to become the world's biggest trading power in 2012. By mid-2013, China's foreign exchange reserves amounted to US\$ 3.56 trillion, the largest in the world, and China's economy as a percentage of nominal global GDP reached 11.5% in 2012.¹⁸ It is projected to overtake the U.S. as the largest economy by 2017 in terms of purchasing power parity and by 2027 in market exchange rate terms.¹⁹

Although less noticeable, the GCC states are fast becoming a significant trading bloc with a total trade of more than US\$ 1.4 trillion in 2012. Their GDP exceeded US\$ 1.5 trillion in the same year, ranking 12th globally. Together, their exports reached US\$ 934 billion in 2012, ranking fourth in the world, while their imports amounted to US\$ 484.2 billion, ranking ninth in the world.²⁰ The combined foreign assets of GCC governments, state institutions and banking systems were estimated to be over US\$ 2.2 trillion at the end of 2012 and projected to rise to US\$ 2.5 trillion at the end of 2013.²¹

¹⁷The National Institute for Defense Studies, *Japan East Asian Strategic Review 2014* (Tokyo: The Japan Times Ltd., 2014), Chapter 9, "The Shale Revolution and the International Security Environment", pp. 332–333.

¹⁸Orville Schell and John Delury, *Wealth and Power: China's Long March to the Twenty-First Century* (New York: Random House, 2013).

¹⁹PricewaterhouseCoopers, "World in 2050: The BRICs and Beyond: Prospects, Challenges and Opportunities" (January 2013), p. 2.

²⁰International Monetary Fund (IMF), "Direction of Trade Statistics (DOTS)" (May 2013), http://elibrary_data.imf.org/; World Trade Organization, "International Trade Statistics 2013", http://www.wto.org/english/res_e/statis_e/statis_e.htm; IMF, "Report for Selected Countries and Subjects", World Economic Outlook Database (April 2013), <http://www.imf.org/external/data.htm>.

²¹G. T. Abed, "GCC Regional Overview" (Washington, D.C.: Institute of International Finance, 12 May 2013).

Total trade between China and all GCC states experienced double-digit annual growth rates since 2000 (except for 2001 and 2009) (Table 3). Trade between China and GCC states declined in the year 2009 because of the international financial crisis in the previous year, but recovered strongly in the following year. China's imports in 2013 stagnated somewhat revealing the fall in the prices of oil and gas.

It is natural that the GCC states adopt a "Look East" policy; they see the writing on China's Great Wall, and they realize that it is

Table 3. Trade between China and the GCC States, 1998–2014 (US\$ Billion)

Year	Trade between China and GCC States		China's Imports from the GCC States		China's Exports to GCC States	
	Total	Growth Rate (%)	Total	Growth Rate (%)	Total	Growth Rate (%)
1998	42.47	—	18.64	—	23.83	—
1999	46.01	8.34	19.90	6.76	26.11	9.57
2000	101.23	120.00	64.43	223.80	36.80	40.94
2001	97.57	−3.60	56.02	−13.06	40.73	10.71
2002	115.67	18.56	60.17	7.42	55.53	36.30
2003	168.75	45.90	87.99	46.09	80.57	45.07
2004	247.31	46.55	142.96	62.64	104.38	29.57
2005	337.57	36.49	199.95	39.85	137.65	31.87
2006	449.49	33.15	265.62	32.85	183.88	33.60
2007	580.20	29.08	302.69	13.97	277.21	101.39
2008	923.12	59.10	537.25	77.49	385.83	39.18
2009	679.18	−26.42	366.71	−31.74	312.47	−19.01
2010	925.26	36.22	564.76	54.01	360.50	15.37
2011	1337.13	44.50	868.45	53.77	446.70	23.71
2012	1551.12	16.00	1007.83	16.00	543.29	21.62
2013	1653.47	6.50	1056.70	4.85	596.77	9.84
2014	1751.82	5.95	1065.93	0.87	685.90	14.94

Source: People's Republic of China National Bureau of Statistics, *China Statistical Yearbook* (various issues).

important to cultivate good relations with China.²² In the past two decades, the share of the U.S. and the European Union in the GCC states' trade dropped from 40% to 21% in 2012, while China's share rose from less than 2% in 1992 to 10.6% in 2012. In the same period, India's share increased from 3% to 10.7%.²³ In almost every aspect, India is a keen competitor for China in the Gulf region.

Table 4 shows that in the trade between China and the respective GCC states, there are significant similarities and differences. China's trade with individual GCC state increased substantially in the period. The leading trade partner had been Saudi Arabia, followed by the UAE, Oman, Kuwait, Qatar and Bahrain. The UAE and Bahrain had

Table 4. Trade between China and the Individual GCC States, 2002–2014 (US\$ million)

	Exports	Imports	Total	Exports	Imports	Total
	Bahrain			Kuwait		
2002	57.92	51.76	109.68	262.98	464.35	727.33
2003	83.15	52.13	135.28	674.99	513.25	1188.24
2004	120.57	92.40	212.97	484.05	764.06	1248.11
2005	187.00	68.94	255.94	628.47	1020.50	1648.97
2006	283.92	64.82	348.73	861.31	1924.00	2785.31
2007	384.69	102.44	487.14	1338.63	2290.62	3629.25
2008	655.07	131.31	786.39	1751.30	5038.81	6790.11
2009	475.26	211.23	686.50	1542.85	3500.69	5043.54
2010	799.50	251.91	1051.42	1848.59	6708.36	8556.95
2011	880.01	325.84	1205.85	2128.41	9175.20	11303.62
2012	1202.78	348.03	1550.81	2089.18	10467.81	12556.99
2013	1238.93	305.18	1544.11	2675.51	9586.64	12262.15
2014	1231.78	183.96	1415.58	3428.72	10004.96	13433.69

(Continued)

²² Al-Tamimi, *op. cit.*, p. 4.

²³ A. Aluwaisheq, "The GCC Turns East", *Arab News*, 16 December 2012, <http://www.arabillionnews.com/gcc-turns-east>; IMF, DOTS, http://elibrary_data.imf.org/.

Table 4. (Continued)

	Exports	Imports	Total	Exports	Imports	Total
	Oman			Qatar		
2002	60.18	1446.47	1506.65	49.54	174.01	223.55
2003	81.96	1985.75	2067.72	61.80	293.08	354.88
2004	111.02	4278.49	4389.51	103.52	334.26	437.78
2005	190.99	4138.91	4329.90	203.67	472.72	676.39
2006	339.54	6129.47	6469.02	436.81	561.98	998.79
2007	547.56	6722.73	7270.29	620.87	588.00	1208.88
2008	794.51	11626.84	12421.36	1074.16	1311.62	2385.78
2009	747.50	5411.23	6158.73	872.11	1381.76	2253.87
2010	944.50	9779.23	10723.72	855.44	2455.84	3311.28
2011	998.18	14876.49	15874.66	1198.76	4694.31	5893.07
2012	1811.58	16975.44	18787.02	1205.10	7278.10	8483.20
2013	1900.84	21040.61	22941.46	1710.91	8463.35	10174.26
2014	2065.38	23795.86	25861.24	2254.01	8336.73	10590.74
	Saudi Arabia			UAE		
2002	1671.54	3435.35	5106.89	3450.90	445.36	3896.26
2003	2146.80	5172.32	7319.12	5037.00	773.46	5810.46
2004	2775.46	7522.65	10298.10	6841.14	1304.48	8145.61
2005	3824.42	12245.72	16070.14	8729.84	2045.60	10775.44
2006	5055.83	15084.53	20140.37	11404.78	2796.75	14201.53
2007	7807.82	17559.68	25366.96	17023.62	3012.02	20035.64
2008	10823.46	31022.69	41846.16	23643.68	4613.25	28256.93
2009	8977.45	23570.94	32548.39	18631.80	2595.08	21226.88
2010	10366.44	32829.05	43195.49	21235.34	4451.54	25686.89
2011	14849.71	49467.54	64317.24	26812.85	8306.37	35119.22
2012	18452.35	54861.87	73314.22	29568.32	10851.97	40420.29
2013	18739.81	53450.71	72190.53	33411.30	12823.53	46234.82
2014	20575.25	48508.03	69083.27	39034.51	15763.36	54797.86

Source: People's Republic of China National Bureau of Statistics, *China Statistical Yearbook* (various issues).

trade deficits, while the other four all enjoyed considerable trade surpluses. Bahrain had little to export to China, and its imports from China were relatively small too. The UAE was different in that its exports of oil and gas to China were respectable, but its imports from China were significant, demonstrating that it served as an entry point for China's exports to be further distributed in the Middle East.

Both China and the GCC states perceive their economic links from a long-term strategic perspective. A large population of Arab businessmen has settled down in Yiwu, Zhejiang, in China, where most goods exported to the Gulf region are produced, and an estimated 200,000 Chinese reside in the UAE.²⁴ Recently, Saudi Arabia has been increasing its natural gas production to reduce its domestic demand for oil; it has indicated that it will then be able to increase its oil exports to China, thus overcoming the resistance from the Western oil companies, which have already planned their sales destinations.²⁵ The UAE also attempts to enhance its status as a stable energy supplier through constructing the Fujairah pipeline by a Chinese enterprise bypassing the risky Strait of Hormuz, despite the fact that the pipeline's capacity is limited and the UAE's energy exports to China are small.²⁶ In 2009, a 25-year agreement to provide five million tons of LNG per year was reached between Qatargas and the China National Offshore Oil Corporation (CNOOC) and PetroChina. This created a long-term interdependency reflecting in the words of CNOOC President Fu Chengyu the "great complementarities" between the two countries as "China can guarantee a long-term reli-

²⁴Jacqueline Armijo and Lina Kassem, "Turning East: The Social and Cultural Implications of the Gulf's Increasingly Strong Economic and Social Relations with China", in The Gulf and Asia (ed.), *Singapore Middle East Papers*, Vol. 1 (2012), pp. 22–45, <http://www.mei.nus.edu.sg/wp-content/uploads/2012/06/Vol.-1-The-Gulf-and-Asia1.pdf>.

²⁵Ajay Makan and Ed Crooks, "Saudi Ramps Up Gas Drilling to Ease Demand for Oil", *Financial Times*, 7 July 2013, <http://www.ft.com/intl/cms/s/0/a71248b2-e59a-11e2-ad1a-00144feabdc0.html#axzz2akHiRtWi>; "Saudi Arabia Ready to Lift Oil Output", *Reuters*, 20 February 2013, <http://www.thenational.ae/business/energy/saudi-arabia-ready-to-lift-oil-output>.

²⁶Jon B. Alterman, "China's Balancing Act in the Gulf", Gulf Analysis Paper (Washington, D.C.: Center for Strategic and International Studies, August 2013), p. 3.

able market for Qatar, while Qatar can be a stable supplier for the Chinese market.”²⁷

In the context of the substantial rise in capital investment and joint ventures between China and the GCC states in the recent decade, a mutual upstream–downstream interdependence has formed as the GCC states invest in Chinese oil refining and petrochemical industries, and China invests in oil exploration and production in the GCC states.²⁸ Similar to the Kuwait–China Investment Company established in 2005, the Saudi Basic Industries Corporation (SABIC) also drew up a strategic “China plan” intended to create strong supply partnerships and joint ventures that can meet China’s rapidly growing demand.²⁹ Dubai in particular has developed into a regional financial center which is in stiff competition with Qatar and Bahrain to serve the European and East Asian exchanges.³⁰ Ideally, Dubai, Bahrain and Kuwait have all looked toward, and applied, elements of the “East Asian model” in their development plans.

Examples of the mutual upstream–downstream interdependence mentioned above attract considerable international media attention. Saudi Arabia opened part of its domestic oil and gas upstream market for Chinese investment, facilitating Sinopec’s participation in two new major natural gas exploration/development projects in Rub al-Khali. Saudi Arabia also invested in the Chinese downstream sector in refineries in Qingdao, Shandong, and in petrochemical plants in Fujian.³¹

Given the vast wealth of the GCC states, they look for investment opportunities beyond the energy sector too. When Sheikh Mohammed, the Vice President of the UAE and the ruler of Dubai, visited Beijing

²⁷ “Qatar, China in 25-Year Gas Deal”, *Peninsula* (Doha), 8 March 2009.

²⁸ M. Ghafouri, “China’s Policy in the Persian Gulf”, *Middle East Policy*, Vol. 16, No. 2 (2009), p. 89.

²⁹ Steve A. Yetiv and C. Lu, “China, Global Energy and the Middle East”, *Middle East Journal*, Vol. 61, No. 2 (2007), pp. 207–208.

³⁰ “The Gulf as a Global Financial Centre: Growing Opportunities and International Influence” (London: Chatham House Report, 2008), p. 40.

³¹ S. P. Matthews, “China’s New Energy Focus: Strategic Partnership with Saudi Arabia” (Houston: James A. Baker III Institute for Public Policy of Rice University, 18 July 2005), www.rice.edu/; F. Leverett and J. Bader, “Managing China–US Energy Competition”, *Washington Quarterly*, Vol. 29, No. 1 (Winter 2005–2006), pp. 190–192.

and Shanghai in April 2008, several deals were concluded. UAE signed a memorandum of understanding with a government agency, the Shanghai China-News Enterprises Development Limited, to explore mixed-use property and infrastructure development in the Chinese cities. Etisalat UAE reached an agreement with Huawei Technologies, China's biggest telecom equipment maker.³²

In addition to product exports, the Middle East is a huge service export market for China's construction, telecommunication and finance industries. Contract services by construction firms are a particularly important segment of these services. In 2011, China's construction services in the Middle East amounted to US\$ 21 billion. In the same year, China's top construction service markets in the Middle East were Saudi Arabia (US\$ 4.4 billion), Algeria (US\$ 4.1 billion), Iran (US\$ 2.2 billion), the UAE (US\$ 1.9 billion) and Iraq (US\$ 1.8 billion).³³

The expansion of China's middle class will boost tourism, which will be supported by the expansion of routes to Asia by the big three airlines in the Gulf: Emirates, Etihad and Qatar Airways. The UAE's inclusion on China's list of "approved destinations" since 2007 has resulted in a significant number of Chinese tourists to the country, and other GCC states are likely to seek similar status, particularly Qatar, in time for the 2022 football World Cup. It was estimated that around 50 million tourists from China travelled abroad in 2009. This figure was expected to more than double in the next five years, and the GCC states hope to benefit from this trend.³⁴

China's economic ties with the GCC states are not without problems. Yang Honglin, a former ambassador to Iraq, discussed the difficulties of China's major oil firms in the Gulf region. He believed that Western governments still attempted to obstruct their overseas expansion as they perceived this as an erosion of their traditional oil interests. Western media were also critical of Chinese enterprises overseas for their neglect of corporate social responsibility in the local

³² Zhang Mei, *op. cit.*, p. 10.

³³ China National Bureau of Statistics, *China Statistical Yearbooks* (Beijing: China Statistics Press, 2000–2012).

³⁴ Economist Intelligence Unit, *GCC Trade and Investment Flows — The Emerging-Market Surge* (London: Economist Intelligence Unit Limited, 2011), p. 12.

context. As a result, Chinese corporations' merger and acquisition activities abroad often encountered severe obstacles.³⁵

Yang admitted that Chinese enterprises did not have a good understanding of the international energy market, especially its rules of the game and the related laws and regulations. He indicated that the Chinese enterprises concerned often failed to establish good connections with the senior officials of the oil-producing countries, and did not perform satisfactory feasibility studies in the early stage. Improper competition, illegal business practices and bad internal management were not uncommon.

There are also occasional academic research papers and media reports exposing the problems of economic ties between China and the GCC states. In general, there is some disappointment with the relatively slow development of the bilateral non-oil trade, especially in textiles, apparel, shoes and luggage. In many cases, Chinese enterprises consider local laborers "lazy", and they import labor from China to the extent of violating local stipulations demanding the employment of 51% local labor. As most projects have been taken up by large SOEs, the latter tend to rely too much on governmental ties and not market competitiveness; cost accounting and foreign exchange risks are often neglected. Although occasional large investment projects have attracted much media attention, China's foreign direct investment (FDI) flow from Arab countries from 2003 to 2009 only increased from 0.17% to 0.27% of the total, with the bulk coming from Saudi Arabia and the UAE. Similarly, China's FDI in the Arab world concentrated on the oil-producing countries and stayed at 1% of its total in the same period. There is obviously much room for improvement in view of the substantial foreign-exchange reserves of both sides.³⁶

³⁵Yang Honglin, "Zhongdong Beifei Jushiji Zhongguo Qiye Mianlin de Tiaozhan (The Middle East-North Africa Situation and the Challenges Facing Chinese Enterprises)", *Guoji Shiyou Jingji (International Petroleum Economics)*, Vol. 21, No. 10 (2013), pp. 31–32.

³⁶Meng Wang, "Zhong A Jingmao de Fazhan yu Wenti (Development and Issues Concerning the Economic Relations and Trade between China and the Arab World)", *Ningxia Shehui Kexue (Social Sciences in Ningxia)*, General No. 172, No. 3 (May 2012), pp. 74–80.

In 2004, China established an export products distribution and channeling center in Dubai, the largest of its kind then, with over 2,000 outlets from more than 20 provinces in China. Bureaucratic management and low-quality staff apparently caused problems. Rapid and inconsistent changes in business strategies and weak bargaining with the local authorities were also disappointing. In the end, the center concentrated on low-quality labor-intensive products, and the profit margin which depended solely on large amounts of sales was low.³⁷

China and the GCC began their Free Trade Area (FTA) negotiations in July 2004, but the process was suspended in 2009. In 2014, both sides agreed that restarting the talks was important; during President Xi Jinping's visit to Saudi Arabia in early 2016, both parties indicated hope that the negotiations would be successfully completed in the year.³⁸

Further, the "China's Arab Policy Paper" mentioned above appealed for the coordination of development strategies between China and the Arab states. It also indicates that China supports "the entry of more non-oil products from Arab states into the Chinese market", addressing a common complaint from the natural resource rich GCC states. In return, China is obviously interested in various infrastructure and construction projects in the latter. China's experts estimate that in about half of the world, construction projects are concentrated in the GCC states, and UAE takes up 60% to 70% of the total.³⁹

China's experts consider that China's construction firms in the Gulf region enjoy the advantages of low labor cost, a good performance record and ample experiences including those in the Gulf region. In 2013, according to *Engineering News-Record*, 55 Chinese

³⁷ Xu Huixi, "Zai A Zhongguo Shanghu: Xian Kunjing (Chinese Business Firms in Arabia in a Difficult Situation)", *Huanqiu Shibao (Global Times)* (Beijing), 27 September 2006.

³⁸ "China to strengthen ties with Gulf Co-operation Council countries", CCTV News, 20 January 2016, <http://www.cctv-america.com/2016/01/20/president-xi-pushes-forward-china-gcc-fta-talks>

³⁹ Wang Xipeng, "Haiwan Liuguo Jianzhu Shichang Kaifa Qianjing (The Development Prospects of the Construction Market of the Six Gulf States)", *Jishu yu Shi Chang (Technology and Market)*, No. 2 (2013), pp.13–14.

construction firms were ranked among the top 250 largest construction contractors in the world.

Chinese firms also have serious weaknesses; their consultation and design capabilities are relatively weak. They suffer from inadequate information channels; they therefore have to rely on foreign intermediaries or agents and are not able to follow the market systematically and define their own selected areas. Lack of top management personnel with a good understanding of the Gulf region, a satisfactory grasp of the technological scene and a good command of foreign languages has been a formidable handicap. Chinese corporations often have not established their brand names internationally. Finally, they find it difficult to secure funding support from international banks; and small- and medium-sized corporations which cannot obtain credit lines from large state-owned banks normally have to pay high interest rates, thus pushing up their costs.

Chinese construction contractors are quite optimistic at this stage. They believe that China enjoys good relations with the GCC states; the construction contract market in the region is large and promising, and their business activities are supported by the state.

Their serious concerns, however, include the geostrategic instability of the region leading to market uncertainty, local protectionism, keen competition, especially that from Western firms, and the potential trend of economic decline in the region.⁴⁰

China's Broad Strategic Interests in the Gulf Region

Top-level visits by the leaders of both China and the Gulf states are perhaps a good indicator of the increasing importance of the bilateral/multilateral relationships. Former President Hu Jintao visited Riyadh for the first time in 2006, and the two countries reached consensus in establishing "strategic friendly relations". Then Vice President Xi

⁴⁰Xiao Yang, *Chuantong Weixie xia Haiwan Guojia Anquan Jushi Yanjiu (Non-Traditional Threats and Gulf Regional Security Dilemma)* (Beijing: Shishi Chubanshe, 2015), pp. 202–208.

Jinping visited Saudi Arabia in June 2008 and signed the "Joint Statement of the People's Republic of China and Saudi Arabia on Strengthening Co-operation and Strategic Friendly Relations". In January 2009, former President Hu Jintao made another trip to Riyadh, his second in three years. During this second visit, the two leaders placed their close contacts in the context of "reforming the global financial institutions"; King Abdullah pledged to work together on an ambitious plan to draft and adopt new rules and measures to confront the challenges of the international financial system as well as to coordinate with China in the lead up to the April 2009 G-20 summit.⁴¹ The then Prime Minister and Emir of Kuwait Jaber al-Ahmad al-Sabah visited China in July 2004, during which the two sides affirmed their interest and desire to significantly expand their relationship. The Kuwaiti Prime Minister stated that the purpose of the visit was to enhance the pragmatic cooperation between the two sides at governmental, non-governmental and enterprise levels, and he expressed the hope that China would encourage Chinese businesses to participate in the economic projects of Kuwait and the Gulf region.

A more important signal was the fact that on his first trip after ascending the throne in Saudi Arabia, King Abdullah visited Asia in 2006 and included China in his itinerary. It was actually the first trip by a Saudi ruler to China since the two sides established diplomatic relations in 1990. Other important visitors from the GCC states to China have included the Prime Minister of the UAE and ruler of Dubai Shaikh Mohammad Bin Rashid Al-Maktoum in 2007, Prime Minister and Foreign Minister of the State of Qatar Shaikh Hamad Bin Jassim Al-Thani in 2008, and Saudi Crown Prince and Minister of Defense and Aviation Prince Sultan bin Abdulaziz Al-Saud also in 2008. During the latter visit, two pacts for boosting cooperation and strategic relations were signed.⁴²

⁴¹ "China to Boost Relations with GCC: President Hu", *Arab News* (Riyadh), 12 February 2009.

⁴² See Abdulaziz Sager, "GCC-China Relations: Looking beyond Oil Risks and Rewards", in Abdulaziz Sager and Geoffrey Kemp (eds.), *China's Growing Role in the Middle East: Implications for the Region and Beyond* (Dubai, United Arab Emirates and Washington, D.C.: Gulf Research Center and Nixon Center, 2010), p. 15.

Before President Xi Jinping's 2016 tour, the then Premier Wen Jiabao visited Saudi Arabia in January 2012 and concluded a number of potentially significant deals. A civil nuclear development pact was signed between China and Saudi Arabia, as the latter plans to build by 2030 16 nuclear reactors costing US\$ 100 billion. Sinopec and Saudi Aramco agreed to build a refinery complex at Yanbu at the Red Sea coast amounting to US\$ 8.5 billion, and it was to be operational in 2014; and Aluminum Corporation of China (Chinalco) has plans to build a primary smelter in Saudi Arabia's Jizan Economic City.⁴³ In return, King Hamad bin Isa al-Khalifa of Bahrain visited China while serving as GCC President to explore new opportunities through sustainable development.⁴⁴

GCC Secretary-General Abdul Rahman Al-Attiyah had also expressed his hope that both sides would accelerate the process of negotiations on the establishment of a China–GCC free trade area and work for its early completion. He further expressed his wish to see the launch of a bilateral strategic dialogue mechanism as soon as possible which would comprehensively enhance the relations between the two sides.⁴⁵

China fits into the development and diplomatic strategies of the GCC states to diversify their international ties and to reduce their dependence on the U.S. and other Western powers — it is a typical balance of power or hedging strategy. In the foreseeable future, China's value as a strategic partner for the GCC states will remain secondary. China's tendency to play both sides of the line in order to protect its economic arrangements and to keep its options open is a fact that the GCC states will not ignore. Ultimately, they still have to depend on the U.S. as a protector. China's policy of behaving as a benign power with global reach has its inadequacies, especially in view of its limited military projection capabilities in the region at this stage.⁴⁶

⁴³ "China and GCC: Growing Ties", *Gulf Business*, 16 April 2013, <http://www.gulfbusiness.com/articles/insights/china-and-gcc-growing-ties/>.

⁴⁴ Krishna Kumar Vr, "Sino-Gulf ties on upward curve", *China Daily* (Beijing), 3 January 2014, <http://epaper.chinadailyasia.com/asia-weekly/article-1689.html>.

⁴⁵ *Ibid.*, p. 16.

⁴⁶ Ghafouri, *op. cit.*, p. 91. See also Tim Niblock with Yang Guang (eds.), *Security Dynamics of East Asia in the Gulf* (Berlin: Gerlach Press, 2014).

China's diplomatic style appeals to the GCC states, however, because of its traditional non-interference in the domestic affairs of other states and its high respect for their sovereignty. But China cannot replace the U.S. in the eyes of the GCC states which also understand that China has neither the capability nor the intention to challenge the U.S. in the region. China's role is therefore only secondary.

On the global level, Sino-American ties are the most important bilateral relationship in the eyes of Beijing, and Chinese leaders have no intention to challenge U.S. core concerns, i.e., the pursuit of foreign policy objectives in the Gulf region must not result in an unacceptable damage to Sino-U.S. relations. The U.S. in turn appreciates this consideration.⁴⁷

The GCC states are uncomfortable with China's close economic and military ties with Iran given the former's strong suspicions against Tehran. Sinopec acquired a 50% share in Iran's Yadavaran oil field; and in 2004, it concluded a deal estimated to be US\$ 70–100 billion to buy Iranian crude oil and natural gas over 30 years. Economic cooperation between China and Iran has covered power plants, cement factories, shipping lines and arms sales, which are worrying from the GCC states' point of view. The latter believe that China, Russia and North Korea have been the main sources of assistance in Iran's ballistic missile programs.

As China is perceived to be playing both sides of the line to protect its economic interests and arrangements in the Gulf region and to keep its options open while trying to maximize its influence, the GCC states realize that they still need the U.S. for their security. The Syrian crisis since March 2011 and China's approach to the crisis reaffirm the above perception. While this perception remains an important obstacle to the deepening of strategic cooperation between China and the GCC states, the latter have not been seriously disappointed with China, and the crisis has not led to significant setbacks

⁴⁷Wu Bingbing, "Strategy and Politics in the Gulf as Seen from China", in Bryce Wakefield and Susan L. Levenstein (eds.), *China and the Persian Gulf: Implications for the United States* (Woodrow Wilson Center, 2011), p. 35.

in their bilateral ties. The acceptance of the U.S.–Russia agreement in September 2013 by the Syrian President Bashar al-Assad to surrender his chemical weapons to international control and the ongoing international negotiations on Iran's nuclear program with some recent progress mean that China's relations with the GCC states have managed to avoid serious challenges and hard choices.

While China may pretend to be a “benign power with global reach”,⁴⁸ the limitations of its Gulf policy have been gradually exposed. It may choose to avoid risks and restrict its commitments at this stage, considering that time is on its side. Luo Yuan, a People's Liberation Army strategist known for his hawkish views, argues that “the Middle East strategy of China is to keep the balance of diverse forces while that of the U.S. is to control oil and the regional situation through military might and democratization”, and that while “China attempts to stabilize the Gulf situation”, it “pursues self-balance inside the region”.⁴⁹

Luo Yuan, however, considers that the Gulf region is “at the forefront of China's struggle against terrorism, separatism and extremism” as “the extremist forces of Islamism based in the Gulf expanded its influence into Central Asia”, threatening the security and stability of China's western region.⁵⁰ Following the Chinese authorities' crack-down on the Uighur riots in Xinjiang in 1997, Saudi clerics called upon Riyadh to help Chinese Muslims financially and diplomatically. Similar unrest in 2009 also generated resentment in the Arab world. Saudi Arabia may find it increasingly difficult to remain silent on human rights abuses against the Muslim minority in China.

While the governments of the GCC states and their Chinese counterpart are concerned with the spread of the Arab Spring, their bilateral ties may strengthen because of their common interest and their opposition to the American attempts to promote democratization globally. But these ties among authoritarian regimes do not have

⁴⁸ Ghafouri, *op. cit.*

⁴⁹ Luo Yuan, “China's Strategic Interests in the Gulf and the Trilateral Relations among China, the U.S. and Arab Countries”, in Sager and Kemp (eds.), *op. cit.*, p. 29.

⁵⁰ *Ibid.*, p. 24.

the support of the people in the long term, and domestic political instability and regime changes may affect their ties dramatically.⁵¹

China's diplomatic instruments adopted in its approach to the GCC states reflect its significance accorded to the relationship, the level of its commitments and the mechanisms it has been developing in its more proactive diplomatic efforts.⁵² The China–Arab States Cooperation Forum (CASCF) was established in 2004, following the precedent of the Forum on China–Africa Cooperation established in 2000. In the CASCF, through the coordination of the Arab League, the Arab states actively negotiate for the inclusion of collective projects involving multiple Arab countries such as the railway projects, nuclear power plants and Dead Sea initiatives. The forum meets every two years (from 2004 through 2014) at the ministerial level, focusing on economic cooperation in trade, investment, infrastructure and economic security.

In June 2014, the sixth ministerial meeting of the CASCF was held in Beijing. It was attended by the prime ministers of Kuwait and 20 ministers from the Arab states. Three documents, including the “Beijing Declaration”, the “Action Plan for 2014 to 2016” and the “Development Plan for 2014–2024”, were signed. China proposed a comprehensive cooperation strategy known as 1+2+3 mentioned above. China also promised to help in areas like infrastructure construction and job creation. China set a target of increasing bilateral trade from US\$ 240 billion in 2013 to US\$ 600 billion in 10 years; similarly, it pledged to expand non-financial investment in Arab states from US\$ 10 billion in 2013 to US\$ 600 billion in the coming decade.⁵³

⁵¹ Aida M. Yehia and Salah El Din, “The Causes of the Egyptian Youth’s Participation in the Egyptian Spring of 2011 and June 2013”, *European View*, Vol. 12, No. 2 (December 2013), pp. 271–277.

⁵² Dawn Murphy, “Testimony before the U.S.–China Economic and Security Review Commission in Its Hearing on China and the Middle East”, 6 June 2013, pp. 4–7.

⁵³ “Wang Yi Expounds Outcomes of Sixth Ministerial Conference of China–Arab States Cooperation Forum”, 5 June 2014, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1163555.shtml; Yang Chengxi, “China Lays Out ‘1+2+3’ Strategy at CASCF Ministerial Meeting”, 6 June 2014, <http://english.cntv.cn/2014/06/06/VIDE1402009324468536.shtml>.

In President Xi Jinping's speech at the conference's opening ceremony, he highlighted the building of "one belt, one road", that is, the Silk Road Economic Belt and the 21st Century Maritime Silk Road, with emphasis on infrastructure and trade networks. President Xi also presented his concepts of integrating the development of China closely with that of the Arab states to form a "community of common interests" and a "community of common destiny".

Chinese leaders articulate that the foundations of political and economic cooperation are China's Five Principles of Peaceful Coexistence (mutual respect for territorial integrity and sovereignty; mutual non-aggression; mutual non-interference in internal affairs; equality and mutual benefit; and peaceful coexistence), South-South cooperation, the One China Principle and support for Arab political causes (especially regarding the Arab-Israeli conflict). China seeks international support in an era of multipolarity, and it utilizes the forum to gain that support. The forum is also exploited as a platform to promote cooperation in the areas of environmental protection, cultural exchange, media, tourism, sports, legislative interaction and building party-to-party ties.

In response to some Arab states' appeal to China to assume a more active role in the region, the first special envoy appointed by Beijing was the Middle East Issues Special Envoy appointed in 2002.⁵⁴ Though China maintains a very good relationship with Israel, its historical support for the Palestinians and its veto in the United Nations Security Council have facilitated its mediating role in the Arab-Israeli conflict seen as the core of the problems in the Middle East. Apparently Chinese leaders consider that China is uniquely placed to serve as liaison and peacemaker among the parties in dispute because it maintains good relations with all of them. The special envoys appointed have all been seasoned diplomats with deep experience in the Middle East: Wang Shijie (2002–2006), Sun Bigan (2006–2009), Wu Sike (2009–September 2014) and Gong Xiaosheng (September

⁵⁴See "Xinhua: Egypt Welcomes China's Active Role in Mideast Peace Process", *Beijing Xinhua in English*, 7 November 2002; "Syrian Vice President Discusses Mideast Situation with Visiting PRC Envoy 10 Nov", *Xinhua Hong Kong Service*, 10 November 2002.

2014–present). China's peacemaking efforts so far, however, have been far from impressive. China apparently wants to see a resolution of the Israel/Palestine conflicts, as this would likely reduce the influence of the U.S. in the region, but Chinese leaders have not demonstrated a strategy and substantial resources committed to such efforts.

China believes that its most important mission is to encourage the parties in dispute to negotiate. China's specific position on the Middle East issue was stated in its 2003 Five-Point Proposal.⁵⁵ Basically, China supports the "road map" approach, peaceful negotiations, an end to violence, an independent Palestinian state, the establishment of an international supervisory mechanism, the land for peace principle as a basis for negotiations, negotiations with Palestine, Lebanon and Syria, and greater involvement of the international community in the peace process. In many press statements, China has made clear that part of its "land for peace" concept is that the borders should be negotiated to pre-1967 lines, the Golan Heights should be returned to Syria and Jerusalem should be the capital of Palestine.

Since 2002, China's position has been quite consistent. While these fundamental tenets have been well received by the Arab states, Beijing obviously lacks the carrots and sticks to exert pressure on the parties concerned to come to agreement. Its veto at the United Nations Security Council seems to be the only effective diplomatic weapon, but it is extremely rare that it is exercised alone.

In 1996, China established its first strategic partnership with Russia, which was considered a special long-term arrangement symbolizing close cooperation but short of an alliance and not directed against any third country. However, as more and more strategic partnerships have been established, their significance has been in decline.⁵⁶ In the Middle East, China now enjoys a strategic partnership with Egypt (1999), Saudi Arabia (1999), Algeria (2004), Turkey (2010) and the UAE (2012). These strategic partnerships do not seem to have much content.

⁵⁵ "PRC Middle East Special Envoy Elaborates 5-Point Proposal on Middle East Issues", Beijing Xinhua Domestic Service in Chinese, 28 May 2003.

⁵⁶ For a discussion on China's strategic partnerships, see Evan S. Medeiros, *China's International Behavior: Activism, Opportunism, and Diversification* (Santa Monica, CA: RAND, 2009), pp. 82–89.

In July 2004, the finance ministers of the six GCC states visited Beijing where they concluded a “Framework Agreement on Economic, Trade, Investment and Technological Cooperation” with China and agreed to negotiate a China–GCC free trade zone covering goods, services and investment.⁵⁷ Between 2004 and 2012, six rounds of negotiations were held. When the then Premier Wen Jiabao visited Riyadh in January 2012, he and the Secretary General of the GCC Abdullah bin Rashid Al Zayani agreed to speed up the negotiations.⁵⁸ The negotiations took part in the context of the GCC states’ objective of achieving economic diversification,⁵⁹ but progress had been limited until early 2016.

China’s “Arab Policy Paper” indicates that China intends to deepen China–Arab military cooperation and exchange, including exchange of visits of military officials, strengthening cooperation on weapons, equipment and various specialized technologies, and implementation of joint military exercises. China’s sale of CSS-2 ballistic missiles in 1980s to Saudi Arabia was conspicuously displayed in the Sword of Abdullah military exercise in 2013; an additional batch of more accurate solid-fuel intermediate-range missiles from China was delivered in 2007.⁶⁰ At present, both Saudi Arabia and the UAE are deploying Chinese unmanned aerial vehicles in their military action in Yemen against the Houthi rebels supported by Iran.⁶¹

⁵⁷ See PRC Ministry of Commerce, China FTA Network (China–GCC FTA Page), <http://fta.mofcom.gov.cn/topic/engcc.shtml>.

⁵⁸ “China, GCC Agree to Accelerate FTA Negotiations”, *China Daily* (Beijing), 16 January 2012, http://www.chinadaily.com.cn/china/2012cngccforum/2012-01/16/content_15972616.htm.

⁵⁹ N. Janardhan, “Whither the Gulf? Toward Economic Diversification”, *Al Arab News*, 29 May 2011, <http://english.alarabiya.net/articles/2011/05/29/151035.html>.

⁶⁰ Zachary Keck, “China Secretly Sold Saudi Arabia DF-21 Missiles With CIA Approval”, *The Diplomat*, 31 January 2014, <http://thediplomat.com/2014/01/china-secretly-sold-saudi-arabia-df-21-missiles-with-cia-approval/>; Jeffrey Lewis, “Why Did Saudi Arabia Buy Chinese Missiles?”, *Foreign Policy*, 30 January 2014, <http://foreign-policy.com/2014/01/30/why-did-saudi-arabia-buy-chinese-missiles/>.

⁶¹ Jeremy Binnie, “UAE, Saudi Arabia operating Chinese UAVs over Yemen”, *IHS Jane’s 360*, 17 December 2015, <http://www.janes.com/article/56742/uae-saudi-arabia-operating-chinese-uavs-over-yemen>.

Regarding the Chinese anti-piracy naval operations off the coast of Somalia, it was reported that a Chinese colonel attended regular meetings of Shared Awareness and Deconfliction (SHADE) mechanism in Bahrain as part of the related information sharing nexus.⁶² Beijing is concerned about the threat that is posed by the Islamic State of Iraq and Greater Syria to Chinese interests. Abu Bakr al-Baghdadi, the group's leader, has criticized China as a country which persecutes Muslims, and his imagined caliphate extends into China's Jinjiang Uighur autonomous region. Meanwhile, a Turkestan Islamic Party unit of Uighur militants from Xinjing is embedded with Jabhat al-Nusra in western Syria. It was suggested that Xi Jinping's delegation might have consulted the Saudi experts on China's new threat from Islamic extremism during the President's visit to Riyadh in early 2016.⁶³

China's Image, Appeal and Soft Power in the Middle East

As China–Arab relations develop in the past two decades, it is often considered that the “rise of China” has an appeal among the Arab elite and intellectuals.⁶⁴ China has the potential to balance against the U.S.; and its economic success and modernization model may generate positive perceptions about the country and its authoritarian political culture. China has not been tainted by imperialism and colonialism; it claims to be a part of the Third World and has usually been in support

⁶² Andrew Erickson and Austin Strange, “China and the International Antipiracy Effort”, *The Diplomat*, 1 November 2013, <http://thediplomat.com/2013/11/china-and-the-international-antipiracy-effort/>.

⁶³ Alexander Neill, “Xi Makes Economic Inroads in Middle East”, IISS, 22 January 2016, <https://www.iiss.org/en/iiss%20voices/blogsections/iiss-voices-2016-9143/january-671d/xi-visit-to-middle-east-0a48>.

⁶⁴ Chris Zambelis and Brandon Gentry, “China through Arab Eyes: American Influence in the Middle East”, *Parameters*, Vol. 38, No. 1 (Spring 2008), pp. 60–72; Jon Alterman, “China's Soft Power in the Middle East”, in Carola McGiffert (ed.), *Chinese Soft Power and Its Implications for the United States: Competition and Cooperation in the Developing World* (Washington, D.C.: Center for Strategic and International Studies, 2009), pp. 63–76.

of the Non-Aligned Movement; and its Oriental Heritage may contribute to a positive assessment too.⁶⁵

The Arab elite in general desires a transformation in its region's existing geopolitical situation, and the support of a non-traditional emerging power not associated with the *status quo* powers, namely, the U.S. and Israel, is also welcome. China's relatively active cultural diplomacy, its emphasis on its unique historical and religious links with the Arab world, and its discourse of its "peaceful rise",⁶⁶ though far from being able to make a significant impact, should also generate a favorable reception. The most important appeal of China is related to the Arab world's desire to escape from unipolar hegemony, and as the European Union and Russia have failed to provide a credible check on American influence in the Middle East, China is often seen as the only credible alternative.

Despite these assumptions, as observed by Mohammed Turki Al-Sudairi, Arab public opinion toward China has not been very positive since 2008.⁶⁷ According to the Pew survey's data set of 2010, 54% of the respondents in Egypt, 71% in Jordan and 54% in Lebanon reported that they believed that China's economic growth had an overall positive impact on their national economies. By contrast, when asked if growing Chinese military power constituted a net gain for their countries, the numbers were largely reversed: 55% of the respondents in Egypt, 56% of those in Jordan and 57% of those in Lebanon described it as negative.⁶⁸

⁶⁵ Mohammed Turki Al-Sudairi, "China in the Eyes of the Saudi Media", Gulf Research Center Paper (February 2013), www.grc.net.

⁶⁶ Joseph Y. S. Cheng, "Convincing the World of China's Tradition to Pursue Universal Harmony", *Journal of Chinese Political Science*, Vol. 17, No. 2 (June 2012), pp. 165–185.

⁶⁷ Al-Sudairi, *op. cit.*, pp. 5–6.

⁶⁸ For the Pew survey dataset, see <http://www.pewglobal.org/>.

- "And overall do you think that China's growing military power is a good thing or a bad thing for our country?" (surveys: spring 2011, spring 2010, spring 2008, spring 2007)
- "Turning to China, overall do you think that China's growing economy is a good thing or a bad thing for our country?" (surveys: spring 2011, spring 2010, spring 2008, spring 2007, spring 2005)

In an early 2005 survey conducted by the Arab American Institute, it was revealed that 15% of the Egyptians, 38% of the Moroccans, 26% of the Jordanians, 25% of the Lebanese and 41% of the Saudis polled showed unfavorable opinions about China. In a subsequent poll conducted by the same institute in 2011, Arab's attitude toward China became even less favorable and more polarized. In all, 43% of the Egyptians, 40% of the Moroccans, 44% of the Jordanians, 29% of the Lebanese and 66% of the Saudis surveyed indicated unfavorable impressions of China.⁶⁹ The latter survey was actually completed in the first half of 2011, before the emergence of the Syrian uprising, the subsequent condemnation by Saudi Arabia and other Arab countries of the Chinese and Russian vetoes in the United Nations Security Council, and the mobilization of the Arab countries for the cause.

According to Mohammed Turki Al-Sudairi's observations, the media commentary as a whole in Saudi Arabia in recent years has revealed new trends of skepticism and pessimism about China. These trends are based on Western criticisms on issues such as its poor human rights records and the authoritarian nature of the Party regime, the old Cold War perceptions of Communist China in the Western countries, and new negative observations like the unsatisfactory quality of Chinese products, the Uighur riots in Xinjiang, as well as the Chinese vetoes concerning the Syrian issue at the United Nations Security Council.⁷⁰ Similar trends apparently can be found in the media of other GCC states.

As the mass media in the region tend to follow the official lines, independent and sophisticated analyses are few. The Chinese authorities have also made no attempt to influence the local media in the Middle East region to improve China's image among the local population. As long as the regional governments have the intentions of maintaining the cultivation of good relations with China, regional media reports on China are expected to be largely positive. But a

⁶⁹ For the Arab American Institute public opinion survey data:

- (Attitudes of Arabs 2005), http://aai.3cdn.net/f82a26b554af8f607d_g6m6bej0w.pdf
- (Arab Attitudes 2011), <http://www.aaiusa.org/reports/arab-attitudes-2011/>

⁷⁰ Al-Sudairi, *op. cit.*, p. 11.

better understanding of China would require a lot of local efforts, which should be forthcoming slowly as local think tanks and academics begin to study China seriously, and their counterparts in China are ready to offer support for such efforts.

Chinese officials and scholars have been quite ready to admit the inadequacies of communication between China and the Arab world, but the response tends to emphasize the strengthening of propaganda efforts rather than genuine understanding. Qian Xiaoqian, then deputy head of the State Council Information Office, attended the Forum of China–Arab Cooperation in Media in April 2008 and frankly stated, “Compared with other aspects of China–Arab relations, especially the polity and economy, the communion of media between China and Arabia far lags behind. There are only a few reports about the development of Chinese–Arabic relations, reflecting the positive and significant changes in various aspects of people’s lives. The news about history, culture, and even the travel industries both in China and Arabic countries remains infrequent as well. This does nothing but baffle the sense of understanding between the Chinese and Arabs”.⁷¹

Another scholar, Liu Xinlu, offers detailed observations on these inadequacies. In the first place, China publishes only one magazine, *Jinri Zhongguo* (*China Today*), in the Arabic language, which is published and distributed in Egypt. This magazine has no commercial sales network outside Egypt; hence, its impact on the Arab world and the GCC states is limited. Furthermore, international radio broadcast by China Radio International in the Arabic language actually started in the 1960s, but its impact has been in decline since the 1990s because of keen competition from satellite television, which has become increasingly popular among Arab countries. Worse still, this broadcast is still transmitted by short waves, and the reception is inconvenient and often of a low quality.⁷²

⁷¹Wang Hongjiang, “Promoting Media ties with the Arab World”, *Xinhua*, http://news.xinhuanet.com/english/2008-04/26/content_8053892.htm.

⁷²Liu Xinlu, “Zhongguo dui Alabo Guojia de Gonggong Waijiao: Shiming yu Tiaozhan (China’s Public Diplomacy towards the Arab Countries: Mission and Challenges)”, *Dangdai Shijie* (*Contemporary World*), No. 3 (2013), p. 60.

The neglect of the Arab world was also reflected in the establishment of the Confucius Institutes. In early 2013, there were only seven Confucius Institutes, one Confucius classroom and one Confucius Broadcast classroom in the 22 Arab countries, about 1% of the total establishment. In the autumn of 2014, in the GCC states, there were only two Confucius Institutes in the UAE and one in Bahrain. Since the establishment of the Forum of China–Arab Cooperation, many contracts have been concluded on the translation and publication of books from China in the Arabic language, but implementation is unsatisfactory. In regard to the Arab resentment against the suppression of the riots in Xinjiang in 2009, there has been no explanation of China's position available in the Arabic language. The only publications on Xinjiang in the Arabic language are the literature on the investment policy in Xinjiang.

According to the Zogby International's annual public opinion survey in 2010, only 2% of the respondents were willing to consider China as an option for overseas studies; China was the second to last, just above Russia's score of 1%.⁷³ Eight tertiary institutions from China participated in the Dubai International Education Exhibition in May 2010, and obviously few Arab students were interested in them.

These public statements probably mean that the Chinese authorities are now well aware of the inadequacies and are ready to make further efforts as they better appreciate the significance of the Arab world in Chinese diplomacy. In the author's interviews with the Arab experts at the Chinese Academy of Social Sciences and Beijing University in December 2013, they were ready to admit that China's Gulf policy had been encountering serious challenges as China's involvement in the region had been deepening and yet it could not achieve breakthroughs while the U.S. and the Western countries still dominated the region.

Though many Arab governments have appealed to the Chinese leadership to assume a more significant role in the Middle East, the Arab public in recent years have expressed some dissatisfaction with

⁷³See University of Maryland and Zogby International, "2010 Arab Public Opinion Poll". Available at: https://www.brookings.edu/wp-content/uploads/2016/06/0805_arabic_opinion_poll_telhami.pdf.

China's foreign policy in the region. China's experts are aware that simply stressing China's lack of selfish interests, its eagerness to promote negotiations and its offer of peace proposals may not be enough, and it becomes easily trapped in a predicament of being "accepted by all parties, but failed to satisfy any party".⁷⁴ China certainly has not been perceived as a country exerting significant influence in the Middle East.

There is also a certain "China threat" perception among the GCC states.⁷⁵ They are concerned whether the history of the relations between the Arab world and the Western countries would be repeated in those between the Arab world and China. China imports energy from the GCC states and exports manufactured products to them; this trade pattern may constitute neo-colonialism. Furthermore, in view of the weak industrial base in the GCC states, the inflow of Chinese manufactured products may threaten the development of local industries. Finally, some Chinese enterprises operating in the Gulf region often violate local laws on labor, environmental protection and so on, thus generating a bad image. Some devout Muslims in the GCC states also worry that China's socialist culture may present a threat to the local Islamic culture and resent the suppression of the Muslims in China by the Chinese authorities.

In the social arena, there is strong resentment too against the "ugly Chinese" phenomena. As more Chinese people move to the GCC states to settle or engage in economic activities, devout Muslims dislike some of their behavior involving drinking, prostitution, careless dressing habits, etc. and regard these as disrespectful toward the local culture.⁷⁶

⁷⁴ Liang Jiawen and Zhang Bingyang, "Zhongguo Ruhe Tiaochu Zhongdong Waijiao 'Gefang Don Bu Manyi' Jingdi (How Can China Depart from the Predicament of 'All Parties Are Not Satisfied' in Its Middle East Diplomacy?)", *Guoji Xianqu Daobao* (*International Herald Guidance*), 26 April 2011.

⁷⁵ Herbert Yee and Ian Storey (eds.), *The China Threat: Perceptions, Myths, and Reality* (New York: RoutledgeCurzon, 2002).

⁷⁶ Min Jie and Abdul Karim Jakob, "Zhongguo dui Alabo Shijie Rewen Waijiao de Lishi Huigu ji Xianshi Tiaozhan (The Historical Retrospect and Current Challenge of China's Public and Cultural Diplomacy toward the Arab World)", *Alabo Shijie Yanjiu* (*Arab World Studies*), No. 6 (November 2011), p. 57.

Chinese leaders' concern about the Arab Spring can be put in the general context of the maintenance of the Party regime's monopoly of political power. Their usual position articulated in the international community has been non-interference in another country's domestic affairs. In the Munich Security Policy Conference held in early February 2012, U.S. Senator John McCain stated clearly that the U.S. subscribed to a set of values and principles, and that the Arab Spring should spread to China. Beijing's Deputy Foreign Minister Zhang Zhijun stressed that the idea of the Arab Spring appearing in China was only an illusion. Zhang quoted an opinion survey by a Western agency indicating that over 70% of the people in China were satisfied with the government, and in fact China ranked ahead of all the countries polled.⁷⁷

In commenting on the Ukrainian situation in February 2014, Chinese media quoted Nikolay Surikov, an Associate Professor of the Moscow State Institute of International Relations, in comparing the political developments in Kiev with the Arab Spring. Surikov perceived the basic similarity of ordinary people going to the streets to oppose corruption, and the suppression of their rights and poverty. He believed that the protesters against Viktor Yanukovych had carefully studied the successful experiences of their counterparts in the Arab Spring. He also explained why the Russian foreign ministry had issued a warning against the dangers of the extremists coming to power.⁷⁸

Some sources reported the discussions of the Party Central Leadership Group on National Security on policy measures to deal with the challenges of the potential China version of the Arab Spring. A study reflected certain optimism indicating that five significant domestic factors contributing to the Arab Spring revolutions did not

⁷⁷ "Waijiaobu: Zhongguo Buhui Chuxian 'Alabo zhichun' (Ministry of Foreign Affairs: 'Arab Spring' Will Not Appear in China)", *Wenweipo (Hong Kong)*, 6 February 2012, <http://paper.wenweipo.com/2012/02/06/CH1202060049.htm>.

⁷⁸ "Shishi Fenxi: Alabo Zhichun yi Manyan zhi Jifu (Current Affairs Analysis: Arab Spring Has Spread to Kiev)", *Toushi Eluosi (Seeing through Russia)*, 27 February 2014, <http://big5.tsrus.cn/pinglun/2014/02/27/32473.html>.

exist in China, that is, the high percentage of age of young population, multiparty system, media freedom, freedom of registration for civil society groups and easy access for foreign non-governmental organizations (NGOs).⁷⁹

A different view from the Central Party School argued that the phenomenon of many grassroots high school students abandoning the university entrance examination was a serious hidden problem. This view led to the ministry of education being included in the Party Central Leadership Group on National Security and the termination of further expansion of student recruitment by China's tertiary institutions. It was also observed that youth unemployment had almost doubled in the past year and more in China's small cities to the tune of over 30 million; meanwhile, in the second half of 2011, robberies rose by 170%, mainly involving unemployed young people. The bankruptcy of China's social security programs was also highlighted as a potential danger.

Xinjiang and Tibet remain problem ideas, and are often perceived as platforms for "Western anti-China forces" to induce an Arab Spring in China. The Chinese authorities noted that in March 2012, 1,200 cities and towns in Germany hoisted the flag of the Tibetan government in exile to commemorate the uprising in Tibet in 1959 led by the Dalai Lama. Regarding Xinjiang, Chinese leaders have been stepping up their cooperation with members of the Shanghai Cooperation Organization to strengthen domestic stability in Central Asia.

There are two broad trends which will encourage the Chinese authorities to allocate more resources for the improvement of China's image, appeal and soft power in the Middle East including the GCC states. China finds that more of its core interests are related to the Gulf region, and the leadership now defines the Middle East including the Gulf region as China's "greater neighboring area (*da zhou*

⁷⁹ "Zhongguo Guozhu Shici Miyi, Yanjiu Huajie Zhongguoban 'Alabo Zhichun' Zhice (China's National Security Group Held Ten Secret Meetings to Study Policies to Deal with the China Version of 'Arab Spring'), *Qiangwailou*, 4 July 2012, <http://www.letscorp.net/archives/28577>.

bian)".⁸⁰ The priorities of China's foreign policy in turn stated as follows: "major powers are crucial, neighbouring areas are most important, developing countries are the foundation, and multilateral institutions are significant arenas". The Middle East and the GCC states are now accorded a considerably higher position in China's foreign policy framework.

As Chinese leaders are eager to enhance China's international status and influence, they increasingly appreciate the significance of cultivating China's image and appeal.⁸¹ The priority of these efforts is basically related to the relative importance of China's economic ties with various countries. As the GCC states' trade ties and investment flows with China expand, China's public diplomacy efforts in the region are being stepped up.

According to the Annual Arab Public Opinion Survey of the University of Maryland conducted in October 2011, in response to the question, "In a world where there is only one superpower, which of the following countries would you prefer to be the superpower?", China came to be on top of the list (23%); 15% of the respondents chose Germany, 12% Russia, 10% France, 7% Pakistan, 7% the U.S. and 5% Britain. The same survey in 2009 indicated that 14% selected China, 25% Germany, 7% Russia, 23% France, 3% Pakistan, 8% the U.S. and 7% Britain.⁸²

Similarly, the 2014 Arab Opinion Index indicated that 52% of the respondents had positive attitudes toward the foreign policy of China, 47% toward that of France, 37% toward that of Russia, and 27%, 36% and 57% toward that of Iran, the U.S. and Turkey, respectively. The

⁸⁰Yu Xintian, *China's Role in the International System* (Beijing: Encyclopedia of China Publishing House, 2008), p. 228.

⁸¹See, for example, Zhou Qizheng and Lei Weizhen (eds.), *Zhongguo Gonggong Weijiao Fazhanbaogao (2015) (Annual Report of China's Public Diplomacy Development (2015))* (Beijing: Social Sciences Academic Press (China)), 2015.

⁸²The survey, with Professor Shibley Telhami as principal investigator, covered Egypt, Jordan, Lebanon, Morocco and the United Arab Emirates with a sample size of 3,000; see University of Maryland, *2011 Annual Arab Public Opinion Survey*. Available at https://www.brookings.edu/wp-content/uploads/2016/06/1121-arab_public_opinion.pdf.

same survey revealed that 26% of the respondents had negative attitudes toward the foreign policy of China, compared with 32% toward that of France, 42% toward that of Russia, and 52%, 49% and 23% toward that of Iran, the U.S. and Turkey, respectively. Similarly, the poll demonstrated that 58% of the respondents were favorably disposed toward the strengthening of relations with China, 51% with France, 44% with Russia, and 31%, 42% and 58% with Iran, the U.S. and Turkey, respectively.⁸³

These survey results offer some evidence that China's efforts to actively approach the Arab have yielded results. Its "one belt, one road" schemes certainly show its intention to enhance economic ties with the GCC states and their Arab neighbors. The Western world's campaign against ISIS has likely resulted in a deterioration in its relations with the Arab countries which consider that strengthening ties with China would give them more strategic and diplomatic room of maneuver.

Conclusion

China's approach toward the GCC states is an interesting case study as it reflects the challenges of China's foreign policy in its emergence as a major power. When China's involvement in global affairs remained limited, it could easily hold on to its principles. But when its involvement deepens, and expectations of the various concerned parties rise, Chinese leaders realize that a declaration of abstract principles is far from adequate, though they still want to demonstrate that they maintain a principled foreign policy line as far as these principles are in accord with China's interests and their implementation would contribute to China's image building.

⁸³The Arab Opinion Index surveys were conducted by the Arab Center for Research and Policy Studies. The 2014 poll had 26,618 respondents in its sample and covered 14 countries: Yemen, Kuwait, Iraq, Egypt, Saudi Arabia, Jordan, Lebanon, Sudan, Syria, Libya, Tunisia, Morocco and Mauritania. See Doha Institute for Graduate Studies Arab Center for Research and Policy Studies, *The 2014 Arab Opinion Index: In Brief*. Available at <http://english.dohainstitute.org/release/4978d97f-1038-4ed6-a95b-59768ffa0f96>.

China's policy toward the GCC states has to be defined in a complex regional context, which involves local rivalries and enmeshes serious major power competition. Chinese leaders obviously intend to maintain a balance among several interests which sometimes may be in conflict: (1) uphold China's foreign policy principles with an emphasis on respect for sovereignty, territorial integrity and non-interference in domestic affairs; (2) maintain a peaceful international environment so as to enable China to pursue its modernization and catch up with the most advanced countries in the world; (3) maintain a peaceful regional environment in line with the above and to protect China's regional interests; (4) allow China to preserve good relations with all countries in the region; and (5) avoid a major confrontation with the U.S., while limiting its regional hegemony and promoting regional as well as global multipolarity. On this basis, China seeks to strengthen economic ties with the GCC states to enhance its energy security and serve its economic development needs.

In view of its limited power projection capability and the desire to restrict its commitment of resources and reduce risks, the Chinese authorities have developed several policy mechanisms that have proven to be relatively cost-effective. China's basic positions on the core issues and conflicts in the region have been well received by the GCC states and their neighbors, but it has neither the carrots nor the sticks to exert adequate pressure on the parties concerned to arrive at its desired outcomes. Hence, Chinese leaders are aware that it is not perceived as a committed and influential actor in the region.

China's status and relative influence in the region, however, have been much helped by the following three factors: (1) China's substantial and expanding trade with the GCC states; (2) the latter's welcome of China to assume a more significant role in the region to hedge against the U.S. and enhance their diplomatic maneuverability; and (3) the inhibitions of the U.S. to intervene militarily in the region like a surgical strike to punish Syria for its use of chemical weapons or one to wipe out Iran's nuclear facilities. Though China's positions on Syria and Iran are not favored by the GCC states, under such circumstances, China's regional peace proposals and its role at the United Nations and other relevant international conferences may have more impact.

China's implementation of multilevel diplomacy in the Gulf region is especially challenging because of several factors. In the first place, the Arab League has many serious disputes among its members, and the deliberations in the CASC are not as smooth as those in the Forum on China–Africa Cooperation. China's respective approaches to Syria, Iran and the Israel–Palestine conflict often create difficulties in its relations with the GCC states. The U.S.–China Middle East Dialogue has limited impact, because in contrast to issues in the Asia-Pacific region, the U.S. does not yet recognize China as a significant player in the region. China's people-to-people diplomacy too has to overcome many cultural barriers.

Time is probably on China's side, and this expectation serves to strengthen China's regional influence too. Meanwhile, Chinese leaders are learning to cope with their intention to enhance China's role in the Gulf region which will involve increasingly significant Chinese interests, and to manage international and regional expectations. There seems to be a readiness to admit their relative inexperience and inadequacy, at least on the part of the official think tank experts.

Meanwhile, Chinese leaders are devoting more efforts and resources on the GCC states as reflected by “China's Arab Policy Paper” and President Xi Jinping's visit to Saudi Arabia, Egypt and Iran in January 2016. The Gulf region has also been included in China's Silk Road Economic Belt and 21st Century Maritime Silk Road schemes. The higher priority accorded to the region in the Chinese foreign policy framework calls for more serious study and a more sophisticated and nuanced approach.

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Chapter 11

China's Approach to BRICS

Joseph Yu-Shek Cheng

Introduction

The economic rise of the BRICS¹ (Brazil, Russia, India, China and South Africa) inevitably leads to a redistribution of power in the international system.² Chinese leaders today accord considerable priority to this group, and there are elements of realism, liberalism/

¹ BRICS refers to the group consisting of Brazil, Russia, India and China, as well as South Africa which only joined at the end of 2010. When the idea of the group first emerged as a political reality in early 2007, BRICs was referred to the group consisting of Brazil, Russia, India and China only.

² See the series of newspaper articles by Jim O'Neil: "The BRICs Economies Must Help Form World Policy", *Financial Times*, 22 January 2007; "Why It Would Be Wrong to Write Off the BRICs", *ibid.*, 5 January 2009; "You Can't Build the Future Without BRICs", *The Daily Telegraph*, 4 April 2009; "We Need BRICs to Build the World Economy", *The Times* (London), 23 June 2009. At the Gleneagles Summit in 2005, Western leaders agreed to hold a separate set of meetings with ministers from the emerging economies of China, India, Brazil, South Africa and Mexico, later known as the G8+5. Russia had already been invited to participate in the renamed G8. However, China was reluctant to join the club of rich countries. "Are the Right Countries Sitting at the G8 Table?", *Deutsche Welle*, 14 May 2007.

institutionalism and constructivism in their approach. This chapter intends to study China's policy toward BRICS and examine the above elements so as to better understand how the Chinese leadership perceives China's role in the international system and how it seeks to articulate its interests and enhances its influence.

Jim O'Neill, economist of Goldman Sachs, coined the BRICS term in 2001 to reflect the investment bank's forecast that the combined GDPs of the four populous, fast-growing economies would surpass that of the Group of seven countries by 2050.³ Political leaders apparently were attracted by the idea. It was the then Russian President Vladimir Putin who initiated their first foreign ministers' meeting alongside the United Nations Annual General Assembly session in September 2006. After a repetition of the same exercise in the following September, the group agreed to establish a regular consultative process at the deputy foreign minister level. In 2008, the dialogue mechanism was raised to the foreign minister level to discuss common approaches to international issues including the global financial crisis. The Russian foreign ministry claimed that the BRICS' joint efforts to reform the world financial architecture was a factor prompting the G-20 summit in Washington in November 2008 to expand the Financial Stability Forum (later renamed as the Financial Stability Board) to involve the emerging economies.⁴

The BRICS heads of state met in July 2008 on the sidelines of the G-8 summit in Japan again at Russia's initiative, and this meeting led to a plan for a formal summit in Yekaterinburg, Russia, in June 2009. In this first BRICS formal summit, the leaders focused on the global financial crisis, the progress of the G-20 summits, reform of international financial institutions, food security, climate change, as well as the prospects of the future dialogue and cooperation among the members of the group.

³ Dominic Wilson and Roopa Purushothaman, "Dreaming with the BRICs: The Path to 2050", *Global Economic Papers*, No. 99 (New York: Goldman Sachs, October 2003). According to the Economist Intelligence Unit, the BRICs will surpass the G7 in 2021 in terms of their combined GDPs.

⁴ Cynthia Roberts, "Challengers or Stakeholders? BRICs and the Liberal World Order", *Polity*, Vol. 42, No. 1 (January 2010), p. 2.

By then, cooperation among the BRICS member countries had established a foundation through the mechanism of scheduled annual summits. Apparently, they perceived the global financial crisis in 2008–2009 as a challenge and an opportunity promoting their cooperation based on newly recognized common interests. The Yekaterinburg Joint Declaration pledged cooperation in the coming G-20 summit meeting to be held in Pittsburgh in the U.S. in the following September. The four countries proposed to enhance the influence and representativeness of emerging economies and developing countries in international financial institutions, and they strongly appealed for the establishment of a stable, predictable and more pluralistic international monetary system.⁵

In 2016, however, there emerged some doubts about the future of the BRICS group. Brazilian President Dilma Rousseff was suspended from office pending her impeachment. The interim Michel Temer administration relegated cooperation with BRICS to secondary place, as his Foreign Minister Jose Serra indicated Brazil would put an emphasis on bilateral ties with Argentina and Mexico and accord a high priority to restore the “traditional partnership” with the U.S., Europe and Japan.⁶

In 2015, China's economic growth rate declined to 6.9%, and will likely fall to around 6.5% in the coming years. India was the only bright spot, with its economy expanding by 7.3% in 2014 and 2015, and such a high rate is expected to be maintained in the near future. Russia and Brazil were mired in recession, with both economies contracting by more than 3% in 2015. A symbolic development was the close of Goldman Sachs' BRIC Fund in November 2015.⁷ Joseph Nye, Jr., even referred to it as “BRIC without mortar”, implying that the group lacks solidarity and would eventually fade or might even break up.

⁵ Cynthia Roberts, “Russia's BRICS Diplomacy: Rising Outsider with Dreams of an Insider”, *ibid.*, pp. 38–73.

⁶ “Brazil's Political Crisis Will Test BRICS Capability: China”, *The Economic Times* (New Delhi), 13 June 2016, pp. 1–3. Available at <http://economictimes.indiatimes.com/news/economy/finance/brazils-political-crisis-will-test-brics-capability-china/articleshow/52723979.cms>.

⁷ “I Got 2 Out Of 4 Countries Right, ‘Mr BRIC’ Jin O’ Neill says”, *CNBC International*, 18 May 2016, pp. 1–3. Available at <http://www.cnbc.com/2016/05/18/i-got-2-out-of-4-countries-right-mr-bric-jim-oneill-says.html>.

China's foreign affairs experts hold a more optimistic view. They consider that the BRICS group in the middle of the decade has been engaging in a significant transformation process. The group is changing from a dialogue forum focusing on economic governance to a full-fledged mechanism which accords priority to both economic and political governance. It is exactly this transformation which has given rise to two different, negative views of the BRICS group.⁸

The first is the pessimistic view about the group's present difficulties and future development. The second is a kind of "BRICS threat perception", which considers the member states' mechanism-building process as a design to confront the developed countries, to fight the traditional liberalism which has been serving as the foundation of the values and consensus supporting global governance so far and to attempt to revive the obsolete mercantilism and emphasis on state sovereignty. There is also a more neutral view which sees the development of the BRICS group as a cause for the difficulties in global governance at this stage, threatening the processes of international cooperation. This view laments the split of G-20 into the G-7 representing the developed countries and the BRICS group representing the newly emerging economies, while pushing global governance into a G-zero state of disorder.⁹

The Realist Perspective

Chinese leaders and foreign policy analysts often refer to Deng Xiaoping's observation that peace and development are the most

⁸ Zhu Jiejin, "Jin Zhuan Guojia Hezuo Jizhi de Shuanxing (The Transformation of the Cooperation Mechanism among BRICS Countries)" in Liu Ming (ed.), *Zhongguo Zhoubian Diyu Huanjing Xin Qushi: Lilun Fenxi yu Zhanlue Ying Dui (New Trends in the Geopolitical Environment of China's Periphery: Theoretical Analysis and Strategic Responses)* (Beijing: Social Sciences Academic Press (China), 2016), pp. 55–72.

⁹ Ian Bremmer and Nouriel Roubini, "A G-Zero World", *Foreign Affairs*, Vol. 90, No. 2 (March/April 2011). Available at <https://www.foreignaffairs.com/articles/2011-01-31/g-zero-world>.

significant global issues in the present era. At this stage, globalization makes rapid progress; wars among major powers are less and less likely. In December 1977, Deng suggested that the world “can secure the delay of the outbreak of a world war”. In 1985, Deng reaffirmed that “it is possible that a large-scale world war would not occur in a relatively long period of time, maintaining world peace is hopeful”. China’s independent foreign policy line of peace roughly emerged in 1982–1983,¹⁰ and with some adjustments, it has been maintained till now. Since 1979, Chinese leaders intend to focus on modernization and development, and they believe that China needs a peaceful international environment in order to catch up with the most advanced countries of the world.

China’s official view is that in the post-Cold War era, the international power configuration has become “one superpower and several major powers”. There has been no fundamental change until today, and the U.S. remains the sole superpower. However, the global combat of terrorism and the international financial crisis in 2008–2009 have weakened its predominance. In the eyes of Beijing, the wars in Afghanistan and Iraq have been extremely costly, and the U.S. cannot secure decisive victory. Moreover, its faulty ideological orientation and strategy have damaged its soft power. The George Bush administration’s unilateralism and arrogance had led the country to relative isolation.¹¹

The recent international financial crisis had been a severe blow to the American and European economies. Chinese media argued that the crisis had cast serious doubt against the international

¹⁰ See Joseph Y. S. Cheng, “The Evolution of China’s Foreign Policy in the Post-Mao Era: From Anti-Hegemony to Modernization Diplomacy”, in Joseph Y. S. Cheng (ed.), *China: Modernization in the 1980s* (Hong Kong: The Chinese University Press, 1989), pp. 161–201.

¹¹ Li Shaojun, “Daguo Guanxi yu Shijie Geju Xinyianhua (The Relationship among the Major Powers and Changes in Global Patterns)”, in Li Shenming and Zhang Yuyan (eds.), *Quanzhou Zhengzhi yu Anquan Baogao 2011 (Annual Report on International Politics and Security 2011)* (Beijing: Social Sciences Academic Press (China), 2011), pp. 21–43.

financial architecture led by the U.S. The international community now demanded reforms to enhance the representativeness and voting rights of developing countries in the international financial system.¹²

At the same time, the respective influences of the European Union (EU) and the BRICS countries had been rising, while that of the U.S. had been in decline. EU as a supranational organization has put into practice new thinking in international relations and in the shaping of a new international order, advocating new paradigms and reforms. Chinese leaders and media considered that the recent global financial crisis had pushed the BRICS group to the center of the international stage, and it was expected to assume an important role in international governance mechanisms like the G-20 alongside the leading developed countries. Together with other developing countries, the group would have an increasingly important role to play in international affairs.¹³

There is a realistic recognition that China has a large population facing a lot of domestic challenges. It enjoys limited influence in the global agenda-setting and decision-making processes. It has to devote most of its resources to poverty alleviation, upgrading of industrial structure, improvement of the social security net, etc.; hence, China would like to enhance its role in international affairs through working within the BRICS group as its members shared similar interests in this regard. They still had many contradictions and conflicts of interests

¹²Liu Hong, "Economic Observation: Special Conference of G20 under the Shadow of Financial Crisis", *Xinhuanet*, 11 October 2008. Available at http://news.xinhuanet.com/world/2008-10/12/content_10183161.htm; Cui Zhinan and Xing Yue, "From the 'Era of G7' to the 'Era of G20': Changes in International Financial Governance Mechanisms", *World Economics and Politics*, No. 1 (2011), p. 134.

¹³"Jinzhuan Siguo Hezuo: Women Shidai De Liangdian (BRICs Co-operation: the 'Bright Spot' of Our Era)", *ChinaDaily Net*, 10 June 2008. Available at http://www.chinadaily.com.cn/hqpl/2008-06/10/content_6750035.htm; Wang Yizhou, "Jinzhuan Siguo Gongmou Weilai Zhixiang ('BRICs Countries' Jointly Plan Their Future Directions)", *Shang Zhoukan (Business Weekly)*, 22 June 2009, pp. 12–13. See also Brantly Womack, "Asymmetry Theory and China's Concept of Multipolarity", *Journal of Contemporary China*, Vol. 13, No. 39 (May 2004), pp. 351–366.

among them on a bilateral basis, but cooperation in international institutions might even serve to contain these bilateral conflicts.

Chinese foreign policy experts consider that while the U.S. remains the sole superpower, the number of major powers has been rising, to the extent which facilitates the promotion of multilateralism and multipolarity. At the same time, the emerging economies occupy a more central role in the international stage, as they are eager to share power and responsibility. China would like to achieve its peaceful rise through these processes rather than directly confronting the U.S. and the other leading developed countries.¹⁴

Within this international power configuration, Chinese leaders consider that wars among major powers or systemic wars would be highly unlikely. Major powers are in keen competition as well as interdependent. Cooperation among major powers becomes inseparable from the major developing countries and emerging economies. The latter's increase in economic power will naturally have an impact on the international power configuration and the international system. The above world view helps to explain China's rationale for its active participation in the BRICS group, and this is basically a realist world view colored by Marxism–Leninism.

In view of China's rise, China's foreign policy experts are acutely aware of the traditional international relations theorists of the realist school who argue that a rising power will be bound to challenge the existing hegemon or the current international system and order, leading to major wars or systemic wars.¹⁵ Some Chinese international relations scholars now believe that the emerging major powers should instead be perceived as an opportunity. This is because significant

¹⁴ "Xulun: Heping Yu Fazhan Shidai De Daguo Guanxi (Introduction: Major Power Relations in the Era of Peace and Development)", in Qin Yaqing (ed.), *Daguo Guanxi Yu Zhongguo Waijiao (Great Power Relations and China's Diplomacy)* (Beijing: Shijie Zhishi Chubanshe, 2011), pp. 1–29. See also Hung-jen Wang, "Being Uniquely Universal: Building Chinese International Relations Theory", *Journal of Contemporary China*, Vol. 22, No. 81 (May 2013), pp. 518–534.

¹⁵ John Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton, 2001); Denny Roy (ed.), *The New Security Agenda in the Asia-Pacific Region* (New York: St. Martin's Press, 1997).

changes have already been taking place in the international system. Though geostrategic competition continues, the survival of states in the international system is no longer their utmost concern. Since the end of the Cold War, the nature of security threats and security dilemma has been altered too. Hence, the emerging major powers can play an important role in the promotion of international peace and security.

In this connection, Chinese leaders and their foreign policy think tanks argue that the BRICS countries are in a similar stage of development and share broad interests. They are preoccupied with their modernization and industrialization, as well as the raising of their people's living standards. They would likely form a "coalition of interests", i.e., adopting similar stands on concrete issues based on common interests. They would not be bound by ideological positions, however, and form a bloc to overthrow the existing international order. The BRICS countries are not allies in the traditional sense, and cannot form a stable alliance, as there are serious conflicts of interests and keen competition among them. Their common interests in many global issues are the foundation for this "coalition of interests", and the Copenhagen summit on climate change in 2009 is a good example.¹⁶

Apparently, Russia too, "the perennial outsider, aims to become an insider and a rule maker in the international system".¹⁷ Cynthia Roberts considers that "Russia and the other BRICS seek to be among its (the international system's) managing directors, not to overthrow it", and she argues that "Moscow's BRICS diplomacy has been one of its most successful international initiatives".¹⁸ Chinese

¹⁶Tan Mengsha, "Jinzhuang Siguo Fazhan Qianjing Zhanwang (The Development Prospects of the BRICs Countries)", *Shangpin Yu Zhiliang (Commodity and Quality)*, No. 6 (2010), p. 30; Yang Hongxi, "Jinzhuang Siguo Ranran Shengqi You Renzhong Daoyuan ('BRICs Countries' Gradually Rising with Heavy Responsibilities and Long Road Ahead)", *Xuexi Qikan (Study Monthly)*, No. 8 (first half month) (2009), pp. 41–42.

¹⁷Cynthia Roberts, "Russia's BRICs Diplomacy: Rising Outsider with Dreams of an Insider", *op. cit.*, p. 38.

¹⁸*Ibid.*

leaders have been careful to concede the initiatives regarding BRICS to Russia and other members, with the objective of enhancing cooperation within the group to contain the bilateral conflicts involving China. Marshall Goldman and Merle Goldman describe Sino-Russian relations as those between a young tiger and a wounded bear.¹⁹ Beijing has been eager to help to restore the Russian pride to enhance mutual trust for a stronger foundation for their comprehensive strategic partnership. While the Chinese leadership initiated the Shanghai Cooperation Organization, it has also been careful in respecting Russia's vital interests to avoid damaging competition within the regional organization.

The Chinese authorities have been adopting measures to strengthen Sino-Russian cooperation. To avoid overdependence on the imports of energy and other natural resources from Russia in the bilateral trade, China has been stepping up investment in Russia to promote trade diversification and technological cooperation (Table 2). Both countries have been developing cooperation in the development of their border areas. In 2002, the Putin administration started the Far East development strategy, and released in 2007 a specific federal plan for the socioeconomic development of the Far East and Trans-Baikal regions in the years to 2013. In 2003, the Hu Jintao administration initiated the strategy to rehabilitate China's Northeast, i.e., its "rust belt", and a formal plan was approved by the State Council in 2007. In 2009, the two governments engaged in the joint planning of the development of their respective border regions.²⁰

At the early stage of the Ukrainian crisis, G-7 released a strongly worded document, the Hague Statement, on 24 March 2014, indicating its decision to temporarily suspend Russia's membership of G-8, because Moscow had deviated from the "shared beliefs and responsibilities" of

¹⁹ See Marshall Goldman and Merle Goldman, "Soviet and Chinese Economic Reform", *Foreign Affairs*, Vol. 66, No. 3 (January 1988), pp. 551–573. See also Stephen Blank and Younkyoo Kim, "Same Bed, Different Dreams: China's 'Peaceful Rise' and Sino-Russian Rivalry in Central Asia", *Journal of Contemporary China*, Vol. 22, No. 83 (September 2013), pp. 773–790.

²⁰ "Zhong'E Guanxi (Sino-Russian Relations)", in Qin Yaqing (ed.), *op. cit.*, p. 427.

the Western countries. On the same day, the foreign ministries of the BRICS states also released a statement at The Hague, emphasizing their shared values of “peace, security, development, and co-operation as well as the building of a more equitable and just world”. Three days later, when voting on the Ukrainian issue at the UN General Assembly, Russia opposed the motion, while the other four BRICS members abstained.²¹ Russia naturally appreciated this measured support when it was threatened with isolation in the international community.

Russia's worsening relations with the West has led to its closer relations with China. The Vladimir Putin administration states that it aims, through the Eurasian Union, to strengthen cooperation with other former states of the Soviet Union and insists that it is also working to maintain and further expand normal relations with emerging nations like its fellow members of the BRICS group.²²

The Putin administration emphasizes the strengthening of its ties with China, which was symbolized by President Xi Jinping's presence at the military parade held in Moscow on 9 May 2015, as part of the celebrations marking the 70th anniversary of Russia's victory over Germany in World War II. The joint statement issued after the talks between the two heads of state indicated that relations between China and Russia were at the historical high.

Putin reciprocated by visiting Beijing and attending the military parade on 3 September 2015 in celebration of China's victory over Japan. Both occasions were participated by very few heads of state and government of important countries. The Ukrainian crisis which handicapped Russia's exports of natural gas to Europe also helped to facilitate the conclusion of several major Sino-Russian energy deals in 2014 and 2015.

Sino-Indian relations are more problematic. The territorial issue remains unresolved, and their simultaneous rise in economic power

²¹ Zhu Jiejin, *op. cit.*, p. 56.

²² “Russia: Focus of Strategic Engagement Shifts from Ukraine to Syria”, in The National Institute for Defense Studies, Japan, *East Asian Strategic Review 2016* (Tokyo: The Japan Times Ltd., 2016), pp. 218–219.

and international influence has generated considerable suspicion and keen competition. In fact, it may be said that Sino-Indian coordination or common position on global issues is probably the strongest link in their bilateral relationship. While Chinese leaders are concerned about the U.S.'s cultivation of India to contain China, they consider the cooperation within the BRICS group useful to limit the American approach to India.

Similarly, Sino-Indian economic cooperation is constrained by their heavy dependence on the U.S. market, capital and technology, and Beijing believes that the U.S. would try to exert its influence to reduce the expansion in Sino-Indian economic exchanges.²³ The Chinese authorities resent the investigations against their investment flows, especially in terms of mergers and acquisitions as well as the anti-dumping sanctions against their exports; in fact, the latter are second only to those from the U.S. in terms of the number of cases. The recent global financial crisis and the substantial surpluses secured by China in the bilateral trade have prompted India to adopt a series of trade protectionist measures. China hopes that the BRICS summits and other multilateral dialogues will facilitate India to open up its market to China, recognize its market economy status and establish a free trade area between them.²⁴ Despite the bilateral strategic cooperative partnership since 2005, there is still much work to be done to enhance mutual trust, and expand trade and cooperation in the energy sector.

The Bharatiya Janata (BJP) government led by Narendra Modi which came to power in the May 2014 general election has not posed

²³Lou Chunhao, "Zhong-Yin Jingmao Hezuo Mianlin De Xin Tiaozhan (New Challenges Facing Sino-Indian Economic and Trade Co-operation)", *Yafei Zongheng (Asia & Africa Review)*, Vol. 4 (2009), pp. 28–31 and 58–60.

²⁴Zhang Yuyan and Zhang Jingchun, "Yazhou Jingji Yitihua Xia De Zhong-Yin Guanxi (Sino-Indian Relations in the Context of Asian Economic Integration)", *Dangdai Yatai (Journal of Contemporary Asia Pacific Studies)*, Vol. 2 (2006), pp. 4–17; "Zhong-Yin Guanxi (Sino-Indian Relations)", in Qin Yaqing (ed.), *op. cit.*, pp. 446–447.

a threat to Sino-Indian relations despite its embrace of Hindu nationalism and the promotion of a strong India.²⁵ While the Modi government will check and balance the expanding influence of China, it is considerably more enthusiastic in trade with and investment from China (Tables 1 and 2).

Supported by strong economic growth, India is as eager as China to improve its international status and influence. The BRICS group, therefore, is valued by New Delhi as a significant platform to this end. China has been wise to demonstrate respect for India's pursuit of international influence, and the BRICS New Development Bank, while headquartered in Shanghai, has an Indian President, K. V. Kamath. India also agreed to join the Asian Infrastructure Investment Bank in which China has an influential role.

Prime Minister Narendra Modi is interested in China's development experience and welcomes China's investment in India's infrastructure and manufacturing industries. During President Xi Jinping's visit to India in September 2014, he pledged to invest US\$ 20 billion in India in the next five years, build two industrial parks and engage in cooperation in building railways in India.²⁶ A more confident and more prosperous India may be more enthusiastic in economic ties with China and a more active role within the BRICS group.

Brazil and South Africa are different from India and Russia in that they are quite distant from China, and therefore no historical conflicts, territorial disputes and security threats exist in their respective relations with China. Brazil is similar to India in their major power strategies, seeking to raise their global economic influence and the bargaining power of developing countries in general in order to secure a status equivalent to that of the leading developed countries. Since the Luiz Lula da Silva administration, Brazil has been enthusiastic in

²⁵ Baratiya Janata Party (India), *Election Manifesto, 2014*. Available at <http://www.bjp.org/manifesto2014>; see also "India: The Foreign and Security Policy under the Modi Government", in The National Institute for Defense Studies, Japan (ed.), *East Asian Strategic Review 2015* (Tokyo: The Japan Times Ltd., 2015), pp. 169–202.

²⁶ "Yingdu: Modi Xingzheng Quanmian Pu Kai (India: Age of Modi Unfolds)", in Ji Zhiye (ed.), *Guoji Zhanlue Yu Anquan Xingshi Pinggu 2014/2015 (Strategic and Security Review 2014/2015)* (Beijing: Shishi Chubanshe, 2015), p. 494.

Table 1. China's Trade with Other BRICS Countries (US\$ million)

Year	China and Russia			China and India			China and Brazil			China and South Africa		
	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total
1991	1,823.38	2,080.87	3,904.25	144.48	120.34	264.82	68.03	345.81	413.84	N/A	N/A	N/A
1996	1,692.71	5,151.77	6,844.48	686.02	719.17	1,405.19	762.94	1,484.08	2,247.02	682.82	664.05	1,346.87
2001	2,711.16	7,959.38	10,670.54	1,896.27	1,699.97	3,596.24	1,351.14	2,347.34	3,698.48	1,049.12	1,173.11	2,222.23
2006	15,832.49	17,554.33	33,386.81	14,581.30	10,277.45	24,858.75	7,380.11	12,909.50	20,289.60	5,767.71	4,085.36	9,853.07
2007	28,466.20	19,688.58	48,154.78	24,011.46	14,617.10	38,628.56	11,372.26	18,341.83	29,714.09	7,428.26	6,618.07	14,046.33
2008	33,075.85	23,832.76	56,908.61	31,585.38	20,258.89	51,844.27	18,807.46	29,863.44	48,670.90	8,617.62	9,234.97	17,852.59
2009	17,518.58	21,232.96	38,751.55	29,656.04	13,727.28	43,383.32	14,118.86	28,276.92	42,395.79	7,365.75	8,711.75	16,077.50
2010	29,612.07	25,921.04	55,533.11	40,914.96	20,846.25	61,761.20	24,460.50	38,125.38	62,585.87	10,799.86	14,903.24	25,703.10
2011	38,903.52	40,369.87	79,273.39	50,537.09	23,371.15	73,908.24	31,836.63	52,394.49	84,231.12	13,362.31	32,107.91	45,470.21
2012	44,055.96	44,155.04	88,210.99	47,677.51	18,795.82	66,573.33	33,419.56	52,329.40	85,748.96	15,323.02	44,671.27	59,994.28
2013	49,591.17	39,667.83	89,259.00	48,432.41	16,970.25	65,402.66	35,895.47	54,299.12	90,194.59	16,830.78	48,388.43	65,219.20
2014	53,676.94	41,593.51	95,270.45	54,217.42	16,358.69	70,576.11	34,890.13	51,653.22	86,543.36	15,699.15	44,568.13	60,267.28
2015	34,756.88	33,258.66	68,015.54	58,228.03	13,368.55	71,596.58	27,412.23	44,089.36	71,501.58	15,857.92	30,151.41	46,009.33

Source: National Bureau of Statistics of China (comp.), *China Statistical Yearbook* (Beijing: China Statistics Press, 1992, 1997, 2009–2016).

Table 2. Investment Flows Between China and Other BRICS Members (US\$ million)

Year	Russia		India		Brazil		South Africa	
	China's Investment in Russia	Russia's Investment in China	China's Investment in India	India's Investment in China	China's Investment in Brazil	Brazil's Investment in China	China's Investment in South Africa	South Africa's Investment in China
2005	203.33	81.99	11.16	21.40	15.09	24.61	47.47	106.35
2006	452.11	67.20	5.61	52.39	10.09	55.60	40.74	94.81
2007	477.61	52.07	22.02	34.04	51.13	31.64	454.41	69.16
2008	395.23	59.97	101.88	88.05	22.38	38.79	4,807.86	25.60
2009	348.22	31.77	-24.88	55.20	116.27	52.48	41.59	41.20
2010	567.22	34.97	47.61	49.31	487.46	57.25	411.17	66.47
2011	715.81	31.02	180.08	42.17	126.40	43.04	-14.17	13.23
2012	784.62	29.92	276.81	44.06	194.10	57.60	-814.91	16.05
2013	1,022.25	22.08	148.57	27.05	310.93	23.04	-89.19	12.92
2014	633.56	40.88	317.18	50.75	730.00	28.11	42.09	5.89
2015	2,960.86	12.12	705.25	80.80	-63.28	50.84	233.17	1.98

Source: National Bureau of Statistics of China (comp.), *China Statistical Yearbook* (Beijing: China Statistics Press, 1992, 1996 and 2016).

forming a nucleus group with India, China and South Africa to engage in global trade negotiations including the Doha round, and together secure larger voting rights for them in the World Bank and International Monetary Fund.²⁷

In a public opinion poll conducted by the Brazilian Center for International Relations in 2008, 92% of the respondents recognized China as “the most important country in terms of Brazil’s national interest”, ranking third after Argentina (95%) and the U.S. (94%).²⁸ In the following year, China replaced the U.S. as the number one trading partner of Brazil, a status enjoyed by the U.S. for more than seven decades. China emerged as the largest destination for Brazil’s exports and the second most important source of its imports (Table 1). In the first half of 2010, China’s investment in Brazil jumped to US\$ 12 billion, again replacing the U.S. as the leading investor country.²⁹ This trend is expected to continue as Brazil needs capital to develop its natural resources and strengthen its infrastructure, and it has been improving its domestic investment environment. China, on the other hand, has ample foreign-exchange reserves of about US\$ 3.2 trillion in the first half of 2016 to seek investment outlets and offer more satisfactory returns than U.S. Treasury bonds. In 2015, however, China’s investment in Brazil dropped abruptly, mainly because of the global economic slowdown adversely affecting the prices for natural resources and the Chinese economy (Table 2).

While trade with China has been expanding and its trade surpluses are impressive, Sino-Brazilian economic relations are not without

²⁷ Zhou Zhiwei, “Baxi Jueqi Yu Zhongguo Dui Baxi Zhengce Fenxi (Brazil’s Rise and an Analysis of China’s Brazil Policy)”, in Su Zhenxing (ed.), *Zhong-La Guanxi Liushi Nian: Huigu Yu Sikao, Xia (Six Decades of China–Latin American Relations: Reflections and Consideration, Vol. II)* (Beijing: Dangdai Shijie Chubanshe, 2010), p. 524.

²⁸ Amaury de Souza, *Brazil’s International Agenda Revisited: Perceptions of Brazilian Foreign Policy Community* (Brasilia: Brazilian Center for International Relations (CEBRI), 2008), p. 24.

²⁹ “Zhongguo Touzi Baxi Diyi Daguo (China Has Become Number One Investor Country in Brazil)”, *Caijing Net*, 27 July 2010. Available at <http://www.caijing.com.cn/2010-07-27110486729.html>.

problems. Brazil's exports to China concentrate heavily on a small number of primary products, while imports from China present a serious threat to the local manufacturing industries. More significant still, China poses keen competition in Brazil's important export markets for its manufactured products. It is estimated that in the period 2001–2009, Brazil's loss of markets to China in the U.S. and the European Union amounted to about US\$ 2.5 billion; the actual loss would be higher because Brazilian exports to the U.S. and the European Union were only about one-third of its total in 2009.³⁰ It is not surprising that Brazil altogether initiated 46 anti-dumping investigations against China from December 1989 to the end of 2009. Cooperation within the BRICS group helps to emphasize common interests and contain these concerns and conflicts from Beijing's point of view.

Brazil's domestic political crisis over President Dilma Rousseff's impeachment trial may imply that it is turning inward for the time being. The rise of right-wing and center-right parties and their capturing government may well be a trend in the region too (see Chapter 12). In June 2015, President Rousseff visited the U.S. and concluded a series of agreements on the environment, trade, visa, defense, social security and education, reflecting the intention on both sides to improve relations.³¹

Given the circumstances, Brazil may not be part of the momentum promoting the further development of the BRICS group at this stage. But it is most unlikely that Brazil will leave the group, and China will remain its largest trade partner and an important source of investment funds (see Tables 1 and 2).

³⁰ Rhys Jenkins, "China and Brazil: Economic Impacts of a Growing Relationship", *Journal of Current Chinese Affairs*, Vol. 41, No. 1 (2012), p. 42.

³¹ Zhang Fan, "2015–2016 Nian Lamei Guoji Guanxi: Duoyang Xing, Lianxu Xing yu Cuiruo Xing Jiaozhi (Foreign Relations 2015–2016: A Combination of Diversification, Continuity and Fragility)", in Wu Baiyi and Liu Weiguang (eds.), *Lading Meizhou he Jialebi Fazhan Baogao 2015–2016 (Annual Report on Latin America and the Caribbean 2015–2016)* (Beijing: Social Sciences Academic Press (China), 2016), p. 96.

South Africa was eager to join the BRICS group, and China could claim credit for its admission in April 2011 at the third BRICS summit held in Sanya, China. The inclusion of South Africa, the largest economy in Africa and one of its most influential countries, enhances the representativeness of the BRICS group. Beijing would be glad that this would reduce the impact of the India–Brazil–South Africa (IBSA) dialogue forum which excludes China. In recent years, China's trade and investment activities have been expanding rapidly in Africa, and in South Africa, China had replaced Germany as its largest source of imports.

China's African policy has been criticized by the West for having no strings attached to its economic ties with the continent, thus undermining the West's demand for the improvement of governance, respect for human rights and the introduction of democracy in receiving its aid. China's own economic activities in Africa have been perceived as recolonial concentrating on the exploitation of natural resources, neglecting environmental protection, paying low salaries, ignoring the safety concerns of workers and miners, etc. When Chinese firms engage in infrastructural projects, they typically bring thousands of Chinese engineers, technicians and workers, thus depriving the locals of employment opportunities. Some Chinese workers stay behind, often entering into the restaurant and retail businesses, sometimes resulting in a domination of these sectors in some regions. The flooding of the African market by Chinese-manufactured products tends to discourage the development of local industries too.³²

The Chinese authorities understand that they have to improve China's image in Africa (see also Chapter 13), and joining hands with the South African leaders to fight for Third World interests is certainly in line with this objective while containing the bilateral conflicts mentioned above. As China expands its trade with Africa and increases its investment in the continent, involving South Africa in the BRICS group and using the latter as a platform to promote

³² Joseph Y. S. Cheng and Shi Huangao, "China's Africa Policy in the Post-Cold War Era", *Journal of Contemporary China*, Vol. 39, No. 1 (February 2009), pp. 87–115.

South–South cooperation and the representativeness of the Third World in shaping the new international economic order will become more important.

At this stage, realism dominates China's approach to the BRICS group. In addition to maintaining a peaceful international environment to concentrate on its development, China now seeks major power status and influence in the international community. Chinese people demand achievements in this area in assessing the performance of their leaders, who in turn realize that their success in foreign policy constitutes an important source of the legitimacy of the Party regime. As members of the BRICS group all seek to build a more equitable and fair international order, working together as a group serves their common interests more effectively. China obviously does not want to confront the U.S. and the Western countries alone in this reform process. Expanding their voting rights in the International Monetary Fund and the World Bank is perhaps the best example.

The global financial crisis in 2008 led to the emergence of the G-20 and BRICS summit mechanisms. Cooperation among BRICS member states reflected the demand of major developing countries for an effective platform not only to build a more equitable and just international order, but also to ensure the credible articulation of their demands and pursuit for international status and influence. BRICS member states continue to stress that the group intends to supplement and not replace existing mechanisms for North–South cooperation. Ideally, they intend to promote the democratization of international relations and the effectiveness of global governance which have been handicapped by the predominance of the advanced Western countries.

They accept gradual reforms and emphasize that their demands are “inclusive” and “non-confrontational”, and they would like to see G-20 and the UN assume more important roles in global governance as they are more representative and therefore more legitimate. The BRICS group would like to exert pressure on the Western powers to ensure that agreements reached at the G-20 summits and UN meetings would be implemented.

In reforming the international financial architecture and in climate change negotiations, the BRICS group articulates the position that developing countries and developed countries are in different stages of economic development; the former needs more policy independence and autonomy, and it managed to bring about a non-obligatory macroeconomic policy mutual assessment mechanism and a set of guidelines for reference within the G-20 framework, as opposed to obligatory mutual assessment demanded by the U.S. and the European Union which wanted stricter supervision and restraint among the G-20 member states.

In international financial reforms, the BRICS group at the G-20 London summit in April 2009 succeeded in enhancing the Financial Stability Forum to become the Financial Stability Board consisting of all G-20 member states. The group strongly supported Basel III Agreement in raising the core capital adequacy ratio of banks, and promoted the inclusion of various financial derivative products as well as credit rating agencies within the scope for financial supervision and regulation. Thus, the group claimed that it was able to challenge the *laissez-faire* philosophy hitherto upheld in the international financial markets and traditionally backed by the U.S. and the United Kingdom.

In the arena of international trade, at the G-20 summit in Washington in November 2008, the BRICS group managed to secure a commitment within the G-20 framework not to introduce protectionist measures from 2008 till the end of 2013. Then at the summit in St. Petersburg in September 2013, the BRICS group further succeeded in extending the pledge till the end of 2016. The group has also been upholding the core position of the World Trade Organization in the promotion of global trade, thus trying to resist the advanced countries' plan of designing the new global rules on international trade and finance through the Trans-Pacific Partnership and the Trans-Atlantic Trade and Investment Partnership.³³

Though the U.S., Japan and the European Union have been more successful in reducing the significance of G-20 and avoiding the

³³ Zhu Jiejin, *op. cit.*, pp. 59–62.

pressure from the BRICS group in recent years, the latter's common interests remain unchanged and the value of the platform has been maintained. Differences among the member states may well hamper the group's effectiveness, but it is not likely that it will fade away or even split up. The optimism of China's foreign affairs experts seems to be well grounded.

To enable and facilitate these five countries with diverse interests to act together effectively poses a formidable challenge,³⁴ and institution building becomes the key. It is not a coincidence that China and Russia have been offering more initiatives in institution building as these two members are the most enthusiastic in seeking to exploit the group to enhance their respective international influence. As argued by China's think tank experts, institution building helps to contain various sets of bilateral conflicts too.

Chinese leaders realize that formulating a discourse to justify their foreign policy line is essential to uphold their ideological platform domestically and defend their foreign policy position internationally. As a Marxist–Leninist regime, articulating a world view, though less important today, remains an important part of the Party regime's efforts to maintain its legitimacy. In the eThekweni Declaration and Action Plan issued after the Fifth BRICS summit in Durban, South Africa, in March 2013, China was pleased that the group stated: “We are committed to building a harmonious world of lasting peace and common prosperity...”³⁵

The Liberal/Institutional Perspective

In April 1974, in the wake of the international oil crisis, Deng Xiaoping attended the special United Nations General Assembly

³⁴ “BRICS ‘Big Five’ Find It Hard to Run As a Herd”, *The New York Times*, 27 March 2013. Available at <http://www.reuters.com/article/2013/03/27/us-brics-summit-idUSBRE92Q0UE20130327>.

³⁵ For the text of the eThekweni Declaration and Action Plan, see *Travel Impact Newswire*, 28 March 2013. Available at <http://www.travel-impact-newswire.com/2013/03/full-text-brics-declaration-reflects-rise-of-new-world-order/#axzz2RIuRP4KE>.

meeting and strongly supported the Third World's demand for the establishment of a new international economic order. Subsequently, China demanded the establishment of a new international economic order and political order. The articulation of this demand has continued till now, though the voice has been muted in the past decade and more.³⁶

Since the international financial crisis in the autumn of 2008, the Chinese leadership has come up with a more integrated approach regarding building the new international order, based on previously articulated themes. Chinese leaders and their foreign policy think tanks now consider that the international system and its institutions are inadequate in maintaining the international order.

In the first place, they have not been able to meet the development demands of the emerging countries. In the post-Cold War era, a group of developing countries has rapidly emerged, together with important regional organizations and non-state actors. This phenomenon has become even more conspicuous in the global financial crisis in 2008–2009, and the existing international governance structure has failed to cope with the emerging powers' demand to consider and accommodate their interests. Moreover, the existing international institutions have not been able to coordinate the demands for global balanced socioeconomic development. The gap between the rich and poor has been widening, and a number of developing countries are in difficulties. High-level interactions between the international community and domestic societies have sharpened their developmental contradictions. Some countries have failed to adapt to the challenges of globalization, and problems of domestic governance have been exacerbated; this is why civil wars are more frequent than wars between states. Finally, the existing international order cannot effectively deal with the important global issues like terrorism, environmental

³⁶ See Joseph Y. S. Cheng, "The Evolution of China's Foreign Policy in the Post-Mao Era: From Anti-Hegemony to Modernization Diplomacy", *op. cit.*; Joseph Y. S. Cheng, "China's Foreign Policy after the Seventeenth Party Congress", in Dennis Hickey and Baogang Guo (eds.), *Dancing with the Dragon: China's Emergence in the Developing World* (Lanham, Maryland: Lexington Books, 2010), pp. 23–52.

protection, climate change, etc. Countries now realize that they cannot independently resolve global problems, and opposing blocs such as those in the Cold War era have disappeared. The Westphalian state system has proved to be increasingly inadequate. In sum, the existing international order lags behind the rising demands for global governance.³⁷

Though Chinese leaders have little tolerance for genuinely autonomous non-governmental organizations (NGOs) within China, Chinese scholars are ready to admit that international NGOs assume an important role in agenda-setting and spreading norms.³⁸ Many of them have been accorded an advisory capacity within the United Nations system and in other intergovernmental international organizations.

Chinese foreign policy scholars argue that the inadequacies of existing international institutions and their reforms have made global governance an important aspect of politics among major powers, i.e., competition and cooperation in governance institutions. In the post-Cold War era, wars among major powers or “high politics” have become much less significant considerations; instead transnational challenges or non-traditional security issues have become more important. Non-traditional security threats may originate from any part of the world; terrorism is a good example. Poverty is no longer a strictly domestic issue. It is the source of many other security threats, and it is highly related to violence, environmental deterioration and failed states.

International governance is also an arena focusing interest contradictions among major powers. Though the latter are aware of the significance of the new non-traditional security threats, their priorities

³⁷ “Xulun: Heping Yu Fazhan Shidai De Daguo Guanxi (Introduction: Major Power Relations in the Era of Peace and Development)”, in Qin Yaqing (ed.), *loc. cit.*, 2011, pp. 14–18. For a Western view, see Colin I. Bradford, Jr. and Johannes F. Linn (eds.), *Global Governance Reform: Breaking the Stalemate* (Washington, D.C.: The Brookings Institution Press, 2007).

³⁸ Wang Yizhou, *Chuangzaoxing Jieru: Zhongguo Waijiao Xinquxiang (Creative Involvement: A New Direction in China's Diplomacy)* (Beijing: Peking University Press, 2011), p. 46.

differ according to their respective levels of development. Hence, terrorism, poverty, environmental degradation, AIDS, nuclear weapons proliferation, etc. occupy different positions in various major powers' development agendas. In the case of climate change, for example, major powers have different interpretations of their respective responsibilities. China's think tank researchers who articulate the above views are ready to admit that the European Union member countries would like to see maximum progress and are willing to assume serious commitments; the U.S. is less concerned, but does not want to reveal its lack of willingness to make serious concessions; the BRICS countries, on the other hand, insist on "common but differentiated responsibilities", and that it is impossible and unreasonable to expect them to substantially sacrifice their development interests. International NGOs have been recognized as a major force promoting new norms in this policy area.

China's foreign policy think tanks argue that the BRICS group intends to maintain and reform the existing international order, and that it has no desire to destroy it.³⁹ China as a member of this group naturally upholds this stand too. These think tank researchers consider that effective international governance has to tackle the contradiction between the increasing demand for global governance and the inadequacies of existing international institutions in satisfying this demand. The Chinese authorities are ready to fully exploit the existing international institutions as well as establish new organizations and mechanisms. In the coming two decades, the international community is expected to actively pursue reforms, transformations and innovations of international institutions, in order to minimize the institutional and governance deficits and to raise the level of international governance; and major powers too will engage in cooperation and competition in these reforms, transformations and innovations.

The Chinese authorities consider the G-20 and its new role a meaningful development in international governance mechanisms,

³⁹ "Xulun: Heping Yu Fazhan Shidai De Daguo Guanxi (Introduction: Major Power Relations in the Era of Peace and Development)", in Qin Yaqing (ed.), *loc. cit.*, 2011, p. 19.

and their priority accorded to the BRICS group is closely related to this.⁴⁰ The most prominent characteristic of G-20 is that it involves both the original major powers and the emerging ones, offering an important platform for their consultation and cooperation. It symbolizes the consensus on reforming the global financial and economic architecture, and the progress in multipolarization in the international power configuration. Above all, Chinese foreign policy experts consider that the G-20 summits represent the entry into the substantial stage of reforms of the international system.

Chinese leaders advocate democracy and tolerance in international relations, although they do not practice it domestically. Their foreign policy think tanks argue that cooperation between major powers and emerging powers must be based on three conditions. In the first place, emerging powers must be allowed to take part in the international institutional decision-making processes, i.e., they must not be marginalized when the international financial crisis has ended. Cooperation involves the sharing of power and responsibilities; hence, emerging powers must be given their respective due shares of power in the reform of the international system.

Moreover, the legitimate interests and demands of the emerging powers must be respected. China considers that while emerging powers are experiencing rapid economic growth, their economic, social and political developments are still considerably below the levels of developed countries. Hence, they cannot afford to meet the high standards set by the developed countries, for example, in the reduction of the release of "greenhouse gases". Finally, the emerging powers'

⁴⁰Yu Yongding, "Rising China and G7, G20", *International Economic Review*, Nos. 9 and 10 (2004), p. 11; Hu Jintao, "Through Co-operation to Tide Over the Difficulties — Speech at the Financial Market and World Economic Summit", *Renminwang*, 15 November 2008. Available at <http://politics.people.com.cn/GB/8346583.html>; Hu Jintao, "Hand-in-hand Co-operation to Face the Challenges in the Same Boat — Speech at the Second Financial Summit of the G20 Leaders", *Xinhuanet*, 2 April 2009. Available at http://news.xinhuanet.com/newscenter/2009-04/03/content_11122834.htm.

request for consultation on an equal basis must be met, with regard to both procedural and substantial issues.⁴¹

China identifies itself as an emerging power. Hence, the demands of the latter are those of China too. To present its demands as those of the emerging powers or those of the BRICS group is obviously a more effective way of satisfying China's demands. Chinese leaders believe in the country's active participation in globalization, especially economic globalization, although they are aware that the existing rules of the game have been defined by the U.S. and the Western countries without China's participation. They are willing to accept the gradual reform of the rules of the game through exploiting the opportunities offered by the globalization process.

Further, China needs a peaceful international environment to concentrate on modernization; hence, it has a vested interest in the stable maintenance of the existing international order. In the era of economic reforms and opening to the external world since 1979, China has been engaging in a learning process to understand the existing international norms and to converge with them. Its foreign policy behavior is more restricted by international law and norms, and it pays more attention to maintain its reputation of showing respect for international norms. Finally, in the recent decade or so, China openly claims to be a "responsible major power", upholding the principles of international justice and morality. It often refers to the example of refusing to devalue the Renminbi during the Asia-Pacific financial crisis in 1997–1998. The Chinese authorities also accord a high priority to develop the country's soft power in recent years, of which a good international image is a major component.⁴²

As indicated above, the development of the BRICS group's meeting mechanisms was much influenced by the emergence of the G-20 summits as the international community's response to the global

⁴¹ "Xulun: Heping Yu Fazhan Shidai De Daguo Guanxi (Introduction: Major Power Relations in the Era of Peace and Development)", in Qin Yaqing (ed.), *loc. cit.*, 2011, pp. 23–24.

⁴² Joseph Y. S Cheng, "China's Foreign Policy after the Seventeenth Party Congress", *op. cit.*

financial tsunami breaking out in August 2008. The first BRICS finance ministers conference was held in Sao Paulo in Brazil on 7 November 2008, a week before the World Economic Summit in Washington, D.C. The finance ministers appealed for reforms of the international financial architecture so that it could correctly reflect the new changes in the global economy, i.e., to ensure that developing countries would have a greater role to play in the international financial system.

Four months afterward, the second BRICS financial ministers' conference was held in England, and a joint communiqué was released. The document stated that reforms of international financial institutions, including those of the International Monetary Fund and the World Bank, would be inevitable. Again, the four finance ministers sought a guarantee that developing countries would have a larger say and a higher status through these reforms.⁴³

The G-20 summits have created an important platform for global financial policy coordination and economic governance. In the eyes of China's international relations experts, the global financial crisis highlighted the significance of global governance. In the wake of the crisis, reforms in global governance fundamentally broke the Western countries' monopolistic control over major international institutions and the system of international governance. For the first time, major emerging developing countries enter the core of international governance, and they also serve as the core of regional governance in many cases.⁴⁴

In April 2010, in the spring annual conference of the World Bank and the International Monetary Fund, agreement was reached to increase developing countries' voting rights by 3.13% to 47.19%. Since 2008, developed countries have transferred 4.59% of voting rights to developing countries. China has been a major beneficiary; its

⁴³ Zhang Youwen, "Jinzhuan Siguo De Youlai Ji Qi Guoji Jingji Hezuo (The Origins of 'BRICs' and Its International Economic Co-operation)", *Qiushi (Seek Truth)*, No. 8 (2010), pp. 56–58.

⁴⁴ "Jinzhuan Guojia Hezuo Jizhi De Xingqi Yu Fazhan (The Rise and Development of the BRICS Countries' Co-operation Mechanisms)", in Qin Yaqing (ed.), *op. cit.*, pp. 89–117.

voting rights have been raised from 2.77% to 4.42%, just behind the U.S. and Japan. Other BRICS member countries have similarly benefited.

In the following November, the International Monetary Fund approved its reform plan on the distribution of shares and voting rights. China's shares rose from 3.72% to 6.39%, and its voting rights from 3.65% to 6.07%, surpassing Germany, France and the United Kingdom, and after the U.S. and Japan only. Again, other BRICS member countries improved their shares and voting rights too; for example, Brazil's shares rose from 1.78% to 2.32%, raising its ranking from the 14th to the 10th. China was happy to see Seoul hosting the G-20 summit in November 2010, the first time that an international economic summit was held in the capital of an emerging power.⁴⁵

The BRICS countries share similar interests in pursuing greater influence in international governance, and they perceive that cooperation as a group would considerably facilitate their pursuit. The above achievements have certainly strengthened this perception.

Besides summit meetings and finance ministers' meetings, the BRICS group also initiated security cooperation through security affairs senior representatives meetings. The first meeting was held in Moscow in May 2009, and the second meeting took place in Brasilia in April 2010.⁴⁶ The forum, however, remains not much more than a mechanism to exchange views and generate a dialogue.

The eThekweni Action Plan released in 2013 offers a list of 18 meeting arrangements involving the member countries' ministers of foreign affairs, national security advisors, finance ministers and central bank governors, etc. as well as a list of nine new areas of cooperation to

⁴⁵ "Zhong-Ba Guanxi (Sino-Brazilian Relations)", in Qin Yaqing (ed.), *op. cit.*, p. 470.

⁴⁶ "Dai Bingguo Chuxi Jinzhuang Siguo Anquan Shiwu Gaoji Daibiao Huiyi (Dai Bingguo Participates in the 'BRICS' Security Affairs Senior Representatives Meeting)", The Chinese Ministry of Foreign Affairs, 29 May 2009. Available at <http://www.fmprc.gov.cn/chn/pds/wjb/zzig/xws/xgxw/t565267.htm>; "Dai Bingguo Chuxi Jinzhuang Siguo Dierci Anquan Shiwu Gaoji Daibiao Huiyi (Dai Bingguo Participates in the Second 'BRICS' Security Affairs Senior Representatives Meeting)", Central Government of the People's Republic of China, 16 April 2010. Available at http://www.gov.cn/ldhd/2010-04/16/content_1582826.htm.

be explored, including a Public Diplomacy Forum, a virtual secretariat, a Youth Policy Dialogue, and so on.⁴⁷ These efforts demonstrate the member countries' intention to engage in institution building in order to strengthen the group's solidarity, though often the actual achievements from these meeting mechanisms may not be satisfactory.

The Durban summit in March 2013 is often considered a watershed, especially regarding the development of the BRICS group's institutions and mechanisms. China's experts consider that Article II of the eThekweni Declaration was the initiative of Beijing, and the compromise formulation pledged to gradually develop the group into an all-dimension mechanism engaging in routine and long-term coordination on various important issues in the global economic and political arenas.⁴⁸ The formulation was a compromise because on the future development of cooperation among the member states, Russia tended to focus on the political and security aspects while the other four on global economic governance as well as practical economic cooperation among the five member states.

In the middle of the decade, the BRICS group has developed an elaborate institutional framework. The leaders' summit is the core at the apex of the hierarchy, followed by security affairs senior representatives meetings, and sets of ministerial meetings involving the foreign ministries, finance ministers, central bank governors, trade ministers, agriculture ministers, health ministers, science and technology ministers, education ministers, heads of statistical agencies, heads of taxation agencies, heads of customs authorities, agency heads on cooperation, competitiveness, and the combat of narcotics and drug addiction, respectively. There are also senior officials' meetings and work groups on state-owned enterprises, anti-corruption population, science and technology, economic and trade affairs, culture, agriculture, the judiciary, urbanization, etc. There are also respective

⁴⁷For the text of the eThekweni Declaration and Action Plan, see *Travel Impact Newswire*, 28 March 2013. Available at <http://www.travel-impact-newswire.com/2013/03/full-text-brics-declaration-reflects-rise-of-new-world-order/#axzz2RIuRP4KE>.

⁴⁸*Ibid.*, and Zhu Jiejin, *op. cit.*, p. 58.

councils involving the think tanks and chambers of industry and commerce from the five countries, as well as respective forums involving the sister cities and local governments, think tanks, industrial and commercial groups, etc.

The Durban summit was the first multilateral international summit meeting attended by President Xi Jinping since his assumption of the state presidency, and he was eager to leave his mark. At the summit, he proposed four major initiatives on cooperation among the member states: an integrated market for trade; smooth multilevel flows in the financial sector; interconnectivity for infrastructural facilities for land, maritime and air transport; and grand exchanges in the humanities arena. Earlier in the political report to the 18th Party Congress in November 2012, the Chinese authorities stipulated that the UN, G-20, the Shanghai Cooperation Organization and the BRICS group are the strategic platforms for China's participation in global governance.

In March 2012, the BRICS group's finance ministers were asked to examine the feasibility and viability of setting up a new development bank to mobilize resources for infrastructure and sustainable development projects among member countries and other emerging economies and developing countries. In the March 2013 Durban summit, the group pledged to establish the development bank, but it could not yet agree on how much cash would be injected, how projects would be distributed and where the bank would be located.⁴⁹

The group also planned to create a Contingent Reserve Arrangement with US\$ 100 billion to help BRICS countries forestall short-term liquidity pressures, provide mutual support and further strengthen financial stability. It was initially reported that the foreign-exchange reserve would be heavily financed by China to the tune of 41% of its assets, or US\$ 41 billion.⁵⁰

⁴⁹ "BRICS Summit Makes Little Progress on New Bank", Radio Free Europe/Daio Liberty, 27 March 2013. Available at <http://www.rferl.org/content/brics-leaders-to-announce-plan-on-new-development-plan/24939926.html>.

⁵⁰ Didi Kirsten Tatlow, "BRIC, BRICS or BRICSI? The Growing Challenge", *International Herald Tribune*, 28 March 2013. Available at <http://rendezvous.blogs.nytimes.com/2013/03/28/first-bric-then-brics-now-bricsi-the-world-financial-orders-challenge/>.

In view of its substantial foreign-exchange reserves amounting to over US\$ 3.3 trillion in early 2013, China was in a good position to play a major role in bankrolling the financial institutions of the group to enhance its influence within the group as well as intragroup trade and investment activities. Its challenge was to show respect for the interests of the other member countries avoiding arousing their resentment against its influence. In fact, the latter had indicated their concern that China should not be given too dominant a role in these financial institutions.⁵¹ China still had much to learn in this financial institution-building process. The most important two challenges were to avoid the perception of “new colonialism” and to encourage the participation of the private sector.⁵²

The final approval for the BRICS New Development Bank was secured at the group's summit meeting in Ufa in Russia in July 2015. The bank would start with a capital of US\$ 50 billion, to be doubled in the coming years. China conceded that member states would contribute equally to the bank's capital, and the president would be rotated.⁵³

The BRICS New Development Bank launched was in full operation in February 2016, claiming an authorized capital of US\$ 100 billion, and approved its first set of loans valued at US\$ 811 million for renewable energy projects in Brazil, India, China and South Africa, respectively. Roughly at the same time, it was announced that the Asian Infrastructure Investment Bank and the World Bank signed

⁵¹ Zachary Keck, “China and the BRICS: Unavoidable Hegemony?”, *The Diplomat*, 29 March 2013. Available at <http://thediplomat.com/2013/03/china-and-the-brics-unavoidable-hegemony/>.

⁵² Jayati Ghosh, “The Global Economic Chessboard and the Role of the BRICS: Brazil, Russia, India, China, South Africa”, *Third World Resurgence*, No. 274 (1 June 2013). Available at <http://www.globalresearch.ca/the-global-economic-chess-board-and-the-role-of-the-brics-brazil-russia-india-china-south-africa/5357502>.

⁵³ “BRICS Countries Launch New Development Bank in Shanghai”, *BBC News*, 2 July 2015. Available at <http://www.bbc.com/news/33605230>.

an agreement to cofinance the project, easing some of the worries that the two might be rivals.⁵⁴

It is likely that the New Development Bank may follow the precedent. World Bank President Jin Yong Kim already agreed in 2015 to cooperate with the New Development Bank “offering to share our knowledge and to co-finance infrastructural projects”. The Asian Development Bank also indicated its willingness to working with the New Development Bank.⁵⁵

In mid-2016, the New Development Bank was making preparations to release bonds in local currencies of its member states, starting with China's bonds with triple-A credit rating followed by India. Raising money for loans will be a serious challenge for the bank; President Jacob Zuma of South Africa estimated in 2013 that the group's funding gap for infrastructural projects would amount to US\$ 4.5 trillion in the next five years.⁵⁶

In September 2013, at the summit in St. Petersburg in Russia, the BRICS group reached agreement on their respective contributions to the US\$ 100 billion Contingent Reserve Arrangement: US\$ 41 billion from China, US\$ 18 billion each from Brazil, India and Russia, and US\$ 5 billion from South Africa. The Contingent Reserve Arrangement is based on self-regulation depending on pledges and works as a multilateral currency swap arrangement.⁵⁷ However, the

⁵⁴ “BRICS Bank Gives \$811 Million in First Round Green Energy Loans”, *Bloomberg News*, 18 April 2016. Available at <https://www.bloomberg.com/news/articles/2016-04-18/brics-bank-gives-first-china-loan-to-solar-project-daily-says>. See also the website of the New Development Bank: <https://www.bloomberg.com/news/articles/2016-04-18/brics-bank-gives-first-china-loan-to-solar-project-daily-says>.

⁵⁵ “New \$100 bn BRICS Bank Opens in China to Challenge US-Led Leaders”. Available at <https://www.yahoo.com/news/brics-bank-opens-business-xinhua-015809429.html?ref=gs>.

⁵⁶ David Smith, “BRICS Eye Infrastructure Funding Through New Development Bank”, *The Guardian (London)*, 28 March 2013.

⁵⁷ “BRICS Leaders Meet Ahead of the G-20 Summit in St. Petersburg”, 5 September 2013. Available at <http://wurw.g20.org/news/20130905/783407860.html>.

group's ambit plan to create an alternative reserve currency to the U.S. dollar so far has made little progress.

The Constructivist Perspective

In order to enhance their influence in international institutions, BRICS member countries would like to establish a discourse representing the interests of developing countries so as to strengthen the legitimacy of their demands.

On the basis of the two joint statements released after the BRICS summits in 2009 and 2010, the group realized that its future development would focus on the economic and political arenas, promoting the development of multipolarization and democratization in international relations, cooperating to push for the recovery of the global economy, establishing a more rational new international economic order, and maintaining a just and rational global trade system.

While China and Russia have long been articulating for a multipolar world, India, Brazil and South Africa too increasingly support multipolarity in seeking acceptance of their status as emerging powers. The establishment of a more democratic and just multipolar world, however, has a strong constructivist and idealistic element appealing to small and medium-sized developing countries. Further, the BRICS group is ready to support strengthening the United Nations and upholding its significant role; India, Brazil and South Africa are all eager to secure permanent membership of the United Nations Security Council, with or without the veto power.

The BRICS member countries are interested in multilateral diplomacy among themselves and in principle. More important still, they want a dialogue and cooperation with the developed Western countries on a genuinely equal basis, and would like to assume an active role in pursuing the interests of developing countries. In this way, the BRICS group argues that dialogue and cooperation among its members would be in accord with the common interests of emerging market economies and developing countries, and they would also

facilitate the building of a harmonious world of lasting peace and common prosperity.⁵⁸

In response to the global financial tsunami in 2008–2009, the BRICS group emphasized the reform of the international financial system toward a more just, fair and rational direction. The group accorded priority to the following: (a) strengthening the voice and representation of the emerging powers in international financial institutions; (b) establishing a stable, predictable and more pluralistic international monetary system; and (c) resolutely opposing trade protectionism.

China's international relations experts believed that the economic development of the BRICS group and its deepening organizational cooperation would gradually arouse the concern and worry of the Western countries. Under such circumstances, the latter, on one hand, actively invited the BRICS member countries to take part in coordination and consultation within the order framework dominated by them, so as to absorb the BRICS member countries within the tracks defined by the West. On the other hand, Western countries would also adopt various measures to limit the adverse impact on them generated by the rise of the BRICS member countries.⁵⁹

These experts argued that the Western countries led by the U.S. planned to treat the BRICS member countries differently. Regarding

⁵⁸ Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, New Jersey: Princeton University Press, 1984); Robert Jervis, "Theories of War in an Era of Great Power Peace: Presidential Address, American Political Science Association, 2001", *American Political Science Review*, Vol. 96, No. 1 (March 2002), pp. 1–14; G. John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order after Major Wars* (Princeton, New Jersey: Princeton University Press, 2001); G. John Ikenberry, "Democracy, Institutions, and American Restraint", in G. John Ikenberry (ed.), *America Unrivaled: U.S. Unipolarity and the Future of the Balance of Power* (Ithaca, New York: Cornell University Press, 2002), pp. 213–238.

⁵⁹ Qian Wenrong, "Xifang Yingdui Jinzhuang Guojia De Jueqi (The West's Response to the Rise of the 'BRICs')", *Liaowang Xinwen Zhoukan (Outlook Weekly)*, No. 45 (2007), p. 59.

China and Russia, it would be a combination of engagement and containment, a kind of hedging strategy. The U.S. and its allies would like to cultivate India, absorbing it into a U.S.–Japan–Australia–India quadrilateral alliance; the U.S. has been offering India advanced weapons, and concluded with it a nuclear energy cooperation agreement. The U.S. would hope to develop closer ties with Brazil and South Africa through cooperation and support in various areas.

The Western world is perceived to attempt to expand its market share in the BRICS member countries, while trying to impose technical barriers to reduce imports from them. Its corporations would continue to exploit the developing countries' cheap labor and natural resources, and attract their talents in the scientific and technological fields. China's foreign policy think tanks are concerned with the new legal limitations restricting the BRICS countries' investment in the Western world. They consider that the developed countries have been strengthening their policy coordination in handling the challenge from the emerging developing countries, for example, with campaigns to discredit the image of products "made in China".⁶⁰

These suspicions and criticisms against the Western world do not constitute part of the common discourse among the BRICS countries; they seem to be much shared by China and Russia, but considerably less by the other three countries. However, these observations and criticisms often appear in China's official media and academic publications, to some extent justifying China's active participation in the BRICS group.

China claims to have taken the initiative to invite South Africa to join the group in December 2010 and take part in the summit hosted by China in Sanya in April 2011. There were voices against the inclusion of South Africa because of its relatively weak comprehensive national power, but the Chinese leadership's major consideration was the strengthening of the representativeness of the group to enhance

⁶⁰ "Jinzhuang Guojia Hezuo Jizhi De Xingqi Yu Fazhan (The Rise and Development of the BRICS Countries' Co-operation Mechanisms)", in Qin Yaqing (ed.), *loc. cit.*, p. 112.

the appeal of its discourse. The involvement of African countries through South Africa was thus a strategic step toward this goal.⁶¹ Mexico is perhaps the next target, though BRICS member countries understand that too rapid an expansion would only weaken their coordination. In October 2015, Iran indicated its intention to participate in the BRICS New Development Bank. Earlier in the month, Russian Energy Minister Alexander Novak visited Tehran where he negotiated a Russia–Iran bank to promote joint projects, and the report of Iran joining the New Development Bank seemed to be related to Novak's visit.⁶²

The liberals within China's foreign policy establishment argue that among major countries in the post-Cold War era, irrespective of their contradictions and differences, there is an understanding that war or all-out confrontation is not an option.⁶³ Trade liberalization and increasing global economic interdependence are inevitable trends. In the case of China, the frequency of using military power in international disputes has been much reduced in the past three decades compared with the first three decades of the People's Republic of China. The cultivation of China's soft power therefore is a most important consideration in its foreign policy. China's active participation in the BRICS will enable Chinese leaders to develop a discourse articulating the interests of developing countries, especially those of the emerging powers, in shaping the evolving international institutional framework.

Chinese leaders since the beginning of the new century have been exploiting the traditions in ancient China's foreign relations to

⁶¹ *Ibid.*, pp. 96–97; Owen Fletcher, "China Seeks Help for 'BRICS'; Emerging Bloc Adds South Africa, but Building Unified Platform Will Be Tough", *Wall Street Journal*, 12 April 2011.

⁶² Peter Bader, "Iran to Join BRICS New Development Bank", *Reuters*, 26 October 2015. Available at <https://www.rt.com/business/319734-iran-brics-development-bank/>.

⁶³ Qin Yaqing, "Guojia Shenfen, Zhanlue Wenhua He Anquan Liyi: Zhongguo Yu Guoji Shehui Guanxi De Sange Jiashe (State Identity, Strategic Culture and Security Interests: Three Assumptions on China's Relations with the International Community)", *Shijie Jingji Yu Zhengzhi (World Economics and Politics)*, Vol. 1 (2003), pp. 10–15.

enhance the credibility of its pursuit of a harmonious world.⁶⁴ At the risk of oversimplification, Confucianism makes a distinction between *wangdao* (the moral way) and hegemonism. *Wangdao* emphasizes a universal moral order to justify the use of force when necessary; and in the exercise of influence in international relations, moral and political values come first, economic ties and rites are next in importance, while the use of military force is accorded a low priority. Hegemonism does not have the above considerations; it stresses the exercise of power and influence in the pursuit of actual benefits and status.⁶⁵

Applying the distinction to China's foreign policy today, Chinese leaders and their think tank experts appreciate the acute need to minimize the "China threat" perception, especially among its neighbors in view of China's rise, its modernization of its military forces including the building of a blue-water navy, its increasing assertiveness in territorial disputes since 2010 or so, and its trade surpluses and exploitative investment activities abroad. Further, China would like to convince the international community, especially the developing countries, that its rise would be beneficial for all mankind. The development of a discourse to justify and defend China's pursuit of the international status and influence of a major power is essential to increase the international community's acceptance and reduce its resistance, particularly that from the U.S. and the established major powers. Articulating the interests of the developing countries would facilitate China's efforts to raise its influence in the existing and evolving international institutional framework; and BRICS in this context is certainly a significant platform.

The discourse theoretically has an important domestic function too. While domestic nationalist sentiments are steadily rising in China in the context of China's impressive economic growth and improving international status, there often appear irresponsible statements in the domestic media and the Internet, demonstrating the potential

⁶⁴See the White Paper on "China's Peaceful Development" released by the State Council's Information Office on 6 September 2011; for a summary of the White Paper and commentaries on it, see *Ming Pao* (Hong Kong), 7 September 2011.

⁶⁵Wang Yizhou, *op. cit.*, pp. 105–112.

influence of a narrow nationalism and big-power chauvinism. The past glory of ancient China and the humiliation in the century or so after the Opium War both contribute to the rising nationalism today, exerting considerable pressure on the Chinese leadership who must not be seen to be weak, especially in dealing with Japan and the U.S.

This popular nationalism lacks consideration of international public opinion, institutions and norms. It neglects the potentialities of settling international disputes through international law and normal diplomatic channels; as well as the sharing of an international order in which China will have a respectable and influential voice. It ignores the danger that in fighting hegemonism in international politics, China might be perceived as a rising hegemon or regional hegemon.⁶⁶ The development of a constructivist discourse will help to contain the rise of nationalism in China.

Chinese leaders today appreciate that China's rising international status and influence constitute part of the foundation for their legitimacy; and the adoption of liberal/institutional and constructivist approaches in China's foreign policy is perhaps the only way to achieve the twin objectives of developing China's soft power, enhancing China's international status and influence, while containing the rise of nationalism domestically. Naturally, the Chinese leadership has to deliver results along the above line. China still has a relatively low per capita GDP by international standards; China's expanding foreign aid programs and delivery of international public goods also need domestic justification. The Maoist line of internationalism used to provide that justification in the 1960s and 1970s; a new version is called for in the present context of emphasizing economic growth. The public controversy over the delivery of 23 buses to Macedonia while overcrowded school buses led to many domestic accidents is a good example.⁶⁷

⁶⁶Peter Hays Gries, *China's New Nationalism: Pride, Politics, and Diplomacy* (Berkeley: University of California Press, 2004); Zhao Suisheng, "China's Pragmatic Nationalism: Is It Manageable?", *The Washington Quarterly*, Vol. 29, No. 1 (Winter 2005), pp. 131–144.

⁶⁷"China's School Bus Donation to Macedonia Derided", *The Telegraph*, 28 November 2011.

The development of a discourse on China's international role has different domestic expressions. In 2007, then General Secretary of the Party, Hu Jintao, in his report to the 17th Party Congress proposed to "raise the state's cultural soft power". On 1 July 2011, in his address at the anniversary of the founding of the Party, Hu Jintao demanded to "form cultural soft power corresponding to our country's international status". In 2012, his report to the 18th Party Congress for the first time indicated that the Chinese authorities would have to "concretely promote public diplomacy and humanities exchanges", reflecting that public diplomacy was raised to the state's strategic level.

Since the 18th Party Congress, President Xi Jinping has used the "community of common destiny" expression at least 70 times in his important public speech at the end of 2015. The development of a discourse on China's international role is naturally closely related to building its international image.

Entering the twenty-first century, this course and image-building process has the following elements.⁶⁸ In the first place, China intends to convey its consciousness of being a responsible major power. This intention, in turn, involves an awareness to manage the rapidly rising expectations of China from the international community and the expanding scope of China's interests and concerns spreading from Asia to the entire world. Active participation in the BRICS group is in accord with the above.

Further, China feels the need to clarify the doubts, suspicions and misunderstandings on the part of many countries associated with China's impressive economic growth and rising international status and influence, especially the "China threat" perception⁶⁹ and the "neo-colonialism" in China's economic activities and investment in the developing countries. Explaining China's foreign policy inten-

⁶⁸ Guo Cunhai, "Zhongguo Haiwai Xingxiang de Wenhua Goujian: Tiaozhan yu Yingdui (Constructing China's Overseas National Image from the Perspective of Cultural Promotion: Challenges and Responses)", in Wu Baiyi and Liu Weiguang (eds.), *op. cit.*, pp. 3–5.

⁶⁹ Herbert Yee and Ian Storey (eds.), *The China Threat: Perceptions, Myths and Reality* (New York: RoutledgeCurzon, 2002).

tions, as well as articulating its support for Third World interests, and the latter's demand for a more equitable and just international order through the BRICS group platform are certainly more effective and credible than doing then by itself. Chinese leaders to some extent are aware that state propaganda machinery lacks credibility and appeal because of censorship and ideological control.

At the tactical level, in view of the fact that most reform pledges on the part of the International Monetary Fund and the World Bank have not been implemented, the establishment of the BRICS New Development Bank and the Contingent Reserve Arrangement will help put pressure on the international financial institutions. The BRICS group is actually aware that when the impact of the 2008–2009 international financial crisis has been fading, the U.S. and the major Western countries obviously no longer have the incentive to implement the reforms. The group, however, has been cautious in presenting its new institutions and mechanisms as supplementary to the existing ones without intention to replace them.

Conclusion

China's approach to BRICS reveals its foreign policy considerations from the perspectives of realism, liberalism/institutionalism and constructivism. As reflected by China's academic publications on the BRICS group, China's international relations experts consider that the group has emerged as a significant international actor. While international media tended to emphasize its economic potential and influence in its initial years, China's experts expected that the BRICS member countries had to continue to deepen cooperation and enhance their collective influence. There was a recognition that their cooperation in the political and security arenas only stayed at the level of principles at the early stage, but there was an optimistic expectation in Beijing that concrete cooperation would come in the future, and that strengthening comprehensive cooperation would eventually lead to significant development of the group. When doubts and pessimism concerning the BRICS group emerged in the middle of the decade, Chinese leaders' optimism and serious efforts have not been weakened.

As analyzed above, realism dominates the Chinese leadership's BRICS policy in China's pursuit of major power status and influence in the international community, exploiting the group as a significant platform. Institution building, however, has been essential to strengthen the group's solidarity in order for the group to act effectively through enhancing common interests and containing bilateral conflicts and disputes. The group as a whole also realizes the importance of formulating a discourse to legitimize its demands for reforming the international economic and political order, while China and other member countries are eager to coordinate their respective discourses with the group's common discourse.

China's experiences in the development of the Shanghai Cooperation Organization (SCO) are relevant in two important aspects.⁷⁰ The first is the institutional development in the form of meetings and committees in various areas involving political leaders and officials of different levels. Meanwhile, meetings and agreements on principles in international relations and major global issues like reform of the international financial architecture and climate change negotiations, hopefully, will facilitate the expansion of trade, investment and economic and technological cooperation among the BRICS member countries both bilaterally and multilaterally. As the ASEAN experiences demonstrate, frequent interactions at various levels among member governments help to cultivate consensus and compromises in the intermediate and long term.

In the evolution of the SCO, China has been careful in deferring to Russian interests. China's initiatives and influences must not be allowed to compromise Russia's vital interests in Central Asia. China's economic weight within the BRICS group ensures its leading role, and Chinese leaders have been wise to allow other BRICS member countries to pursue their initiatives. To some extent, India, Brazil and South Africa have developed better ties with developing countries and international non-governmental organizations (NGOs) than China

⁷⁰ Joseph Y. S. Cheng, "The Shanghai Co-operation Organization: China's Initiative in Regional Institutional Building", *Journal of Contemporary Asia*, Vol. 41, No. 4 (November 2011), pp. 632–656.

and Russia, and these ties would benefit the image and operations of the entire group.

Like globalization, China's participation in international governance has its benefits and costs. China has been increasingly active in assuming international obligations and delivering international public goods, thus improving its international status, enhancing its voice and influence on important global issues and the shaping of international institutions. At the same time, this high-profile participation has generated new demands and more monitoring by international media, international NGOs and international institutions. China needs to adjust its traditional low profile and engage in better coordination among its domestic agencies. There is domestic resentment against the Chinese authorities' "over generous" overseas aid commitments, while some of China's trade and investment activities in Africa have been criticized as neo-colonial.⁷¹

There is an obvious neglect of an important domestic–international linkage too. When Chinese leaders appeal for the democratization of international relations in various international forums, the international community cannot help noticing that there is not much democracy in China, in contrast to India, Brazil and South Africa. China's lack of respect for human rights domestically tarnishes its international image and weakens its appeal for a harmonious world. Genuine political reforms in China are essential to China's successful promotion of a harmonious world and a new international political order.

In the intermediate and long term, the BRICS group can retain and enhance its weight in the international community only through maintaining its hitherto impressive economic growth rates. In 2014, doubts had emerged as China's economic growth rate fell to 7.7% in 2013, India to below 5% and Brazil to 3%.⁷² These doubts have exacerbated in the following two years as member states continued to

⁷¹Wang Yizhou, *op. cit.*, pp. 167–172.

⁷²Eric Follath and Martin Hesse, "Troubled Times: Developing Economies Hit a BRICS Wall", *Spiegel Online International*, 7 February 2014. Available at <http://www.spiegel.de/international/world/economy-slows-in-brics-countries-as-worries-mount-a-951453.html>.

deteriorate in their economies' growth rates; India was the sole exception.

Furthermore, they all have to work hard to improve their quality of economic development. According to Social Progress Index (SPI) 2014 covering 132 countries, BRICS countries fared poorly on social progress except Brazil, 46th on SPI and 57th on per capita GDP; the other four countries scored lower on social progress than on their per capita GDP ranking. Russia had a higher per capita GDP than Brazil (39th); yet, its SPI rank was 80th, while South Africa with a per capita GDP ranking of 58th was ranked 69th on SPI. India (102th) and China (90th) were the worst performing BRICS nations in terms of SPI ranking.⁷³ Chinese leaders have demonstrated an awareness and have made efforts to secure a more balanced development pattern. Progress in this area will strengthen its soft power appeal within the group as well as in the international community. But the challenge ahead will be severe.

In recent years, the BRICS group has been attempting to evolve from a dialogue forum to a full-fledged coordination mechanism, as well as from a focus on economic governance to both political and economic governance. This evolution takes place when four of the member economies are slowing down and two are in recession. At the same time, the Western countries' relations with Russia have been deteriorating because of the Ukrainian crisis, and their suspicions against China have been worsening because of its assertiveness in handling its territorial disputes. This is thus a challenging period for the group.

At present, two other mechanisms coexist with the BRICS, namely, the IBSA mechanism involving India, Brazil and South Africa and the China–India–Russia trilateral mechanism. Coordination among the three has been much neglected. At the same time, BRICS has been moving from coordination and cooperation in terms of principles and positions to concrete cooperation projects like the BRICS

⁷³Jhinuk Chowdhury, "Unequal Development: What is the Social Cost of the BRICS' Economic Growth?", *Russia Today Op-Edge*, 16 April 2014. Available at <http://rt.com/op-edge/brics-social-economic-growth-896/>.

New Development Bank. These new ventures may contribute to the long-term enhancement of the group, but they also call for stronger commitments and a greater willingness to compromise and work together.

It is obvious that the common interests bringing the member states together remain, and China's commitment to the group has only strengthened as its need for such platforms grow. The confusion and difficulties in the existing international order have brought both opportunities and challenges for BRICS's further development.

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Chapter 12

Latin America in China's Contemporary Foreign Policy

Joseph Yu-Shek Cheng

Introduction

Two and a half centuries ago, the French Sinologist De Giognes proposed that the New World was discovered not by Columbus, but by the Chinese. Proven contacts between China and Latin America can be dated back to the 1570s, when trade between them started to flourish across the Pacific.¹ In the eighteenth and early nineteenth centuries, hundreds of thousands of Chinese laborers were transported to Latin America to serve as contracted workers (*kuli*/coolie), some of them being sold by Western colonialists; their labor contributed to local economic development.

There were no close ties between China and Latin America in the 1970s and 1980s. Trade was limited, and high-level diplomatic contacts were few. In the first two decades of the People's Republic of China (PRC), contacts between China and Latin America were limited

¹ Jiang Shixue, *Latin American Studies in China: An Overview* (Beijing: Institute of Latin American Studies, Chinese Academy of Social Sciences, 2003), p. 3. Available at <http://ilas.cass.cn/ESPANA/TRABAJOS/TEMA%20GENERAL/LAStudies.htm>.

to the non-governmental level. Cuba was the first country in the region to establish diplomatic relations with China in September 1960. In 1970, Chile became the first South American country to establish diplomatic relations with China. Subsequent to China's admission into the United Nations in 1971, many Latin American countries followed the examples of Cuba and Chile; by the mid-1980s, all countries in South America except Paraguay had diplomatic relations with China.²

Before the 1990s, Sino-Latin American trade was insignificant. In October 1952, China and Chile signed a bilateral trade agreement, the first trade agreement between China and a Latin American country. In 1955, Sino-Latin American trade was about US\$ 7 million, which grew to over US\$ 30 million in 1960. In 1970 and 1978, it surpassed the US\$ 100 million and US\$ 1 billion marks, respectively. This expansion in bilateral trade in the 1970s was a result of the establishment of diplomatic relations between China and the major Latin American countries in the decade following China's entry into the United Nations in 1971 and the Nixon visit to China in February 1972.³ In the 1970s, the average annual trade between China and Latin America amounted to US\$ 1.028 billion; in the following decade, the average annual trade reached US\$ 1.73 billion, with an average annual growth rate of 2.2 %. The 1980s was a lost decade for the Latin American economy which suffered from heavy external debts and other problems.

In the 1990s, the Latin American economy improved, and China's external trade expanded in an impressive manner. As a result, China's exports to Latin America rose 5.19 times in the decade. Before 1994, China had suffered a deficit in the bilateral trade; since the mid-1990s, China had been enjoying a trade surplus, until 2002.

² Liu Yuqin, "Friendly and Co-operative Relations between China and Latin American and Caribbean Countries & China's Foreign Policy towards Latin America", *International Understanding* (Beijing), Vol. 2 (2003), p. 11.

³ China established diplomatic relations with Cuba in 1960, with Chile in 1970, with Peru in 1971, with Mexico, Argentina, Guyana and Jamaica in 1972, with Trinidad and Tobago, Venezuela and Brazil in 1974, with Surinam in 1976, with Barbados in 1977, with Ecuador and Columbia in 1980, with Antigua and Barbuda in 1983, with Bolivia, Grenada and Nicaragua in 1985, with Belize in 1987, with Uruguay in 1988, and with the Bahamas and St Lucia in 1997. Grenada, Belize and Nicaragua subsequently switched to recognize Taiwan in 1989, 1989 and 1990, respectively.

In 1998 and 1999 when China's imports from Latin America stagnated because of the Asian financial crisis, its exports continued to grow. In the 1990s, China still had a trade deficit with the resource-rich Latin American countries like Brazil, Argentina, Chile and Peru. On the other hand, China had a trade surplus with Mexico, Columbia and Panama. Panama served as an *entrepôt*, a considerable portion of its imports from China was subsequently re-exported to other Latin American countries.

In the early years of the twenty-first century, China's imports from Latin America increased substantially (see Tables 1 and 2). From 2000 to 2003, China's imports from Latin America increased to 80.9%, 23.9%, 24.4% and 80.3%, respectively, and Latin America's share of China's imports rose from 1.8% in 1999 to 2.98% in 2003.

In 1999, the growth rate of China's heavy industries surpassed that of its light industries for the first time in its era of economic reforms and opening to the external world, indicating the beginning of China's second phase of expansion in heavy industries.⁴ Investment had been flowing to heavy industries such as coal, automobile, iron and steel, petrochemicals and machinery, paving the way for the above-average growth rates in the heavy industrial sectors. It was expected that this trend would continue for at least 10 years, following the precedents of Japan and South Korea in the previous century. As China lacked the natural resources in support of its second phase of heavy industrialization, it had to secure their supply through approaching new sources, and resource-rich Latin America would be able to export more to China in the foreseeable future. Iron and steel, soybeans and related products, iron ore, copper, timber, fish products and sugar were the major items of China's imports from Latin America. These items will continue to have a strong demand in the China market.

Trade began to pick up in the 1990s (see Tables 1 and 2). In May 1990, the then PRC President Yang Shangkun paid a state visit to

⁴In the 1950s, the PRC adopted a planned economy and accorded priority to the development of heavy industries. In 1979, China under Deng Xiaoping began its economic reforms. It moved toward a market economy and gave priority to an export-orientated development strategy depending on labor-intensive consumer industries.

Table 1. China's Trade with South American Countries, 1991, 2001, 2011–2015 (US\$ million)

Country	1991			2001			2011			2012		
	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total
Argentina	51.72	305.45	357.17	573.70	1,281.03	1,854.73	8,502.51	6,256.83	14,759.34	7,869.26	6,560.93	14,430.19
Bolivia	4.46	—	4.46	7.74	9.52	17.26	384.54	273.45	657.99	351.92	324.08	675.99
Brazil	68.03	345.81	413.84	1,350.93	2,347.23	3,698.16	3,1836.63	52,394.49	84,231.12	33,419.56	52,329.40	85,748.96
Chile	94.20	106.99	201.19	814.78	1,303.46	2,118.24	10,816.73	20,568.56	31,385.29	12,599.45	20,626.67	33,226.12
Columbia	5.03	2.45	7.48	205.27	26.93	232.20	5,838.84	2,394.77	8,233.61	6,229.25	3,157.25	9,386.50
Ecuador	14.05	1.10	15.15	134.05	28.10	162.15	2,223.61	579.89	2,803.50	2,614.00	938.32	3,552.32
Guyana	—	—	—	12.41	2.37	14.78	132.61	14.53	147.14	199.52	26.08	225.60
Paraguay	16.72	19.82	36.54	72.10	2.83	74.93	1,248.05	44.49	1,292.54	1,335.79	47.84	1,383.64
Peru	31.31	294.41	325.72	176.52	498.02	674.54	4,653.28	7,856.71	12,509.99	5,332.48	8,466.35	13,798.83
Uruguay	10.51	118.13	128.64	188.95	95.53	284.48	2,001.53	1,413.42	3,414.95	2,413.27	1,911.22	4,324.49
Venezuela	32.74	6.17	38.91	443.35	145.77	589.12	6,521.892	11,738.22	18260.11	9,304.20	14,543.34	23847.54
Total	328.77	1,200.33	1,529.10	3,979.80	5,740.79	9,720.59	74,160.22	103,535.36	177,695.58	81,668.70	108,931.48	190,600.18
South America as a % of China's Total	0.46	1.88	1.13	1.50	2.36	1.91	3.91	5.94	4.88	3.99	5.99	4.93

Argentina	8,750.43	6,085.77	14,836.20	7,679.83	5,246.94	12,926.77	8,805.11	5,717.48	14,522.58
Bolivia	531.47	275.77	807.24	705.94	492.57	1,198.51	568.85	443.83	1,012.67
Brazil	35,895.47	54,299.12	90194.59	34,890.13	51,653.22	86,543.36	27,412.23	44,089.36	71,501.58
Chile	13,105.47	20,707.69	33,813.15	13,017.50	20,985.88	34,003.38	13,290.32	18,438.96	31,729.29
Columbia	6,826.04	3,620.27	10,446.31	8,043.33	7,598.89	15,642.22	7,580.79	3,545.14	11,125.93
Ecuador	2,966.85	775.26	3,742.11	3,245.14	1,064.51	4,309.65	2,891.42	1,238.45	4,129.87
Guyana	160.14	21.13	181.27	12.94	0.01	12.95	14.44	0.01	14.44
Paraguay	1,356.50	60.67	1,417.17	1,396.24	55.63	1,451.87	1,267.97	41.78	1,309.75
Peru	6,188.84	8,408.06	14,596.90	6,100.85	8,140.87	14,241.72	6,354.97	7,949.92	14,304.89
Uruguay	2,323.60	2,466.42	4,790.02	2,458.49	2,629.09	5,087.58	1,960.57	2,410.54	4371.11
Venezuela	6,064.50	13,120.10	19,184.60	5,657.42	11,320.05	16,977.48	5,315.77	6,777.71	12,093.49
Total	84,169.31	109,840.26	194,009.56	83,207.81	109,187.66	192,395.49	75,462.44	90,653.18	166,115.60
South America as a % of China's Total	3.81	5.63	5.02	3.55	5.57	4.47	3.32	5.40	4.20

Note: “—” means that the figure is unknown, unavailable or negligible.

Sources: National Bureau of Statistics of China, *China Statistical Yearbook* (1993, 2003, 2012–2016). Available at <http://www.stats.gov.cn/english/statisticaldata/AnnualData/>.

Table 2. China's Trade with Central American and Caribbean Countries, 1991, 2001, 2011 and 2015 (US\$ million)

Country	1991			2001			2011			2015		
	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total
Bahamas	—	—	—	34.77	0.02	34.79	550.14	62.90	613.04	1,585.37	24.37	1,609.74
Dominica	3.93	—	3.93	87.60	0.90	88.50	26.49	0.40	26.89	30.76	0.65	31.41
Costa Rica	—	—	—	63.10	26.51	89.61	884.52	3,844.03	4,728.55	1,330.68	825.96	2,156.64
Cuba	224.40	201.65	426.05	331.44	114.05	445.49	1,043.65	904.05	1,947.70	1,886.37	330.00	2,216.38
Curacao	0.71	0.01	0.72	46.54	—	46.54	20.09	0.12	20.21	27.61	0.14	27.75
Dominican Republic	9.51	—	9.51	38.21	0.22	38.43	967.39	286.88	1,254.27	1,557.43	208.01	1,765.44
Guatemala	10.88	0.23	11.11	162.92	0.21	163.13	1,253.97	23.34	1,277.31	2,052.66	201.10	2,253.77
Haiti	—	—	—	14.45	0.03	14.48	303.64	7.37	311.01	434.22	10.47	444.69
Honduras	4.53	0.28	4.81	64.84	0.11	64.95	421.85	146.68	568.53	853.79	35.49	889.28
Jamaica	5.06	0.03	5.09	85.14	33.93	119.07	370.91	3.97	374.88	625.37	31.31	656.68
Mexico	86.25	148.70	234.95	1,790.22	761.28	2,551.50	23,975.88	9,368.58	33,344.46	33,791.76	10,027.52	43,819.27
Nicaragua	0.78	—	0.78	34.55	0.09	34.64	422.03	24.37	446.40	666.25	34.73	700.98
Panama	87.33	0.57	87.90	1,239.63	1.95	1,241.58	14,555.81	42.86	14,598.67	8,518.88	315.21	8,834.10
Puerto Rico	3.14	2.45	5.59	75.57	17.43	93.00	557.10	1,043.08	1,600.18	765.35	883.98	1,649.33
Saint Vincent and Grenadines	—	—	—	13.08	—	13.08	77.94	0.02	77.96	37.12	0.05	37.17
El Salvador	5.06	0.23	5.29	99.59	0.43	100.02	449.99	6.38	456.37	726.69	53.76	780.45

Suriname	2.16	—	2.16	12.64	4.08	16.72	136.18	15.90	152.08	199.21	50.85	250.05
Trinidad and Tobago	4.03	4.28	8.31	34.94	0.07	35.01	286.56	340.11	626.67	478.31	39.21	517.52
Other Countries (Regions) in Central America	—	—	—	1.15	0.09	1.24	1,254.94	11.80	1,266.74	1,066.33	70.65	1,137.00
Total	447.77	358.43	806.20	4,230.38	961.40	5,191.78	47,559.08	16,132.84	63,691.92	56,634.16	13,143.46	69,777.65
Central America as a % of China's Total	0.62	0.56	0.59	1.59	0.39	1.02	2.51	0.93	1.75	2.49	0.78	1.77

Note: “—” means that the figure is unknown, unavailable or negligible.

Sources: National Bureau of Statistics of China, *China Statistical Yearbook* (1993, 2003, 2012 and 2016). Available at <http://www.stats.gov.cn/english/statisticaldata/AnnualData/>.

Mexico, Brazil, Uruguay, Argentina and Chile; Yang was the first Chinese head of state to visit Latin America. In 1992, then Chinese Premier Li Peng went to Brazil to attend the United Nations Conference on Environment and Development. In November 1993, the then President Jiang Zemin visited Cuba and Brazil. Jiang again visited Chile, Argentina, Uruguay, Cuba, Venezuela and Brazil in 2001. In November 2004, President Hu Jintao too visited Brazil, Argentina, Chile and Cuba. These visits revealed China's priorities in Latin America. Today, China enjoys "strategic partnerships"⁵ with Brazil, Argentina, Venezuela, Mexico and Peru.⁶

This chapter intends to examine the role and significance of Latin America in China's foreign policy framework summarized as the "peaceful rise" strategy (see below). It attempts to analyze issues concerning Sino-Latin American economic relations, including trade, the impact of the Free Trade Area of the Americas (FTAA) and investment. Diplomatic competition with Taiwan is also considered because, in the eyes of Beijing, this is an important aspect of Sino-Latin American relations. Finally, it considers China's multilateral approach to the region.

Traditionally, Chinese literature divided the Americas into North America (from Greenland to Panama) and South America (all countries south of Panama). This division actually split Latin America. In the twenty-first century, Chinese literature in English tends to divide the Americas into North America (the U.S. and Canada), and Latin American and Caribbean countries.⁷ In this chapter, "Latin America"

⁵ In 1996, China and Russia established a strategic partnership which was meant to enhance cooperation and promote multipolarity. Chinese leaders emphasized that the strategic partnership was not an alliance, and was not directed against any third country. Since then, China has established strategic partnerships with a number of major countries.

⁶ Zhang Mingde, "Sino-Latin American Rhythm", *Beijing Review* (2 December 2004), pp. 12–13.

⁷ See, for example, the official *China's Diplomacy* yearbook series edited by the Policy Research Office of the Ministry of Foreign Affairs and published by the Shijie Zhishi Chubanshe in Beijing. See also the titles of the articles in *International Understanding* and *Beijing Review* referred to above.

is used to cover Latin American and Caribbean countries. The focus of the discussion is actually on South America, though Central American and Caribbean countries are the important actors in China's diplomatic competition with Taiwan.

China's Foreign Policy Framework

Chinese leaders were acutely aware of China's backwardness at the end of the Cultural Revolution (1966–1976), and so they wanted to secure a peaceful international environment to concentrate on China's modernization program. Beginning in 1982–1983, Chinese leaders pursued what they called an independent foreign policy line of peace.⁸ In his report to the Fourth Session of the Sixth National People's Congress (NPC) on 25 March 1986, following the Chinese leadership's usual practice, Premier Zhao Ziyang provided a detailed account of the 10 principles guiding China's independent foreign policy line of peace.⁹ Besides reaffirming the general principles of defending world peace, opposing hegemonism, observing the Five Principles of Peaceful Coexistence¹⁰ and supporting the Third World, China also reiterated its position on arms control and disarmament as well as its open-door policy and support for the United Nations. As regards China's position of never establishing an alliance with any big power, the Chinese Premier further stated that China's relations with various countries would not be determined by their social systems and ideologies, and that China's position on various international issues would be guided by the criteria of

⁸ Joseph Y. S. Cheng, "The Evolution of China's Foreign Policy in the Post-Mao Era: From Anti-Hegemony to Modernisation Diplomacy", in Joseph Y. S. Cheng (ed.), *China: Modernisation in the 1980s* (Hong Kong: The Chinese University Press, 1989), pp. 161–201.

⁹ *Ta Kung Pao*, 14 April 1986.

¹⁰ The Five Principles of Peaceful Coexistence were jointly initiated by China, India and Burma in 1953–1954; they were to apply to relations among countries with different social systems. They are: respect for territorial integrity and sovereignty; non-interference in domestic affairs; equality and mutual benefits; and mutual non-aggression and peaceful coexistence.

defending world peace, developing friendship and cooperation among various countries and promoting international prosperity. Premier Zhao also stressed China's emphasis on various exchanges at the people-to-people level.

After Deng Xiaoping's death in early 1997, Jiang Zemin's statements on Chinese foreign policy repeatedly emphasized continuity and peace. The basic rationale for this continuity in Chinese foreign policy has been China's demand for a peaceful international environment to concentrate on economic development, as the Chinese leadership appreciates that the legitimacy of the Chinese Communist regime depends on its ability to improve the people's living standards. Striving for a peaceful international environment certainly involves establishing friendly relations with one's neighbors and avoiding conflicts with them. Advancing China's national interests by force and the threat of force will be very costly. These have probably been China's most important foreign policy objectives since 1982–1983, and it has been achieving relatively satisfactory results. From an idealistic point of view, Chinese leaders' conception of peace is more than an absence of war and violence; it is related to North–South issues and the elimination of social injustice arising from the gap between the rich and poor. Peace should be based on an equality of states, while hegemonism is seen as a threat to peace.¹¹

In view of China's still limited military and economic capabilities, especially relative to those of the U.S., a multipolar world in the twenty-first century would provide the most favorable environment for it to exert its influence in international and regional affairs as a major power. The Chinese leadership sees the predominance of the U.S. as the sole superpower in the world as unsatisfactory, both from an ideological and long-term national interest point of view.¹² The perception that the U.S. does not want to see a strong China and that

¹¹ Gerald Chan, "Chinese Perspectives on Peace and Development", *Peace Review*, Vol. 10, No. 1 (1998), p. 35.

¹² Richard Bernstein and Ross H. Munro, *The Coming Conflict with China* (New York: Alfred A. Knopf, 1997).

it wants to “contain” China has reinforced the above view.¹³ Chinese leaders therefore would like to work to facilitate the emergence and consolidation of multipolarity in the global power transfiguration in the present century.

The Chinese leadership prefers a multipolar world in which the major powers can develop friendly ties with each other and in which nonzero-sum games are the norm.¹⁴ Power blocs and security alliances tend to exacerbate tension and eventually limit the options of the major powers involved.¹⁵ Rapid economic growth is essential for China to maintain its major power status. China is still under acute pressure to catch up with the developed countries; diversified sources of natural resources, capital, technology, management know-how, etc. as well as a broad spectrum of partners for economic cooperation constitute part of Chinese leaders' preferred scenario. Strategic partnership provides the standard mode of behavior governing relations among major powers in a multipolar world.¹⁶ In contrast to the Five Principles of Peaceful Coexistence, strategic partnerships imply that

¹³Chinese media are very sensitive to comments in the U.S. advocating for the “containment” of China or suggesting that the rise of China will be a threat to the U.S. as it realizes that it is still three decades or so behind in terms of advanced technology.

¹⁴“China's New Path of Development and Peaceful Rise”, FBIS document CPP20041123000205. *Beijing Xuexi Shibao*, 23 November 2004; Shujie Peng and Yunfei Liu, “News Analysis: Partnership Promotes China's All-around Diplomacy”, *Xinhua*, 28 February 1999, FBIS-CHI-1999-0228, WNC: 0F7XOVK045Z03B (*Abbreviations*: FBIS — Foreign Broadcast Information Service. The document number associated with FBIS reports refers to the World News Connection (WNC) Document Number).

¹⁵Ding Gang, “Anti-China Undercurrent Exposes Cold War Posture”, *Renmin Ribao* (Beijing), 30 April 2004, FBIS-CHI-2004-0430, WNC: 0hx54ac015tapi; Gao Heng (ed.), *2020 Daguo Zhanlüe (Great Power Strategy in 2020)* (Shijiazhuang: Hebei Renmin Chubanshe, 2000).

¹⁶Joseph Y. S. Cheng, “The Sino-Russian Strategic Partnership in the Chinese Leadership's World View”, in Peter H. Koehn and Joseph Y. S. Cheng (eds.), *The Outlook for U.S.–China Security, Trade and Cultural-Exchange Relations Following the 1997–1998 Summits: Chinese and U.S. Perspectives* (Hong Kong: The Chinese University Press, 1999), pp. 85–110.

China looks upon itself as a major power and pursues the legitimate interests of one in a multipolar world.

In view of the Asia-Pacific financial crisis in 1997–1998 and China's increasing dependence on international trade, the Chinese leadership now places considerable emphasis on China's "economic security" including "energy security" and "food security". It is believed that because of the keen competition for markets and resources in the context of globalization as well as the enhancement of regionalism, the economic development of one individual country will be more vulnerable to the influence of external factors. Hence, the strengthening of coordination among governments concerned will become all the more essential. This implies that Chinese leaders will attempt to further develop China's dialogue and multilateral cooperation first with the major powers, its Asian neighbors and eventually with all countries in the world, including those in Latin America and Africa.¹⁷ The latter are now perceived as important suppliers of resources essential to the support of China's industrialization and expansion to potential markets.

China's joining the World Trade Organization (WTO) symbolizes China's response to globalization. There is an appreciation that isolation would only exacerbate China's backwardness. Despite the economic and political costs, China's policy-makers see no alternative but to accept world-wide competition according to the rules defined by the developed countries; China can only catch up with the developed countries through global competition. The ultimate challenge of engaging in global competition to the Communist Party of China (CPC)'s monopoly of power is not to be underestimated; multilateral diplomacy, especially multilateral economic diplomacy, will be more significant in China's foreign relations in the future.

The perception of a "China threat" in the post-Cold War international community and the danger of separatism, including that in Taiwan, are seen as two significant problems by the Chinese

¹⁷Ma Zhongyuan, "Zhongguo Zuochu 'Jingji Anquan' Zhanlue Juece (China Has Developed a Policy Concerning an 'Economic Security' Strategy)", *The Mirror* (Hong Kong), Vol. 255 (1998), pp. 32–34.

leadership. Since the early 1980s, Chinese leaders have been trying to improve relations with China's neighbors to secure a peaceful international environment and avoid any attempt to "contain" China. While the leadership has been relatively successful so far, many challenges are yet to come, as it perceives that China's external environment has been deteriorating since around 2010. At the same time, the Taiwan question remains a serious source of friction in China's relations with many countries, especially after the Democratic Progress Party's electoral victory and the beginning of the Tsai Ing-wen administration in 2016.

Globalization and China's deepening integration with the international economy mean that the management of its international financial and trade risks has become a much more important and difficult task. China's impressive economic growth has increased its influence in the Asia-Pacific region, and to a lesser extent, in the global economy. This implies influence as well as responsibilities. In this connection, Chinese foreign policy researchers have been engaging in discussions of interdependence in international relations as well as the relationship among interdependence, international organizations and state sovereignty since the early 1990s.¹⁸ Despite the Chinese leadership's emphasis on state sovereignty, it became aware that some adjustments had to be made. As Samuel S. Kim pointed out, in the 1980s and 1990s, the Chinese authorities' approach to international organizations was one of "system-maintaining and system-exploiting", and the organizational learning derived from China's participation in international organizations involved some elements of cognitive learning while instrumental learning dominated. In the new century, China has gradually become more active

¹⁸ "Gouzhu Xin Shiji de Xinxing Guoji Guanxi (Building a New Type of International Relations for the New Century)", *Renmin Ribao*, 8 December 1997, p. 6; Shujie Peng and Yunfei Liu, "News Analysis: Partnership Promotes China's All-around Diplomacy", *Xinhua*, 28 February 1999, FBIS-CHI-1999-0228, WNC: 0F7XOVK 045Z03B; Wu Songzhi and Yi Shuguang, "Gongzhu Mulin Youhao Hezuo Guanxi (Building Together Co-operative Good Neighbourly Relations)", *Renmin Ribao* (Beijing), 22 April 1997.

in multilateral diplomacy and in international organizations.¹⁹ Instead of remaining aloof as in the 1970s and 1980s, it has been ready to coordinate with other major Third World countries to push for the building of a more equitable international economic order.²⁰ Major countries in South America, especially Brazil, Venezuela, etc., are important partners in this pursuit. China's more proactive position in the WTO ministerial meeting in Cancun in 2003 is a good example.

Some Chinese foreign policy experts consider that the global power configuration is in a confused state. They acknowledge that they are uncertain whether this confusion is an inevitable stage of transition from unipolarity to multipolarity, or if it reflects a process of the gradual disintegration of the world order. They observe a new dualism in the global power configuration, namely, that between Western and non-Western countries or between the established major powers and the newly emerging economies. This dualism, however, is limited by its double characteristics, i.e., while there are confrontations and competitions among the major powers, there are also cooperation, coordination and compromises among them.²¹

As China gradually transforms from a regional major power to a global major power and its core interests become global, Latin America's weight in its foreign policy framework increases. At the same time, Latin America also realized that its economic ties with the Asia-Pacific region and in particular with China was a major factor

¹⁹Samuel S. Kim, "China's International Organisational Behaviour", in Thomas W. Robinson and David Shambaugh (eds.), *Chinese Foreign Policy: Theory and Practice* (Oxford: Clarendon Press, 1994), p. 431.

²⁰"Chinese President Begins State Visit to Brazil", *People's Daily Online*, 12 November 2004. Available at http://english.people.com.cn/200411/12/eng20041112_163648.html; "China, Argentina to Establish Strategic Partnership", *People's Daily Online*, 17 November 2004. Available at http://english.people.com.cn/200411/17/eng20041117_164230.html; "Chinese Vice President's Visit Promote Ties with Latin America", *BBC Monitoring International Reports*, 5 February 2005.

²¹Ji Zhiye (eds.), *Guoji Zhanlue yu Anquan Xingshi Pinggu 2014/15 (Strategic and Security Review 2014/15)* (Beijing: Shishi Chubanshe, 2015), Preface, pp. 4-7.

supporting its high economic growth rates in its “golden decade” before the global financial crisis in 2008–2009.

Regional cooperation in Latin America improves. In 2011, the Community of Latin American and Caribbean States (CELAC) was established. In January 2014, CELAC met in Cuba and adopted a statement announcing the establishment of a China–CELAC Forum.²² Following the example of Sino-African relations, the first ministerial conference of the forum was held in Beijing in early January 2015, and this was presided by the Chinese Foreign Minister Wang Yi and attended by the presidents of China, Costa Rica, Ecuador, Venezuela and the premier of Panama, together with the foreign ministers and government representatives from 30 members states of CELAC.

The conference released a Beijing Declaration and the China and Latin American and Caribbean States Cooperation Program (2015–2019). President Xi Jinping indicated his expectation that the bilateral trade would almost double over the next decade to US\$ 500 billion, and pledged to invest US\$ 250 billion in the region in the same time frame. Trade between China and CELAC had grown from US\$ 126 billion in 2000 to US\$ 261.5 billion in 2013. Earlier in his visit to the region, Xi stated that the “three major engines” for China–CELAC cooperation would be trade, investment and financial cooperation, and the “six major areas” for cooperation would be energy and natural resources, infrastructural construction, agriculture, manufacturing industries, scientific and technological innovation, and information technology.²³

The rising importance of Latin America in China's foreign policy has been reflected by the increasing frequency of high-level contacts. In June 2013, President Xi Jinping visited Trinidad and Tobago, Costa Rica and Mexico. In July 2014, Xi further visited Brazil, Argentine, Venezuela and Cuba and collectively met leaders of eight

²²Shannon Tiezzi, “China's Push into ‘America's Backyard’”, *The Diplomat*, 8 February 2014. Available at <http://thediplomat.com/2014/02/china-push-into-americas-backyard/>.

²³Ji Zhiye (eds.), *op. cit.*, Chapter 17, pp. 376–380; “China Courts CELAC With Multi-billion Investments”, *DW*, 8 January 2015. Available at <http://www.dw.com/en/china-courts-celac-with-multi-billion-investments/a-18177089>.

Caribbean countries and those of eleven Latin American countries, respectively. In the latter visit, Xi proposed the establishment of a Sino-Latin American comprehensive cooperation partnership based on equality and mutual benefit, as well as common development.²⁴ At the end of 2014, Mexican President Pena Nieto, Chilean President Michelle Bachelet and Peruvian President Ollanta Humala participated in the APEC informal summit in Beijing and visited China.

To promote Sino-Latin American economic ties, even before the China–CELAC Forum ministerial conference in 2015, China had already launched a China–Latin American Industrial Cooperation Investment Fund with US\$ 10 billion committed for phase one, a Sino-Latin American Infrastructural Facility Projects Loan Fund amounting to US\$ 20 billion, a Sino-Latin American Cooperation Fund endowed with US\$ 5 billion, an Agricultural Cooperation Projects Fund, a Sino-Latin American Science and Technology Partnership Plan and a Sino-Latin American Young Scientists Exchange Plan.

China's approach to Latin America in the recent decade has been facilitated by the following factors. At the end of 2014, among the 33 countries in Latin America, 21 of their governments were formed by left-wing or center-left political parties, including Cuba which is ruled by the Cuban Communist Party. This group, in fact, included all the major countries in the region. They are therefore more attracted to China's economic development model and less resistant to the cultivation of close ties with China.

These governments have been inclined to perceive China as a counterweight to the U.S. and Brazil, and thus welcome Beijing's growing presence in the region. As observed by Victor M. Mijares, China's influence in Latin America has proven troublesome for Brazil: "while Beijing and Brasilia may be partners within the BRICS, the two countries see each other as rivals in Latin America. This ambiguous relationship with the regional power must be taken into account when trying to understand the relations between China and Latin America".²⁵

²⁴ Gabriel Dominguez, "Sino-Latin American Ties: 'An Asymmetric Relationship'", *DW*, 18 July 2014. Available at <http://www.dw.com/en/sino-latin-american-ties-an-asymmetric-relationship/a-17792820>.

²⁵ *Ibid.*

The Latin American experts of China recognized in 2015 or so that the left-wing and center-left governments in the region had to face severe political challenges which they had not encountered for more than a decade, and that the region might begin to enter a phase of right-wing and center-right governments.²⁶ The electoral victory of Mauricio Macri in Argentina in 2015 and the impeachment of Brazilian President Dilma Rousseff in 2016 may be signs of the years to come.

Latin American countries and CELAC have been actively developing closer relations with India, the ASEAN, Russia, South Korea and Turkey, as well as the African Union, the Arab League, the European Union and the BRICS group. This diplomatic diversification has been an important effort to develop CELAC and establish its institutional identity. Meanwhile, the restoration of U.S.–Cuban diplomatic relations in July 2015 and the U.S.'s redefinition of its relationships with Brazil and Mexico respectively represent a return to Latin America on the part of the Barack Obama administration.²⁷

While China's status and influence in the region will likely be maintained and even improve in the long-term, the change of governments in Latin America may result in potential setbacks. For example, the Argentinian President Mauricio Macri may abandon the arms purchase deal with China concluded by his predecessor Cristina Fernandez de Kirchner in February 2015 when she visited Beijing.²⁸

In mid-2016, Brazil's Interim President Michel Temer indicated that he would choose to emphasize the country's bilateral ties with Argentina and Mexico as well as make it a priority to restore the "traditional partnerships" with the U.S., Europe and Japan; his

²⁶Yang Jianmin, "2015–2016 Lamei Zhengzhi Xingshi:Zhengtian Niang Jubian (Political Situation 2015–2016: Political Dilemma of Leftist Governments and New Trends)", in Wu Baiyi and Liu Weiguang (eds.), *Lading Meizhou he Jialebi Fazhan Baogao 2015-2016 (Annual Report on Latin America and the Caribbean 2015–2016)* (Beijing: Social Sciences Academic Press (China), 2016), pp. 36–48.

²⁷Zhang Fan, "2015–2016 Lamei Guoji Guanxi: Duoyangxing, Lianxuxing yu Cuiruoxing Jiaozhi (Foreign Relations 2015–2016: A Combination of Diversification, Continuity and Fragility)", in Wu Baiyi and Liu Weiguang (eds.), *op. cit.*, pp. 84–102.

²⁸Jordan Wilson, *China's Military Agreements with Argentina: A Potential New Phase in China–Latin America Defense Relations*, Staff Research Report of U.S.–China Economic and Security Review Commission, 5 November 2015, pp. 1–19, especially, p. 5.

administration would likely place its cooperation with the other BRICS countries in a secondary place. Zhou Zhiwei, executive director of the Brazil Research Centre of the Chinese Academy of Social Sciences admitted that the political crisis could lead to a “backtrack” in the foreign policy of Brazil and affect its dedication to the BRICS mechanism in the short term.²⁹

Since the global financial crisis in 2008, China has emerged as the most important source of countercyclical finance during times of regional economic contraction. China's sovereign lending to Latin America amounted to US\$ 35.6 billion in 2010 and US\$ 29.1 billion in 2015; this sovereign lending was provided by the China Development Bank and the China Export–Import Bank. In 2015, China's sovereign lending was almost twice as much as the combined totals of all the Western multilateral development banks including the World Bank, the Inter-American Development Bank and the Latin American Development Bank.³⁰ Financing by the latter, in fact, has been in gradual decline in recent years. At the same time, in view of the economic downturn in the region, U.S. investment had been receding too as it sought better returns at home or elsewhere. In 2015, U.S. investors pulled out US\$ 700 million from Latin America.³¹

Western observers recognize the key differences between U.S. and Chinese investment trends. If a given country or industry offers a good return, U.S. investment will flow into that country or sector as decisions are made based on market fundamentals. Chinese investment is mainly driven by strategic considerations directed by the Chinese state rather than by purely market forces. Chinese state-owned enterprises

²⁹ “Brazil's Political Crisis Will Not Test BRICS Capability” *China — The Economic Times*, 13 June 2016. Available at <http://economictimes.indiatimes.com/news/economy/finance/brazils-political-crisis-will-test-brics-capability-china/article-show/52723979.cms>.

³⁰ Rebecca Ray, Kevin Gallagher and Rudy Sarmiento, *China–Latin America Economic Bulletin, 2016 Edition*, Boston: Boston University Global Economic Governance Initiative, March 2016, pp. 4–5.

³¹ “Latin America: China's Power Play Right under the U.S.”, *CNN*, 11 February 2016, p. 2. Available at <http://money.cnn.com/2016/02/11/news/economy/china-latin-america-billions-of-dollars-loans-investments/>.

(SOEs) are by far the most important source of outward foreign direct investment (OFDI), and it is estimated that two-thirds of Chinese OFDI came from SOEs, reflecting the significant role assumed by the Chinese state in Chinese foreign investment decisions.³²

The year 2016 has been designated as the China–Latin America Cultural Exchange Year, demonstrating the increasing prominence of cultural diplomacy in Chinese foreign policy as well as that of Latin America in China's foreign policy framework. As indicated by Table 3, Latin Americans' perceptions of China appear to be satisfactory and revealed some improvements in the 2007–2015 period. There were considerable fluctuations too, especially in the case of Brazil.

Table 3. Positive and Negative Perceptions of China Held by Latin Americans

Country	Latin Americans with Positive Perceptions of China (%)				Latin Americans with Negative Perceptions of China (%)			
	2007	2013	2014	2015	2007	2013	2014	2015
Argentina	30	54	40	53	31	22	30	26
Bolivia	—	58	—	—	—	19	—	—
Brazil	—	65	44	55	—	28	44	36
Chile	52	62	60	66	22	27	27	25
Colombia	—	—	38	—	—	—	32	—
Mexico	43	45	43	47	41	33	38	34
Peru	56	—	56	60	22	—	27	22
Venezuela	—	71	76	58	—	19	26	33
Unweighted Average	48.25	59.17	51	56.5	29	24.67	32	29.3

Note: Since 2007, PewGlobal Research Centre has been conducting a long-term series of opinion surveys among Latin Americans on their perceptions of China. However, the surveys do not cover all Latin American countries. Positive perceptions in this table include responses of “like China very much” and “like China a little”; and negative perceptions include responses of “dislike China very much” and “dislike China a little”.

Source: PewGlobal, Global Indicators Database. Available at <http://www.pewglobal.org/database/custom-analysis>.

³²Paul Coyer, “Undermining America While Washington Sleeps: China in Latin America”, *Forbes*, 31 January 2016, p. 2. Available at <http://www.forbes.com/sites/paulcoyer/2016/01/31/undermining-america-while-washington-sleeps-china-in-latin-america/#75405e426694>.

China's Latin American experts realize that there is still room for improvement. It appears that Africans rather than Latin Americans have better perceptions of China, but the latter have better perceptions of China than the people of the G-7 countries. According to the surveys of *Latinobarometro* in 2009, 58% of the Latin Americans had good perceptions of China, but the proportions for the U.S., Spain, Europe and Japan were 74%, 65%, 63% and 63%, respectively. Regarding individual Latin American countries, with the exceptions of Costa Rica and Panama, more people in 16 Latin American countries had good perceptions of Japan than China, and the popularity of the U.S. was far ahead than that of China.³³

China's Rise

Paul Kennedy discussed in his book *The Rise and Fall of the Great Powers* the emergence of China as a major power. He indicated that China was the poorest among the world's major powers and at the same time probably located in the worst strategic position. He believed that two conditions would be essential to China's rise as a major power, namely, a visionary strategy formulated by the Chinese leadership and sustainable economic growth.³⁴

At the end of 2003, the Chinese leadership then began to articulate the concept of China's "peaceful rise" publicly. On 23 December 2003, in commemoration of the 110th anniversary of Mao Zedong's birthday, Hu Jintao, General Secretary of the CPC Central Committee, stated that China had to "insist on following the development path of a peaceful rise".³⁵ About two weeks earlier, in a speech delivered at Harvard University in the U.S., Premier Wen Jiabao elaborated on the concept as follows:

In expanding our opening up to the external world, we, at the same time, have to adequately and more self-consciously rely on our

³³ *Latinobarometro 2010*, Santiago, Chile, p. 13. Available at <http://www.latinobarometro.org/latContents.jsp>.

³⁴ Paul M. Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987), pp. 447–457.

³⁵ *Renmin Ribao*, 27 December 2003.

own institutional innovations; rely on our developing and expanding domestic market; rely on transforming the huge savings of the residents into investment; and rely on the raising of the nation's quality and the progress of science and technology to resolve our resources and environmental problems. The gist of China's development path of a peaceful rise lies in the above.³⁶

Chinese academics in the international relations field consider China's "peaceful rise" as a long-term project. It focuses on the status and function of China in the international system and world market, including its adaptability, integration, influence and creativity.³⁷ Through active participation in the processes of economic globalization, China has captured the opportunity to rise as a major power. The contribution of China's economic growth to the world economy lies in the following areas: first, it leads to the stable improvement of the living standards of China's 1.382 billion population; second, it constitutes important momentum pushing for Asia's economic development, and in return serves as a positive factor in global economic development; third, it facilitates the optimum allocation of resources in the world market through China's participation in the international division of labor; and finally, it helps China assume a constructive role in the international economic mechanisms, and as a linkage between developed countries and developing countries.

The rapid increase of the weight of China's economy in the world market generated some maladjustment between the external world and the China market in the beginning of the new century, including the exchange rate of the Renminbi, China's huge trade surpluses, large-scale relocation of industries to China and so on. Chinese leaders pledged to tackle these issues when China's economic structure stabilized and when China could absorb the shock of these adjustments.³⁸

³⁶ *Renmin Ribao*, 12 December 2003.

³⁷ Zhang Youwen and Huang Renwei, "Daolun: Heping Jueqi — Qiangguo Ding Mubiao Tuidong Shijie Gongying (Introduction: Peaceful Rise — Major Power Sets the Objective Pushing for a Global Win-Win Scenario)", in Zhang Youwen et al (eds.), *2004 Zhongguo Guoji Diwei Baogao (China's International Status Report 2004)* (Beijing: Renmin Chubanshe, 2004), pp. 1–15.

³⁸ *Agence France-Presse*, 27 November 2000; *Beijing Xuexi Shibao*, 23 November 2004.

They also indicated that investment outflow from China would gradually accelerate. This investment outflow was aimed at opening up markets for China's exports including the securing of access to advanced technology, management, etc. through acquisitions and the establishment of brand names, wholesale and retail networks, and so on. It was also directed at securing a stable and expanding supply of energy resources and raw materials in support of China's industrialization. Latin American countries rich in resources were expected to attract a substantial share of the latter Chinese investment.

The Chinese leadership has been acutely aware of the danger of the spread of the "China threat" perception. They understand that the rise of a new major power will probably be perceived as a challenge and threat by the existing major powers. Chinese leaders have been concerned that such perception will lead to the "containment" of China. In fact, they believe that the U.S. has been engaging in such "containment", which in fact is the main cause of the conflicts in Sino-American relations.³⁹ Chinese academics explain that China's "peaceful rise" involves a redefinition of national interest and national security by the Chinese authorities as common interest and a new concept of security.⁴⁰

According to this new concept of security, China's security is not an isolated issue; it is mutually interdependent with that of the Asia-Pacific

³⁹Thomas J. Christensen, "Posing Problems without Catching Up: China's Rise and Challenges for U.S. Security Policy", *International Security*, Vol. 25, No. 4 (2001), pp. 5–40; "Containing China", *The Economist*, 29 July 1995, pp. 11–12; David Shambaugh, "Containment or Engagement of China: Calculating Beijing's Responses", *International Security*, Vol. 20, No. 4 (1996), pp. 180–209.

⁴⁰Sa Benwang, "Woguo Anquan de Bianhua Ji Xin de Pubian Anquanguan de Zhuyao Tezheng (The Change in Our Country's Security and the Main Features of the New Concept of Universal Security)", *Shijie Jingji yu Zhengzhi Luntan (World Economics and Politics Forum)*, Vol. 1 (2000), pp. 50–52; Chu Shulong, "Lengzhanhou Zhongguo Anquan Zhanlüe Sixiang de Fazhan (The Development of China's Thinking about Security Strategy after the Cold War)", *Shijie Jingji yu Zhengzhi Luntan (World Economics and Politics Forum)*, Vol. 9 (1999), pp. 11–15; Tao Deyan and Zhang Binyang, "Zhuanjia Zonglun Zhongguo Heping Jueqi Jinglüe (Experts Discuss China's Peaceful Rise Strategy)", *Xinhuanet*, 7 April 2004. Available at http://news.xinhuanet.com/herald/2004-04/07/content_1406137.htm.

region and indeed of the entire global community. This new concept of security involves non-traditional security and human security, and in fact can serve as the basis for cooperation between China and the other major powers. In this connection, Chinese leaders would attempt to establish a new framework for international relations, but they understand that they only have limited support. It is hoped that this new framework would expand the strategic space for China's "peaceful rise".⁴¹ To secure another 20 to 50 years for China to develop its economy and to catch up with the advanced countries is the most important strategic objective to facilitate China's "peaceful rise". China therefore is willing to make concessions to secure this strategic space. This is probably most conspicuous in Sino-American and Sino-Japanese relations; indeed, Chinese leaders have often been criticized by the domestic intelligentsia for being weak in dealing with these two countries.

In a speech at the Institute of International Relations in Moscow on 28 May 2003, and in another speech on the following day addressing the Moscow summit meeting of the Shanghai Cooperation Organization, the then Chinese President Hu Jintao explained China's position. Hu stated:

China advocates the establishment of a new concept of security, building security through mutual trust, and promoting co-operation through dialogue. Military measures may win temporary victory, but will not bring long-lasting security. History and reality repeatedly demonstrate that force cannot establish peace, and power cannot ensure security. Only through the enhancement of mutual trust, consultation on the basis of equality and broad co-operation can universal and lasting security be realized.⁴²

⁴¹ "China's Peaceful Rise: A Road Chosen for Rejuvenation of a Great Nation", *Xinhuanet*, 19 February 2004. Available at http://news.xinhuanet.com/english/2004-02/19/content_1321769.htm; "China's Road of Peaceful Rise", *Xinhua*, 23 April 2004 FBIS-CHI-2004-0423, WNC: 0hws5wm046iiof; Evan S. Medeiros, "China Debates Its 'Peaceful Rise Strategy'", *Yale Global Online*, 22 June 2004. Available at <http://yaleglobal.yale.edu/display.article?id=4118>.

⁴² *Renmin Ribao*, 29 and 30 December 2003.

This approach arguably is the strategy of the weak, and is in line with the Chinese leadership's objective of gaining time. Chinese leaders typically appeal for overcoming differences through dialogue and negotiation. As an implicit critique against U.S. unilateralism and Samuel P. Huntington's thesis of "the clash of civilizations",⁴³ the Chinese public information machinery preaches mutual respect, exchange and learning among various civilizations, different social systems and development paths while engaging in peaceful competition. In line with China's relative weakness, Chinese leaders have been eager to promote multipolarity and the strengthening of the role of the United Nations.

Within this framework, the Chinese leadership considers that priority should go to China's neighbors. According to Chinese official materials, the major powers are considered the key to foreign policy, while developing countries are its foundation. As China's influence rises in the international community, it will seek to strengthen its foundation, and relations with Latin America and Africa will assume greater significance.

Chinese leaders want to distinguish China's emergence as a major power from that of Germany before First World War and Japan before Second World War. They emphasize the themes of peace and development, arguing that China needs a peaceful international environment for its modernization and that China embraces globalization, as symbolized by its joining the WTO in 2001. The high mobility of factors of production facilitated by globalization was perceived to have provided the strategic opportunities for China to exploit the advantage of its abundant cheap labor supply adopting an exports-oriented development strategy and emerging as "the workshop of the world". This development posed China as a keen competitor to many developing countries which also depend on labor-intensive exports — Mexico in Latin America is a good example. Chinese academics, however, pointed out that the processes of the international division of labor including the international intra-industry division of labor are

⁴³Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon and Schuster, 1996).

controlled by multinational corporations. China has been eager to move up the value-added production chain and develop more technology-intensive industries. Moreover, it also wants to establish its own brand names, its own Sony-type or Samsung-type of enterprises, and its own international distribution networks. Otherwise, China's share of the profits would remain small. At the same time, Chinese leaders try to identify China with the Third World and suggest that all developing countries still have a long way to go to secure relative economic autonomy.

The Chinese leadership has been aware that developing countries perceive the attraction of foreign investment by China as being at their expense.⁴⁴ It is apparent that China has recognized the contribution of foreign investment to its modernization. Arguably, at its present stage of development, China values more the advanced technology, management and access to the international market brought by foreign investment. At the same time, China has attempted to maintain a balance between increasing foreign investment and avoiding foreign control, while also showing an awareness that competition for foreign investment among China's provinces has been counterproductive. China has been careful in protecting its strategic sectors, and the central government has been keen to direct foreign investment, at least official development assistance, to the interior provinces. In the twenty-first century, China has also been encouraging outward investment from China, to secure supply of energy and industrial raw materials, and to enhance its market access.

As economic globalization progresses and international competition intensifies, regional integration also accelerates. Since China's priority lies in the Asia-Pacific region, its cooperation with ASEAN and the ASEAN+3 framework has been the most important regional integration process to China. The development of the European Union is also perceived by the Chinese authorities in a positive light in promoting multipolarity. Similarly, regional integration among developing countries is supported because it enhances their bargaining

⁴⁴Joseph Y. S. Cheng, "Sino-ASEAN Relations in the Early Twenty-first Century", *Contemporary Southeast Asia*, Vol. 23, No. 3 (2001), pp. 434-437.

power and facilitates the emergence of multipolarity. In the WTO ministerial conference in Cancun, Mexico, in September 2003, China assumed an active role in the Group of 20 in support of the leadership of Brazil, India and South Africa in fighting for the interests of the developing countries. In the new century, Chinese leaders have been taking greater interest in the gap between the North and South as well as in South–South cooperation in related international organizations and forums.

As China's economy grows, it adopts a diplomatic activism commensurate with its status as the second largest economy in the world since 2010, the largest exporter of goods and probably the largest economy in the world in 2016 in terms of purchasing power parity. China has begun to champion a new type of international relations based on "win-win cooperation" or in the frequent expression of President Xi Jinping on the building of "a community of common destiny". This new approach is in line with the trend of economic globalization and the demand for equality and justice in the international economic order among developing countries. It is in the context of this new approach that China has been engaging Latin America through the ministerial meeting of the China–CELAC Forum and various loan schemes discussed in the previous section. Latin America naturally is an important target in China's all-inclusive diplomacy and embrace of a global network of partners.

Latin America's response to China's approach so far has been moderately satisfactory. As stated by President Luis Guillermo Solís Rivera of Costa Rica, the then current chairman of CELAC at the inaugural ministerial meeting of the China–CELAC Forum, China's outreach to this region is helping to shorten the geographical distance between the two sides and that China's vision for a Silk Road Economic Belt and 21st Century Maritime Silk Road is a boon to Latin America and Caribbean countries, as Beijing may be willing to consider funding the planned infrastructural projects linking countries in the Western Hemisphere.⁴⁵

⁴⁵ Wu Baiji, "Latin America Is the Latest Focus of China's Major-Power Diplomacy", *China–US Focus*, 21 January 2015. Available at <http://www.chinausfocus.com/foreign-policy/latin-america-is-the-latest-focus-of-chinas-major-power-diplomacy/>.

Latin America in China's Foreign Policy

A survey of China's media reports in the beginning of the century demonstrates the Chinese leadership's perception of the Latin America and the Caribbean region then.⁴⁶ These reports tend to show that political patterns and development models were changing and adjusting. Even so, social and political tensions were said to have been reduced, although social contradictions remained. For example, in 2003, China's media reported relatively smooth changes of government in Brazil, Ecuador, Argentina and Paraguay and that these new governments adopted pragmatic policies to maintain or restore domestic and international confidence. Even so, China's media also reported economic and social contradictions that emerged in the development process. The poor people in Peru and Ecuador were shown to be involved in anti-government protests, while in Bolivia in 2003, protests led to the fall of the president. The Chinese media also observed that some traditional political parties were in decline, while some center-left and independent parties had been strengthening and had won national elections. In fact, these parties captured governments in many Latin American countries and stayed in power for a decade and more.

The Chinese media noted that the Latin American economies had been recovering, but reforms still encountered many difficulties. Most countries adopted tight fiscal policies in order to improve the macro-economy and restore market confidence. Brazil and Argentina had been recovering from their earlier financial crises. But foreign debt in Latin America remains substantial; tight deflationary policies suppressed consumption and investment. Economic growth was still low, and the room for maneuver in economic structural adjustments and institutional reforms was limited.

Multilateral diplomacy of the Latin American countries was perceived to be active, with Brazil playing a prominent leadership role. Regional integration demonstrated new momentum. The Chinese media were pleased to report that on issues relating to Iraq, WTO

⁴⁶ Policy Research Office, Ministry of Foreign Affairs, the People's Republic of China (eds.), "The International Situation in 2003", *Zhongguo Waijiao 2004 (China's Foreign Affairs 2004)* (Beijing: Shijie Zhishi Chubanshe, 2004), pp. 17–18.

and negotiations on the FTAA, many Latin American countries were willing to oppose the U.S. position. But cooperation remained the predominant aspect of U.S.–Latin American relations; both parties accorded priority to this cooperation based on self-interest. Latin American countries were seen to be interested in broadening their diplomatic horizon through developing better relations with the European Union, the Asia-Pacific region and the major countries in the developing world. Mexico, Chile and Peru actively participated in the Asia-Pacific Economic Cooperation (APEC) forum, and they also planned to reach bilateral free trade agreements with selective Asian countries. Brazil's role within the Group of 20 in WTO negotiations and the establishment of a dialogue forum at the foreign minister-level with India and South Africa were interpreted as positive trends in international relations. Similarly, integration within the MERCOSUR and its negotiations with the Andean Community to form a Free Trade Area of South America as well as the building of a single market in the Caribbean region were supported by the Chinese authorities.

In the early years of the PRC, there was limited interest in Latin America. It was said that at a meeting in the late 1950s, Chairman Mao Zedong pointed to a map of the world and asked if there were researchers studying the two large regions of Africa and Latin America in China.⁴⁷ The Cuban revolution in 1959 naturally prompted Chinese leaders to take a new look at the revolutionary movements on the other side of the Pacific. In the early 1960s, researchers in China mainly concentrated on Latin America's revolutionary movements, agrarian reforms and U.S. intervention in the region. Today Chinese researchers on Latin American affairs began to focus on projects including Latin American development prospects in the twenty-first century, economic reforms in Latin America, Latin America's modernization path in the twentieth

⁴⁷ Jiang Shixue, "Latin American Studies in China: An Overview," Beijing: Institute of Latin American Studies, Chinese Academy of Social Sciences, 2003, p. 3. Available at <http://ilas.cass.cn/ESPANA/TRABAJOS/TEMA%20GENERAL/LAstudies.htm>.

century, Mexico after the fall of the Institutional Revolutionary Party (PRI), development of science and technology in Latin America, social security reforms in Latin America and ethnic issues in Latin America. There were very few media comments on radical and self-proclaimed Maoist groups.

The only research institute in China devoted to Latin American studies then was the Institute of Latin American Studies under the Chinese Academy of Social Sciences. There was also a small group of researchers studying Latin America in the Division of the Americas at the Institute of Contemporary International Relations in Beijing. Scattered researchers in this field worked in Beijing University, Fudan University (Shanghai), Nankai University (Tianjin) and Hubei University.⁴⁸ The Chinese authorities attempted to develop Macau as China's window to the Portuguese-speaking world — in Latin America, Brazil — and a number of international forums were held on this theme. But the academic resources in Macau have been limited.

The development experience of Latin America was of some relevance to China then because the academic community in China was concerned with the country entering into a complicated and challenging stage of development. In 2003, per capita GDP in China amounted to US\$ 1,090. Chinese academics were aware of the historical experiences of many countries in the world that after reaching the level of US\$ 1,000 in per capita GDP, a number of phenomena had emerged including the deepening of social stratification, expansion of the middle class and its influence, the rise and development of various lines of cultural thought, exacerbation of the widening gap between the rich and poor, and the like. These phenomena in turn had led to political turmoil, sharpening of social contradictions, rising tension among ethnic groups, and so on. The lessons drawn were that in this stage of development, the risks of

⁴⁸ Jiang Shixue, "Latin American Studies in China: An Overview," Beijing: Institute of Latin American Studies, Chinese Academy of Social Sciences, 2003. Available at <http://ilas.cass.cn/ESPANA/TRABAJOS/TEMA%20GENERAL/LAstudies.htm>.

high disharmony in society would be considerable. Chinese academics were eager to learn from the experiences of various countries in dealing with such risks.⁴⁹

They observed that since the 1970s, economic growth in a number of countries and regions including the “four little dragons of Asia”, Malaysia and Thailand further accelerated after their per capita GDP had surpassed the US\$ 1,000 level. But in other countries such as Brazil, Argentina, Mexico, Indonesia and the Philippines, economic development stagnated after their per capita GDP had reached the US\$ 1,000 mark. Argentina, for example, reached the significant mark in 1961, but its per capita GDP growth rate was only around 1.9% in the following four decades and more. The situations in Brazil and Mexico were similar. They too reached the significant level in the 1970s, but subsequent economic growth had remained low, with average annual rates of about 3%. Chinese scholars were especially concerned with the expanding gap between the rich and poor. They noted that after reaching the per capita GDP level of US\$ 1,000, the respective Gini coefficients were between 0.35 and 0.45 in Brazil, Mexico and Argentina. Then the situation further worsened, and their Gini coefficients rose to the range of 0.45–0.6. At that time, the Gini coefficient in China was approaching 0.47,⁵⁰ which obviously was a dangerous level, especially in view of China's claim to be a socialist country. Moreover, with corruption rampant, Chinese

⁴⁹ Xiao Guoliang and Sui Fumin, “Chuyu Shizilukou de Zhongguo Jingji — 2005 Nian Hongguan Tiaokong Zhengce Fenxi (Chinese Economy at the Crossroads — Policy Analysis of Macro-Economic Adjustments and Control in 2005)”, in Governance in Asia Research Centre, City University of Hong Kong and Centre for Public Policy Study, Chinese Academy of Social Sciences (eds.), *Zhongguo Gonggong Zhengce Fenxi 2005 (Analysis of Public Policies of China 2005)* (Hong Kong: City University of Hong Kong Press, 2005), pp. 35–39.

⁵⁰ Gu Yan and Yang Yiyong, “Shouru Fenpei Lingyu de Xin Qingkuang, Xin Tedian jiqi Duice (New Trends in Income Distribution and Related Policy Recommendations)”, in Xin Ru, Xueyi Lu, Peilin Li, Ping Huang and Jianhua Lu (eds.), *Shehui Lanpishu 2005 Nian: Zhongguo Shehui Xingshi Fenxi yu Yuce (Bluebook of China's Society Year 2005: Analysis and Forecast on China's Social Development)* (Beijing: Social Sciences Academic Press, 2004), pp. 220–226.

scholars were concerned that China should not repeat Latin American mistakes.

In the beginning of the twenty-first century, Latin America was also seen to be important to China for a number of pragmatic reasons.⁵¹ In the first place, as a developing country, China found it ideologically and politically necessary and advantageous to stand alongside Latin America in the Third World's struggle for the establishment of a new international economic and political order. Further, in order to diversify China's export markets and sources of imports, China valued the development of economic relations with Latin America. China was eager to secure access to the rich natural resources in Latin America to support its rapid economic growth. In the process of moving toward the next stage of economic development, China also hoped to be able to learn from the experiences of some Latin American nations. Finally, the Taiwan issue remained conspicuous in China's approach to Latin America (see Section "Competition with Taiwan"). In mid-2005, Taiwan maintained formal diplomatic relations with 26 countries, and 12 of them were in Central and South America.⁵²

Influenced by the Maoist Third World struggle perspective, Chinese researchers considered that in the process of globalization, developed countries, especially the U.S., and international financial institutions had been able to impose constraints on the economic policy-making of several Latin American countries, thus compromising their economic sovereignty. Speculative flows of international capital exacerbated the risks of financial crises in the region, while rapidly expanding multinational corporations would likely prevail over the national industries of Latin American countries. Social

⁵¹ Jiang Shixue, "Sino-Latin American Relations: Perspectives on the Past and Prospects for the Future", Beijing: Institute of Latin American Studies, Chinese Academy of Social Sciences. Available at <http://ilas.cass.cn/ESPANA/TRABAJOS/RELACIONES%20DIPLOMATICAS/perspective.htm>.

⁵² The twelve countries are Costa Rica, Guatemala, Paraguay, St Vincent and the Grenadines, Belize, El Salvador, Haiti, Nicaragua, Dominican Republic, Honduras, Panama, and Saint Christopher and Nevis; see Ministry of Foreign Affairs, Taiwan. Available at <http://www.mofa.gov.tw/webapp/ct?xItem=11624&ctNode=123>.

problems in the continent would deteriorate, and its cultures would be “Americanized”. There was a danger that Latin America would be further marginalized and pushed to the periphery in the globalization process. In the eyes of these Chinese scholars, Latin American countries therefore had to strengthen their solidarity and cooperation in order to protect their autonomy, and secure a more equitable way of integrating into the international economic system.

In line with China's rising international status and its “going out” strategy, China feels the need to expand international relations research and cultivate international relations personnel. In 2011, the ministry of education launched a country and regional research bases construction plan. Within two years, there emerged 23 new regional research bases and 14 new country research bases; and in 2015, the ministry of education released the “Temporary Methods on the Cultivation and Construction of Country and Regional Research Bases”.

The rapid development of China–Latin American relations has generated an explosive demand for Spanish-speaking experts. From 2000 to 2015, almost 60 tertiary institutions in China launched programs of Spanish language specializations, an increase of 400%; at the same time, tertiary students pursuing Spanish language specializations rose by 23–28 times. The reason for this expansion had been labor market demand. As China's enterprises develop the merchandise and service markets in Latin America, they need staff members with a good command of the Spanish language and a good knowledge of law, culture and market conditions in Latin America. Now Spanish-speaking graduates tend to work in the business sector instead of joining the civil service, the media and tertiary institutions.

In November 2015, the National Overseas Students Foundation Committee called a conference among the responsible persons of the Spanish/Portuguese language departments in universities and Latin American research institutions at Anhui University, and discussed the increase in the number of students sent to study in Latin America, the enhancement of the cultivation of talents in Latin American studies and related languages, and the promotion of exchanges between tertiary institutions in China and those in Latin America. The Foundation

Committee also approved the setting up of a program to cultivate legal experts in the Spanish language field.⁵³

Chinese leaders want to see a reduction of Latin America's dependence on the U.S. In this connection, they welcome Latin America's trade diversification and multilateral diplomacy. In terms of trade in the beginning of the twenty-first century, the European Union became the second largest trade partner of Latin America and its largest aid donor. Central American countries were able to send over 90% of their exports to the European Union tariff free. In March 2000, Mexico and the European Union concluded a bilateral free trade agreement which was the first between the European Union and a Latin American country. They both hoped to secure market access to each other according to the conditions set for the members of the FTAA. In the beginning of the post-Cold War era, Russia had "withdrawn" from Latin America, but since 1996, the Russian government has indicated its interest to develop Russian–Latin American relations.⁵⁴ Such developments were seen as positive for reducing the region's dependence on the U.S.

In terms of multilateral diplomacy, Latin American countries noted the impressive economic growth in the Asia-Pacific region, and the latter valued the Latin American market. In this context, Mexico, Chile and Peru joined APEC in 1993, 1994 and 1998, respectively, and Columbia and Panama also expressed an interest to participate. In September 1999, 27 East Asian and Latin American countries held their first Senior Officials Meeting of the East Asia–Latin America Forum in Singapore. In March 2001, the first foreign ministers' conference of the forum was held in Santiago, Chile. China supports these moves.

⁵³Guo Cunhai, "Zhongguo Haiwai Xingxiang de Wenhua Goujian: Tiaozhan yu Yingdui (Constructing Chin's National Image from the Perspective of Cultural Promotion: Challenges and Suggestions)", in Wu Baiyi and Liu Weiguang (eds.), *op. cit.*, pp. 25–27.

⁵⁴Li Mingde, "Shiji Zhijiao de Lading Meizhou he Zhongla Guanxi Gaishu" (A General Summary of Latin America and Sino-Latin American Relations at the Turn of the Century)", in Mingde Li (ed.), *Lading Meizhou he Zhongla Guanxi — Xianzai yu Weilai (Latin America and Sino-Latin American Relations — Present and Future)* (Beijing: Shishi Chubanshe, 2001), pp. 13–15.

Regarding Sino-Latin American relations, Chinese researchers are very fond of the following quotations of Deng Xiaoping stated in 1988: "People are saying that the twenty-first century will be the Pacific era. ... I firmly believe that at that time there will also be a Latin American era, and I hope the Pacific era, the Atlantic era and the Latin American era will appear at the same time". He then went on to say: "China's policy is to develop and maintain good relations with Latin American countries, and make Sino-Latin American relations a model of South-South co-operation".⁵⁵

As Sino-Latin American relations have developed, Chinese leaders have tended to emphasize multilateral diplomacy and relations with regional organizations. Since the establishment of a political dialogue between China and the Rio Group in 1990, frequent meetings have been held at the foreign ministry level. The Chinese propaganda machinery often praises the important role of the Rio Group and considers it to be an important force among developing countries, as well as a reliable partner of China in international affairs. In June 1994, China became the first Asian country to join the Latin American Integration Association, as an observer. In May 1997, China was admitted into the Caribbean Development Bank; and earlier in September 1993, China successfully applied to join the Inter-American Development Bank. China recognizes MERCOSUR as an important vehicle promoting economic integration in Latin America, and it has held a number of official talks with this group after establishing a dialogue mechanism with it.

Party-to-party diplomacy constitutes an important aspect of Sino-Latin American relations. The CPC advocates the following four principles in its relations with political parties in various countries: autonomy, full equality, mutual respect and mutual non-interference. In the first place, the CPC pursues friendly ties not only with ruling parties, but also with opposition parties. Two examples often cited by

⁵⁵ Jiang Shixue, "Sino-Latin American Relations: Perspectives on the Past and Prospects for the Future", Beijing: Institute of Latin American Studies, Chinese Academy of Social Sciences, p. 17. Available at <http://ilas.cass.cn/ESPANA/TRABAJOS/RELACIONES%20DIPLOMATICAS/perspective.htm>.

China's researchers on Latin American affairs are interesting. In Argentina, before the presidential election in 1983, most people believed that the Radical Party did not have a good chance. But the CPC nonetheless invited the party's leader, Raul Alfonsín, to visit China. After winning the presidency, Alfonsín sent an important delegation to visit China. Meanwhile, the CPC continued to maintain good relations with the Peronist Party, whose leader Carlos Menem won the presidential election in May 1989. In November 1989, only five months after the Tiananmen incident on June 4, President Menem sent his brother, Senate President Eduardo Menem, to visit Beijing when Western countries were sanctioning China.⁵⁶

Party-to-party diplomacy has been particularly important to Latin American countries without formal diplomatic relations with China. Before the PRC established formal diplomatic relations with Bolivia and Uruguay, the CPC had already cultivated good relations with the political parties in the two countries. Today, the CPC has established relations with various political parties in a majority of the Latin American countries which have no diplomatic ties with China. For example, it has good contacts with the major parties in Paraguay, the only South American country which recognizes Taiwan.

As China accords a higher priority to its relations with Latin America, the scope of its multilateral diplomacy also expands. In December 2015, the CPC and the ruling party of Ecuador, the Alianza PAIS (Proud and Sovereign Fatherland Alliance), made use of the opportunity of Ecuador's chairmanship of CELAC and organized the first Sino-Latin American Political Parties Forum in Beijing. The theme of the forum was "Innovation, Development, Co-operation and the Future"; it was attended by about 60 representatives from 27 parties of 26 Latin American countries.

The head of CPC's external liaison department, Song Tao, indicated in his opening address that the forum would be an institutionalized platform to develop a strategic dialogue. Song also announced a plan of the Chinese authorities to invite 1,000 Latin American political party leaders to visit China.

⁵⁶ *Ibid*, pp. 10–11.

Earlier in May 2013, the first Sino-Latin American Young Political Leaders Forum was held in Beijing, and the second was again conducted in the Chinese capital in July 2015. The second forum was already absorbed into the China–CELAC Forum framework; and it appears that China is ready to assume the financial and organizational burden as the Latin American side is reluctant to accept a rotational arrangement which is the normal international practice. The Latin American participants in the second forum were young cadres of political parties, young government officials and responsible persons of youth social organizations mainly from Brazil, Ecuador, Mexico, Venezuela and Peru. The Latin American representatives also visited Shaanxi and Shanghai.

The China–Latin American Civil Society Friendship Forum started even earlier, and it has been held every other year in rotation among cities in China and Latin America. The Chinese People's Association for Friendship with Foreign Countries has been the host organization for the Chinese side; and the fifth forum was conducted in Hangzhou in China in May 2015. Similarly, it has been absorbed within the China–CELAC Forum framework since then.⁵⁷

In the context of China's multilateral approach to Latin America, China's experts realize that the latter's international relations patterns have become more complicated, more changeable, with larger differences among various countries, and with rising and falling involvement from various external powers' involvement rising and falling. Besides the traditional priority accorded to countries and subregional organizations in the Western Hemisphere, Europe and increasingly the Asia-Pacific region have become basic focal areas of Latin American countries' diplomacy. They have also been trying to open up new fields in South Asia, the Middle East and North Africa, Sub-Saharan Africa, Russia, and Central and Eastern Europe. They have become more active in global and regional organizations related to trade, security, climate change and cultural exchanges.

Latin American countries are perceived to be more interested in coordination on a cross-regional basis with the newly emerging

⁵⁷ Zhang Fan, *op. cit.*, pp. 98–99.

economies and South–South cooperation. In sum, China's Latin American experts see ample room for China to develop closer ties with the region, though there is keen competition and rapid changes are expected.

The diversification of Latin American countries' foreign policies is perceived to be related to their respective economic structures and trade patterns. Mexico, Central American and the Caribbean states have a higher degree of economic integration with North America, while South America has relatively more balanced trade ties with North America, Europe and the Asia-Pacific region. Further, Latin American countries may be divided into two groups: those with free trade agreements with the U.S. and those without. These differences in turn are related to their respective political models, ideologies and foreign policy orientations. Latin American countries may also be divided into two groups again: those with cordial relations with the U.S. and those with tense or even confrontational relations with the U.S. These differences apply to subregional organizations in Latin America too, like the more radical Bolivarian Alliance for the Peoples of Our America (ALBA) and the Pacific Alliance in pursuit of free trade.

China's Latin American experts understand that the CELAC as a regional organization is still at an early development stage. Though its concrete achievements have been limited, it is the only regional organization involving all 33 Latin American countries and thus has significant symbolic value. These experts also observe that while the foreign policies of Latin American countries have different contents and orientations, they demonstrate a similar pattern of maximizing benefits through cultivating different partners in various policy areas. While global economic growth slows down, Latin American countries pursue foreign relations with countries which can help solve their most pressing socioeconomic problems, i.e., an economic diplomacy with priority accorded to countries with strong economic complementarities. Hence, Brazil, Chile, Cuba and Venezuela may have rather different foreign policy orientations; they share the above set of considerations.

This set of considerations is seen to be favorable to China's approach to Latin America. China's presence is recognized as a factor

in Latin America which cannot be neglected. But at the same time, the U.S. has been attempting a “come back” to the region. The Barack Obama administration’s restoration of diplomatic relations with Cuba and the improvement of relations with Brazil and Mexico in the middle of the 2010s mean that it intends to enhance the U.S.’s influence in the region.

Pursuit of autonomy, however, has been an important objective in the foreign policies of Latin American countries. Their international status has been improving since the end of the last century, and some major countries have emerged as significant international actors. However, their backward industrial structure and low economic competitiveness remain serious handicaps in their efforts to fight for a louder voice on the international stage, and China believes it can help in these crucial areas.

Sino-Latin American Economic Relations

Trade

It is interesting to note that in 2015, China’s trade with Latin America stagnated after years of rapid growth since the beginning of the new century. In this year, Latin American countries exported US\$ 109 billion of goods to China and imported US\$ 139 billion in return; trade stayed at almost the same level as that in 2014. The region’s trade deficit also remained constant, about 0.6% of the regional GDP. Beneath this stagnation, Latin America’s exports to China continued to grow, while the value of these exports fell.⁵⁸

Four commodities — iron, soybeans, copper and petroleum — constitute over half of the region’s exports to China in recent years. In the period 2010–2014, the top five export items to China were: iron ores and concentrates (19%); soybeans and other oilseeds

⁵⁸ Rebecca Ray, Kevin Gallagher and Rudy Sarmiento, “2016 China-Latin America Economic Bulletin from GEGI”, Centre for Finance, Law & Policy, Boston University. Available at <http://www.bu.edu/bucflp/2016/04/06/2016-china-latin-america-economic-bulletin-from-gegi-now-available/>.

(18%); copper (12.2%); unrefined petroleum (11%); and copper ores and concentrates (9.6%). The region's imports from China are more diversified. In the period 2010–2014, the top five import items were: telecom equipment (9.7%); data-processing machines (3.8%); ships, boats and floating structures (3.3%); optical instruments and apparatus (3.3%); and refined petroleum products (2.3%). In 2014, China bought 10% of Latin America's overall exports, but 14% of agricultural exports and 19% of extractive exports. The region has not been successful in selling its manufactured products to China; China purchased just 3% of their manufactured products exports in 2014.⁵⁹

China's official think tank researchers on Latin America affairs have been eager to reassure Latin American countries that China will not use the bilateral trade and its investment in the continent to make unreasonable political demands, engage in economic, cultural and social infiltration, or attempt to create relations of dependency.⁶⁰ They argue that bilateral trade is based on comparative advantage, and that China probably depends more on Latin America because of its resource needs. These researchers claim that China's imports will enhance Latin America's foreign exchange earnings and improve the terms of trade regarding their exports of primary products.

In view of multinational corporations' investment in Latin America and China in the past two decades, some manufacturing industries in both regions have been involved in multinational global production chains and the international division of labor. For example, Germany's Volkswagen has major investment projects in both Brazil and China, and many models developed by the Volkswagen joint venture in China contain components developed by the Volkswagen subsidiary in Brazil, including the Santana 2000 model launched by the Volkswagen plant in Shanghai in the late 1990s and

⁵⁹ *Ibid.*

⁶⁰ Zhu Wenhui, "Quanchihua xia Zhongguo yu Lamei Maoyi Guanxi de Xin Qushi (New Trends in Sino-Latin American Trade Relations in the Context of Globalisation)" *Lading Meizhou Yanjiu (Latin American Research)*, Chinese Academy of Social Sciences, Vol. 26, No. 3 (2004), pp. 13–14.

the Polo model marketed by the same plant in 2003. This trend would probably become more significant.

The development of Sino-Latin American trade encounters serious obstacles too. There is no direct air link between China and any Latin American country, and the limited maritime routes are affected by long distance, weather and other factors, so that delays are very common. The exchange of market information is difficult, compounded by the differences in languages, cultures and customs that have handicapped mutual understanding. There is a lack of expertise on Latin America in China, and vice versa. Moreover, the few graduate students in Latin American studies in China do not often pursue careers related to their disciplines after their graduation.

The exploitation of anti-dumping measures against Chinese exports by Latin American governments was an issue of concern. In April 1993, Mexico decided to levy anti-dumping tariffs on 10 categories of imports from China. This precedent was soon followed by Argentina, Brazil, Chile, Columbia, Ecuador, Venezuela, etc. Such anti-dumping measures covered a wide range of Chinese products, and the tariffs levied were high. In some instances, the exorbitant rates (1,105% on Chinese shoes by Mexico in one case) amounted to import bans. There was also a tendency to impose tariffs before actual investigations, thus violating international norms. In the beginning of the twenty-first century, China secured the recognition of its market economy status from major Latin American countries including Brazil, Argentina, Chile, Peru, Venezuela, and Antigua and Barbuda; this recognition has reduced the potential impact of anti-dumping measures on cheap Chinese imports.⁶¹

In anticipation of the operation of the FTAA in 2006, Chinese experts in Latin American affairs had expected that more than 30 states would be able to share the "trade creation effect" in the U.S. market, while China would suffer from a greater "trade diversion effect" than in the launch of the North American Free Trade Arrangement

⁶¹ Adam Thomson, "Granting of Market-Economy Status to China Opens Argentina's Door to Investment", *Financial Times* (London), 18 November 2004; *BBC Monitoring International Reports*, 5 February 2005.

(NAFTA).⁶² These experts indicated that China had lost its share of textile and apparel imports by the U.S. to Mexico in the 1990s after the implementation of the NAFTA. Moreover, the export structures and the export markets of many Latin American countries were very similar to those of China. Hence, keen competition was inevitable. According to a report released by the Inter-American Development Bank in March 1998, Asian countries' products posed a threat to 58% of Latin American countries' exports to Organization of Economic Cooperation and Development (OECD) countries, and competition was most severe in the apparel and electronics industries. There was also a concern in China that U.S. investors would lose some interest in the Asia-Pacific region, and that there would be a trade diversion to Latin America, which could also be accompanied by similar investment diversion.

Chinese economists expected that China would continue to upgrade its export structure and concentrate more on high value-added and high-tech products, especially information technology products. In this way, China could reduce competition with the Latin American countries in the labor-intensive industrial sectors. But this was considered an optimistic scenario. While China's coastal provinces would upgrade their exports, its interior provinces would be eager to follow the path of the coastal provinces and engage in the exports of labor-intensive products.

To reduce the impacts of these potential reverses, South Korea's conclusion of a bilateral free trade agreement with Chile in April 2003 served as an example for China. Meanwhile, China concluded a framework agreement with ASEAN to launch a China-ASEAN Free Trade Area initially involving the five original members of ASEAN in 2010, with the participation of the other five members in 2015. Economic integration in the Asia-Pacific region was perceived as a response to the challenge of the FTAA, as it would strengthen the bargaining power of the Asian countries concerned.

⁶²Yang Zhi-min, "Challenges of FTAA and China's Responses", Beijing: Institute of Latin American Studies, Chinese Academy of Social Sciences, 2003. Available at <http://ilas.cass.cn/ESPANA/TRABAJOS/ECONOMIA/FTAA.htm>.

At the same time, in 2002, Chile, New Zealand and Singapore initiated the “Three Pacific Countries Closer Economic Partnership (P3)” negotiations at the 10th APEC informal summit meeting in Mexico; in April 2005, Brunei joined the last round of negotiations, which led to the signing of the Trans-Pacific Strategic and Economic Partnership Agreement in July 2005. In July 2006, the Doha round of negotiations ended without success, and the U.S. wanted to use the above agreement as a platform. In September 2009, the Barack Obama administration decided to take part in the Trans-Pacific Partnership negotiations.

Meanwhile, the earlier pessimism of China's Latin American experts proved to be wrong. China's impressive economic growth in the twenty-first century generated a huge demand for natural resources supporting such exports from Latin America, and the latter's export-oriented economic growth, in turn, created demand for China's consumer goods. The expansion of Sino-Latin American trade in the new century was much stronger than expected.

The recent stagnation, however, calls for adjustments. To some extent, there had been a hollowing out of manufacturing industries in Latin America and a deepening dependence on raw materials exports, which implied a heightened sensitivity to fluctuations in commodity prices. China's slower economic growth in recent years dampens its demand for energy and commodities; Latin American countries like Brazil and Chile face serious economic difficulties which are exacerbated by a sluggish global economic growth.

In May 2015, Chinese Premier Li Keqiang visited Brazil, Colombia, Peru and Chile. In response to the “new normal” of slower economic growth in China and the world and to achieve a breakthrough in the existing trade bottlenecks, Li proposed the “3×3” China–Latin America economic and trade cooperation model, i.e., promote cooperation among enterprises, society and government; use specific funds, credit lines and insurance schemes as channels to generate capital; and accord priority to the logistics, electricity-generation and information and communication technology sections.⁶³

⁶³Ted Carpenter, “A Chinese Pivot to Latin America?”, *China–US Focus*, 8 June 2015. Available at <http://www.chinausfocus.com/foreign-policy/a-chinese-pivot-to-latin-america/>; Zhang Fan, *op. cit.*, pp. 99–100.

Premier Li's proposal has been based on the understanding that sustainable bilateral trade expansion has to be supported by investment in infrastructural projects and production capacities. In the broader context, there is also an awareness that while "the middle-income trap" has been a persistent challenge for Latin America, it is a new challenge too for China which realizes that its next stage of economic growth will have to depend on economic structural reforms and the upgrade of its production capacities rather than an investment in infrastructural projects and exports.

At this stage, Latin America's economic dependence on China is already considerable. China's participation in the Latin American global value chains has even surpassed the inter-regional ones. Between 2000 and 2011, the region's intraregional share of backward linkages rose from 5% to 9%, and China's share increased from 1% to 11%.⁶⁴ In 2015, China was the second largest trade partner of Latin America, and the largest trade partner of Brazil, Chile and Peru.

China, on the other hand, is less dependent on Latin America. But China needs to diversify its markets and sources of raw material imports, and it is interested in establishing more integrated and more mutually beneficial economic ties with Latin America and Africa. This is essential to China's emergence as a major power and its ability to compete with the U.S. in the long term in international status and influence.

Ms Alicia Barcena, executive secretary of CELAC, advocated for "better integrated regional markets, since they offer opportunities to serve larger consumer demand, achieve economies of scale and attract foreign direct investment, combined with measures enhancing competition and better access to global value chains".⁶⁵

The organization for Economic Cooperation and Development forecasts that Latin America's export growth will slow from 16% to 4% by 2030 in the case of metals and energy, and from 12% to 3% for

⁶⁴ "Economy, the Time is Now for a New Latin America–China Partnership to Foster Mutual Development Strategies, Says the Latin American Economic Outlook 2016", 11 December 2015. Available at <http://www.oecd.org/economy/press-release-latam-econ-outlook-2016.htm>.

⁶⁵ *Ibid.*

food. It therefore recommends that Latin America should pursue innovative development policies to better cater to increasing Chinese domestic demand, especially in the agrofood industry and services. Further, designing an effective strategy in skills and innovation will also be essential to keep up with how China is strengthening its human capital.⁶⁶

Investment

With the significant exceptions of the Cayman Islands and the British territories, China's investment in Latin America by the turn of the century remained relatively small (see Tables 4 and 5), but the potential was obvious.⁶⁷ Since then, major SOEs have been investing in Latin American countries to ensure China's access to the continent's natural resources. Shougang Group's acquisition of a major Peruvian iron mine company by tender in 1992 was a significant example. Shougang Group's subsidiary in Peru was able to produce more than five million tons of iron ore per annum to be exported to the U.S., Japan, South Korea and Mexico. It claimed that in the period 1993–2003, it paid taxes and levies to the Peruvian government amounting to US\$ 126 million. In 1997, China National Petroleum Corporation (CNPC) secured by tender the exploitation rights of two oil fields in Venezuela which produced 31,400 barrels of oil per day at the end of 2001. In the beginning of 2003, CNPC had invested US\$ 660 million in the oil fields, and because of the increase in production and the rise in oil prices, the SOE expected to earn back the investment in the following year. This investment also led to a number of business and technological cooperation projects between China and Venezuela.⁶⁸

⁶⁶ *Ibid.*

⁶⁷ Investment in the Cayman Islands and the British Territories by Chinese corporations is obviously meant for other purposes including money laundering.

⁶⁸ Guo Delin, "Zhongguo yu Weineiruila Nengyuan Hezuo de Qianli" (The Potential for Energy Co-operation between China and Venezuela)", *Lading Meizhou Yanjiu* (*Latin American Research*), Vol. 25, No. 2 (2003), pp. 26–30.

Table 4. China's Investment in Latin American Countries (Actually Realized), 2015 (US\$ million)

Country	2015
Bahamas	148.95
Barbados	39.11
Belize	31.80
Brazil	50.84
Cayman Islands	1,444.46
Chile	5.26
Colombia	0.12
Mexico	7.31
Panama	20.64
Peru	0.28
Saint Vincent and Grenadines	0.18
Uruguay	0.12
Venezuela	0.06
Virgin Islands	7,387.78
Saint Kits-Nevis	0.52
Others Countries (Regions) in Latin America	0.25
Total	9,137.68
Latin America as a % of China's Total	7.24%

Source: Ministry of Commerce of the People's Republic of China. *China Commerce Yearbook (2016)* (Beijing: China Commerce and Trade Press, 2016).

Technological cooperation between China and Latin America has also been highlighted by the Chinese mass media to show that Sino-Latin American relations can be a model of South-South cooperation. An example of this was Embraer of Brazil — the fourth largest civil aircraft manufacturer in the world and the second largest branch-route aircraft manufacturer then. In 2000, it formed a joint venture with Harbin Aircraft Industry Group (Harbin Aviation Industry [Group] Co. Ltd. after a merger) to assemble 50 of its ERJ-145 model. The first aircraft produced by the joint venture successfully

Table 5. China's Accumulated Investment in Latin American Countries (Actually Realized) as of 2015 (US\$ million)

Country	As of 2015
Antigua and Barbuda	0.06
Argentina	19.49
Barbados	0.03
Bolivia	3.17
Brazil	22.57
Cayman Islands	624.04
Chile	2.05
Colombia	5.54
Costa Rica	0.08
Cuba	1.20
Dominica	0.03
Dominican Republic	0.01
Ecuador	10.56
Grenada	0.24
Guyana	2.56
Jamaica	2.26
Mexico	5.25
Nicaragua	0.04
Panama	2.28
Paraguay	0.48
Peru	7.05
Saint Vincent and Grenadines	0.42
Suriname	1.13
Trinidad and Tobago	6.05
Uruguay	1.83
Venezuela	28.00
Virgin Islands	516.72
Others	0.05
Total	1,263.19
Latin America as a % of China's Total	11.51%

Source: Ministry of Commerce of the People's Republic of China. *China Commerce Yearbook (2016)* (Beijing: China Commerce and Trade Press, 2016).

conducted its first test flight in December 2003. At the governmental level, China and Brazil have been cooperating in the development of satellites for surveying the earth's resources. Satellites were successfully launched in October 1999 and at the end of 2003; agreement was then reached on the launch of the third and fourth satellites.

China's SOEs have also been reaching out and engaging in overseas investment in the new century to develop foreign markets, including the setting up of wholesale, retail and after-sale service networks. China's investment in Latin America has increased substantially in the agriculture, forestry and fishery sectors as well as in the textile, apparel and household electrical appliances industries. The Chinese government has encouraged major SOEs and private enterprises to enter into Latin America; at the same time, these enterprises have formed joint ventures with local corporations. The Chinese authorities planned to assign a major SOE to mobilize investment in a specific Latin American country and to generate linkage effects in the form of related projects. The establishment of a China–Latin American Association of Industry and Commerce was suggested.

President Hu Jintao's Latin American visit in November 2004 involved many investment pledges in the region. In Brazil, Hu promised that China would invest US\$ 100 billion in Latin America in the coming decade. The investment projects highlighted in the media during President Hu's trip to Latin America included: railway, oil exploration and construction projects in Argentina; a nickel plant in Cuba; copper mining projects in Chile; and a steel mill, railway and oil exploration projects in Brazil. Sino-Brazilian energy projects amounted to US\$ 10 billion; Brazil's state-owned oil company, Petrobras, and the China National Offshore Oil Corporation reportedly were studying the feasibility of joint operations in exploration, refining and pipeline construction around the world. China then explored energy deals in Ecuador, Bolivia, Peru and Columbia, as well as offshore projects in Argentina. In January 2005, Venezuelan President Hugo Chavez traveled to China to sign 19 cooperation agreements, including plans for Chinese investment in oil and gas exploration. Colombian President Alvaro Uribe also visited China in

April 2005 to promote increase in investment in his country.⁶⁹ In Argentina, China indicated that it would invest US\$ 20 billion over the next 10 years.

For the Latin American economies, the attraction of investment from China was further enhanced by the decline in net foreign investment flows to Latin America in the beginning of the new century, from US\$ 78 billion in 2000 to US\$ 36 billion in 2003.⁷⁰ It is interesting that Panama, the Cayman Islands and, to a lesser extent, the British Virgin Islands, as well as the Bahamas, have often been used to provide camouflage for investment in China from Taiwan, Southeast Asia, and even “round-tripping” investment by Chinese enterprises (see Tables 6 and 7).

To meet President Xi Jinping's pledge in 2015 that China–Latin America trade would reach US\$ 500 billion per annum in the next decade and that China's investment in the region would amount to US\$ 250 billion in the same period, China plans to enhance its investment in Latin America. This is in line with its “going out” strategy introduced in 1999, and this is also in accord with the priority of the current 13th five-year economic and social development program (2016–2020) to reduce excess production capacity through export of capital and technology.

China's investment in and loans to Latin America have been subjected to two types of severe criticisms. The first is that they have been focused on the countries, companies and infrastructure which underpin the extraction of natural resources and other commodities in the region. This focus has exacerbated the region's dependence on resource exports and the specter of Dutch disease. Meanwhile, countries like Mexico and Brazil suffer since their large industrial bases find it hard to compete with cheaper Chinese manufacturing products in

⁶⁹ Kerry Dumbaugh and Mark P. Sullivan, *Congressional Research Service Report for Congress: China's Growing Interest in Latin America* (Washington, D.C.: Congressional Research Service, Library of Congress, 20 April 2005), p. 3.

⁷⁰ Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin America and the Caribbean 2004* (Santiago, Chile: Economic Commission for Latin America and the Caribbean, United Nations, May 2004), p. 13.

Table 6. South American Countries' Investment in China (Actually Realized) (US\$ million)

Country	1991	2001	2011	2015
Argentina	0.16	16.38	7.32	—
Bolivia	0.91	0.70	1.89	—
Brazil	0.34	3.90	43.04	50.84
Chile	0.05	1.33	16.79	5.26
Columbia	—	12.34	0.01	0.12
Ecuador	—	1.36	0.03	—
Guyana	—	0.69	—	—
Paraguay	—	1.17	—	—
Peru	—	0.27	0.87	0.28
Uruguay	—	—	0.63	0.12
Venezuela	—	5.00	2.09	0.06
Total	1.46	43.14	72.67	56.68
South America as a % of China's Total	0.012	0.087	0.063	0.045

Note: “—” means that the figure is unknown, unavailable or negligible.

Sources: National Bureau of Statistics of China, *China Statistical Yearbook* (1993, 2003, 2012 and 2016). Available at <http://www.stats.gov.cn/english/statistical-data/AnnualData/>.

a diminished postfinancial crisis U.S. market.⁷¹ Trade unions and environmental groups have also opposed to the Chinese investment in the region's extractive industries.⁷²

The second line of criticism is that the Chinese authorities have been making risky bets in Latin America. They, for example, perceived Venezuela's abundant oil as adequate collateral for the more than

⁷¹Sebastian Sarmiento-Saher, “China and Latin America: Big Business and Big Competition”, *The Diplomat*, 14 March 2013. Available at <http://thediplomat.com/2013/03/china-and-latin-america-big-business-and-big-competition/>.

⁷²David Hill, “10 things to know about China-Latin America and the environment”, *The Guardian* (London), 20 December 2014, pp. 1–3. Available at <https://www.theguardian.com/environment/andes-to-the-amazon/2014/dec/20/10-china-latin-america-environment>.

Table 7. Central American and Caribbean Countries' Investment in China (Actually Realized) (US\$ million)

Country	1991	2001	2011	2015
Antigua and Barbuda	—	—	2.18	—
Bahamas	—	59.60	39.61	148.95
Barbados	—	—	310.05	39.11
Belize	—	—	21.33	31.80
Cayman Islands	1.5	1,066.71	2,241.96	1,444.46
Dominica	—	0.78	1.34	—
Costa Rica	—	1.10	0.22	—
Cuba	—	0.19	23.00	—
Dominican Republic	—	0.01	0.06	—
Guatemala	—	0.78	—	—
Honduras	—	1.08	2.60	—
Jamaica	—	1.23	—	—
Mexico	—	1.82	4.53	7.31
Panama	3.56	57.85	38.45	20.64
Puerto Rico	—	—	—	—
Saint Vincent and Grenadines	—	0.29	0.13	0.18
El Salvador	—	0.10	—	—
Turks and Caicos Islands	—	—	4.95	—
Virgin Islands	—	—	9,724.95	7,387.78
St. Kitts-Nevis	—	—	2.63	0.52
Other Countries (Regions) in Central America	—	0.60	13.94	0.25
Total	5.06	1,192.14	12,431.93	9,081.00
Central America as a % of China's Total	0.04	2.54	10.72	7.19

Note: “—” means that the figure is unknown, unavailable or negligible.

Sources: National Bureau of Statistics of China, *China Statistical Yearbook* (1993, 2003, 2012 and 2016). Available at <http://www.stats.gov.cn/english/statisticaldata/AnnualData/>.

US\$ 50 billion loans (about 22% of its GDP in 2007) to the country since 2007 for future oil delivery. Similarly, Argentina turned to China for credit to help finance its infrastructure plans and bolster its declining foreign-exchange reserves after its technical default in the summer of 2014, while Ecuador also borrowed extensively from China to cover its budgetary deficits. China's loans, therefore, have gone against the demands of international financial institutions and Western governments for fiscal responsibility and austerity among governments in the regions.⁷³

Premier Li Keqiang's "3×3" China–Latin America economic and trade cooperation model announced in May 2015 has been in fact an attempt to tackle these criticisms, and three related projects are to some extent symbolic. When Premier Li visited Lima in May 2015, he indicated that a feasibility study on the Twin Ocean Railway linking Peru, Brazil and possibly Bolivia would be ready one year later. In February 2016, Brazilian legislators met with a delegation of Chinese firms interested in participation in the projects, and announced that study details would be shared in public meetings.

There are two potential routes, one through northern Peru and the other through the south of the country. The former Peruvian President Ollanta Humala indicated a preference for the northern route which runs through several indigenous territories as well as a highly biodiverse section of the Amazon. Bolivia wants to be involved, but the choice of the route will be decided by the new Peruvian president elected in April 2016.⁷⁴

The Nicaragua Canal project was announced in 2015, and its community consultation work began in the following year. Wang Jing, chairman and CEO of the HKND Group, the firm based in Hong Kong running the project, was said to have lost most of his

⁷³Stephen Kaplan, 'Why China is investing \$250 billion in Latin America', *The Washington Post*, 4 February 2015. See also Fernando Menendez, "Does China Own Ecuador?", *China–US Focus*, 6 October 2014.

⁷⁴Rebecca Ray, Kevin Gallagher and Rudy Sarmiento, *op. cit.*, pp. 7–8; "The Chinese Chequebook", *The Economist* (London), 23 May 2015. Available at <http://www.economist.com/node/21651889/print>.

fortune in the Chinese stock market crash in 2015, and the canal project becomes doubtful. Protestors in Nicaragua have also been mobilized, and they have published a list of complaints and a demand for the cancellation of the canal project.⁷⁵

Finally, in October 2015, during a business summit meeting in Guadalajara, Jalisco, Mexico, Governor Aristoteles Sandoval signed a memorandum of understanding with China Communications Construction Company to develop the “Capital de las Ciencias” technological industrial park. The latter aims to support 100 Chinese and Mexican high-technology manufacturing companies and is the first of the many Chinese-sponsored industrial parks in Latin America as part of the China–CELAC cooperation plan negotiated in early 2015.⁷⁶

These projects represent a shift of Chinese investment from the extraction of natural resources to infrastructural projects to promote economic development as well as to industrial parks and manufacturing projects to generate local employment. Other types of problems emerge, and environmental concerns remain. Other significant areas of Chinese investment will be the development of electricity transmission grid networks and various renewable energy projects including solar power, wind power and hydroelectricity. The Chinese authorities believe China has an edge in the provision of capital, technology and project experience.⁷⁷

At the same time, like in Africa and other developing countries, Chinese mining companies operating in Latin America have learnt to deal with protests from indigenous people over environmental and

⁷⁵ Rebecca Ray, Kevin Gallagher and Rudy Sarmiento, *op. cit.*, pp. 8–9; Gordon Chang, “China Stock Crash Imperils Proposed Nicaragua Canal,” *World Affairs*, 8 October 2015. Available at <http://www.worldaffairsjournal.org/blog/gordon-g-chang/china-stock-crash-imperils-proposed-nicaragua-canal>.

⁷⁶ Kevin P. Gallagher. *The China Triangle: Latin America's China Boom and the Fate of the Washington Consensus* (New York: Oxford University Press, 2016); Rebecca Ray, Kevin Gallagher and Rudy Sarmiento, *op. cit.* pp. 9–10.

⁷⁷ Sheng Qing, “Zhongla Dianneng Hezuo ‘3×3’ Moshi Ji Qi Shijian Yiyi (The 3×3 Model of China–Latin America Electricity and Energy Co-operation and Its Practical Implications)”, in Wu Baiyi and Liu Weiguang (eds.), *op. cit.*, pp. 103–112.

other issues. Chinese enterprises in recent years have demonstrated a good understanding and a willingness to spend the money to invest in projects to win the goodwill of local communities. They may not be successful all the time, but obvious improvements have been demonstrated.⁷⁸

Competition with Taiwan

Taiwan maintains formal diplomatic relations with 11 countries in Central America and Paraguay in South America. In terms of trade, China has obviously become a much more significant partner to the Central American and Caribbean countries. In 2003, China's trade with the Central American and Caribbean countries amounted to US\$ 9.019 billion (see Table 2), while Taiwan's trade with the same region only amounted to US\$ 2.342 billion in 2004 (see Table 8). Both China and Taiwan maintained a healthy trade surplus in the bilateral trade; China's trade surplus in 2003 reached US\$ 3.8 billion, while that of Taiwan amounted to US\$ 1.087 billion. China's trade surplus predominantly came from Mexico and Panama, though the latter re-exported much of its imports from China to other countries in the region. Taiwan's major sources of its trade surplus were the same two countries.

Taiwan's investment in the Central American and Caribbean region was much exaggerated by its investment in the British Territories (the Cayman Islands and the British Virgin Islands), and to a lesser extent Panama (see Tables 8 and 9). Basically, such investment ultimately goes to China (see Table 7). While the relative weight of Taiwan's trade with and investment in the Central American and Caribbean region has been in decline, its investment in some of the small countries such as Dominica, Costa Rica, Honduras, Nicaragua, Panama and El Salvador still contribute considerably to Taiwan's

⁷⁸Walker Rowe, "How Chinese Mining Companies Work to Win over the Local Population", China-US Focus, 14 January 2016, pp. 1–4. Available at <http://www.chinausfocus.com/finance-economy/how-chinese-mining-companies-work-to-win-over-the-local-population/>.

Table 8. Taiwan's Trade with Central American and Caribbean Countries (US\$ million)

Country	1991			2001			2011			2015		
	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total
Bahamas	1.00	0.27	1.27	61.10	0.10	61.19	0.32	3.29	3.61	0.63	0.37	1.00
Dominica	0.41	—	0.42	2.06	0.08	2.14	0.79	0.28	1.08	0.21	0.31	0.52
Costa Rica	27.17	3.69	30.87	75.75	13.28	89.03	156.50	267.17	423.67	90.27	99.31	189.57
Cuba	0.29	1.06	1.35	18.94	0.69	19.62	3.84	4.68	8.52	9.07	8.54	17.60
Dominican Republic	52.14	0.11	52.25	77.15	1.11	78.26	103.31	47.67	150.99	106.40	29.83	136.24
Guatemala	50.24	1.09	51.33	79.07	21.51	100.59	105.18	70.73	175.90	179.57	62.38	241.95
Haiti	12.79	0.01	12.80	11.09	0.01	11.10	10.30	7.54	17.85	25.38	1.94	27.32
Honduras	15.55	0.17	15.72	50.96	1.04	51.99	46.47	33.74	80.21	91.81	29.24	121.05
Jamaica	10.62	0.04	10.66	15.95	0.16	16.11	15.12	30.34	45.46	12.72	7.34	20.07
Mexico	369.14	178.34	547.49	1,020.09	417.31	1,437.40	1,534.69	618.23	2,152.92	2,208.74	605.60	2,814.35
Nicaragua	1.31	1.73	3.04	48.60	0.74	49.34	34.36	53.63	87.99	33.30	88.12	121.42
Panama	359.52	14.03	373.56	123.96	4.21	128.18	196.39	43.94	240.33	143.69	29.50	173.19
Puerto Rico	61.85	30.70	92.56	52.37	21.57	73.94	62.52	290.75	353.27	53.16	230.71	283.87
Saint Vincent and Grenadines	0.94	—	0.94	4.88	0.66	5.53	1.85	0.15	2.01	0.58	0.16	0.74
El Salvador	18.09	0.08	18.17	65.93	1.16	67.09	130.02	62.26	192.29	99.00	33.35	132.35

Suriname	4.29	—	4.29	2.91	0.07	2.98	7.57	3.85	11.41	5.69	7.66	13.35
Trinidad and Tobago	18.73	4.70	23.43	24.79	0.30	25.09	52.81	35.35	88.16	35.63	15.45	51.08
Other Countries (Regions) in Central America	6.12	1.21	7.33	—	—	—	25.09	34.38	59.47	24.26	9.36	33.62
Total	1,010.20	237.23	1,247.48	1,735.60	484.00	2,219.58	2,487.13	1,607.98	4,095.14	3,120.11	1,259.17	4,379.29
Central America as a % of Taiwan's Total	1.33	0.38	0.90	1.41	0.45	0.97	0.81	0.57	0.69	1.11	0.55	0.86

Notes: 1. “—” represents that the figure is unavailable or less than US\$ 5,000. 2. Figures on imports and exports may not add up to the totals due to rounding up.

Source: Taiwan Bureau of Trade, *Trade Statistics*. Available at <http://cus93.trade.gov.tw/>.

Table 9. Taiwan's Accumulated Investment in Latin American Countries as of 2015 (US\$ million)

Country	As of 2015
Bermuda	2,882.33
Brazil	357.17
Nicaragua	145.02
Panama	1,633.89
El Salvador	56.41
British Territories	30,262.67
Other Countries (Regions) in Latin America	712.91
Total	36,050.39
Latin America as a % of Taiwan's Total ^a	35.81%

Note: ^aTaiwan's total in this table excludes its foreign direct investment in Mainland China.

Source: Industrial Development and Investment Centre of the Taiwan Ministry of Economic Affairs Investment Commission, *Statistics*. Available at http://www.moeaic.gov.tw/news.view?do=data&cid=1008&lang=ch&type=business_ann/.

diplomatic influence in these countries. The Democratic Progressive Party, while in opposition, severely criticized the Kuomintang government for wasting resources in maintaining Taiwan's diplomatic relations with the small Central American and Caribbean countries. But the Chen Shui-bian administration did not cut back the efforts and financial resources spent on these countries since coming to power in 2000. In that year, Chen attended the inauguration ceremony of the President of the Dominican Republic and made state visits to Nicaragua and Costa Rica. The then Vice President Annette Lu followed with a second delegation one month afterward to El Salvador, Honduras, Belize and Guatemala. These state visits also offered opportunities for Taiwanese leaders to visit the U.S. informally in transit.

In August 2003, Chen Shui-bian held a summit in Taipei with the presidents from seven Central American countries. A joint communiqué

was released and a free trade agreement was concluded.⁷⁹ In the following November, Chen visited Panama and participated in the centennial celebrations of the founding of the country. Chen joined the presidents from 13 Latin American countries in signing a document in commemoration of the occasion. He was able to meet the then U.S. Secretary of State, Colin Powell, too.⁸⁰ There are not many international occasions in which a Taiwan president can assume the formal role of a head of state. Chen believed that the Panama visit had improved his image at home and constituted a part of his preparations for the presidential re-election campaign in March 2004.

Apparently, Chen Shui-bian had no intention of changing Taiwan's pattern of relations with Central America and the Caribbean. In late September 2005, Chen visited Nicaragua to participate in a summit meeting with Taiwan's Central American allies. He announced an offer of US\$ 250 million of aid to them under a "co-prosperity" program. While the opposition attacked the program as "spending big bucks to buy foreign relations", Chen defended that his program would be an investment scheme to create a "win-win" situation. Chen's trip highlighted a US\$ 27 million "Friendship Bridge" linking the Costa Rican city of Puntarenas with the Nicoya Peninsula on the Pacific Ocean; and the Instituto Tecnológico de las Américas, a large cyber park-cum-technical college project in the Dominican Republic.⁸¹

The Central American and Caribbean states maintaining diplomatic relations with Taiwan have been the key supporters for these efforts of Taiwan to expand its "international space". Since 1993, the Taiwan government had begun actively promoting the membership of the Republic of China in the United Nations. This campaign was opposed by the PRC, and the proposal did not even succeed in going through the United Nations General Assembly's General Committee to be included in the United Nations agenda for discussion. Further, beginning in 1997, the Taiwan government attempted to secure observer status in the World Health Organization. The Chinese

⁷⁹ *Taiwan Shin Sheng Daily News*, 22 August 2003.

⁸⁰ *Taiwan Daily News*, 4 November 2003.

⁸¹ *South China Morning Post*, 24 September, 27 September and 2 October 2005.

leadership was acutely concerned with the Chen administration's design to seek independence for Taiwan, and it was working hard to "contain" Taiwan's diplomatic efforts. Hence, the Central American and Caribbean region was the major battleground for the diplomatic contest across the Taiwan Straits. It was suggested that the PRC became interested in diplomatic relations with the Vatican because the Chinese leadership believed that they would facilitate formal diplomatic relations between the PRC and the Catholic countries in the Central American and Caribbean region.

Taiwan has also been engaging in "informal diplomacy" with Latin American countries having formal diplomatic relations with China. One aspect of such an endeavor has been the establishment of parliamentary cooperation and exchanges. Taiwan succeeded in establishing parliamentary friendship associations with Argentina in 1997, Brazil and Peru in 1999 and Chile in 2000. Taiwan, under the name of the Republic of China, enjoyed observer status at the Central American Parliament and the Forum of the Presidents of the Legislative Powers of Central America. In February 2000, Taiwan, under the name of the Republic of China, became an official observer with the System for the Integration of Central America, the first observer from outside the Western Hemisphere. The International Cooperation and Development Fund (ICDF), the foreign aid organization of the Taiwan government under the guise of an independent foundation, has been active in Latin America, especially in the Central American and Caribbean region. It has established formal working relations with the Inter-American Development Bank and the Central American Bank for Reconstruction and Development.⁸² ICDF, for example, contributed to the relief and reconstruction programs in the Central American and Caribbean region in the aftermath of Hurricane Mitch.⁸³

⁸² Government Information Office, "Foreign Relations", *The Republic of China Yearbook — Taiwan 2002* (Taipei: Government Information Office, 2002). Available at <http://www.gio.gov.tw/taiwan-website/5-gp/yearbook/2002/chpt09-3.htm>.

⁸³ *ICDF Humanitarian Assistance*, Taipei: International Co-operation and Development Fund. Available at http://www.icdf.org.tw/chinese/c_pub_anual_contact.asp?pid=125.

In addition, more than 20 Taiwanese private international charity organizations such as the Tzu Chi Foundation, World Vision Taiwan, the Taiwan Root Medical Peace Corps and the Chinese Fund for Children and Families have been providing humanitarian assistance directly to Africa, Latin America and Oceania. Another increasingly popular form of international assistance among Taiwanese people is individual sponsorship for poor children, and a number of private organizations are working in this area. Usually these humanitarian efforts are mainly directed to countries maintaining formal diplomatic ties with Taiwan.⁸⁴

Besides trade, investment, and official and private assistance which are naturally attractive to small, poor countries with small populations, the Taiwan government apparently has some "secret weapons" too. In May and June 2004, there were reports in Taiwan and Costa Rica that from 1986 to May 2003, the foreign ministry of Costa Rica received US\$ 22,000 per month from the Taiwan government for the salary of its officials. It was also said that the daughter of the president, who was working in the Costa Rican embassy in Mexico, also received her monthly salary of US\$ 1,500 from Taiwan.⁸⁵ Earlier in August 2003, newspapers in Taiwan quoting newspapers in Costa Rica reported that two Taiwan enterprises contributed US\$ 500,000 to the then President Abel Pacheco de la Espriella for his presidential campaign in the previous year. In Costa Rica, accepting campaign contributions from foreign sources is a violation of the constitution.⁸⁶ Similarly, in Panama, Mireya Moscoso, President of the Republic from 1999 to 2004, was accused of receiving US\$ 1 million from Chen Shui-bian as a birthday present.⁸⁷

In sum, Taiwan will continue to work hard to maintain diplomatic ties with the Latin American countries. Despite the declining relative

⁸⁴ Government Information Office, "Foreign Relations", *The Republic of China Yearbook* (Taipei: Government Information Office, various issues).

⁸⁵ *Oriental Daily News*, 27 May 2004; *Renmin Ribao*, 2 June 2004.

⁸⁶ *United Daily News*, 22 August 2003.

⁸⁷ Gilda González and Pablo Gueren, "Investigan en Nicaragua y Panamá Aportes de Taiwán, una vieja historia", *Al Día* (Panama City), 21 August 2003.

weights of its trade and investment in the region, there are some means through which Taiwan can exercise limited diplomatic influence. The Taiwan issue will continue to be an important factor in China's approach to Latin America, and possibly a source of friction with the new Tsai Ing-wen administration in Taiwan.

In the initial period of the Ma Ying-jeou administration (2008–2016), cross-strait relations improved considerably, and an implicit agreement was reached on a “diplomatic truce”, i.e., both sides would not spend resources to increase the formal diplomatic recognition from small countries. This “truce” ended the cross-strait diplomatic competition in Latin America, and the Taiwan factor lost its significance in Beijing's approach toward the region. However, in view of the Tsai Ing-wen administration's refusal to accept the “1992 consensus” and the “one China principle”, formal contacts between the two governments have stopped since the inauguration of the Tsai administration in May 2016.

The Taiwan factor, therefore, may again become significant in China's approach to Latin America. Two developments seem to support the above speculation. The first was Tsai's formal visit to Panama as President of Taiwan, and her informal stopover in the U.S., highlighting the significance of Central America and the Caribbean in Taiwan's diplomatic profile. The other was the termination of diplomatic relations between Gambia and the Republic of China in early 2016, and the former's switch to the recognition of Beijing. This reflected the end of the “diplomatic truce” across the Taiwan Straits, and a sign that Beijing may choose to exert diplomatic pressure on Taipei as sanctions for its rejection of the “One China” principle.

Inducing Paraguay and the Central America and the Caribbean states to abandon Taiwan may then become part of Beijing's sanctions or pressure tactics; and it is not difficult at all in view of China's impressive trade and investment flows in the region, as well as its substantial foreign aid packages. Taiwan is no longer able to compete, though it has been able to maintain good economic ties with countries which do not recognize it in formal diplomatic terms.

Conclusion

In view of China's economic growth and rising international status, Latin American countries will accord increasing priority to their relations with the Asian giant. China's permanent seat in the United Nations Security Council is also a factor to reckon with. Today, Brazil, Argentina, Peru, Venezuela and Mexico have established comprehensive strategic partnerships with China. Many Latin American countries, including Chile, have also reached a consensus with China to develop long-term cooperation in the twenty-first century. China has signed agreements on economic and technological cooperation or economic cooperation with Latin American countries, as well as agreements on encouraging and protecting investment and agreements on avoiding double tax imposition. It has also established joint commissions for scientific and technological cooperation with major regional countries like Brazil, Mexico, Chile, Argentina and Cuba, respectively.⁸⁸ All these reflect the rapid development of Sino-Latin American relations since the early 1990s largely based on expanding trade.

As indicated above, the impressive development of trade, investment and joint ventures across the Pacific now provides a solid foundation for closer Sino-Latin American relations in the years ahead. There is a view that China's approach to Latin America is similar to Japan's "resources diplomacy" in the years after the Yom Kippur War in 1973. But while the expansion in Sino-Latin American trade and investment activities does reflect "resources diplomacy" considerations, Chinese leaders tend to consider that China's developing ties with Latin America demonstrate a global reach corresponding to the improvements in China's economic strength as well as international status and influence. In September 2004, China sent a "special police" peacekeeping contingent to Haiti (which maintains full diplomatic relations with Taiwan), marking Beijing's first deployment of forces ever in the Western Hemisphere.

⁸⁸ Zhang Mingde, "Sino-Latin American Rhythm", *Beijing Review*, 2 December 2004, pp. 12–13.

The vast distance between China and Latin America generates difficulties in transportation and mutual understanding, but it also means that both parties have no serious conflicts of strategic and political interests. Their "Third World" orientations in diplomacy contributed to an impressive 95% concurrence in their votes in the United Nations.⁸⁹ These broad agreements are expected to be maintained in WTO, APEC and similar multilateral organizations. As China is prepared to assume a more active role in Third World issues in cooperation with the leading Third World countries, there will be more diplomatic coordination between China and the major Latin American countries as demonstrated by the activities of the BRICS group and UN climate change negotiations, though progress will be slow as this is not of high priority to the parties concerned.

While the Chinese leadership wants to promote multipolarity to curb U.S. unilateralism, it appreciates the limitations in Latin America. Actually, both China and the Latin American countries value good relations with the U.S., and they want to avoid any sharp deterioration in their relations with the U.S. Beijing understands that it should avoid forcing Latin American countries to choose between China and the U.S. Similarly, Chinese leaders realize that Latin America has no significant strategic interests in the Asia-Pacific region, and they therefore are more tolerant of the formal and informal ties between the Latin American countries and Taiwan.

China has been increasing its investment in Latin America, and more Sino-Latin American business joint ventures have been formed. These trends, hopefully, will reduce trade frictions such as anti-dumping measures. As indicated above, China's investment strategy has been adjusting to meet the development needs of the region, and Chinese enterprises have been more ready to engage in projects to cultivate good relations with local communities. Distance and language barriers will continue to handicap the development of tourism,

⁸⁹ Latin American Research Group, China Institute of Contemporary International Relations, "Zhongguo dui Lading Meizhou Zhengce Yanjiu Baogao (Research Report on China's Policy towards Latin America)", *Xiandai Guoji Guanxi*, Vol. 4 (2004), p. 5.

and educational and cultural exchanges. Since the beginning of the century, Beijing has designated many Latin American countries as official tourism destinations for Chinese citizens; but not too many Chinese citizens will be able to exploit the opportunity because of the costs involved.

This chapter has not been able to cover some aspects of China–Latin American relations which may be of increasing importance in the future. China in the past decade has become an important player in the armament market in the region; its military sales rose from almost nil in 2005 to over US\$ 130 million in 2014. The Hugo Chavez and Nicolas Maduro regimes in Venezuela purchased K-8 trainer aircraft and air search radars from China in 2008, followed by later acquisitions of transport aircraft, self-propelled artillery and armored personnel carriers. The Evo Morales government in Bolivia, supported by a loan from Beijing, acquired six K-8 trainer aircraft and six Z-9 helicopters from China too.⁹⁰

When the then Argentina President Cristina Fernandez de Kirchner visited China in February 2015, a joint communique was released to announce the prospective military sales and defense cooperation agreements. It was reported that Argentina might purchase China's FC-1 or J-10 aircraft, both fourth-generation fighters manufactured by the Chengdu Aircraft Corporation.⁹¹ With the new center-right President Mauricio Marci in Buenos Aires, these military sales may not go through though.

As some South American countries have high-tech sectors, high-tech cooperation may have considerable potential in China–Latin American relations. At the end of the 1980s, China and Brazil explored cooperation in resource satellites without initial concrete progress.

⁹⁰Sanjay Badri-Maharaj, "China's Growing Arms Sales to Latin America", Center for Security Studies at ETH Zurich, 23 June 2016. Available at <http://www.css.ethz.ch/en/services/digital-library/articles/article.html/20747eff-0a87-44db-a3ad-64977d09dd49>.

⁹¹Jorden Wilson, "China's Military Agreements with Argentina: A Potential New Phase in China-Latin America Defense Relations", Staff Research Report of the U.S.-China Economic and Security Review Commission, 25 November 2015.

Later, their cooperation led to the launch of five earth resources remote sensing satellites, with one failure. Bolivia and Venezuela are keenly interested to take part in the aerospace program.

The development of nuclear power is another high-tech cooperation area; China is interested to offer loans to promote the export of its nuclear reactors. Brazil, Argentina and Mexico already have nuclear electricity generation stations. In 2014, China and Argentina concluded a nuclear power cooperation funding agreement, leading to the export of China's most advanced nuclear reactor to Latin America amounting to 30 billion yuan of equipment exports.

Brazil and Cuba are the two leading countries in biotechnology in Latin America. Sino-Cuban ideological affiliations have facilitated their cooperation in biomedicine and bioagriculture research and joint ventures. Similarly, information and communication technology is a promising field.⁹²

When President Xi Jinping met Latin American leaders in Brasilia in July 2014, he promised to offer in the coming five years 6,000 government scholarships, 6,000 trainee places in China and 400 master degree program places (for those already working) for the region. China has concluded cultural agreements with 19 Latin American countries; and there are 31 Confucius Institutes and 10 Confucius Classrooms in 14 countries in the region. Despite deficiencies in these programs, China is making serious efforts to bring Latin Americans closer to China.

Both China and the Latin American countries hope to see increasing prosperity on the other side of the Pacific because this will mean more trade and rising demand for each other's products. There will be more participation from Latin American countries in APEC, while China will be eager to expand its multilateral diplomatic work in various Latin American regional organizations. China's multilateral approach is seen to be effective and economical and will likely be accorded a priority, but bilateral relations with the major countries in

⁹²Song Xia, "21 Shiji Zhongla Gaokeji Hezuo de Zhongdian Lingyu ji Weilai Fazhan Qianjing (China-Latin America Hi-tech Co-operation since the twenty-first century: Key Areas and Prospects)", in Wu Baiyi and Liu Weiguang (eds.), *op. cit.*, pp. 113–124.

the region will remain important. Like China, major Latin American countries such as Brazil have both advanced and backward sectors in their economies; hence, the scope for cooperation is broader and relations can be more balanced. A model South–South relationship can thus be achieved. It has to be recognized, however, that Sino-Latin American relations remain relatively shallow, and this means that, with limited interactions, the maintenance of relatively idealistic mutual expectations is less problematic.

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Chapter 13

China's African Policy: Increasing Importance and Active Adjustments

Joseph Yu-Shek Cheng and Huangao Shi

Introduction

Africa has been seen as probably the most important part of the Third World in the Chinese leadership's world view. Despite occasional major encounters such as the Tanzania–Zambia railway project in the late 1960s, China's contacts with and influence on Africa remained limited until the twenty-first century in view of its constraints in resources and power projection capability.¹

Chinese leaders pursue a “major power diplomacy” today based on the assumption that China is a major power and should be accorded the status and influence of one. China's impressive economic growth also involves an expansion of trade and investment activities, as well as efforts to ensure a reliable supply of resources in support of its development. Africa therefore is no longer an element

¹ See Bruce D. Larkin, *China and Africa 1949–1970* (Berkeley, Los Angeles, and London: University of California Press, 1971), pp. 1–14.

of the abstract “Third World” concept in China’s diplomacy; it has become a significant political ally in international organizations, as well as an increasingly important trade partner and supplier of energy and other resources. In this context, China and Egypt established a strategic cooperation relationship facing the twenty-first century in 1999, and China established a strategic partnership with South Africa in 2004 and with Nigeria in 2005.²

In 2013, President Xi Jinping visited Africa and proposed “genuineness, solidity, closeness and sincerity” as guiding principles for the development of Sino-African relations as well as advocated the establishment of the Sino-African “community of common destiny”. In May 2014, Premier Li Keqiang visited the African Union headquarters, as well as Ethiopia, Nigeria, Angola and Kenya. Premier Li announced that Sino-African cooperation would be based on the four principles of sincerity and equality, solidarity and mutual trust, inclusive development, and innovative and practical cooperation. Cooperation would focus on industries, finance, poverty alleviation, ecological protection, humanities exchange, and peace and security; in addition, Li advocated the better utilization of the FOCAC platform.

Since 2009, China has surpassed the U.S. and emerged as the leading trade partner of Africa. It was estimated that the bilateral trade would reach US\$ 280 billion in 2015.³ In 2014, trade with some countries such as Mozambique, Senegal, Ethiopia and Nigeria still showed particularly impressive growth rates at 118.8%, 63.7%, 56.2% and 32.8%, respectively, although the overall rate of growth in total trade with Africa has slowed down to 6% in the same year.⁴ In terms of China’s cumulative investment in Africa, it increased from US\$ 9.33 billion in 1993 to US\$ 26 billion in 2014, and there were more than 2,500 Chinese enterprises operating in the continent.

²Policy Research Department, Ministry of Foreign Affairs, People’s Republic of China (ed.), *Zhongguo Waijiao 2005 (China’s Foreign Affairs 2005)* (Beijing: Shijie Zhishi Chubanshe, May 2005), pp. 107 and 222.

³China Chamber of International Commerce and Standard Chartered Bank, Press release, 22 April 2014. Available at http://www.sc.com/cn/chi/news/2014/pdf_press_20140422.pdf.

⁴National Bureau of Statistics of China, *China Statistical Yearbook*, 2015. Available at <http://www.stats.gov.cn/tjsj/ndsj/2015/indexeh.htm>.

Africa was China's second largest overseas market for engineering contract work, and its market share expanded from 14.7% in 2004 to 48.7% in 2013. In 2014, China and Africa signed a contract amounting US\$ 11.97 billion for building a coastal railway, which was the largest single contract in the history of China's overseas engineering contract work.⁵

China's involvement in Africa's security has been expanding too. In 2013, China dispatched a peacekeeping force for Mali; and in July 2014, the second batch of China's peacekeeping anti-riot police force arrived for service in Liberia. In the following September, a 700-men battalion was sent to South Sudan for peacekeeping, and this was the largest Chinese contingent for an overseas peacekeeping mission.

China assumed a mediating role in South Sudan's civil war. In January 2014, Chinese Foreign Minister Wang Yi met the representatives of the two fishing parties in Addis Ababa. In the following September, Wang met a delegation of the foreign affairs committee of the opposition in South Sudan and appealed to the two parties in conflict to implement the ceasefire agreement, and to resolve their differences peacefully. This was the first time the Chinese authorities directly contacted the opposition in a civil war in Africa.

At the end of 2014, China had completed 19 naval escort missions in the Gulf of Aden and the Somalia coastal area, serving over 5,820 Chinese and foreign vessels. China had taken part in 16 United Nations peacekeeping operations in Africa, dispatching over 1,800 military and police personnel; China had also sent most people for peacekeeping operations in Africa as one among the five permanent members of the United Nations Security Council. In October 2014, China and the African Union conducted their first round of dialogue in the "peace and security" subgroup within the framework of their strategic dialogue, and China offered support for the establishment of a rapid response force by the African Union.⁶

⁵ China, Nigeria pen multibillion-dollar rail contract. Available at http://news.xinhuanet.com/english/china/2014-11/20/c_133802664.htm.

⁶ Ji Zhiye, *Zhōngguó xiàndài guójì guānxì yán jiù yuán* (ed.) 國際戰略與安全形勢評估 2014/2015 (*Strategic and Security Review 2014/2015*) (Beijing: Shíshì chūbǎn shè, 2015), Chapter 15, "Fēizhōu: Jīngjì zēngzhǎng, Ānquán kānyōu (Africa: Economy Constantly Growing, Security Issues Looming Large)", pp. 327–331.

Traditionally, the Ministry of Foreign Affairs of the People's Republic of China covers Africa by the West Asia and North Africa Department and the African Department. The former mainly deals with the Arab world, while the latter, Sub-Saharan Africa. This chapter examines China's African policy in the post-Cold War era from a continental perspective. It reviews briefly China's African policy in the past decades, analyzes China's political and economic interests in Africa, and considers the opportunities and challenges in Sino-African relations at this stage.

China's African Policy in Retrospect

The Bandung Conference in 1955 placed Africa firmly in the "intermediate zone" between the socialist camp and the imperialist camp in Mao Zedong's world view and strategic considerations, with internationalism and world revolution as the main themes. This initial contact was followed by a period of ideological radicalism in the context of the Sino-Soviet split, the Vietnamese War and China's isolation in international affairs, as well as the Cultural Revolution in the domestic scene. The commitment to build the Tanzania-Zambia railway costing more than US\$ 450 million was made at the height of the Cultural Revolution.⁷ Pragmatic considerations gradually entered into the picture in the 1970s and became predominant in the 1980s.⁸

A major issue of contention between the Communist Party of China (CPC) and other communist parties in the period of China's ideological radicalism was whether or not any Third World country, irrespective of its politicosocial system, should be accepted as part of the main force against imperialism and hegemonism. The Chinese leaders' position was that the nature of the Third World countries' politicosocial systems could not alter the fundamental contradiction between the Third World on one hand and imperialism and

⁷See George T. Yu, "Sino-Soviet Rivalry in Africa", in David E. Albright (ed.), *Communism in Africa* (Bloomington: Indiana University Press, 1980), pp. 170-172.

⁸See Yung-lo Lin, "Peking's African Policy in the 1980s", *Issues and Studies*, Vol. 25, No. 4 (April 1989), pp. 76-96.

hegemonism on the other. They also presented a three-stage revolutionary process in the Third World as summarized by the following slogan: countries want independence, nations want liberation and people want revolution. All Third World countries should, therefore, be included in the anti-imperialist united front; and, in the struggle against imperialism and hegemonism, people's political consciousness would be raised and revolutionary forces would grow. Since revolution could not be exported, the success of revolution would be determined by the accumulation and expansion of revolutionary forces and the domestic conditions within each individual country.

In many ways, China in the Maoist era was probably the major power that was most forthcoming in supporting the Third World's demands. China was the only aid donor in the world whose foreign aid often went to countries with a higher per capita gross national product (GNP) than its own.⁹ Emphasizing its distinction from the two superpowers while fully realizing its limited military and economic capabilities, China's support for nonalignment and neutrality served its purpose well. In the field of arms control and disarmament, China's declaration neither to be the first to use nuclear weapons nor to use them against non-nuclear countries certainly won support in the Third World.¹⁰

Regarding foreign aid, China in 1977 offered US\$ 1,500 million to 49 countries. After the termination of aid to Vietnam and Albania in 1978, China's foreign aid had probably been reduced by more than one-third. The post-Mao leadership would not like to see foreign aid drain too much resources away from China's Four Modernizations program. Though China's foreign aid was maintained at a much lower level, its terms were generally much more favorable than those of other aid donors; in this way, it was still welcomed by the Third

⁹Teh-chang Lin, "Beijing's Foreign Aid Policy in the 1990s: Continuity and Change", *Issues and Studies*, Vol. 32, No. 1 (January 1996), pp. 32–56.

¹⁰See Joseph Y. S. Cheng, "The Evolution of China's Foreign Policy in the Post-Mao Era: From Anti-Hegemony to Modernization Diplomacy", in Joseph Y. S. Cheng (ed.), *China: Modernization in the 1980s* (Hong Kong: The Chinese University Press, 1989), pp. 190–194.

World because of its demonstration effect. After all, China was not able to compete with the major aid donors in terms of the amount of aid provided.

In the 1980s, China devoted considerable attention to South–South cooperation, and this emphasis on cooperation helped to veil the Chinese reduction in foreign aid. In his tour of Africa at the end of 1982 and the beginning of 1983, the then Premier Zhao Ziyang put forward four principles on strengthening South–South cooperation, namely, equality and mutual benefit, stress on practical results, diversity in form and attainment of common progress.¹¹ This was in sharp contrast to Zhou Enlai's eight principles on Chinese foreign aid enunciated 19 years ago during his African tour; Zhou's principles practically guaranteed that Chinese aid would be the most generous in the world. China had been firmly supporting the establishment of a New International Economic Order since the 1970s; in the 1980s, however, it became more specific in its proposals. Moreover, it became quite active in supporting the United Nations (UN) and its specialized agencies in organizing projects, seminars, and so on, for the benefit of the developing countries. Premier Zhao's African tour and his later trips to South America in October and November 1985 obviously demonstrated the Chinese leaders' efforts to cultivate important areas of the Third World which hitherto had been much neglected.¹²

China's foreign aid to Africa in the 1980–1992 period largely stayed at the same level. Meanwhile, China's gross domestic product more than doubled, and its annual trade grew from US\$ 4.4 billion in 1981 to US\$ 10.3 billion in 1988.¹³ Philip Snow observed that China's retreat from aid commitments to Africa was camouflaged by the rhetoric of South–South cooperation, while the African countries concerned were expected to contribute to the maintenance of many

¹¹ “Zhao on Co-operation with African Countries”, *Beijing Review*, Vol. 26, No. 4 (24 January 1983), p. 19.

¹² See Mu Youlin, “Premier Zhao's S. America Trip”, *ibid.*, Vol. 28, No. 43 (28 October 1985), p. 4.

¹³ See Ian Taylor, “China's Foreign Policy towards Africa in the 1990s”, *The Journal of Modern African Studies*, Vol. 36, No. 3 (September 1998), pp. 443–460.

of the aid projects.¹⁴ While China itself began to receive foreign aid from Japan and some Western European countries from 1979 onward, Africa's strategic value in the 1980s became more and more rhetorical in nature as the Chinese leadership could not see much economic significance in a remote and impoverished continent.¹⁵

The post-Mao leaders in theory affirmed the Third World's important role, but in the actual implementation of their foreign policy, their focus had been on the handling of China's relations with the two superpowers and the developed countries. This, in fact, was the case throughout the 1970s, though such trends became more conspicuous in the pursuit of their modernization diplomacy. Taking a long-term view, the progress of a global socialist revolution could not rely too much on the exploitation of the contradictions among the imperialist powers and the expansion of the anti-imperialist united front; these were but tactical measures in the short run. The long-term progress of a global socialist revolution ultimately had to rely on the accumulation and strengthening of revolutionary forces, and priorities among the components of the anti-imperialist united front had to be clearly defined. This was why the post-Mao leaders still emphasized the important role of the Third World from a theoretical, long-term point of view: the ultimate judgment as to whether or not their foreign policy line had violated the obligations of a socialist country had to depend on whether or not it had contributed to the accumulation and strengthening of revolutionary forces in the long run. This was the implicit ideological defense of Deng Xiaoping's foreign policy line, though it did not appear to be convincing in the eyes of the African countries.

The Tiananmen incident in June 1989 altered the balance. The Political Bureau of the Communist Party of China (CPC) made the

¹⁴ Philip Snow, "China and Africa: Consensus and Camouflage", in Thomas Robinson and David Shambaugh (eds.), *Chinese Foreign Policy: Theory and Practice* (Oxford: Clarendon Press, 1994), p. 306.

¹⁵ See Harry Harding, "China's Changing Role in the Contemporary World", in Harry Harding (ed.), *China's Foreign Relations in the 1980s* (New Haven, Connecticut: Yale University Press, 1984), p. 184.

following observation after the Tiananmen incident: China in the past had been too close to the West and the rich countries, and had neglected the Third World and the old friends in Africa. In the crucial moments, as had been demonstrated in the recent disturbance, it was the old friends and the Third World that had shown China sympathy and support. China therefore should strive to resume and develop relations with these old friends.¹⁶

Soon after the Tiananmen incident, the then Chinese Foreign Minister Qian Qichen visited Africa in August and the Middle East in September 1989.¹⁷ These visits were designed to raise China's international profile among Third World countries and reassure them of its renewed commitment. No dramatic results were achieved, but they symbolized a significant shift in Beijing's pro-Western tilt since 1978, which had been resented by many of China's Third World friends.

During Qian's visit of Africa, he noted at a press conference in Harare, capital of Zimbabwe, that of the 137 countries that had established diplomatic relations with China, only some 20 had reacted adversely to what had happened in China; the majority, including African countries, neighboring Asian countries, Latin American countries and socialist countries, considered it China's internal affairs and that other countries should not poke their noses into it.¹⁸

As China's comprehensive national power improved in the 1990s, the Chinese leadership expected China to be taken seriously as a "major power" and accorded its "rightful place" in the international community.¹⁹ Michael D. Swaine argued that China's foreign policy in the 1980s exploited "the development of common interests with

¹⁶See Lo Bing, "Zhonggong Waijiao de Da Zainan (The Big Disaster in Chinese Communist Diplomacy)", *Cheng Ming* (a Chinese-language monthly in Hong Kong), No. 144 (October 1989), p. 8.

¹⁷*South China Morning Post* (an English newspaper in Hong Kong), 9 September 1989.

¹⁸Chang Qing, "Chinese Foreign Minister Tours Africa", *Beijing Review*, Vol. 32, No. 35 (28 August–3 September 1989), p. 10.

¹⁹See Joseph Y. S. Cheng and Zhang Wankun, "Patterns and Dynamics of China's International Strategic Behaviour", *Journal of Contemporary China*, Vol. 11, No. 31 (May 2002), pp. 235–260.

most Third World (and especially Asian) states, to raise China's global stature and increase Beijing's bargaining leverage with the United States..."²⁰ In the post-Cold War era, the world was perceived as a unipolar one, and Chinese leaders wanted to contain United States hegemonism, as reflected by the then Premier Li Peng's comment in 1990: the Western countries should not be allowed "to interfere in the internal affairs of the developing countries, or pursue power politics in the name of 'human rights, freedom and democracy'".²¹

China's relations with the Third World were not without difficulties. Despite its claim of being a developing country belonging to the Third World, it was not even a member of the Group of 77 and the Non-aligned Movement. Partly because of its pledge not to become a superpower and probably because of its shortage of seasoned diplomats, China adopted a low profile regarding the leadership of the Third World and had, until the turn of the century, offered few initiatives and concrete proposals.

In diplomatic competition with Taiwan, China sometimes encountered difficulties too. In the aftermath of the Tiananmen incident, Taiwan hoped that the offer of generous economic aid and the international opposition to the bloody suppression of the Chinese students' prodemocracy movement would encourage some Third World countries to re-establish diplomatic relations with Taipei. The first breakthrough came in July 1989 when Grenada announced the establishment of diplomatic relations with Taipei while trying to maintain formal ties with Beijing. China responded by breaking off diplomatic relations with Grenada.²² Grenada was followed by Liberia and Belize,²³ and Nigeria and Senegal were then considered to be the next potential targets.

In the 1980s, after the Chinese leadership had adopted a development strategy of economic reforms and opening to the external

²⁰ See Michael D. Swaine, *China: Domestic Change and Foreign Policy* (Santa Monica, California: Rand Corporation, 1995), p. 87.

²¹ *Xinhua Domestic Service*, 12 March 1990.

²² *South China Morning Post*, 8 August 1989.

²³ *South China Morning Post*, 11 and 14 October 1989.

world, with the open admittance of the failure of the Maoist development strategy, China could no longer claim to be an attractive model of socioeconomic progress offering a successful alternative to the Third World. China's economic development strategy became not unlike that of other developing countries in East and Southeast Asia; it was also competing with other Third World countries for aid and loans from international organizations such as the World Bank, and from the Western and Japanese governments. As China joined the Multi-Fibre Arrangement and began to negotiate to participate in the General Agreement on Tariffs and Trade (and later the World Trade Organization), it also entered into hard bargaining for export quotas from the developed countries and into competition with the developing countries.

In this period, the impact of China's development on the African economy remained very limited. As the Chinese economy has been achieving respectable growth, however, China's economic ties with Africa have also been strengthening. Africa has been an important target in China's "resources diplomacy" in the recent two decades. When China, as a major power, assumes an increasing role in providing aid to the developing world, Africa naturally becomes a significant recipient, especially with regard to aid going to the least developed countries. In 2005, China began to offer tariff-free treatment to part of the imports from 25 least developed African countries. Altogether, 16 African countries were granted "Approved Destination Status" and qualified as Chinese tourist destinations then. China now engages in cooperation with Africa in environmental protection and population development; it has initiated a Young Volunteers Program similar to the Peace Corps of the U.S., and the first batch of volunteers had arrived at Ethiopia. Human resources development programs have been one of Beijing's priority areas, and it claimed that more than 4,000 African participants received training in China in 2005. The Forum on China-Africa Cooperation (FOCAC) just held a summit meeting and its third ministerial meeting in Beijing in the same year.²⁴

²⁴ See Forum on China-Africa Cooperation, "Beijing Summit and the 3rd Ministerial Conference". Available at <http://www.focac.org/eng/ltlda/dscbjzjhy/>.

The first ministerial meeting of FOCAC was held in Beijing in 2000 at the initiative of the then Chinese President Jiang Zemin. In contrast to the previous Third World meetings which were heavily political in orientation, this forum was business in nature with the Chinese Minister of Foreign Trade and Economic Cooperation (now Minister of Commerce) Shi Guangsheng as the honorary president. The forum focused on the following two topics: how to push ahead with the establishment of a new international political and economic order that is fair and just in the new century; and how to promote Sino-African economic and trade cooperation.²⁵ The second ministerial meeting of FOCAC took place in Addis Ababa, Ethiopia, in 2003. It had mainly concentrated on the implementation of the Beijing Declaration and the program for China-Africa cooperation in economic and social development. It was noteworthy that a China-Africa business conference was held during this forum to facilitate exchanges among entrepreneurs, and between entrepreneurs and officials.²⁶ The third ministerial meeting of FOCA was held in Beijing in November 2006 followed by a summit meeting, and the fourth ministerial meeting moved to Sharm el-sheikh in Egypt in November 2009. The fifth ministerial meeting took place in Beijing in July 2012, while the following meeting was held in South Africa in December 2015.

At the international organization level, China is grateful for support from African countries on the issues of Taiwan's representation and China's human rights situation. On issues such as reform of the UN and negotiations at the World Trade Organization (WTO), China and Africa have a lot in common. China has become involved in a number of peacekeeping operations in Africa under the UN auspices including those in Congo (Kinshasa), Liberia and Darfur in Sudan. At the end of 2005, Chinese personnel involved in peacekeeping operations in Africa numbered 843. Beijing offers the African Union grants for material and for specific peacekeeping operations,

²⁵ See Forum on China-Africa Cooperation, "The First Ministerial Conference". Available at <http://www.focac.org/eng/lttda/dyjbzjhy/>.

²⁶ See "China to Take Measures to Further Sino-African Cooperation". Available at http://www.chinadaily.com.cn/en/doc/2003-11/30/content_285970.html.

and China's ambassador to Ethiopia also serves as ambassador to the African Union. After the tsunami in the Indian Ocean in December 2004, China was involved in the disaster-relief operations in the affected African countries.²⁷ In March 2014, in response to the Ebola outbreak in West Africa, China claimed to be the first major country outside Africa to provide emergency aid, and its nine chartered flights were the first to arrive with aid materials. It also declined to withdraw its medical teams from Sierra Leone, Liberia and Guinea. Altogether, China provided aid amounting to 750 million yuan, the largest aid project in its history in response to foreign public health crisis.

In September 2005, Chinese President Hu Jintao announced a package of aid measures in support of developing countries in a fund-raising conference of the UN: (a) China would offer 39 least developed countries with diplomatic relations with China tariff-free treatment for most of their exports to China; (b) China would expand its assistance for poor countries in heavy debts and the least developed countries; in the coming two years, it would, through bilateral channels, waive the remaining repayment of all their low-interest and interest-free governmental loans from China scheduled till the end of 2004; (c) in the next three years, China would offer developing countries US\$ 10 billion of preferential loans and preferential export buyer credits to support their infrastructural development and to promote bilateral joint ventures among enterprises; (d) in the next three years, China would increase its medical assistance to developing countries, especially those in Africa, including pharmaceutical supplies, in particular those against malaria, the establishment and improvement of medical facilities and the training of medical personnel; these medical assistance programs would rely on mechanisms such as FOCAC and bilateral channels; and (e) in the next three years, China would provide various types of training to 30,000 people from developing countries, in support of their human resources development.²⁸

²⁷ Policy Research Department, Ministry of Foreign Affairs, People's Republic of China (ed.), *Zhongguo Waijiao 2006 (China's Foreign Affairs 2006)* (Beijing: Shijie Zhishi Chubanshe, May 2006), pp. 32–33.

²⁸ Zhang Youwen, Huang Renwei et al., *2006 Zhongguo Guoji Diwei Baogao (China's International Status Report 2006)* (Beijing: Renmin Chubanshe, May 2006), p. 283.

Apparently, Africa is the main beneficiary of these aid programs, reflecting China's enhanced inputs to Sino-African ties.

As a symbolic gesture, since 1989, China's foreign minister visits African countries in his first foreign visit every year. In 2005, the Chinese Ministry of Foreign Affairs organized its first open day for the public on the theme of Africa to promote understanding of Africa and Sino-African relations. The year 2006 happened to be the 50th anniversary of the beginning of China's diplomatic relations with Africa, and on 12 January 2006, the Chinese government formally released a document on "China's African Policy".²⁹ This was the first document of its kind, and the Chinese Assistant Foreign Minister Lui Guozeng indicated that "Our objective is to show the international community the importance China accords to Africa, and to demonstrate China's strong will to develop friendly relations with African countries (the authors' translation)".³⁰ The document is divided into six sections: Africa's position and role, China's relations with Africa, China's African policy, the enhancement of all-round cooperation between China and Africa, FOCAC and its follow-up actions, and China's relations with African regional organizations.

The document states that China will establish and develop a new type of strategic partnership with Africa, featuring political equality and mutual trust, economic win-win cooperation and cultural exchange. Several concrete measures were proposed to strengthen Sino-African economic cooperation, including (a) the setting up of a China-Africa Joint Chamber of Commerce and Industry; (b) the initiating of negotiations for free trade agreements with African countries and African regional organizations when conditions are ripe; (c) the provision of preferential loans and buyer credits to encourage Chinese enterprises' investment and business in Africa; (d) the conclusion of agreements on bilateral facilitation and protection of investment and agreements on avoidance of double taxation with African countries; (e) agricultural cooperation in agricultural technology,

²⁹ Ministry of Foreign Affairs of the People's Republic of China, "China's African Policy", 12 January 2006, <http://www.fmprc.gov.cn/eng/zxxx/t230615.htm>.

³⁰ Zhang Youwen, Huang Renwei *et al.*, *op. cit.*, p. 284.

training courses on practical agricultural technologies, experimental and demonstrative agricultural technology projects and the formulation of a China–Africa Agricultural Cooperation Program; (f) cooperation in transportation, communications, water conservancy, electricity and other infrastructural projects; (g) resources cooperation; (h) human resources development through Beijing's African Human Resources Development Foundation in training African personnel, and its increase in the number of government scholarships to promote the exchange of students; (i) science and technology cooperation; and (j) medical and health cooperation.

Sino-African trade grew from less than US\$ 10 million per annum in the 1950s to almost US\$ 40 billion in 2005. In 2014, it exceeded US\$ 200 billion, and a target has been set at US\$ 400 billion for 2020. In the past half a century, China offered about 800 aid projects to Africa, and Chinese enterprises contracted construction and labor service projects amounting to US\$ 38.9 billion by October 2005. Mutual investment flows remained limited until recent years: China's investment in Africa was about US\$ 1.075 billion by October 2005, and only a few African countries like South Africa had investment in China. But in 2014, China's investment in Africa almost reached US\$ 30 billion, rising at an average annual rate of over 20% in recent years. China has basically fulfilled its pledge made at the second ministerial meeting of FOCAC in December 2003 to offer training for 10,000 African personnel in 2004–2006, i.e., about 3,000–4,000 people per annum. Since China first dispatched its medical team to Algeria in 1963, Beijing claimed to have sent 14,000 medical personnel in various missions to 37 African countries up to the end of 2005.³¹ In 2013, China had altogether sent 18,000 medical personnel/times to Africa, providing treatment to 250 million patient/times.³²

In the Beijing summit, under the auspices of the third ministerial meeting of FOCAC in November 2006, the Chinese leadership made

³¹ *Ibid.*, pp. 284–285.

³² See “A Record of an Interview of Foreign Minister Wang Yi by the African Branch of Central Television (in Chinese)”, 12 January 2015, http://www.focac.org/chn/zjt/1_1_2_1/t1227277.htm.

further offers of aid which amounted to US\$ 10 billion. Such aid commitments have considerably enhanced China's influence in Africa in support of its strategic partnership with the continent, and as an aid donor, China gradually can compete with the U.S. and France. The pledges made by the Chinese government during the summit include: (a) to double the amount of aid to Africa in 2006 by 2009; (b) to offer US\$ 3 billion of preferential loans and US\$ 2 billion preferential export credits for purchasers to African countries in the following three years; (c) to set up a China–Africa Development Fund expected to reach US\$ 5 billion eventually to promote investment in Africa by Chinese enterprises; (d) to build the African Union Convention Center; (e) to waive the repayment of interest-free government loans scheduled till the end of 2005 for all poor African countries in heavy debts and the least developed countries in Africa with formal diplomatic relations with China; (f) to offer tariff-free treatment to more than 440 import items (formerly 190 items) to the least developed African countries with formal diplomatic relations with China as a gesture to open the China market to Africa; (g) to establish three to five offshore economic and trade cooperation zones in African countries within three years; and (h) to provide training for 15,000 Africans in three years, and to offer 300 million yuan for the prevention of malaria as well as the construction of medical, agricultural and educational facilities in Africa.³³ Obviously, these pledges were further expansions of existing commitments. The summit also facilitated the conclusion of US\$ 1.9 billion of contracts between African countries and Chinese enterprises.³⁴

The fourth ministerial meeting of FOCAC in November 2009 maintained the momentum of strengthening Sino-African relations. Africa's significance in China's economic development increased considerably as China's development moved to the stage of emphasis on heavy industries and infrastructural projects. The global financial crisis in 2008–2009 slowed down the immediate expansion of Sino-African trade, but in view of the economic difficulties in the Western world,

³³ *Ming Pao* (a Chinese newspaper in Hong Kong), 5 November 2006.

³⁴ *Ibid.*, 6 November 2006.

the relative importance of the bilateral economic ties probably further improved. In 2008, Sino-African trade grew from US\$ 76.1 billion in the previous year to US\$ 112.6 billion, then fell to US\$ 97 billion in 2009 and rose back to US\$ 128.5 billion in 2010; the share of this bilateral trade in Africa's total trade, however, steadily increased from 9.22% in 2007 to 10.67% in 2008, 12.43% in 2009 and 13.31% in 2010.³⁵ When the then Vice President Xi Jinping visited Pretoria, South Africa, in November 2010 on the 10th anniversary of the establishment of FOCAC, he indicated that China had become the leading trade partner of Africa the year before, and the latter had emerged as the fourth destination of China's overseas investment. It was also said that in recent years, China's contribution to Africa's economic growth exceed 20%.³⁶

At the fifth ministerial meeting of FOCAC held in Beijing in July 2012, then President Hu Jintao pledged China's contribution to Africa's peaceful development in the five areas of investment and fund-provision, assistance, African integration, people-to-people exchanges, and peace and security in Africa. In the following three years, China promised to offer African countries credit amounting to US\$ 20 billion, with an emphasis on infrastructural facilities, agriculture, manufacturing industries and small- and medium-sized enterprises and would continue to be expanded; support for the establishment of agricultural technological demonstration centers would be improved; in terms of human resources development, China would provide training of various kinds for 30,000 people and 18,000 government scholarships, as well as assistance in the building of cultural, vocational and technical training facilities; China would also send 1,500 medical personnel to Africa. Further, China and Africa would establish a cooperative partnership for building transnational

³⁵ David H. Shinn and Joshua Eisenman, *China and Africa — A Century of Engagement* (Philadelphia: University of Pennsylvania Press, 2012).

³⁶ For the text of Vice President Xi Jinping's speech at the opening ceremony of the seminar celebrating the 10th anniversary of the establishment of FOCAC (in Chinese), 18 November 2010 in Pretoria, see http://www.fmprc.gov.cn/mfa_chn/ziliao_611306/zyjh_611308/t770438.shtml.

and transregional infrastructural facilities and encourage China's enterprises and, financial institutions participate in related projects. The Chinese authorities planned to initiate the "China–Africa People-to-People Friendly Action" program, establish the "China–Africa News Exchange Center" in China and continue to implement the "China–Africa Joint Research Exchange Program", offering funding for 100 joint academic research projects between academic institutions and scholars from both sides. Finally, Beijing proposed the "China–Africa Peace and Security Cooperative Partnership Initiative", including support for the Africa Union's peacekeeping efforts in the continent.³⁷

When Premier Li Keqiang visited Africa in May 2014, he proposed six major cooperation projects and three major networks. The former included industries, finance, poverty alleviation, environmental protection, humanities exchange, and peace and security. The latter three networks covered roads and highways, railways and regional civil aviation.³⁸

Chinese Foreign Minister Wang Yi visited Africa in January 2015. During his visit, he participated in the specific consultation on the peace progress in South Sudan which was proposed by Beijing, reflecting China's more active approach to Africa's peace and security. While in Nairobi, Kenya, he indicated China's commitment to the Mombasa–Nairobi railway as an early harvest of China's to the participation in the construction of a high-speed railway network linking African counties' capital cities. Partly in preparation for the sixth ministerial meeting of FOCAC later in the year, Wang discussed further China–Africa cooperation in an interview by China Central Television under three themes: convergence, transfer and upgrading. Convergence

³⁷ See "Forum on China–Africa Cooperation — FOCAC", March 2015, http://www.fmprc.gov.cn/mfa_chn/gjhdq_603914/gjhdqzz_609676/zfhzlt_610542/.

³⁸ See the "Joint Declaration on the Comprehensive Deepening of Friendship and Co-operation between China and the Africa Union (in Chinese)", 6 May 2014, Addis Ababa, Ethiopia, http://www.focac.org/chn/zt/1_1/t1152989.htm; "A record of an Interview of Foreign Minister Wang Yi by the African Branch of China Central Television (in Chinese)", 12 January 2015, http://www.focac.org/chn/zt/1_1_2_1/t1227277.htm.

refers to that between the medium- and long-term development strategies of China and Africa. Transfer refers to the external transfer of China's surplus production capacity as well as equipment and technology in its stage of deepening economic transformation and upgrading; Chinese leaders believe that this transfer meets Africa's needs. Finally, Wang expects that Sino-African cooperation will move from trade to industrial cooperation and technology transfer, and from traditional project contracts to investment and financial cooperation.³⁹

In December 2015, the summit and the sixth ministerial conference of the FOCAC were held in Johannesburg, South Africa, with the theme "China–Africa Progressing Together: Win–Win Cooperation for Common Development". The emphasis on win–win cooperation and common development reflected Beijing's awareness of Africa's complaints and grievances. South Africa President Jacob Zuma stated at the last FOCAC meeting in 2012 that the unequal trade relationship with China could not be sustained; Nigeria's Central Bank Governor Lamido Sanusi even commented that China's relationship with Africa is imperialist, removing natural resources from the region.⁴⁰

The Declaration of the summit pledges commitment to the principles of multilateralism, and efforts to increase the voice of China and African countries in the international financial institutions and the international monetary system. The BRICS New Development Bank would set up its African Regional Centre in South Africa, and China indicates that it would strengthen cooperation with the regional economic communities in Africa and the African Development Bank. China also promises to enhance collaboration in the development of industrial production capabilities and value addition by establishing industrial parks and clusters, technology parks, special economic zones and engineering centers providing training for engineering and

³⁹ See "Convergence in Development Strategies, Realization of Co-operation and Win-Win", 19 January 2015, http://www.focac.org/chn/zt/1_1_2_1/t1229377.htm; "A record of an Interview of Foreign Minister Wang Yi by the African Branch of China Central Television (in Chinese)", 12 January 2015, http://www.focac.org/chn/zt/1_1_2_1/t1227277.htm.

⁴⁰ Sara Hsu, "China Prepares for Africa Summit", *The Diplomat*, 1 December 2015. Available at <http://thediplomat.com/2015/12/china-prepares-for-africa-summit/>.

technical personnel and managers. Beijing naturally wants these projects to be linked to its Silk Road Economic Belt and 21st Century Maritime Silk Road schemes.

In implementing the “Initiative on China–Africa Cooperative Partnership for Peace and Security”, China will likely strengthen its support for the building of the collective security mechanisms in Africa and the joint management of non-traditional security issues and global challenges. The Chinese leadership declares its commitment to seek the peaceful settlement of disputes in Africa through dialogue and consultation, and its support of Africa’s efforts “to solve African problems through African solutions”.⁴¹

The released Johannesburg Action Plan (2016–2018) highlights China’s economic assistance to Africa and the expanding economic ties. The mission of China to the African Union has been established in Addis Ababa, Ethiopia; and China invites the African Union to reciprocate. Agricultural cooperation would be accorded a higher priority in the future; China would send 30 teams of senior agriculture experts and teachers to offer vocational education to African countries and to increase the number of African personnel trained in agrotechnology and administration in China. Chinese authorities will encourage Chinese enterprises to invest in agriculture in Africa; food security and biodiversity are important considerations of the former. To support the development of industrial production capabilities mentioned above, China pledges US\$ 10 billion initially in setting up a China–Africa production capacity cooperation fund. Both sides would encourage Chinese investment, especially through new modes of Public–Private Partnership and Build–Operate–Transfer.⁴²

As expected, railway construction in Africa will be a priority area, and the two sides would jointly formulate the China–Africa Railway Cooperation Action Plan (2016–2020); China would also support

⁴¹ Declaration of the Johannesburg Summit of the Forum on China–Africa Co-operation, 11 December 2015. Available at <http://www.fmprc.gov.cn/ce/ceindo/eng//xwtd/t1323145.htm>.

⁴² The Forum on China–Africa Cooperation Johannesburg Action Plan (2016–2018), 25 December 2015. Available at http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1323159.shtml.

African countries to establish five transportation universities. As China plans to export its short-haul airplanes, the China–Africa regional aviation cooperation program has entered the agenda. In support of all these ambitious projects, Beijing anticipates that its stock of direct investment in Africa would increase to US\$ 100 billion in 2020 from US\$ 32.4 billion in 2014. Within the same time frame, China–Africa trade would increase from US\$ 220 billion to US\$ 400 billion.

To facilitate trade and investment expansion, the Chinese side will offer African countries US\$ 35 billion of concessional loans, expand gradually the China–Africa Development Fund from US\$ 5 billion to US\$ 10 billion, as well as gradually increase the special loans to support Small and Medium Sized Enterprises in Africa from US\$ 1 billion to US\$ 6 billion.

The Chinese authorities perceive that education and human resources development are the best means to consolidate ties in the long term. Through the Johannesburg Action Plan, the Chinese side would offer 2,000 degree education opportunities in China and 30,000 government scholarships to African countries. It will also help to train 200,000 local African vocational and technical personnel, and provide Africa with 40,000 training opportunities in China.

In competition with the Western countries in spreading the discourse of the Chinese authorities, the latter would step up its training and capacity building seminars for African countries' news officials and reporters, train 1,000 African media professionals each year, and support exchange between Chinese and African journalists and press professionals as well as media organizations, in part through platforms like the China–Africa Press Exchange Centre Programme and the Forum on China–Africa Media Cooperation.

China's Political Interests in Africa

Chinese leaders understand that it will take a long time for China to catch up with the most advanced developed countries in the world. Hence, they will continue to strive to maintain a peaceful international environment to concentrate on economic development. As China's

economy grows, and as it moves to a higher concentration of heavy industries (in the first decade of this century, China's heavy industries enjoyed a higher growth rate than its light industries, and China had actually become a net exporter of steel, aluminum, auto parts and other machinery categories),⁴³ it demands more raw materials and energy resources from abroad. China's expanding exports also call for new markets. From the first half of 2004 to the first half of 2007, China's monthly trade surplus jumped by nearly US\$ 20 billion, of which only US\$ 6 billion came from the United States.⁴⁴ China's approach to Africa therefore has a strong "resource diplomacy" element. In some ways, China's position was similar to that of Japan in the 1973–1974 oil crisis. In contrast to Japan, China certainly has much less trust in the U.S. and in the international marketplace dominated by multinational corporations based in Western countries.

China's impressive economic development enhances its "comprehensive national strength". Chinese foreign policy today adopts a considerably higher profile, and the Chinese leadership engages in a "major power diplomacy" to strengthen China's influence in international affairs. Such efforts are part of its grand design to promote multipolarity. In the early summer of 2007, Beijing appointed a special envoy and began to exert some pressure on the government of Sudan to respond to the Western countries' demands.⁴⁵ These two trends imply that China will be more involved in African affairs; it will seek recognition of its interests in the continent as a world power and it will attempt to resist U.S. "unilateralism" in Africa. But China has no intention to confront the U.S., including in its approach to Africa. In line with its support for European integration, it will promote African solidarity and the strengthening of the Africa Union.⁴⁶

⁴³Jonathan Anderson, "China Should Speed up the Yuan's Rise", *Far Eastern Economic Review*, Vol. 170, No. 6 (July/August 2007), p. 18.

⁴⁴*Ibid.*, p. 16.

⁴⁵Richard Holbrooke, "China Lends a Hand", *The Washington Post* (28 June 2007), p. A25.

⁴⁶China Institutes of Contemporary International Relations, *Guoji Zhanlue yu Anquan Xingshi Pinggu 2005–2006 (Strategic and Security Review 2005/2006)* (Beijing: Shishi Chubanshe, 2006), Chapter 10, pp. 193–214.

Chinese leaders realize China's limited power projection capabilities. They therefore attempt to establish and develop a loosely organized multilateral forum at this stage to gradually enhance China's influence in the continent, as they believe that time is on China's side. It is expected that economic ties will strengthen, accompanied by increase in foreign aid from China, which will be designed to achieve maximum publicity and soft power impact in the long term with limited resources. Beijing is obviously interested in establishing a good image, and it will continue to articulate a prodeveloping world position on African affairs. The Darfur crisis in Sudan is a typical example. The Chinese government insisted on reaching a solution through political and diplomatic means, discouraging major power intervention and respecting local/regional interests as far as possible. It is now more inclined to take part in UN peacekeeping operations and offer financial and other types of assistance for them. As China becomes more active in international organizations, it will see African countries as natural allies. Upon re-establishment of diplomatic relations with Chad in early August 2006, China enjoys formal ties with 48 of the 53 African countries. Upon re-establishment of diplomatic relations with Chad in early August 2006, the establishment of diplomatic relations with Malawi in December 2007, and that with South Sudan in July 2011, China has been enjoying formal ties with 50 of the 54 African countries.

Many African governments respond positively to Beijing's appeal to unite together to withstand the pressures from imperialism and neo-colonialism. They resent Western countries' criticisms of their lack of democracy and human rights violations. They perceive such criticisms as the latter's attempt to interfere in their domestic affairs and would support Beijing's position that "the right of survival" and "the right of development" should take precedence over human rights on an individual basis. The Chinese leadership probably considers that African support for China against the Western world's condemnation of China's human rights record and for its position to deny Taiwan representation in international organizations are important diplomatic achievements in its African policy.

The issue of human rights has been an area of contention in Sino-American relations, especially after the Tiananmen incident. American presidents have been under substantial domestic pressure to condemn China's human rights violations in multilateral forums. On the part of the Chinese leadership, it perceives this as a matter of "face" or prestige, and treats the voting processes as competitions for support in the international community. The UN Commission on Human Rights (UNCHR) was a major battlefield, as reflected by the following comment of the former United States Assistant Secretary of State for Democracy, Human Rights and Labour, John Shattuck: "the UNCHR is probably the most important tool to condemn China's human rights violations".⁴⁷

From 1990 to 2006, the U.S. and its allies initiated motions to condemn China's human rights violations relating to the Tiananmen incident, the Tibet issue, the suppression of Falun Gong, etc., 11 times at the UNCHR annual conferences, and China typically countered with "no action" motions. China was able to avoid condemnation by the UNCHR every time through securing a majority support for its "no action" motions (the 1995 vote was a tie); as shown by Tables 1–3, China owed its success much to the support of the African countries. The African Group delivered 120 supporting votes throughout these years, compared with 135 votes from the rest of the world. The annual ratio of African supporting votes to total supporting votes averaged 46.6%, ranging from a low of 35.3% to a high of 51.9%. There were only 8 votes opposing the 11 "no action" motions from African countries, compared with 180 from the rest of the world. There were no opposing votes from Africa in the respective votes in 1992, 1993 and 2004.

⁴⁷Secretary of State Madeleine K. Albright, Under Secretary for Global Affairs Timothy Wirth, and Assistant Secretary for Democracy, Human Rights and Labor John Shattuck, "Press Briefing: 1996 Country Reports on Human Rights Practices", as released by the Office of the Spokesman, U.S. Department of State, Washington, D.C., 30 January 1997, from <http://secretary.state.gov/www/statements/970130.html>.

Table 1. Regional Distribution of Seats in United Nations Commission on Human Rights (1980–2006)

Period	Regional Group									
	African Group		Eastern European Group		Latin American Group		Asian Group		Western World Group	
	% of Seats	% of Total	% of Seats	% of Total	% of Seats	% of Total	% of Seats	% of Total	% of Seats	% of Total
1980–1991	11	26%	5	11%	8	19%	9	21%	10	23%
1992–2006	15	28%	5	9%	11	21%	12	23%	10	19%

Source: United Nations Commission on Human Rights website, <http://www.unhchr.ch/html/menu2/2/chrmem.htmUT>.

Africa also figures prominently in the competition between Beijing and Taipei for diplomatic recognition. Since the PRC's entry into the UN in 1971, the number of countries recognizing the Republic of China (ROC) dropped from approximately 70 to about 22 in the early 1980s. Under such circumstances, Taiwan pursues its "pragmatic diplomacy" consisting of *de jure* recognition by a small number of countries and *de facto* economic and informal linkages with most countries of the world. Taiwan values its "international space", and its "pragmatic diplomacy" was said to be "like the sun, the air and the water for a person".⁴⁸ Taiwan was therefore ready to engage in "dollar diplomacy" to raise its international profile before the Ma Ying-jeou administration which began in 2008; and given its substantial foreign-exchange reserves, it has been able to induce a few small and poor African, Central American and South Pacific countries to establish formal diplomatic relations with.⁴⁹

The Chinese leadership treats the prevention of Taiwan's independence as a national goal of top priority, partly because it has been

⁴⁸ "Pragmatic Diplomacy for Taiwan is like the Sun, the Air, and the Water for a Person", said Jason Hu, Taiwan's Foreign Minister, release by the Taipei Liaison Office in South Africa, Pretoria, 8 November 1997.

⁴⁹ See Ian Taylor, "China's Foreign Policy towards Africa"; "Ambassador I-Cheng Loh's Address at ROC National Day Reception", released by the Taipei Liaison Office in South Africa, Pretoria, 10 October 1997.

Table 2. African Countries' Votes on the "No Action" Motions Concerning Condemnation of China's Human Rights Situation at UN Human Rights Conferences

Year	Supporting Votes				Opposing Votes				Abstention Votes			
	Total	African Votes	% of Total Supporting Votes	% of African Group Total	Total	African Votes	% of Total Opposing Votes	% of African Group Total	Total	African Votes	% of Total Abstention Votes	% of African Group Total
1990	17	6	35.3	54.5	15	1	6.7	9.1	11	4	36.4	36.4
1992	27	13	48.1	86.7	15	0	0	0	11	2	18.2	13.3
1993	22	11	50.0	73.3	17	0	0	0	12	2	16.7	13.3
1994	20	10	50.0	66.7	16	1	6.3	6.7	17	4	23.5	26.7
1995	20	11	55.0	73.3	21	1	4.8	6.7	12	3	25.0	20.0
1996	27	14	51.9	93.3	20	1	5.0	6.7	6	0	0	0
1997	27	14	51.9	93.3	17	1	5.9	6.7	9	0	0	0
1999	22	8	36.4	53.3	17	2	11.8	13.3	14	5	35.7	33.3
2000	22	9	40.9	60.0	18	1	5.6	6.7	12	5	41.7	33.3
2001	23	10	43.5	66.7	17	0	0	0	12	4	33.3	20.0
2004	28	14	50.0	93.3	16	0	0	0	9	1	11.1	6.7
Average	23.2	10.9	46.6	74.0	17.2	0.7	4.2	5.1	11.4	2.7	22.0	18.5

Sources: Various reports from *Renmin Ribao* (*People's Daily*, Beijing); Xiao Wenli, "Zhongmei Renquan Jiaoliangzhong Feizhou dui Zhongguo de Zhichi (Africa's Support for China in Sino-American Human Rights Contests)", *Xiya Feizhou* (*West Asia and Africa*) (Institute of West Asian and African Studies, Chinese Academy of Social Sciences, April 2002), No. 2, p. 39. In case of discrepancies in statistics, *Renmin Ribao* data are used.

Table 3. Regional Votes on the “No Action” Motions Concerning Condemnation of China’s Human Rights Situation at UN Human Rights Conferences

Year	Regional Group														
	African Group			Eastern European Group			Latin American Group			Asian Group			Western World Group		
	Supporting	Opposing	Abstentions	Supporting	Opposing	Abstentions	Supporting	Opposing	Abstentions	Supporting	Opposing	Abstentions	Supporting	Opposing	Abstentions
1990	6	1	4	3	2	0	1	1	6	7	1	1	0	10	0
1992	13	0	2	1	3	1	2	1	7	11	1	0	0	10	0
1993	11	0	2	0	5	0	1	1	9	10	1	1	0	10	0
1994	10	1	4	0	3	2	1	1	9	9	1	2	0	10	0
1995	11	1	3	0	5	0	2	4	5	9	2	1	0	10	0
1996	14	1	0	2	2	1	2	6	3	9	1	2	0	10	0
1997	14	1	0	2	2	1	2	3	6	9	1	2	0	10	0
1999	8	2	5	1	3	1	4	1	6	9	1	2	0	10	0
2000	9	1	5	1	3	0	3	3	5	9	1	2	0	10	0
2001	10	0	4	1	4	0	2	2	7	10	1	1	0	10	0
2004	14	0	1	2	2	0	2	3	6	10	1	2	0	10	0
Total	120	8	30	13	34	6	22	26	69	102	12	16	0	110	0

Notes: (i) Barbados (Latin American Group) did not vote in 1992; (ii) Togo and Mauritius (African Group) did not vote in 1993; (iii) Romania (Eastern European Group) was absent in 2000; and (iv) Congo (Kinshasa) (African Group) was absent in 2001.

Sources: Various reports from *Renmin Ribao* (*People's Daily*); Xiao Wenli, “Zhongmei Renquan Jiaoliangzhong Feizhou dui Zhongguo de Zhichi (Africa’s Support for China in Sino-American Human Rights Contests)”, *Xiya Feizhou* (*West Asia and Africa*), No. 2 (April 2002), p. 39. In case of discrepancies in statistics, *Renmin Ribao* data are used.

exploiting nationalism domestically to fill the ideological vacuum.⁵⁰ Isolating Taiwan internationally and defeating it in the diplomatic competition before the Ma Ying-jeou administration were therefore strongly linked to the Chinese leadership's exploitation of nationalism and its attempt to preserve/strengthen its legitimacy, hence the considerable resources spent in winning the diplomatic recognition of one or two small states in Africa, Central America and the South Pacific. This competition was often criticized by the overseas Chinese communities as meaningless and wasteful. When the Democratic Progressive Party was in opposition in Taiwan, it also criticized the Kuomintang regime for its "dollar diplomacy". But when it was in power from 2000 to 2008, it had not deviated from its predecessor's diplomatic practice.⁵¹

The re-establishment of diplomatic relations between Chad and the PRC is a typical example. In 1972, Chad abandoned Taiwan to establish diplomatic relations with the PRC, following the wave of recognizing Beijing after the PRC's securing the UN membership in 1971. In August 1997, Taiwan was able to persuade the Chad government to change its mind and switch recognition back to the ROC. At that time, Chad needed investment to develop its oil resources and foreign aid to relieve it of its economic difficulties, and the government badly needed money to fight the rebel forces. Since 1997, the Chad government, which had seized power in an earlier military coup, had been squeezing money from Taipei which obviously felt the financial burden. Finally, the prospects of improving trade with and attracting investment from the PRC induced the Chad government to change its mind again in August 2006. Economic assistance from Beijing apparently was an important consideration too.⁵²

Beijing's diplomatic victory was interpreted as a deliberate attempt to add insult to the Taiwanese government as the news was

⁵⁰ See Thomas J. Christensen, "Chinese Realpolitik", *Foreign Affairs*, Vol. 75, No. 5 (September/October 1996), pp. 37–52.

⁵¹ See Richard J. Payne and Cassandra R. Veney, "Taiwan and Africa: Taipei's Continuing Search for International Recognition", *Journal of Asian and African Studies*, Vol. 36, No. 4 (2001), pp. 437–450.

⁵² See all the major newspapers in Hong Kong on 7 August 2006.

released on the eve of Premier Su Tseng-chang's formal visit to Chad. The head of Taipei's Mainland Affairs Council, Joseph Wu Jau-shieh, indicated that the plan for Chen Yunlin, director of the Taiwan Affairs Office of Beijing's State Council, to visit Taiwan would almost certainly be denied.⁵³ This insult was also perceived to be not an isolated incident. Earlier in May 2006, Premier Su had to abandon a scheduled visit to Haiti as the president's special envoy to take part in the inauguration ceremony of the Haitian president because of pressure from Beijing. Observers noted that Su was considered a moderate within the Democratic Progressive Party, and his position on relations across the Taiwan Straits was said to be pragmatic. In 2002, when President Chen Shui-bian took up the position as chairman of the Democratic Progressive Party, the occasion was compromised by the news of Nauru establishing diplomatic relations with the PRC on the same day.⁵⁴

Reflecting Beijing's increasing diplomatic clout based on China's impressive economic performance and the Chinese leadership's stepped-up efforts to further isolate Taiwan diplomatically, it was alarming to Taipei that Chad was the seventh country to switch diplomatic recognition to Beijing since Chen Shui-bian had become President in 2000, following Senegal, Liberia, Macedonia, Dominica, Vanuatu and Grenada (see Table 4). Earlier in the 1990s, Lesotho in 1994, Niger in 1996, Central African Republic and Guinea-Bissau in 1998 had switched their diplomatic recognition from Taipei to Beijing. There are now only three African countries maintaining formal diplomatic ties with the ROC, namely, Burkina Faso, Sao Tome and Principe, and Swaziland.

This diplomatic competition between Beijing and Taipei has ceased in view of the considerable improvement in relations across the Taiwan Straits during the Ma Ying-jeou administration. Before this compromise, since 1993, Taipei had been actively promoting its re-entry into the UN, and beginning from 1997, it had been working hard to secure at least observer status at the World Health Organization

⁵³ *South China Morning Post*, 7 August 2006.

⁵⁴ *Ming Pao*, 7 August 2006.

Table 4. African Countries' Diplomatic Switches between Taiwan and China

Country	Year of Establishing Diplomatic Relations with Taiwan	Year of Establishing Diplomatic Relations with China
Burkina Faso ^a	1961, 1994	1973
Chad	1962, 1997	1972, 2006
Gambia	1968, 1995	1974, 2016
Liberia	1957, 1989, 1997	1977, 1993, 2003
Malawi	1966	2008
Sao Tome and Principe ^a	1997	1975
Senegal	1960, 1969, 1996	1964, 1971, 2005
Swaziland ^a	1968	
Lesotho	1966, 1990	1983, 1994
South Africa	1905	1998
Central African Republic	1962, 1968, 1991	1964, 1976, 1998
Guinea-Bissau	1990	1974, 1998

Note: ^aCountries maintaining diplomatic relations with Taiwan, as in June 2016.

Sources: Various issues of the annual report, news and events on foreign affairs from the Ministry of Foreign Affairs, Republic of China (Taiwan). Available at <http://www.mofa.gov.tw/en>.

(WHO). The African states maintaining diplomatic relations with Taiwan have been key supporters in such diplomatic offensives; Gambia has often served as the lead sponsor of Taipei's application to rejoin the UN under its official title ROC or its variants such as ROC on Taiwan and ROC (Taiwan).

After 14 years of consecutive failures, the Chen Shui-bian administration announced in September 2006 that it would consider applying again the following year under the name of Taiwan. President Chen also revealed that, according to a recent public opinion survey, 79% of the respondents supported the idea.⁵⁵ In view of the desperate

⁵⁵ "Taiwan Looking at New UN Strategy — President", *BBC Monitoring Asia Pacific — Political*, 13 September 2006, from http://web.lexis-nexis.com/universe/document?_m=61d4b621e2e2b3fb5899edf1f28415b7&_docnum=15&wchp=dGLzVlz-zSkVA&_md5=47141732135a5109e363dd2feb99da03.

situation of the Chen Shui-bian administration in its final years, it was considered possible that he might resort to radical acts such as a referendum on rejoining the UN in the name of Taiwan to divert attention. This provocative act, as seen by Beijing, would certainly have attracted retaliatory measures.⁵⁶

Again, using the example of Chad, it might not be too difficult for Taiwan's "dollar diplomacy" to score. In 1995, total foreign aid commitments to Chad amounted to US\$ 238.3 million, and Taipei won its diplomatic recognition by an offer of US\$ 125 million in August 1997, over half of the total foreign aid commitments pledged to the country. In the same year, Taipei offered an aid package of US\$ 30 million to win over Sao Tome and Principe, which exceeded 50% of its total annual foreign aid commitments of US\$ 57.3 million. Earlier in 1992, Taipei also succeeded in winning over Niger with a loan package of US\$ 50 million. Since 1988, when Taipei much stepped up its "dollar diplomacy" and quietly accepted dual recognition of Beijing and Taipei, it managed to win diplomatic recognition from three states in the Caribbean, one in Central America and eight in Africa before the end of 1996. But between 1994 and the end of 1998, four of these African states re-established diplomatic relations with Beijing, reflecting the severity of the diplomatic competition in Africa.⁵⁷

When the provisional government of Liberia resumed diplomatic relations with the PRC in 1993, the Taiwan authorities refused to retreat. Both Beijing and Taipei maintained embassies in Monrovia, capital of Liberia, from 1993 to 1997, creating the precedent of "two

⁵⁶ See *Ta Kung Pao*, *Hong Kong Economic Journal* and *Hong Kong Economic Times* (all three are Chinese newspapers in Hong Kong), 18 September 2006.

⁵⁷ See Philip Liu, "Cross-Strait Scramble for Africa: A Hidden Agenda in China-Africa Cooperation Forum", at <http://www.fas.harvard.edu/~asiactr/haq/200102/0102a006.htm>. See also the website of the Ministry of Foreign Affairs, Republic of Taiwan at <http://www.mofa.gov.tw>; the web site of the Ministry of Foreign Affairs of the PRC at <http://www.fmprc.gov.cn>; Tuan Y. Cheng, "Foreign Aid in ROC Diplomacy", *Issues and Studies*, Vol. 28, No. 9 (September 1992), pp. 67-84; Ian Taylor, "Taiwan's Foreign Policy and Africa: The Limitation of Dollar Diplomacy", *Journal of Contemporary China*, Vol. 11, No. 30 (February 2002), pp. 125-140.

Chinas" for the first time. The dual recognition principle could not work because Beijing refused to accept it. Although Chinese leaders routinely denounced Taipei's "dollar diplomacy" as "bribery", they also offered financial rewards to consolidate Beijing's diplomatic ties with the African countries. For example, when Li Peng, the then chairman of the Standing Committee of the National People's Congress (NPC), visited Africa in 2001, the Chinese government offered US\$ 24 million worth of grants and interest-free loans to Tanzania and a US\$ 3.6 million grant to Zambia.⁵⁸ Beijing, according to Philip Snow, "routinely use[s] aid as an inducement to African governments which have established ties with Taiwan to switch their diplomatic allegiance, undertaking for good measure to finish off any project which Taiwanese technicians might have begun in the countries involved".⁵⁹

As mentioned above, when Chinese President Hu Jintao announced a package of aid measures in support of developing countries in a fund-raising conference of the UN in September 2005, he specifically excluded countries without formal diplomatic ties with the PRC. Hu was in fact following the precedent set by Jiang Zemin. In the first ministerial meeting of FOCAC hosted by Jiang in Beijing in 2000, he offered debt-waivers to the poor indebted African countries in the following two years amounting to US\$ 1.2 billion. At that time, the then Chinese Foreign Minister Tang Jiaxuan made it clear that those countries maintaining official ties with Taiwan would be excluded. Nonetheless, Taipei's African friends were strongly encouraged by Beijing to join the forum. Two of them, Liberia and Malawi, did; Liberia subsequently resumed diplomatic relations with the PRC in October 2003.⁶⁰

The following event probably highlights a new aspect of Africa's significance in China's efforts to enhance its international status. The

⁵⁸ Ian Taylor, *ibid.*

⁵⁹ Philip Snow, "China and Africa: Consensus and Camouflage", in Thomas W. Robinson and David Shambaugh (eds.), *Chinese Foreign Policy: Theory and Practice* (Oxford: Clarendon Press, 1994), p. 297.

⁶⁰ See Liu, "Cross-Strait Scramble for Africa".

election of Margaret Chan Fung Fu-chun, a former Hong Kong health official, as the new director-general of WHO in November 2006 demonstrated the critical weight of the votes from African countries.⁶¹ China in the recent decade is similar to Japan in the 1980s, and it would like to secure a fair share of the important positions of international organizations, partly as compensation for its contributions to the specific organizations and to the international community, and partly as a symbol of its rising international status and influence. African countries' support will be keenly sought in subsequent competitions for leading positions in the international civil service.

In the eyes of China's experts on Africa, the latter's strategic significance has been on the rise because of the issues of oil supply, anti-terrorism, poverty alleviation, United Nations reform, etc. Hence, Western countries have demonstrated an increasing interest in the continent and a willingness to expand their inputs, at least when their resources allow. The British initiative of the "African Marshall Plan" launched during its hosting of the G-8 summit in July 2005 was a good example. The plan asked developed countries to double their aid to Africa, to set a timetable to realize their pledge of delivering 0.7% of their respective gross domestic product for official development assistance and to waive all debts of African countries heavily in debt.⁶² The U.S., Japan and many European countries all presented their respective new programs of aid for Africa before the global financial crisis in 2008–2009. China's generous aid packages for the continent imply that it is ready to take part in the competition as a major power.

China's approach to Africa has been followed by some Asian countries, as Africa has been encouraged to "look East" to learn from the impressive East Asian economic development experiences. Since 2005, some African subregional organizations have established multilateral cooperation mechanisms with Malaysia, Japan, India, Vietnam, etc. In

⁶¹ See all the leading newspapers in Hong Kong, 10 November 2006.

⁶² See *Our Common Interest*, Report of the Commission for Africa 2005, <http://www.commissionforafrica.info/2005-report>.

April 2005, South Africa and Indonesia co-hosted the Second Asian–African Summit in Jakarta, and it was participated by over 100 government leaders. The summit meeting also released a Declaration on the New Asian–African Strategic Partnership.⁶³ The initiatives of Japan and India have been reinforcing the Chinese efforts to cultivate Africa.

China's Economic Interests in Africa

As China embraces economic globalization and expands the reach of its trade and investment activities, Africa has emerged as its increasingly important economic partner. Since 1995, China has been establishing Investment, Development and Trade Promotion Centres in Africa.

China's economic interests in Africa have been based on the assumptions of the Chinese authorities. In the first place, Beijing believed that the macroeconomic situation in Africa began to turn around in the beginning of this century. The PRC embassy in Zimbabwe, for example, made the following observation in 2000: African countries had “adopted a set of active measures to push forward the pace of privatization, open up international trade and reform based on bilateral and multilateral trade agreements”; as a result, many African countries had improved their macroeconomic situation.⁶⁴ By 2014, Africa had a gross GDP exceeding US\$ 2 trillion and a population of 1 billion, with average annual economic growth rates of over 5% in recent years.⁶⁵

In contrast to the Maoist era's emphasis on Third World solidarity, China's economic ties with most African countries are based on

⁶³China Institutes of Contemporary International Relations, *Guoji Zhanlue yu Anquan Xingshi Pinggu 2005–2006 (Strategic and Security Review 2005/2006)* (Beijing: Shishi Chubanshe, 2006), p. 204.

⁶⁴Embassy of the People's Republic of China in the Republic of Zimbabwe, *Actively Carrying out International Exchanges and Co-operation in the Realm of Human Rights* (Republic of Zimbabwe: Embassy of the People's Republic of China in the Republic of Zimbabwe, 2000).

⁶⁵See Premier Li Keqiang's speech entitled “Creating a better Future for China–Africa Cooperation (in Chinese)”, at the African Union Convention Centre in Addis Ababa, on 5 May 2014, http://focac.org/chn/zt/1_1/t1152997.htm.

objective evaluation of the perceived economic benefits. Li Peng's statement in Ghana in September 1997 that Africa was a "continent with great development potential and hope" genuinely reflected the Chinese authorities' confidence in its future economic progress.⁶⁶ A *China Daily* commentary asserted that "as more African countries improve political stability and make headway in economic growth, the continent will have more say in international affairs".⁶⁷ China supports this development as it believes that it shares with Africa "identical and similar options on many major international affairs as well as common interests".⁶⁸ According to the International Monetary Fund, Africa achieved an economic turnaround in the middle of the last decade with economic growth rate of 5.3% in 2004 and 4.5% in 2005. Its fiscal deficit of 0.2% of GDP in 2004 was transformed into a surplus of 0.6% in the following year; its current account surplus improved from 0.1% of its GDP to 1.6% in the same period. In 2005, Africa's exports rose 26.5%, and imports, 19.5%, while its total foreign debt declined from US\$ 293.2 billion in 2004 to US\$ 285.8 billion in 2005.⁶⁹

Further, Chinese enterprises believe that China's export structure, with its strength in household electrical appliances, garments and other household goods, meets Africans' demand as they are more concerned with prices and less with quality. Chinese enterprises have had much success in the Commonwealth of Independent States, Latin America and the Middle East already. Zhongxing Telecom Company (a leading Chinese telecom service provider), for example, has been spreading its outlets in Africa, including being responsible for renovating the telephone network in Djibouti.⁷⁰ There is a view that the

⁶⁶ *Agence France Presse* (in Beijing), 14 September 1997.

⁶⁷ *China Daily* (an English newspaper in Beijing), 9 January 1998.

⁶⁸ Speech of Shi Guangsheng, the Chinese minister of foreign trade and economic cooperation, at the first FOCAC, quoted by *Renmin Ribao* (*People's Daily*, a Chinese newspaper in Beijing), 11 October 2000.

⁶⁹ See *World Economic Outlook* (Washington, D.C.: International Monetary Fund, September 2005).

⁷⁰ See François Larfague, "China's Presence in Africa", *China Perspectives*, No. 61 (September/October 2005), pp. 2–9. Available at http://www.cefc.com.hk/uk/pc/articles/art_ligne.php?num_art_ligne=6101.

cheap Chinese mobile telephones may corner a substantial segment of the one billion people African market. As in Europe and North America, enterprises from China make good use of the local Chinese communities in the French-speaking West African countries and in East Africa. Chinese populations are extremely small in the Maghreb countries,⁷¹ but they are of a respectable size in Senegal, Kenya, Tanzania and later in Nigeria.

Finally, Africa is perceived by China as rich in natural resources, especially in oil, non-ferrous metals and fisheries. China's increasing demand for oil and raw materials has been the most important factor supporting the impressive expansion of Sino-African trade and the flow of investment funds from China to Africa since the beginning of this century. The oil trade especially has attracted much attention. In 1993, China became a net oil importer, and today it has to depend on imports to meet more than half of its oil consumption by 2010.⁷² According to the Energy Information Administration of the U.S. Department of Energy, China accounted for 40% of the growth in global demand for oil from 2002 to 2004. In 2003, China surpassed Japan as the second largest oil importer, after the U.S.

This demand explains the close ties between China and the oil-rich African countries such as Angola, Nigeria and Sudan in recent years. China's "resource diplomacy" means that it "has been able to adapt its foreign policy to its domestic development strategy" to an unprecedented level by encouraging state-controlled companies to conclude exploration and supply contracts with countries that produce oil, gas and other resources.⁷³

In its initial years as an oil importer, China mainly depended on Asia and the Middle East. Since 1995, the Chinese authorities have been trying to reduce its dependence on the latter because of its potential political instability, and China has limited influence in the

⁷¹ Maghreb means "western" in Arabic, and geographically it is the region north of the Sahara desert and west of the Nile.

⁷² See Sergei Trough, "China's Changing Oil Strategy and Its Foreign Policy Implications", Center for Northeast Asian Policy Studies Working Paper (Washington, D.C.: Brookings Institution, 1999), pp. 2–4.

⁷³ David Zweig and Bi Jianbai "China's Global Hunt for Energy", *Foreign Affairs*, Vol. 84, No. 5 (September/October 2005), pp. 25–38.

region. This trend has been accelerating after the September 11 incident,⁷⁴ but the basic strategy has been diversification to reduce risks. Crude oil from the Middle East accounted for 53% of China's imports in 1996; it dropped to 46.2% in 1999 already.⁷⁵ The high sulfur content of some Middle Eastern oil is a consideration too. At the end of the last century, China's short-term maximum daily refining capacity was estimated to be 4.35 million barrels of low-sulfur crude, 0.16 million barrels of medium-sulfur crude and 0.24 million barrels of high-sulfur crude.⁷⁶

Russia, Central Asia and Africa are natural sources in China's diversification attempts. Africa's oil reserves represent 8.9% of the world total, and it accounts for 11% of the world production.⁷⁷ Algeria, Libya and Nigeria are among the 11 members of the Organization of Petroleum Exporting Countries (OPEC). In the eyes of the Chinese leadership, the six major oil companies in the Western countries⁷⁸ already control over 80% of the world's quality oil and gas reserves. Africa remains an important source where China, as a late-comer, still has a chance to make some breakthroughs.⁷⁹ Moreover, the average production cost of African oil was about US\$ 3.73 per barrel, roughly equivalent to that in the Middle East, in comparison with US\$ 4.6 in Latin America, US\$ 7.17 in Canada, US\$ 8.29 in Europe, US\$ 9 in China and US\$ 13.3 in the U.S.⁸⁰

⁷⁴ See Esther Pan, "Q&A: China, Africa, and Oil", *New York Times*, 18 January 2006.

⁷⁵ See "China Accelerates Shift in Energy Policy, Restructuring of State Petroleum Firms", *Oil and Gas Journal*, Vol. 98, No. 2 (10 January 2000), p. 17.

⁷⁶ See "China's Oil Imports Rise Possible Boon for U.S.", *Oil and Gas Journal*, Vol. 97, No. 23 (7 June 1999), p. 25.

⁷⁷ See International Energy Agency's oil distribution statistics at <http://www.iea.org/textbase/stats/oildata.asp?country=Africa&SubmitA=Submit>.

⁷⁸ The six are ExxonMobil, British Petroleum, Shell, Total, Chevron and ConocoPhillips.

⁷⁹ Zhang Youwen, Huang Renwei, *et al.*, *op. cit.*, p. 169.

⁸⁰ See Ian Taylor, "The 'All-Whether Friend': Sino-African Interaction in the Twenty-First Century", in Ian Taylor and Paul Williams (eds.), *Africa in International Politics* (London and New York: Routledge, 2004), p. 93; Shu Xianlin and Chen Songlin, "Feizhou Shiyou yu Zhongguo Nengyuan Anquan ('African Oil and China's Energy Security')", *Journal of the University of Petroleum* (Social Sciences Edition), Vol. 20, No. 5 (October 2004), pp. 5–9.

In 2004, Africa supplied 28.7% of China's crude oil imports (see Table 5). This share was a result of many years of Beijing's diplomatic efforts. In his visit to Nigeria in 1997, the then Chinese Premier Li Peng signed two oil exploration agreements for plots at the Chad River Basin and the delta of the Niger River. The then Chinese Foreign Minister Tang Jiaxuan went to Abuja in January 2000 to negotiate the purchase of Nigerian oil. China became involved in many projects in the country, including the restoration of the Nigerian railway network. In January 2004, the then President Hu Jintao toured Egypt, Gabon and Algeria with a view to increase China's oil suppliers. In Libreville, capital of Gabon, Hu concluded an agreement with the then President Omar Bongo on the exploration and production of oil. The Total-Gabon Co. and the China Petroleum and Chemical Corporation (Sinopec) also signed a contract to export to China one million tonnes of crude oil in 2004.⁸¹

As Table 5 indicates, Africa's share of China's crude oil imports fluctuated in the 1990s. In the first decade of the twenty-first century, its share steadily increased from 15.5% in 1999 and 24.2% in 2000 to a peak of 32.5% in 2007. Since then, this share slightly declined to 29.6% in 2010, and dropped considerably to 19.2% in 2015. Meanwhile, the share of the Middle East rose slightly from 47.1% in 2010 to 50.7% in 2015; the share of Europe, North and South America increased from 19.6% in 2010 to 27.6% in 2015. The volume of crude oil imports from Africa increased in this period though, and the regional share of 20% is expected to be maintained.

The state-owned enterprises (SOEs) from China have been firmly supported by the Chinese authorities' offer of aid and various forms of development assistance in their search for resources. In the first 10 months of 2005, these SOEs invested US\$ 175 million in African countries, mainly in oil exploration and infrastructural projects. In January 2006, China National Offshore Oil Corporation (CNOOC) announced that it would acquire a 45% stake in an offshore oil field in Nigeria for US\$ 2.27 billion. By then, China already had a significant economic presence in many African countries, especially Sudan.

⁸¹ Lafargue, "China's Presence in Africa", *op. cit.*

Table 5. Regional Shares of China's Crude Oil Imports, 1993–2015 (in percentages)

Year	Region			
	Middle East	Africa	Asia-Pacific	Europe, North and South America
1993	56.5	18.4	14.9	10.3
1994	39.7	4.1	48.4	7.3
1995	45.4	12.8	39.5	4.3
1996	52.9	8.5	29.8	4.4
1997	47.3	16.7	25.6	10.4
1998	61.0	8.0	19.3	11.7
1999	46.2	15.5	18.3	9.8
2000	53.6	24.2	13.4	7.8
2001	56.2	22.5	12.8	7.0
2002	46.3	22.3	13.1	4.8
2003	50.9	24.3	15.2	9.6
2004	45.3	28.7	11.5	14.3
2005	47.2	30.3	7.6	14.9
2006	45.2	31.5	3.6	19.7
2007	44.6	32.5	3.5	19.4
2008	50.1	30.2	2.8	16.9
2009	47.8	30.1	4.7	17.3
2010	47.1	29.6	3.7	19.6
2011	51.2	23.7	3.4	21.7
2012	49.8	23.9	2.9	23.5
2013	51.9	22.8	2.3	23.0
2014	52.1	22.1	1.9	23.9
2015	50.7	19.2	2.5	27.6

Sources: Statistics from 1993 to 2002 are calculated from data in *Almanac of China's Foreign Economic Relations and Trade* (Beijing: China Foreign Economic and Trade Publishing House, various years) and *Yearbook of China's Foreign Economic Relations and Trade* (Beijing: China Foreign Economic and Trade Publishing House, various years), various issues; and statistics from 2003 to 2004 are from David Zweig and Bi Jianbai, "China's Global Hunt for Energy", *Foreign Affairs*, Vol. 84, No. 5 (September/October 2005), p. 28; and the website of the General Administration of Customs of the People's Republic of China.

In 2005, 50% of Sudan's oil exports went to China, which satisfied 5% of China's oil needs.⁸²

Before 1992, Angola was the only energy supplier to China in Africa, and the volume of exports was not significant. From 1993 onward, China substantially increased its oil imports from Angola, and it became the fourth oil supplier for China in that year.⁸³ In 1997, China National Petroleum Corporation (CNPC) entered into partnership with the Malaysian company Petronas and the Canadian firm Talisman to conclude an agreement with Sudapet, the state oil company of Sudan, to engage in oil exploration and production as well as the construction of pipelines from the Muglad basin in southern Sudan. This project, amounting to US\$ 1 billion, was the first major investment of this type by a Chinese SOE in Africa.⁸⁴ In 2000, the Muglad field produced 2.4 million tonnes of crude oil, or 144,000 barrels a day. China received its share of 60,000 barrels a day, which amounted to 5% of its oil imports and 50% of its foreign production in that year.⁸⁵

China's increasing trade surpluses worldwide and foreign-exchange reserves support China's investment overseas, which has been encouraged by the Chinese authorities' "going-out" or "go global" strategy. Since the 1990s, there has been an increasing number of joint ventures and investment projects in Africa. Such investment aims to ensure China's supply of energy and raw

⁸² Pan, "Q&A: China, Africa, and Oil", *op. cit.*

⁸³ In 1993, the top five oil suppliers to China were: Oman (26%), Indonesia (25%), Yemen (10.6%), Angola (7.8%) and Papua-New Guinea (5%).

⁸⁴ "Zhongguo Sudan Qianshu Shiyu Kantan Xieyi (China and Sudan Signed an Agreement on Oil Exploration), *Renmin Ribao*, 4 March 1997; Chung-lian Jiang, "Oil: A New Dimension in Sino-African Relations" *African Geopolitics*, No. 14 (Spring 2004), pp. 65–77. Available at <http://www.african-geopolitics.org/show.aspx?ArticleId=3702>. CNPC invested US\$ 700 million and secured a 40% share of the project; the shares of Petronas, Talisman and Sudapet were 30%, 25% and 5%, respectively.

⁸⁵ See Erica Strecker Downs, *China's Quest for Energy Security* (Santa Monica, California: RAND Corporation, 2000), p. 53; Ruan Cishan, "Tan Zhongguo zai Feizhou de Liyi (On China's Interests in Africa)", *Lianhe Zaobao* (a Chinese newspaper in Singapore), 7 September 2000; "Shiyu Gongye 'Zouchuqu' Xian Chengxiao (The 'Going-Out' Strategy of the Oil Industry Bears Fruit)", *Renmin Ribao*, 21 December 2000.

materials, and to expand China's market shares for its products and services. China's investment in Africa rose sharply from 2000 which amounted to only US\$ 500 million on a cumulative basis. By 2005, there were 750 enterprises from China operating in 49 African countries. They were concentrated in the mining, telecom, fishing and timber sectors, but they had also been moving into sectors perceived to be less profitable and abandoned by the Western companies such as retail trade.

In July 2004, Jinchuan Group, China's largest nickel producer, indicated that it had established an office in Johannesburg in South Africa to acquire cobalt, copper, nickel and platinum from countries in southern Africa.⁸⁶ China National Machinery and Equipment Import and Export Corporation soon afterward concluded an agreement with Gabon to exploit untapped iron ore at Belinga. According to the Gabon Minister of Mines, Energy, Oil and Hydraulic Resources, Richard Onouvié, the reserves in Belinga were at least one billion tonnes, 60% of which was rich iron ore. Chinese companies had investment in Zambia where they were involved in a copper project. In South Africa, the China Iron and Steel Industry and Trade Group Company invested US\$ 70 million in chromite mining and processing.⁸⁷ Other Chinese enterprises, like Shanghai Industrial, Hisense, Huawei and ZTE Corporation, have set up manufacturing facilities in Africa to produce electrical household appliances including refrigerators, washing machines and television sets.

Though China has been widely recognized as the second largest recipient of foreign direct investment (FDI) in the world, it has also been an increasingly important source of FDI too in view of its over US\$ 3 trillion of foreign-exchange reserves. In 2003, China was the fifth country of origin of FDI worldwide, after the U.S., Germany, the

⁸⁶ See "Chronology: Chinese-African Trade Relations", *Reuters*, 14 December 2005. Available at http://s3.amazonaws.com/china_resources/13774/2013-06-27_14_30_17_-0400_2007ReutersArticles.pdf.

⁸⁷ See "Sino-African Relations", available on the web site of *NewsAfrica* (a news publication on Africa in the United Kingdom). Available at <http://www.newsafrika.net/articles.php?action=view&id=191>.

United Kingdom and France.⁸⁸ By 2014, China became the top three country of origin of FDI, next to the U.S. and Hong Kong, and surpassed Japan, Germany and France.⁸⁹

In 2005, China's total overseas investment amounted to US\$ 12.26 billion, of which 52.6% was in Latin America, 35.6% in Asia, 4.2% in Europe, 3.3% in Africa, 2.6% in North America and 1.7% in Australia. The main recipients of Chinese investment in Africa at that time were Sudan, Algeria, Zambia, South Africa, Nigeria, Tanzania and Kenya.⁹⁰ By 2014, China's total overseas investment grew 10-fold to reach US\$ 123.12 billion. China's investment foreign direct investment flows to Africa, however, experienced a downturn of 5% compared to the year before. China's Ministry of Commerce attributed this to the slow global economic recovery, the fluctuating commodity prices, war and terrorism, as well as Ebola outbreak in Africa.⁹¹ Despite the temporary setback, China's overseas investment in Africa amounted to US\$ 32.35 billion in 2014, which was 3.7% of China's total overseas investment.⁹²

To some extent, Africa has been investing in China too. SAB Miller, the world's second largest brewer, has acquired more than 30 breweries in China, and is competing vigorously with popular local brands like Tsingtao and Yanjing. South Africa invested US\$ 72 million in establishing the Hongye Aluminum Plant in Inner Mongolia. Moreover, South African technologies are used in the Chinese

⁸⁸ 2005 *Statistical Bulletin of China's Outward Foreign Investment* (in Chinese), Department of Foreign Economic Cooperation, Ministry of Commerce of the People's Republic of China. Available at <http://hzs.mofcom.gov.cn/aarticle/date/200609/20060903095437.html>.

⁸⁹ 2015 *Statistical Bulletin of China's Outward Foreign Investment* (in Chinese), Department of Foreign Economic Cooperation, Ministry of Commerce of the People's Republic of China. Available at <http://fec.mofcom.gov.cn/article/tzhzcj/tzhz/upload/zgdwtzhzfzbg2015.pdf>.

⁹⁰ 2005 *Statistical Bulletin of China's Outward Foreign Investment* (in Chinese), *op. cit.*

⁹¹ People's Republic of China Ministry of Commerce, *Report on Development of China's Outward Investment and Economic Cooperation* (in Chinese) (Beijing: The Ministry, 2015), p. 56.

⁹² 2015 *Statistical Bulletin of China's Outward Foreign Investment* (in Chinese), *op. cit.*

government campaign to connect all villages to a radio and television transmission network.

Chinese investment in Africa, however, has generated resentment too. Chinese investors are often accused of discriminatory employment practices. Some of the more common complaints against Chinese firms in Africa include poor pay, lack of safety protection for workers in the textiles, copper and coal mining industries, and the use of short-term contracts. In 2004, the Zambian government asked the Chinese managers at Zambia–China Mulungushi Textiles in northern Kabwe to stop locking workers in the factories at night. In June 2006, the Zambian authorities shut down Collum Coal Mining Industries in southern Zambia, indicating that miners had been forced to work underground without safety clothing and boots. Union officials in Chambishi Mining, a copper producer in Zambia, complained that miners there were the lowest paid in the country's entire mining sector, with the least paid earning US\$ 100 a month, compared with US\$ 424 in Konkola Copper Mines, the largest copper producer in Zambia. Chambishi Mining was sold to Chinese investors in 2003, and was the scene of violent workers' protests in July 2006.

Apart from mining joint ventures, Chinese enterprises have been active in infrastructural projects in Africa like the construction of roads and railways, and housing. The major difference in operating styles between the Chinese companies and their Western counterparts is that the former often bring their own laborers. The arrival of tens of thousands of Chinese workers naturally creates ill feelings in African countries with very high unemployment rates. There are complaints against the contracts concerned which normally require the successful bidders to contract only 30% of their work to local companies. Typical examples are the road and railway rehabilitation projects in Angola funded by Chinese credit backed by oil exports to China.

There are many complaints regarding cheap Chinese products flooding the African continent, as they sometimes force local industries to close with severe job losses. In Lesotho, Chinese operators are licensed to operate only big retail shops or supermarkets, but locally owned grocery stores have largely disappeared. It was said that the local people had rented their shops to the Chinese because "they get

a better profit from rent than from running the shops themselves".⁹³ Another report in 2008 along the same line indicated that over 170 textile enterprises in Nigeria had disappeared, and the industry was operating at about one-fifth of its capacity, with 10 remaining enterprises employing about 18,000 workers. Textile and apparel products from China secured 80% of the Nigerian market in 2010.⁹⁴

China's economic relations with Africa can be partially explicated by trade performance figures. Since the 1990s, China trade with Africa expanded enormously. From 1990 to 2000, Sino-African trade increased from US\$ 665 million to US\$ 10.6 billion, a 15-fold increase. Total trade with Africa further increased by 20-fold (compared to year 2000), reaching US\$ 221.67 billion in 2014.⁹⁵ As shown in Table 6, year-on-year increases were strongest in years 2000 (63%), and from 2003 (50%) to 2011 (31%) (except for 2009 when there was a negative decline of 15%). The rate of growth in total Sino-African trade has slowed down to around 6% per year in 2013 and 2014. Though there are data discrepancies in actual trade volume among reporting agencies,⁹⁶ data from various sources all suggest rapid growth trends in China's foreign trade with Africa from 2000 to 2012.

In the 1990s, China enjoyed a substantial surplus in its bilateral trade with Africa. However, because of Africa's rising oil exports, China experienced its first trade deficit of US\$ 513 million in 2000,⁹⁷ even though it continued to enjoy three more years of surpluses from 2001 to 2003 (Table 6). From 2004 to 2014, China has been in trade deficits with Africa most of the time (except for 2007 and 2009), accounting for over 10% of the total China–Africa trade in the years

⁹³A *Reuters* report published in *South China Morning Post*, 14 August 2006.

⁹⁴Sola Akinrinade and Olukoya Ogen, "Globalization and De-Industrialization: South–South Neo-Liberalism and the Collapse of the Nigerian Textile Industry", *Global South*, Vol. 2, No. 2 (Fall 2008), pp. 164–168; David H. Shinn and Joshua Eisenman, *op. cit.*, p. 305.

⁹⁵National Bureau of Statistics of China, *China Statistical Yearbook*, 2001–2015. Available at <http://www.stats.gov.cn/english/statisticaldata/AnnualData/>.

⁹⁶Trade figures are sourced from the International Monetary Fund, UNCTAD and the Chinese government.

⁹⁷See David H. Shinn and Joshua Eisenman, *op. cit.*, p. 381.

Table 6. China's Trade with Africa, 1999–2014

	Total Trade (US\$ billion)	Year-on-year Growth (%)	Trade Balance with Africa (US\$ billion)	Percentage of Total Trade with Africa (%)
1990	0.67	—	—	—
1999	6.49	—	+1.74	26.8
2000	10.60	63.3	−0.51	4.8
2001	10.80	1.9	+1.21	11.2
2002	12.39	14.7	+1.53	12.4
2003	18.54	49.6	+1.82	9.8
2004	29.46	58.9	−1.83	6.2
2005	39.74	34.9	−2.38	6.0
2006	55.46	39.6	−2.08	3.8
2007	73.66	32.8	+0.94	1.3
2008	107.21	46.2	−4.73	4.4
2009	91.07	(−15.0)	+4.40	4.8
2010	127.05	39.5	−7.14	5.6
2011	166.32	30.9	−20.16	12.1
2012	198.56	19.4	−27.94	14.1
2013	210.25	6.0	−24.66	11.7
2014	221.67	5.9	−9.60	4.3

Source: National Bureau of Statistics of China, *China Statistical Yearbook*, 2001–2015. Available at <http://www.stats.gov.cn/english/statisticaldata/AnnualData/>.

from 2011 to 2013.⁹⁸ There has been a higher growth in Africa's exports to China (21%) than China's exports to Africa (17%) in 2012.⁹⁹

China–Africa trade in Africa's total trade has become much more important (15% in 2012, compared with only 4% in 2000). China became Africa's top trading partner. The proportion of Africa's exports to China over its total exports rose from 3.76% in 2000 to

⁹⁸ National Bureau of Statistics of China, *op. cit.*

⁹⁹ Lloyd Thrall, *China's Expanding Africa Relations: Implications for U.S. National Security* (Santa Monica, Calif.: Rand Corporation, 2015), p. 24.

18% in 2012. In the same period, Africa's imports from China grew from 3.88% to 14.11%. In the case with China, the expansion of Sino-African trade has been rapid (5.1% in 2012, compared with 2.2% in 2000). The proportion of China's imports from Africa over its total imports was up from 2.47% in 2000 to 6.23% in 2012.^{100,101} About 90% of these imports were natural resources.¹⁰²

The top 10 trading partners with China in 2014 were South Africa, Angola, Nigeria, Egypt, Algeria, Congo, Ghana, Kenya, Republic of South Sudan and Tanzania (Table 7) in terms of total trade volume. Compared with 2000, African countries which experienced much higher growth above the average 20-fold expansion in trade were South Africa (29-fold), Algeria (44-fold), Ghana (46-fold), Tanzania (47-fold) and Kenya (37-fold).

Oil exporting countries (such as Angola, Nigeria, Congo and Republic of South Sudan) have done well in their balance of trade with China (Table 7). The top 10 trading partners accounted for 80% of the total imports, with South Africa and Angola accounting for 65%. The proportion of trade with the top 10 nations has fallen (from 91% in year 2000), reflecting China's attempts over these years to diversify the sources of imports, especially in oil, natural resources and commodities.

The trade figures suggested the success of China's strategic partnerships within the framework of FOCAC (for example, with South Africa, Nigeria and Egypt became the top, third and fourth trading partners with China, respectively). Infrastructural projects have also contributed to the rapid increase in the volume of trade for some countries (for example, Kenya and Tanzania). Africa's growth in consumption capacity has a part to play in the expansion of Sino-African trade. Since January 2012, China's "Special Plan on Trade with Africa", extending zero tariff treatment for 60% of the products imported from Africa's 30 least developed countries that have set up

¹⁰⁰ *Ibid*, p. 25.

¹⁰¹ Information Office of the State Council, People's Republic of China. *China-Africa Economic and Trade Cooperation 2013 white paper*. Available at http://english.gov.cn/archive/white_paper/2014/08/23/content_281474982986536.htm.

¹⁰² Thrall, *op. cit.*, p. 27.

Table 7. Top 10 African Trading Partners with China

	2014				2000			
	Position	Total (US\$ million)	Exports (US\$ million)	Imports (US\$ million)	Position	Total (US\$ million)	Exports (US\$ million)	Imports (US\$ million)
South Africa	1	60,267	15,699	44,568	1	2,051	1,014	1,037
Angola	2	37,081	5,975	31,106	2	1,876	34	1,843
Nigeria	3	18,049	15,393	2,656	5	856	549	307
Egypt	4	11,620	10,461	1,160	3	907	805	102
Algeria	5	8,710	7,395	1,315	n.a.	199	173	26
Congo	6	6,464	985	5,479	7	342	18	324
Ghana	7	5,587	4,135	1,453	n.a.	121	106	15
Kenya	8	5,008	4,931	77	n.a.	137	133	4
Republic of South Sudan	9	4,395	66	4,329	4	890	158	732
Tanzania	10	4,279	3,844	435	n.a.	91	86	5
Benin	n.a.	3,753	3,486	267	6	372	370	1
Gabon	n.a.	2,039	431	1,608	8	342	4	337
Morocco	n.a.	3,482	2,963	519	9	336	278	58
Eq. Guinea	n.a.	3,570	353	3,217	10	323	4	319
Top 10 total		161,460	68,883	92,578		8,295	3,234	5,061
Africa		221,666	106,035	115,631		10,597	5,042	5,555
Percent		72.8	65	80.1		78.3	64.1	91.1

Source: National Bureau of Statistics of China, *China Statistical Yearbook*, 2001, 2015. Available at <http://www.stats.gov.cn/english/statistical-data/AnnualData/>.

diplomatic relations, has also helped to boost trade volume (about US\$ 1.5 billion) with Africa.¹⁰³

Opportunities and Challenges in Sino-African Relations

Africa's strategic value in China's national interests and global strategy has been reassessed and fully appreciated by the Chinese leadership. The traditional solidarity as fellow Third World countries, China's rising international status and influence, the attraction of China's development experience, and the complementary economic and trade structures will likely contribute to closer Sino-African cooperation. But the Chinese leadership has to face serious challenges from changes within Africa and Western competition.

In the 1960s and 1970s, China's first-generation revolutionary leaders established highly symbolic friendship with their counterparts in Africa. Their similar historical experiences of struggles against imperialism and colonialism, as well as the common challenges of upholding state sovereignty against foreign intervention and economic development, have contributed to a sense of solidarity among the Chinese and Africans. Some Chinese scholars observe that China and Africa have no historical disputes and only common interests.¹⁰⁴ In the post-Cold War era, both China and Africa share the objective of establishing a more egalitarian and equitable international political and economic order. China is eager to enlist Africa's support for pushing for multipolarity in international relations; though there is not much enthusiasm among most African countries, they normally have no difficulty in sharing the Chinese position.

¹⁰³ *Ibid.*

¹⁰⁴ Kong Minghui, "Sino-African Relations and China's Policy towards Africa", from the "Forum" on the website of the Bureau of International Cooperation of the Chinese Academy of Social Sciences, available at http://bic.cass.cn/english/infoS-how/Arcite_Show_Conference_Show.asp?ID=32&Title=&strNavigatio.

In more concrete terms, China's veto at the United Nations Security Council is a valuable asset often sought by African countries to counter sanctions from Western countries. China as a trade partner and source of investment has been enhancing African countries' bargaining power *vis-à-vis* the developed countries. China's demand for energy and raw materials has been a significant factor in driving up their prices in international markets, which has been benefiting many African countries since the turn of the century. Some Chinese experts consider that China can be an important source of intermediate technology which is cost-effective and appropriate for the present stage of development of many African countries. China has yet to demonstrate that it can serve as a generous and effective source of technology transfer for Africa in household electrical appliance industries, textiles and apparel industries, infrastructure construction and the like.

Official statements by Chinese leaders in recent years have demonstrated their awareness of the impact of Sino-African economic ties on employment in the continent. Chinese diplomats often emphasize that China's investment in Africa in the energy and raw materials sectors has been in decline in terms of relative importance, whereas investment in the manufacturing sector has been on the increase. China's economic structure will eventually become more knowledge-intensive and less dependent on infrastructural development and heavy industries, which is similar to Japan's development path. At the same time, China's labor supply will become more limited because of the aging population and falling birth rates. These trends will push China to move its labor-intensive industries abroad. Africa is a natural destination not only because of its abundant labor supply, but moving China's labor-intensive industries there would also be politically correct and would help to remove a serious source of friction in their bilateral economic relationship. Moreover, China may be able to exploit the preferential market access offered to Africa by the European Union and the U.S. In recent years, China has been developing special trade and economic cooperation zones in several African countries, including Nigeria, Ethiopia and Zambia; as observed by Deborah Bräutigam, they allow African countries to "improve poor

infrastructure, inadequate services, and weak institutions by focusing efforts on a limited geographical area".¹⁰⁵

In the 1970s, when China established diplomatic relations with many African countries immediately after its entry into the United Nations, Beijing typically offered assistance in their agricultural sectors including the setting up of agricultural tool plants, sugar refineries, rice-planting demonstration projects and the sending of agricultural expert teams. Today, establishing agricultural technological demonstration centers remains a common feature in China's aid programs in African countries. The author of this book visited many fishing ports in Senegal in May 2015, and large portions of the fishes caught were waste simply because of the inadequacy of refrigeration facilities. Hence, financial resources and technological assistance from China can bring a win-win situation to many African countries in the agricultural and fishery sectors, provided respect is given to environmental protection to ensure sustainable development. Enterprises from China grow cassava, maize and sorghum in Zimbabwe, Madagascar and other African countries as animal feed in China. Chinese technical assistance has facilitated the cultivation of cotton in Mozambique for exports to China.¹⁰⁶ Such investment and trade should contribute to sustainable economic development and raise incomes in the rural sector in Africa.

In a way, China has been learning from old colonial powers such as the United Kingdom and France in establishing networks through education, both by sending teachers to Africa and providing scholarships to African students to study in Chinese universities. From the mid-1950s to 2000, 5,582 African students had enrolled in tertiary institutions in China. These students typically spent two years learning the Chinese language, then pursued technical subjects, especially the engineering disciplines. At present, about half of the African

¹⁰⁵ Christopher Alessi and Beina Xu, "China in Africa", Council on Foreign Relations Backgrounder, 27 April 2015, p. 2, <http://www.cfr.org/china/china-africa/p9557>.

¹⁰⁶ Robert I. Rotberg, "Chinese Trade with Africa Hits Record High", *China US Focus*, Vol. 6, 15 March 2014, <http://www.chinausfocus.com/finance-economy/chinese-trade-with-africa-hits-record-high/>.

students in China are studying for postgraduate degrees. It is hoped that these education exchanges will improve China's image in Africa, establish grassroots support in local communities, and cultivate networks and goodwill among the future elites. In the foreseeable future, these African talents are expected to contribute to the expansion of Sino-African economic ties in the high-tech fields. One example is China's space program. As it develops, China needs to improve its space-tracking capability in the southern hemisphere. China now operates a space-tracking station in Namibia, and South African ports of call provide support for China's space-tracking ships.¹⁰⁷

To succeed in the cultivation of goodwill, the Chinese authorities have to work hard to ensure that African students in university campuses in China do not suffer from discrimination and racist attitudes from Chinese students and the local communities. Chinese university students often value the friendship of their counterparts from the developed countries more than that of classmates from Africa. Discipline of African students is occasionally a problem. In the past, there were protests by African students against discrimination in China which were an embarrassment to the Chinese authorities.

While China's venture into Africa has attracted considerable attention in the Western media, the Chinese authorities anticipate keen competition from the leading Western countries and Asian countries like Japan, South Korea and India. The oil situation is a good illustration. In the recent decade, there are many reports on China trying hard to acquire oil in Africa. The experts in China, however, estimated in the middle of the previous decade that the six leading oil companies in the world (British Petroleum, Exxon-Mobil, Royal Dutch Shell, Total, Chevron and ConocoPhillips) controlled more than 80% of the world's high-quality oil reserves, over 30% of the world's industrial output value of petroleum products, more than a 50% share of the oil technical services market, over 65% of the international oil trade and direct investment in oil projects, as well as more than 80% of the advanced technology in the oil and petrochemical

¹⁰⁷ See Drew Thompson, "Economic Growth and Soft Power: China's African Strategy", *China Brief*, Vol. 4, No. 24 (7 December 2004), pp. 3–5.

sectors. In comparison, China controlled less than 4% of the world's oil resources and had been attempting to achieve breakthroughs from the margin.¹⁰⁸

To put this into better perspective, according to the International Energy Agency's *World Energy Outlook 2014*, China would become the world's largest consumer of oil by the early 2030s. According to the U.S. Energy Information Administration, the country will import over 66% of its total oil consumption by 2020 and 72% by 2040. In 2013, China imported just over half of its crude oil from the Middle East, which holds almost 62% of the world's reserves. China imported 2.9 million barrels per day or 52% of its total imports from the Middle East, compared with 1.3 million barrels per day or 23% of its imports from Africa, the second largest source of China's oil imports then.¹⁰⁹ A similar picture probably also applies to China's imports of many kinds of raw materials.

In April 2006, the Bush administration initiated a plan to promote "African economic growth and opportunity partnership" to encourage U.S. companies to develop the African market. Many European countries like France have always regarded Africa as their traditional market. By the turn of the century, France remained the largest aid donor to Africa, as over half of its foreign aid went to the continent.¹¹⁰ French investment also accounted for 20% of the total foreign investment in Africa.¹¹¹ At the end of 1995, the European Union enjoyed a 40% share of the African market south of the Sahara, and its investment amounted to 32% of the total foreign investment in the region. The U.S.'s respective shares of the market

¹⁰⁸ Cui Dahu, "Daguo Nengyuan Zhanlue Boyixia de Zhongguo Shiyou Qiye Quanchiuhua Jingying Zhanlue (The Global Business Strategy of China's Oil Enterprises in the Context of Major Powers' Energy Strategic Game)", *Shijie Jingji Yanjiu* (World Economic Study, Shanghai), No. 11 (November 2005), pp. 37–43.

¹⁰⁹ Christopher Alessi and Beina Xu, *op. cit.*, p. 1.

¹¹⁰ See Zhong Weiyun, "Feizhou zai Guoji Tixizhong de Diwei (Africa's Place in the International System)", *Xiya Feizhou* (West Asia and Africa), No. 2 (2002), pp. 16–21.

¹¹¹ See Roland Marchal, "France and Africa: The Emergence of Essential Reforms?", *International Affairs* (London), Vol. 74, No. 2 (April 1998), pp. 335–372.

and foreign investment were 7.7% and 8%. Given their traditional market ties, advanced technology and substantial aid programs, the U.S. and the European Union still enjoy an edge over China in Africa. African experts in China estimated that 70% of the African market was still in the hands of Western countries, and that China had to overcome its disadvantages in language and culture as well as those of a latecomer.¹¹²

Keen competition also comes from the emerging economies. African trade with India was projected to reach US\$ 200 billion in 2015; it has been growing at a faster rate than African trade with China, and may even exceed that with the U.S. Brazil and Turkey have become more important trade partners for Africa relative to many European countries too.¹¹³

Nonetheless, China's aggressive oil diplomacy has generated Sino-American competition in Africa.¹¹⁴ Angola is perhaps a good example. American oil companies have been active in the country for more than two decades, and half of its oil goes to the U.S., making it the U.S.'s ninth oil supplier. China has emerged as a major player in recent years, buying a third of the total production. In October 2004, probably in return for financial aid, China secured a 50% share of the Block 18 oil field, previously held by Royal Dutch/Shell. In February 2005, Chinese Vice-Premier Zeng Peiyan visited Angola and finalized

¹¹² See Jiang Qinghua, "Feizhou Duiwai Maoyi yu Shichang de Zhuyao Tedian (The Basic Features of Africa's Foreign Trade and Market). *Xiya Feizhou (West Asia and Africa)*, No. 5 (1997), pp. 69–71.

¹¹³ "China in Africa: One Among Many", *The Economist*, 17 January 2015, p. 1, <http://www.economist.com/node/21639554>.

¹¹⁴ See statement of Carolyn Bartholomew, Commissioner, U.S.–China Economic Security Review Commission in "China's Influence in Africa", hearing before the Subcommittee on Africa, Global Human Rights and International Operations of the Committee on International Relations, House of Representative, First Session of the 109th Congress (Washington, D.C.: U.S. Government Printing Office, 28 July 2005), Serial No. 109-74, p. 48, available at http://www.house.gov/international_relations. Carolyn Bartholomew argues that China's direct investment into energy production would not contribute to the overall energy security of energy-importing countries.

several contracts with Sonangol.¹¹⁵ Soon afterward, Sinopec was given the extraction right of the Block 3/80 oil field at the expense of Total, which lost its operation license.¹¹⁶ The U.S.'s responses included report by the Council on Foreign Relations drawing attention to China's oil diplomacy in Africa and urging a robust response from the Bush administration,¹¹⁷ Congressional hearings on China's influence in Africa and strong criticisms from the Congress effectively blocking CNOOC's bid to acquire Unocal.¹¹⁸

After the terrorist attacks on 11 September 2001, the U.S. had also been making efforts to diversify its sources of oil imports, reducing its high dependence on the Middle East and turning its attention to Africa. In June 2002, President George W. Bush visited Africa, as the third U.S. President to have done so. During his visit, Bush attended the U.S.–African Energy Ministerial Conference in Morocco, and he met leaders of oil-exporting African countries including Angola, Cameroon, Equatorial Guinea and Chad. In the following United Nations General Assembly session, he had another round of meetings with such African leaders. One result was that daily oil imports from Nigeria would increase from 0.9 million barrels to 1.8 million barrels.¹¹⁹

The then World Bank President, Paul Wolfowitz, criticized China's investment and foreign aid as a threat to undermine the World Bank's efforts to use aid as a means to clean up corruption in Africa. Beijing typically refuses to impose conditions for financing infrastructural projects. This allows African governments to borrow

¹¹⁵ Angola's national oil company, Sonagol, is the sole concessionaire for oil exploration and production, and the only way a foreign company can enter the market is via joint ventures and production-sharing agreements with Sonagol.

¹¹⁶ Total is France's largest corporation and the world's fourth largest oil and gas company.

¹¹⁷ See Esther Pan, "China, Africa, and Oil", available on the website of the Council on Foreign Relations at <http://www.cfr.org/publication/9557/>, updated on 26 January 2007.

¹¹⁸ Ernest Wilson, "China, Africa & the U.S.: Something Old, Something New", available at <http://www.tpmcafe.com/story/2006/1/29/235734/457>.

¹¹⁹ *Africa Research Bulletin*, 16 June–15 July 2002.

overseas while avoiding restrictions imposed by the World Bank, such as accounting safeguards and measures to protect workers and the environment.¹²⁰ China has a more commercial agenda than the World Bank, and the terms of some of its loans are less favorable, a situation opposite to that in the 1960s and 1970s.

In his confirmation hearings in January 2013, U.S. Secretary of State John Kerry indicated that the U.S. was “not even in the game” regarding China’s impressive commercial presence in Africa. In May 2012, U.S. Senator Dick Durbin and Congressman Chris Smith introduced the “Increasing American Jobs through Greater Exports to Africa Act”; in the legislation, it was stated: “When countries such as China assist with large-scale government projects, they also gain an upper hand in relations with African leaders and access to valuable commodities such as oil and copper, typically without regard to environmental, human rights, labour, or governance standards”.¹²¹ Despite competition, China’s approach to Africa has been seen to be most strategic, patient and long-term.

The U.S. trade with Africa has certainly been hit by the decline in U.S. oil consumption since 2008 (a drop of 9% from 2008 to 2013) and the decline of oil prices up to 70% in the same period. The increased production of shale oil and gas in recent years in the U.S. will probably much reduce the U.S.’s dependence on oil imports from Africa. The country’s spare export capacity of liquefied natural gas (LNG) is expected to increase, and there has been considerable speculation on the government using LNG exports as an instrument in its foreign policy.¹²²

¹²⁰ *South China Morning Post*, 4 November 2004.

¹²¹ Witney Schneidman, “The Commercial Relationship between the United States, China and African Countries: Areas for Trilateral Co-operation”, paper for the “A Trilateral Dialogue on the United States, Africa and China” conference on 13 May 2013, p. 2, <http://www.brookings.edu/~media/Research/Files/Reports/2013/08/us-africa-china-trilateral-dialogue/All-Trade-Papers.pdf?la=en>.

¹²² The National Institute for Defence Studies, Japan, “The Shale Revolution and the International Security Environment”, in *East Asian Strategic Review* (Tokyo: The Japan Times Ltd., 2014), pp. 315–359.

China's economic activities in Africa today remind us of those of Japan in Southeast Asia in the 1960s and early 1970s. Premier Tanaka Kakuei's visit to Southeast Asia in 1974 encountered massive protests; this taught the Japanese leadership a lesson, and Premier Fukuda Takeo returned in 1977 with the proposal of a "heart to heart diplomacy". But China differs from Japan in two important aspects. The People's Republic of China throughout its history strongly identifies itself with the Third World; this remains an important theme of Chinese foreign policy at this stage. A bad image of Chinese economic activities abroad goes against the Chinese leadership's efforts to enhance China's soft power, especially that in the Third World. China differs from Japan too in that it does not trust the international market dominated by multinational corporations based in Western countries. The pursuit of economic security and the potential competition with the U.S. mean that Chinese leaders are willing to pay the price to secure autonomous supplies of energy and other natural resources.

Arguably, this dilemma exists in the domestic scene too. In attracting foreign direct investment, in particular from Hong Kong, Taiwan and South Korea, local governments in the coastal area often turn a blind eye to the exploitation of domestic workers and unsatisfactory working conditions. This tolerance goes against the objective of demonstrating the superiority of socialism with Chinese characteristics, and adversely affects the image of China enjoying impressive economic growth. The development policy and foreign policy dilemmas come down to the same fundamental question: What price economic growth?

In terms of domestic economic development, the leadership in the past decade or so has realized that economic growth and general improvement of people's living standards are no longer adequate as the bases of legitimacy for the Chinese Communist regime. It now works hard to help the underprivileged groups like peasants and to establish a social security net for all. It demonstrates that China's development has entered a new stage. But in China's recent approach to Africa, the "ugly Chinese" syndrome begins to emerge by the turn of the century while Beijing offers generous aid packages to the continent. Theoretically, the Chinese authorities, which have been

directing the SOEs to expand the market and invest in Africa, can also instruct these SOEs to establish a “model business partner” image in the continent. Some of China’s aid money can go to the SOEs so that they will be able to behave as “model employers” and contribute to community projects. It requires effective coordination at the central government level, and new mechanisms have to be built to achieve the desirable outcomes. But the Chinese leadership is obviously aware of the adverse publicity and is concerned enough to try to reverse the trend. This is one of the major challenges to the Chinese leadership’s attempt to enhance China’s soft power.

In the past two decades, Chinese communities have been expanding throughout Africa. In 2007, New China News Agency estimated that there were at least 750,000 Chinese working or living on the continent.¹²³ The activities of diplomats, SOE executives and program personnel like members of medical teams and agricultural expert teams, etc. largely follow the Chinese foreign policy framework, the infrastructural and mining projects. These Chinese have limited contacts with the local communities. The Chinese people who tend to have most contacts with local Africans are the small traders.

The author of this book interviewed dozens of these small traders from China in his fieldwork trip in Nigeria and Senegal in May 2015. They often make a living by importing directly from producers in China and have been able to keep prices low to attract customers. To some extent, they are responsible as the source to introduce poor-quality Chinese consumer goods into Africa. In turn they suffer from the unsatisfactory law and order conditions and the rampant corruption, and often do not have a good impression of Africans as reflected by their comments on the Internet which provide interesting data on interactions at the grassroots level. At this level, Africans usually compare their experiences with Chinese traders and employers with the Indians and the Lebanese operating in similar modes on the continent. This is an area where almost no research has yet been done.

¹²³ Howard French and Lydia Polgreen, “Entrepreneurs from China Flourish in Africa”, *New York Times*, 18 August 2007. Available at http://www.nytimes.com/2007/08/18/world/africa/18malawi.html?pagewanted=all&_r=0.

Conclusion

Pushing for multipolarity has become a significant goal of China's foreign policy in the post-Cold War era. Chinese leaders accept that this is a long-term objective, and given the predominant position of the U.S., China will strive to maintain good relations with the U.S. and avoid any sharp deterioration in the bilateral relationship. It has established various strategic partnerships with other major powers emphasizing the promotion of common interests,¹²⁴ while abandoning the Maoist united front strategy against the principal enemy. Meanwhile, China chooses to work to maintain a peaceful international environment and concentrate on its modernization program in building its comprehensive national power. In many ways, China has been pursuing a modernization diplomacy in the era of economic reforms and opening to the outside world since the end of 1978,¹²⁵ and developed countries play a more important role than developing countries in terms of markets as well as sources of investment, advanced management and technology, etc. Ideology and revolution have a limited role in this modernization diplomacy.

Sanctions from Western countries in the aftermath of the Tiananmen incident reminded Chinese leaders of the significance of the Third World, especially the African countries. This was reinforced by the depreciation of China's strategic weight in the eyes of the Western world in view of the disappearance of the "strategic triangle" in the context of the breakup of the Soviet Union and the dramatic changes in Eastern Europe. Diplomatic support from African countries has become indispensable when China comes under criticisms of its human rights record in international organizations, and when it chooses to exert pressure on Taiwan to deter its efforts to expand its "international space". The cultivation of a network of friendly supporters in the African continent hence has been a significant task in

¹²⁴ Cheng and Zhang, *op. cit.*

¹²⁵ Joseph Y. S. Cheng, "The Evolution of China's Foreign Policy in the Post-Mao Era: From Anti-Hegemony to Modernization Diplomacy", in Joseph Y. S. Cheng (ed.), *China: Modernization in the 1980s* (Hong Kong: The Chinese University Press, 1989), pp. 161–201.

China's diplomacy, and this network has become increasingly important as China seeks to improve its status and influence in international organizations. The strategic partnerships with Egypt, South Africa and Nigeria, as well as the FOCAC, are landmarks in the building of this network. The effectiveness of FOCAC has been reflected by the repetition of the model by China in Latin America in 2014.

As China's economy continues to grow in an impressive way, it wants to expand its markets and secure reliable supplies of resources in support of its economic development. Resource diplomacy therefore becomes a prominent feature of its modernization diplomacy. China's rising economic status also means that it has more financial resources at its disposal to ensure success in its African policy. In turn, many African countries perceive political and economic ties with China an important asset which strengthens their international bargaining power, especially *vis-à-vis* the Western countries. These new features of Sino-African ties attracted the attention of the Bush administration and the international media by the turn of the century. Their criticisms were against the intention of the Chinese authorities to present China as a responsible major power in the international community and to enhance its soft power in the Third World; hence, important adjustments have been made in China's approach to Africa in recent years, and some of these adjustments like the transfer of labor-intensive manufacturing industries to Africa are in line with China's development strategy at this stage.

In view of the substantial resources spent in support of Beijing's African policy, the Chinese leadership, the foreign policy think tanks and the official media tend to present Africa as a potentially lucrative market and an important source of China's badly needed raw materials. African countries are also depicted as China's reliable political and economic partners. But in fact a large part of the continent still suffers from domestic instability, poverty, AIDS, rampant corruption, etc. One cannot be overly optimistic regarding Africa's peace and development in the near future. Many African leaders have no hesitation in criticizing China's policies, and they are obviously not reliable political partners as they have to consider their national interests and personal political needs. Regime changes take place often in some African

countries too. Hence, minor setbacks in China's African policy will not be surprising.

Chinese leaders have no intention of engaging in diplomatic and strategic competition with the U.S. and the European Union in Africa, but they certainly will not cooperate with Western governments in helping Africa because they want to push for multipolarity and ensure a reliable supply of resources from Africa in support of China's economic development. They intend to pursue an independent policy in the continent reflecting their definition of China's distinct strategic and economic interests. This is a fundamental dilemma of China's African policy which exacerbates its risks.

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