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International Journal of China Studies

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Focus: South China Sea and China's Foreign Relations

Editors

Emile Kok-Kheng Yeoh Ngeow Chow Bing

International Journal of China Studies

Focus: South China Sea and China's Foreign Relations

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FOREWORD

China: Foreign Relations and Maritime Conflict

The Spratlys and Paracels disputes, being the major military-related security problem in the relations between China and some member states of the Association of Southeast Asian Nations (ASEAN), can be seen as one of the major challenges posed by China's ascendance in the global arena in recent decades, in particular within the context of the changing China-ASEAN relations. Over the recent decades, China's highly remarkable economic expansion has made the country the central focus of the world. The emergence of China began with economic reform since the late 1970s, and over the recent decades China has gained substantial global influence in both the political and economic spheres. This has created a wide range of opportunities as well as risks especially for her immediate neighbours, the ASEAN member countries. In terms of opportunities, with a large and fast growing market, China has become the global buyer of goods and services from other countries, including the member countries of ASEAN. This is because of the need for raw materials to sustain the rapid growth of the country's economy especially in the manufacturing sector.

The phenomenal rise of China as an economic power, as well as her heightened political and military clout that has been growing in tandem with this, inevitably brought forth, both regionally and globally, increasing concern over whether she is posing a threat to regional stability and prosperity, and if so, in what way. Despite also being viewed as a threat, China is more often regarded as an opportunity for her trade partners. In fact, as a general policy orientation, whatever her ultimate strategic concerns are, China has been untiringly reassuring her neighbours in this region that her growing influence in Asia and the world arena – her “peaceful rise” (*heping jueqi* 和平崛起) or even more carefully, “peaceful development” (*heping fazhan* 和平发展) – is a threat to no one but a benefit for all, and with the formalization in the 1990s of the framework of her foreign relations with the surrounding countries (*zhoubian guanxi* 周边关系) as “*zhoubian shi shouyao, daguo shi guanjian, fazhanzhong guojia shi jichu, duobian shi wutai* 周边是首要, 大国是关键, 发展中国家是基础, 多边是舞台” (“relations with the surrounding countries are primary; those with the great powers are the key; those with the developing countries are the foundation; multilateral relations are arenas”), her overall

foreign policy is guided by the principle of *mulin fuli* 睦邻富里 (in harmony with neighbours and prosper together) and her diplomatic relations with her neighbouring countries are guided by the principles of *mulin, fulin, anlin* 睦邻, 富邻, 安邻 (in harmony with neighbours, prosper together with neighbours, and assuring the neighbours) and *yi lin wei ban, yu lin wei shan* 以邻为伴, 与邻为善 (to be partner of neighbours and do good to neighbours).

Nevertheless, on the part of her immediate neighbours in East and Southeast Asia, diplomatic manoeuvres of this overshadowing giant could not probably be seen but through the smoky prism of *realpolitik*, wherein the primary alignment response of states is often a bid to balance against a potential or actual power or constellation of power due to the fear of being dominated or destroyed by the latter, or alternatively, to bandwagon with this rising, stronger power to gain from the benefits the latter makes possible. While with the establishment of the ASEAN-China Free Trade Area in 2010 encompassing a total population of 1.9 billion, China has set to become an even more formidable pivotal power in the vibrant Southeast Asian region in the years to come, and the economic well-being of countries big and small in this region is now very much tied to China's rise as an economic power and the engine of growth in the region, it is still inevitable that many in the region would see this Asian giant's economic ascendance over the last three decades and the concomitant expansion of her "soft power", if left unchecked, to be a major problem not only to the developing countries in the region but also to the rest of the world. On the part of China, geopolitical, probably more than economic rationale, is dictating her continued emphasis on Sino-ASEAN relations, including the formation of ACFTA as part of her *mulin youhao* 睦邻友好 (good neighbourliness and friendship) foreign policy.

On the other hand, one most notable aspect of China's foreign policy that has often been perceived by the US and other Western powers as provocative is her global search for energy in terms of its perceived role in accelerating the global arms race and the policy towards dictatorial regimes across the globe from Southeast Asia to Africa. The global financial crisis seems to have turned into an opportunity for China to intensify her global quest for petroleum and other natural resources as while the Chinese economy is equally suffering from the crisis with slower growth, unlike many other countries, her banking system is not as badly affected by the crisis and hence is still able to extend credits to enterprises to support the major projects of the government. While China's present foreign policy seems to emphasize cooperation and stability in order to promote her own security, development and wealth, her escalating demand for energy resources – hence the importance of the South China Sea which is rich in petroleum reserve and marine produce – is today no longer solely a matter of her own domestic concern, but is increasingly acquiring new dimensions that have a powerful influence on her international politico-

economic relations. In terms of geopolitics, the Spratlys also occupy a highly important strategic position – the key to the control of the South China Sea and critical hub in China's sea route transport connection with East Asia, West Asia and the Indian Ocean. As more than 70 per cent of China's import of petroleum is through the Strait of Malacca and South China Sea, the control of the Spratlys is strategically important for ensuring a safe sea route passage for China

Thus in view of the increasing world attention drawn towards China's foreign policy, military build-up and international relations, in particular in the East and Southeast Asian region the main flashpoints of which include the high-profile disputes over the ownership of the islands, atolls, reefs, cays and islets in the South China Sea which besides holding rich ocean resources in their surrounding waters occupy a highly important strategic position in terms of geopolitics, being the key to the control of the regional waters and the critical hub in the sea route transport connection between East Asia and Southeast Asia, West Asia and the Indian Ocean, the editorial board of the *International Journal of China Studies* has decided to put together a selected set of related papers submitted to the journal, after the due process of peer reviewing, to produce this issue of *IJCS* with a special focus on the South China Sea disputes in particular and China's foreign relations in general. While all the papers in this issue of *IJCS* focus in various ways on the impact of the rise of China on the regional and global geopolitical configuration and international relations amidst the recent escalating tension in the South China Sea, readers will not fail to notice the diverse perspectives exhibited by these different papers that reflect well the consistent approach of the journal which continues to cherish the notions of academic freedom and impartiality.

Dr Emile Kok-Kheng Yeoh 楊國慶

Editor

International Journal of China Studies

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China's New Wave of Aggressive Assertiveness in the South China Sea⁺

*Carlyle A. Thayer**
University of New South Wales

Abstract

During the first half of 2011 China began to aggressively assert its sovereignty claims in the South China Sea by interfering with the commercial operations of Philippine and Vietnamese oil exploration vessels operating in their Exclusive Economic Zones. China also undertook to demonstrate its jurisdiction by enforcing a unilateral fishing ban and by deploying civilian vessels in disputed waters. This study examines the drivers behind Chinese assertiveness and highlights the importance of energy security and sovereignty. The article considers in detail the impact of Chinese assertiveness in the South China Sea on its bilateral relations with Malaysia, the Philippines and Vietnam, and the responses by these claimant states particularly in presentations to the Shangri-La Dialogue. The article concludes by exploring the utility of multilateral diplomatic efforts towards reducing tensions through a regional code of conduct.

Keywords: *South China Sea, Chinese assertiveness, ASEAN, UNCLOS, code of conduct*

JEL classification: *F51, F52, F59, N45*

1. Introduction

In 2009 and 2010 the South China Sea emerged as a potential regional hot spot as a result of an increase in Chinese assertiveness in pressing its sovereignty claims. During this period China imposed its annual unilateral fishing ban with unusual vigour targeting Vietnamese fishing craft in particular.¹ Vietnam, as Chairman of the Association of Southeast Asian Nations (ASEAN), used its position to internationalize this issue. The United States responded to lobbying by Vietnam and other concerned regional states by raising the South China Sea issue at the Shangri-La Dialogue in Singapore and at the 17th ASEAN

Regional Forum meeting in Hanoi. The South China Sea quickly emerged as another irritant in Sino-American relations.

By October 2010, the tensions that had arisen earlier in the year appeared to have abated. China resumed military-to-military contacts with the United States suspended in response to arms sales to Taiwan. China and ASEAN revived the moribund Joint Working Group to Implement the Declaration on Conduct of Parties in the South China Sea (DOC). These and other developments led the author to conclude that there were grounds for cautious optimism that some progress could be made in managing South China Sea tensions.² This assessment appeared to be borne out by testimony in April 2011 given by Admiral Robert Willard, Commander of the US Pacific Command, that the People's Liberation Army Navy (PLAN) had adopted a less aggressive stance in the Pacific.³

Events during the first half of 2011 have witnessed a pattern of behaviour on the part of China that has not been seen before and this has contributed to a rise in regional tensions. In particular, China began to aggressively interfere in the commercial operations of oil exploration vessels conducting seismic testing in waters claimed by the Philippines and Vietnam. Diplomatic protests by both states were routinely dismissed by China. This article assesses developments affecting the security of the South China Sea in the first half of 2011.

Following this introduction, this article is organized into six parts. Section 2 provides background to recent developments. Sections 3, 4 and 5 consider China's relations with Malaysia, the Philippines and Vietnam, respectively. Section 6 reviews official statements made by key defence ministers at the Shangri-La Dialogue. Section 7 offers some conclusions.

2. Background

There are two major drivers that explain Chinese behaviour: sovereignty and hydrocarbon resources.

In May 2009 China protested submissions by Malaysia and Vietnam to the United Nations Commission on Limits of Continental Shelf by officially submitting a map of China's claims. This map contained nine dash lines in a U-shape covering an estimated eighty per cent or more of the maritime area of the South China Sea. Having staked its claim China began to demonstrate that it had legal jurisdiction over the South China Sea. China therefore challenged any and all assertions to the contrary by the Philippines and Vietnam.

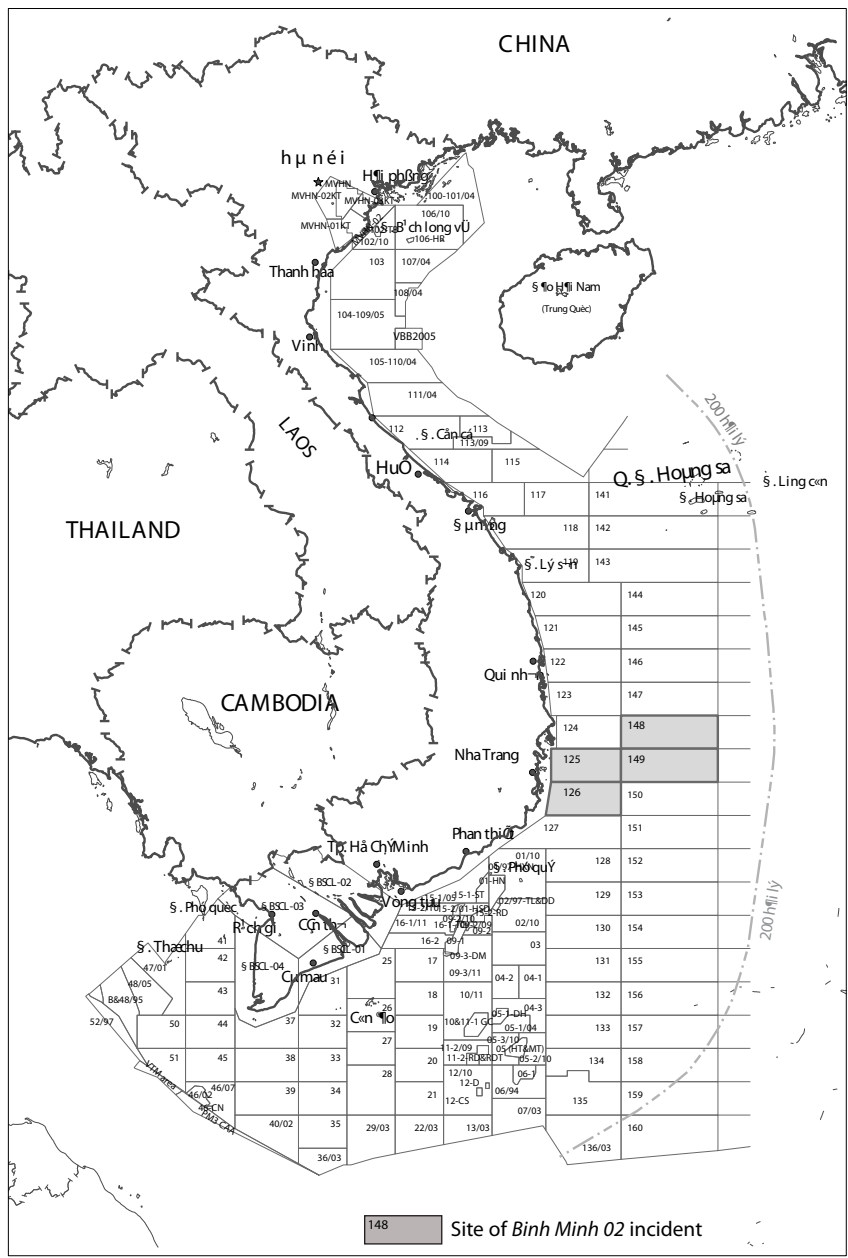
Recent announcements of joint oil and gas exploration by the Philippines and Vietnam were viewed in Beijing as a challenge to China's tolerance.⁴ For example, in February 2011, Forum Energy, an Anglo-Canadian consortium based in the United Kingdom, concluded a two-year survey of oil and gas resources in the South China Sea. President Benigno Aquino III then awarded

Figure 1 China's Official Nine-Dash Line Map



Source: China's submission to the United Nations Commission on the Limits of the Continental Shelf, 7 May 2009.

Figure 2 Vietnam's Oil Exploration Blocks



Source: Vietnam National Oil and Gas Group (PetroVietnam).

Forum Energy an exploration contract to explore for gas in the Reed Bank area.⁵ Vietnam awarded Services Corporation and CGG Veritas of France a license to conduct seismic surveys off its coast.⁶

According to Song Enlai, chairman of China National Offshore Oil Corporation's (CNOOC) board of supervisors, China loses about twenty million tons of oil annually or about forty per cent of its total offshore production due to the activities of countries in the South China Sea. CNOOC has plans to invest US thirty-one billion dollars to drill eight hundred deep-water wells in the East Sea, Yellow Sea and South China Sea with the aim of producing five hundred million tons of oil by 2020.

On 7 March 2011, Chinese Foreign Minister Yang Jiechi stated that China's foreign policy would serve the country's economic development. China then warned against any oil exploration in waters it claimed in the South China Sea.⁷ In early May, China announced that it would step up maritime patrols by at least ten per cent in the face of increasing incursions into its territorial waters. Chinese media reported that around one thousand recruits would be added to China's marine service to raise the total to 10,000.⁸

That same month China launched a mega oil and gas-drilling platform to be used by the CNOOC in the South China Sea. The rig frees China of dependence on foreign-owned contractors for deep-sea drilling. The rig is capable of exploring waters up to 3,000 metres in depth, a capability that neither the Philippines nor Vietnam possesses.⁹ Chinese sources indicated that the rig would begin operations in the South China Sea in July and thereby enable China to establish a major presence in the area.

On 27 May, the Philippines' Department of Foreign Affairs summoned Chinese officials to convey its concern about the planned location of the mega rig. Philippines officials asked the Chinese diplomats the exact planned location of the new oil rig and stated that it should not be placed in Philippine territory or waters.

3. China-Malaysia

In June 2009 Malaysia's Prime Minister Dato' Sri Najib Tun Razak paid a state visit to China. In April 2011, Deputy Prime Minister Tan Sri Muhyiddin Yassin went to China to prepare for the return visit of Premier Wen Jiabao (who was also scheduled to visit Indonesia at the same time). Deputy Prime Minister Muhyiddin met with Vice Premier Li Keqiang on 18 April. Li reiterated China's position that disputes in the South China Sea should be resolved on a bilateral basis. He pressed Muhyiddin for bilateral talks on the Spratly Islands issue. Muhyiddin agreed and also offered to relay China's request for bilateral talks to other ASEAN members, particularly the claimant states.¹¹

Prior to Premier Wen's visit the media reported that he would sign agreements related to telecommunications and infrastructure construction and that the Spratly issues would not figure prominently. China's Assistant Foreign Minister Hu Zhengyou observed, for example, "The South China Sea problem is an old one. I think that when the leaders of both nations meet they won't deliberately try to avoid it, but as we both understand each other's stance, this won't be a major issue".¹²

After his return to Malaysia Muhyiddin revealed that overlapping claims to the South China Sea would be discussed between Prime Minister Datuk Seri Najib Tun Razak and Premier Wen. According to Muhyiddin, "Malaysia is of the opinion that discussions with China on the issue of overlapping claims should be carried out after officials have come up with a basic framework on the claims based on facts, law and history". He further stated, "We believe negotiations among the ASEAN claimants are important. But there will be a case where the overlapping claims involve three countries, so discussions will have to be more than bilateral".¹³

Before setting out on his trip, Premier Wen gave an interview to Malaysian and Indonesian journalists. When he was asked, "whether China would hold talks on joint development in these contested islands and reefs with Malaysia and other relevant countries that have cross claims with China?", Premier Wen replied:

China remains committed to the Declaration on Conduct of the Parties in the South China Sea. We take the position that territorial disputes over maritime rights and interests should be peacefully addressed and resolved by the countries concerned through bilateral channels.

We disapprove of referring bilateral disputes to multi-lateral forums because that will only complicate the issue. You have rightly mentioned that although China and Malaysia have some disputes over the mentioned island and reefs in the South China Sea, these disputes have not impeded our efforts to have peaceful co-existence between the two countries.

Secondly, I totally agree that the countries concerned can and should have joint development of resources in the South China Sea because this is in the interest of regional peace in the area and it also serves the interests of all claimant countries.¹⁴

Premier Wen visited Malaysia from April 27-28 and discussions with Prime Minister Najib mainly focused on economic and educational issues.

4. China-Philippines

According to the Philippines Department of Foreign Affairs, China increased its presence and activities in the Spratly Islands in the fourth quarter of 2010.¹⁵

This increased presence led to six or seven major incursions into waters claimed by the Philippines in the first five months of 2011.¹⁶ The Philippines has not yet officially released the list but from statements by government officials the following list appears indicative:

- ◆ Incident 1. On 25 February, three Philippines fishing vessels, F/V *Jaime DLS*, F/V *Mama Lydia DLS* and F/V *Maricris 12*, were operating in the waters off Jackson Atoll one hundred and forty nautical miles west of Palawan. According to a report prepared by the Armed Forces of the Philippines (AFP), the fishing vessels were approached by a Jianghu-V Class missile frigate, *Dongguan 560*, which broadcast over its marine band radio, "This is Chinese Warship 560. You are in the Chinese territory. Leave the area immediately". Then the frigate repeatedly broadcast, "I will shoot you".¹⁷ As the fishing vessels began to withdraw, the Chinese frigate fired three shots that landed 0.3 nautical miles (556 meters) from F/V *Maricris 12*. The F/V *Maricris 12* left the area but then returned three days later to recover its anchor that it cut in its hasty departure. The F/V *Maricris 12* spotted three Chinese fishing vessels exploiting marine resources in the area. The Philippine government reportedly did not file a protest with the Chinese Embassy over this incident.¹⁸ The Chinese Ambassador to the Philippines, Liu Jianchao later denied that any Chinese vessel had fired on Filipino fishermen.¹⁹
- ◆ Incident 2. On 2 March, two Chinese white-painted patrol boats, No. 71 and No. 75, ordered MV *Veritas Voyager*, a Forum Energy Plc survey vessel operating in the Reed Bank area off Palawan Island, to leave and twice manoeuvred close in what appeared a threat to ram the MV *Veritas Voyager*.²⁰ The survey ship was French-owned and registered in Singapore.

The Philippines responded by dispatching two OV-10 aircraft to investigate. The Chinese boats departed without further incident. Foreign Affairs Undersecretary Erlinda Basilio lodged a protest with Chinese Charge d'Affairs, Bai Tian, on 4 March. According to one report the note "raised four points to prove that Reed Bank is not part of the disputed area by projecting eighty-five nautical miles from the base point in the northern part of Palawan and not from the Kalayaan Island Group (KIG). China questioned this during a meeting with the Philippines, but did not reply in a diplomatic note".²¹

After the incident, the Philippines announced a temporary halt to seismic testing and ordered the Philippine Navy and Philippines Coast Guard to escort the survey ship when testing resumed.²² Later, President Aquino instructed the Philippine Coast Guard to provide security for oil and gas exploration activities in the KIG.²³

On 5 April, the Philippine Mission to the United Nations submitted a letter in response to China's Notes Verbales of 7 May 2009 (CML/17/2009 and CML/18/2009) restating the Philippines' claim to sovereignty over the Kalayaan Island Group, adjacent waters and geological features (relevant waters, seabed and subsoil).²⁴ China responded on 14 April with a Note Verbale to the United Nations that accused the Philippines of invading and occupying "some islands and reefs of China's Nansha Islands... The Republic of the Philippines' occupation of some islands and reefs of China's Nansha islands as well as other related acts constitutes an infringement upon China's territorial sovereignty".²⁵ The Chinese Note Verbale also argued that on the basis of domestic legislation "China's Nansha Islands is fully entitled to Territorial Sea, EEZ [Exclusive Economic Zone] and Continental Shelf".²⁶

- ◆ Incident 3. On 6 May, a Chinese marine vessel with a flat bed was sighted in Abad Santos (Bombay) Shoal.²⁷
- ◆ Incident 4. On 19 May, the AFP claimed that two Chinese jet fighters allegedly flew into Philippines' air space near Palawan on 11 May. This initial report was never confirmed and appears the least substantiated of the six or seven incidents of reported Chinese incursions.²⁸
- ◆ Incident 5. On 21 May, Chinese Marine Surveillance ship No. 75 and Salvage/Research Ship No. 707 were observed heading toward Southern Bank.²⁹
- ◆ Incident 6. On 24 May, Filipino fishermen reportedly witnessed a China Maritime Surveillance vessel and People's Liberation Army Navy (PLAN) ships unloading steel posts, building materials and a buoy near Likas and Patag islands, near Iroquois Reef-Amy Douglas Bank one hundred nautical miles off Palawan.³⁰ The fishermen reported their sighting to the AFP the next day. Navy Headquarters in Manila ordered a ship to verify the sighting but bad weather delayed its arrival until 29 May by which time the Chinese ships had departed. Local fishermen removed the steel polls and handed them over to authorities.

The AFP reported this incident on 27 May. Four days later the Department of Foreign Affairs summoned the Chinese Charge d' Affaires to seek a clarification of the incident. On 1 June the Philippines conveyed "serious concerns" in a Note Verbale to the Chinese Embassy. The note stated, "These ships reportedly unloaded building materials, erected an undetermined number of posts, and placed a buoy near the breaker of the Iroquois Bank".³¹ The Chinese Embassy responded, "The reported 'incursion of Chinese ships' is not true... It's only China's marine research ship conducting normal maritime research activities in the South China Sea".³² Speaking on a TV forum that same day, Defense Secretary Voltaire Gazmin observed, "It's alarming in the sense that the intrusions are increasing. They are staking claim on the areas

where we do not have a presence. They want to hoist their flag so they can claim the area”.³³ Foreign Affairs Secretary Albert del Rosario charged that “any new construction by China in the vicinity of the uninhabited Iroquois Bank is a clear violation of the 2002 Association of Southeast Asian Nations (ASEAN)-China Declaration on the Conduct of Parties (DOC) in the South China Sea”.³⁴

During 2011, President Aquino lobbied his ASEAN colleagues to unite as a bloc on a detailed code of conduct and proposed that a unified position on the South China Sea dispute among the ASEAN claimant states was the best way to approach China.

On 8 March, President Aquino paid an official visit to Indonesia where he met with President Bambang Susilo Yudhoyono. At a joint press conference after their talks, President Aquino expressed his support for Indonesia’s leadership role as ASEAN Chair. President Yudhoyono said Indonesia as ASEAN Chair would bring the Spratly Islands issue to the forthcoming ASEAN Summit and East Asia Summit. President Yudhoyono expressed his hope that the South China Sea could become a “zone of possible economic cooperation”. President Aquino replied, “With regard to joint exploration [in the area], that is an idea that has been proposed a few decades past but perhaps we should continue the talks with other claimant countries. There is no room for unilateral action in that particular region”.³⁵

On 1 June, President Aquino paid an official visit to Brunei Darussalam for discussions with Sultan Hassanal Bolkiah. According to Presidential Communications Operations Secretary Herminio Coloma Jr., the two leaders expressed their desire to maintain peace and stability in the South China Sea through a multilateral dialogue among the ASEAN countries, claimant countries and China. Cloma quoted the Sultan as stating “it’s best to have good relations with China”.³⁶

President Aquino told the reporters covering his visit: “We govern ourselves there [Spratly Islands/KIG]. Instead of one country has a bilateral agreement with China and the other has a different bilateral agreement with China. Let’s come together as a body. Why do we have to fight or increase all of these tensions when it profits nobody?”³⁷ Aquino also renewed his call for the immediate adoption of the implementing guidelines on the DOC.³⁸ The following day, 12 June, Eduardo Malaya, a spokesperson for the Department of Foreign Affairs, called for a “more binding Code of Conduct of Parties in the South China Sea” in response to Chinese intrusions into Philippine waters.

During his state visit to Brunei President Aquino revealed that the Philippines was preparing to file a complaint to the United Nations in response to Chinese intrusions into its territory. According to Aquino, “We are completing the data on about six to seven instances since February. We

will present it to [China] and then bring these to the appropriate body, which normally is the United Nations".³⁹ The Aquino Administration is supporting two legislative measures in response to China's assertiveness in the Spratly Islands. The House of Representative is drawing up the Philippine Maritime Zones bill to delineate the Philippines' maritime zones, while the Senate is considering the Archipelagic Sea Lanes bill.⁴⁰

On 28 March, General Eduardo Oban, chief of the Armed Forces of the Philippines, announced that the Philippines had increased air and naval patrols in the South China Sea and had plans to upgrade Rancudo Air Field on Pag-Asa (Thitu) island and repair barracks.⁴¹ The AFP was allocated US one hundred and eighty-three million dollars in funds from the Capability Upgrade Program to purchase two offshore fast patrol boats, long-range maritime aircraft, surveillance and communication equipment including air defence radar to better protect its territory.⁴² President Aquino had earlier released US two hundred and fifty-five million dollars to the armed forces.

The Philippines recently acquired the US Coast Guard Cutter USCGC *Hamilton*, which is expected to enter service during 2011 and then commence patrolling disputed waters in the South China Sea.⁴³ The Philippines also expects to take delivery of three new Taiwan-manufactured Multi-Purpose Attack Craft in 2012.⁴⁴ In May, a Philippine navy study recommended the acquisition of submarines as a "deterrent against future potential conflicts".⁴⁵

The Philippines defence and military agencies are drawing up a new defence strategy in response to developments in the South China Sea. The new strategy would focus on both internal security operations and external territorial defence. AFP chief General Oban said the military was planning to set up a coast watch system on the western seaboard in the next two to three years to monitor and secure maritime borders and natural resources.⁴⁶ In June, it was reported that the Philippines Embassy in Washington was in the market for excess defence equipment from the US under its Foreign Military Sales (FMS) programme including one or more patrol ships.⁴⁷ The Philippines also announced a new US training programme for its naval forces to enable them to better carry out their mission of providing security for oil exploration activities in the South China Sea.⁴⁸

On 14 May, President Aquino and several members of his Cabinet flew out to the USS *Carl Vinson* aircraft carrier in the South China Sea as it headed towards the Philippines. The aircraft carrier made a "routine port call and goodwill visit" accompanied by the USS *Bunker Hill*, USS *Shiloh* and USS *Gridley*.⁴⁹ In fact, the visit by the carrier was a reaffirmation of the alliance relationship on the eve of an official visit by China's Defence Minister General Liang Guanglie. Liang paid an official visit to the Philippines from 21-25 May for discussions with his counterpart Defense Secretary Voltaire

Gazmin. The two ministers agreed to hold regular discussions to promote trust and confidence and find common ground on territorial disputes in the Spratly Islands. A joint statement declared, "both ministers expressed hope that the implementing guidelines of the 2002 Declaration of Conduct would soon be finalized and agreed upon, that responsible behavior of all parties in the South China Sea issue would help keep the area stable while all parties work for the peaceful resolution... Both ministers recognized that unilateral actions which could cause alarm should be avoided".⁵⁰

When Defence Minister Liang met with President Aquino South China Sea issues were discussed in general, but the latter refrained from directly mentioning the Reed Bank incident and the reported intrusion of Chinese aircraft into Philippine air space.⁵¹ President Aquino also told General Liang that more maritime incidents in disputed areas of the South China Sea could spark a regional arms race.⁵² Immediately after the defence ministers met Sun Yi, Deputy Chief of Political Section at the Chinese Embassy in Manila, announced that China looked forward to an "accelerated dialogue" with the Philippines to resolve the dispute in the South China Sea. "It's a bilateral issue. We repeatedly said that and we believe it's a bilateral issue," Sun Yi stated.⁵³

On 4 June, the Department of Foreign Affairs issued a statement revealing it had lodged a protest with the Chinese Embassy two days earlier over the "increasing presence and activities of Chinese vessels including naval assets in the West Philippines Sea (South China Sea)". The note stated, "These actions of Chinese vessels hamper the normal and legitimate fishing activities of the Filipino fishermen in the area and undermines the peace and stability of the region".⁵⁴

China responded on 7 June with a statement by Foreign Ministry spokesperson, Hong Lei: "Chinese vessels were cruising and carrying out scientific studies in waters under China's jurisdiction and their activities were in line with the law... China asks the Philippine side to stop harming China's sovereignty and maritime rights and interests, which leads to unilateral actions that expand and complicate South China Sea disputes. The Philippines should stop publishing irresponsible statements that do not match the facts".⁵⁵

Liu Jianchao, Chinese Ambassador to the Philippines, responded to complaints by the Philippines government for the first time when he met with reporters in Manila on 9 June. The ambassador stated that China had not yet started to drill for oil in the Spratly Islands. "We're calling on other parties to stop searching for the possibility of exploiting resources in these areas where China has its claims".⁵⁶ In response to a question how China would react if countries went ahead and continued to explore without Beijing's permission, the ambassador said China would use diplomatic means to assert its rights. "We will never use force unless we are attacked," he said. Liang also con-

firmed to reporters that Chinese forces took action to keep the exploration vessel from Reed Bank. "That's part of our exercise of jurisdiction. It's not harassment," he claimed.⁵⁷

In response to Chinese assertiveness, President Aquino launched a new initiative calling for the South China Sea to become a Zone of Peace, Freedom, Friendship and Cooperation (ZOPFF/C). Aquino explained "what is ours is ours, and with what is disputed, we can work towards joint cooperation".⁵⁸ He directed the Department of Foreign Affairs to promote the ZOPFF/C concept through sustained consultations and dialogue.

According to the Department of Foreign Affairs, the ZOPFF/C provides a framework for separating the disputed territorial features that may be considered for collaborative activities from non-disputed waters in the West Philippines Sea (South China Sea) in accordance with international law in general and UNCLOS in particular.⁵⁹ A disputed area could be turned into a Joint Cooperation Area for joint development and the establishment of marine protected area for biodiversity conservation. Areas not in dispute, such as Reed Bank that lies on the Philippines' continental shelf, can be developed exclusively by the Philippines or with the assistance of foreign investors invited to participate in its development.

5. China-Vietnam

In December 2008, China and Vietnam agreed to commence bilateral discussions on maritime issues with first priority given to developing a set of "fundamental guiding principles" as a framework for settling specific issues. These confidential discussions began in early 2010 and five sessions were held during the year. According to Vietnamese Foreign Ministry sources, Vietnam and China agreed to settle their differences "through peaceful negotiation" and "refrain from any action to complicate the situation, violence or threat of use of violence".⁶⁰

Significantly, Vietnam and China agreed to bilateral discussions on matters that did not affect third parties, such as the waters at the mouth of the Gulf of Tonkin. Vietnam wanted to include the Paracel Islands in bilateral discussion but China refused. Vietnam and China also differed on the question of multilateral negotiations. According to Vietnam:

Issues that are related to other countries and parties like the Spratly Islands cannot be settled by Vietnam and China; they require the participation of other concerned parties. For issues that are not only related to countries that border the East Sea such as maritime safety and security, they must be negotiated and settled by all countries that share this common interest.⁶¹

China and Vietnam held two further working-level rounds of discussions. At the seventh and most recent round on August 1, a Vietnamese spokesperson

noted that “the two sides reached preliminary consensus on some principles” and that the eighth round of discussion would be held later in the year.⁶²

During the eight months of 2011, China and Vietnam exchanged five high-level visits. In February 2011, immediately after Eleventh National Congress of the Vietnam Communist Party, the new Secretary General, Nguyen Phu Trong, dispatched a special envoy, Hoang Binh Quan, to Beijing. Quan met with Hu Jintao, President and General Secretary of the Chinese Communist Party, and briefed him on the outcome of the party congress. Quan also extended an invitation to Hu and other Chinese party and state leaders to visit Vietnam. In return, Hu extended an invitation to Secretary General Trong to visit China.⁶³ In deference to China, Trong will visit Beijing first.

In April, Senior Lieutenant General Guo Boxiong, vice chairman of China's Central Military Commission, visited Hanoi at the invitation of General Phung Quang Thanh, Minister of National Defence. Lt. Gen. Guo was also received by Prime Minister Nguyen Tan Dung and party Secretary General Nguyen Phu Trong. Prime Minister Dung “proposed the two sides talk and seek fundamental and long-lasting measures that both sides are able to accept for the East Sea [South China Sea] issue...”⁶⁴ The joint press communiqué issued after the conclusion of Guo's visit outlined a number of cooperative military activities, including increasing the scope of joint naval patrols in the Gulf of Tonkin, but no mention was made of the South China Sea.⁶⁵

Immediately after General Guo's visit, Vietnam hosted a meeting of the heads of the government delegations on boundary negotiations between China and Vietnam (18-19 April). These discussions were held at deputy minister level. China's Foreign Ministry reported that the two vice ministers pledged, “to properly handle maritime disputes through friendly consultations and explore solutions with a positive and constructive attitude”.⁶⁶ A Vietnamese spokesperson revealed that “the two sides agreed they will sign an agreement on the fundamental guidelines to settle the maritime issues” but negotiations are still continuing and no date has been set to sign the agreement.⁶⁷

The fourth high-level meeting took place in Singapore in June on the sidelines of the Shangri-la Dialogue and involved the two defence ministers, Liang Guanglie and Phung Quang Thanh. This meeting took place under the shadow of the 26 May cable-cutting incident. Minister Thanh expressed the concern of Vietnamese party and state leaders over what he termed a “pressing incident” and then offered the conciliatory comment that “Sometime, regrettable cases happen which are beyond the expectation of both sides”.⁶⁸ Minister Liang replied that China did not want a similar incident to occur in the future. He noted in particular that the People's Liberation Army was not involved in the incident. Four days later a second cable-cutting incident occurred.

In June, Vietnam dispatched a second special envoy to Beijing, Deputy Minister of Foreign Affairs Ho Xuan Son who met with his counterpart, Zhang Zijun. A joint press release issued at the conclusion of their talks on June 25 stated, *inter alia*, the two sides “laid stress on the need to steer public opinion along the correct direction, avoiding comments and deeds that harm friendship and trust...”⁶⁹

On 11 May, the Haikou Municipal Government, Hainan province, issued an announcement imposing China’s annual unilateral fishing ban in the South China Sea from 16 May – 1 August ostensibly to protect dwindling fish stocks during the spawning season. Vietnam immediately issued a verbal protest: “China’s unilateral execution of a fishing ban in the East Sea is a violation of Vietnam’s sovereignty over the Hoang Sa [Paracel] archipelago, as well as the country’s sovereignty and jurisdiction over its exclusive economic zone and continental shelf...”⁷⁰ Vietnam also protested the deployment of a Chinese Fishery Administration Vessel, *Leizhou 44261*, to patrol in the waters around the Paracel Islands from 5-25 May. Vietnam accused the patrol boat of “causing difficulties for normal fishing activities conducted by Vietnamese fishermen in their traditional fishing ground and making the situation at sea more complicated”.⁷¹

Vietnamese local authorities reported the arrival of Chinese fishing boats in Vietnamese waters in greater numbers than in the past. The head of Phu Yen Province Border Guard Headquarters stated that, “every day between one hundred and twenty and one hundred and fifty fishing boats of China were operated within waters from Da Nang City to the Truong Sa [Spratly] Archipelago... Previously Chinese fishing boats have violated our waters, but this was the first time there were so many boats”.⁷² The numbers reportedly rose to two hundred on some occasions. Vietnamese fishermen formed fishing teams of five to ten boats for protection because of intimidation from larger Chinese craft that sometimes used weapons to threaten them. The Vietnamese government is currently considering a proposal by the Ministry of Agriculture and Rural Development to build ten fishery patrol boats at a total cost estimated at US one hundred and two million dollars.

Although Vietnamese fishermen vowed to defy the ban the Vietnamese press has not reported any major incidents of harassment or detention.⁷³ On 1 June, however, it was reported that Chinese military vessels threatened to use their guns against a Vietnamese fishing boat operating in waters near the Spratly archipelago.⁷⁴ A more serious incident took place on July 5 when armed Chinese naval troops reportedly beat the skipper of a Vietnamese fishing boat, threatened the crew, and then forced the boat to leave contested waters near the Paracel Islands.⁷⁵

On 26 May, three China Maritime Surveillance ships accosted the *Binh Minh 02*, a Vietnamese seismic survey ship operating in Block 148, in an

incident that lasted three hours. China Maritime Surveillance ship No. 84 cut a cable towing seismic monitoring equipment.⁷⁶ The next day Vietnam lodged a diplomatic protest with China's Ambassador claiming that the actions of the China Maritime Surveillance ships violated international law and Vietnam's sovereignty.⁷⁷ Vietnam also sought compensation for the damage caused. The *Binh Minh 02* returned to port for repairs and resumed its oil exploration activities accompanied by an escort of eight ships.⁷⁸

Some news media erroneously reported that this was the first instance in which the Chinese had cut the cable of a Vietnamese exploration vessel. According to Do Van Hau, a senior PetroVietnam official, "When we conduct seismic survey and drilling operations, the [China] have aeroplanes flying over to survey our activities, they harass us with their vessels, and in extreme cases they cut our [exploration] cables".⁷⁹ The Vietnamese press reported that when Vietnamese conducted continental shelf surveys in 2008, "Chinese vessels also cut Vietnamese ships' survey cables... and further obstructed Viet Nam from conducting oil and gas exploration in the East Sea..."⁸⁰

China responded to Vietnam's protest on 28 May with the following statement: "What relevant Chinese departments did was completely normal marine law-enforcement and surveillance activities in China's jurisdictional area".⁸¹ Vietnam retorted on 29 May, "the area where Vietnam conducted exploration activities situates entirely in the exclusive economic zone and the two hundred nautical mile continental shelf of Vietnam in accordance with the 1982 United Nations Convention on Law of the Sea. It is neither a disputed area nor is it an area 'managed by China.' China has deliberately misled the public into thinking that it is a disputed area".⁸² China responded in kind: "the law enforcement activities by Chinese maritime surveillance ships against Vietnam's illegally operating ships are completely justified. We urge Vietnam to immediately stop infringement activities and refrain from creating new troubles".⁸³

On 9 June, according to Vietnam's Ministry of Foreign Affairs, a second "premeditated and carefully calculated" incident occurred when Chinese fishing boat No. 62226 equipped with a "cable cutting device" snared the cable of the *Viking II* seismic survey ship operating in survey Block 136-03 in the vicinity of Vanguard Bank (Tu Chinh).⁸⁴ *Viking II* is registered in Norway and was operating under charter with PetroVietnam.⁸⁵ Two China Maritime Surveillance ships and other Chinese fishing craft came to assist the distressed fishing boat. According to Nguyen Phuong Nga, the official Foreign Ministry spokesperson, "China's systematic acts were aimed at turning an undisputed region into one of dispute, to carry out its ambition to make China's nine-dash line claim a reality".⁸⁶

Earlier the *Viking II* had been involved in separate incidents on 29 May and 31 May in which Chinese boats – the *Fei Sheng* No. 16 and Vessel

No. B12549 – attempted to approach its rear deck and interfere with its operations. Security escorts with the *Viking II* successfully blocked their approaches.⁸⁷

Chinese authorities claimed that the *Viking II* incident occurred when armed Vietnamese ships chased Chinese fishing boats from the Wan-an (Vanguard) Bank. One of the Chinese boats became entangled in the cable of the *Viking II* ship operating in the same area. The Chinese boat was dragged for more than an hour before the entangled net could be cut. According to the Chinese Foreign Ministry spokesperson, Hong Lei, “The Vietnamese ship put the lives and safety of the Chinese fishermen in serious danger”. Vietnamese Foreign Ministry officials lodged a protest with Chinese Embassy on the afternoon of the incident and announced that the Vietnam National Oil and Gas Group would be seeking compensation for damages.⁸⁸

On 9 June, Prime Minister Nguyen Tan Dung responded to growing domestic pressure by making an unusually strong statement in defence of national sovereignty. Dung said: “We continue to affirm strongly and to manifest the strongest determination of all the Party, of all the people and of all the army in protecting Vietnamese sovereignty in maritime zones of the country”. Dung also reaffirmed “the incontestable maritime sovereignty of Vietnam towards the two archipelagos, the Paracel and Spratlys”.⁸⁹ On the same day, President Nguyen Minh Triet, visiting Co To island off Quang Ninh province near the China border, stated that Vietnam was “determined to protect” its islands and “we are ready to sacrifice everything to protect our homeland, our sea and island sovereignty”.⁹⁰

On 9 June, after the Chinese Ambassador to the Philippines called on Vietnam and the Philippines to cease oil exploration and after China announced it would be conducting routine naval exercises in the Western Pacific,⁹¹ Vietnam raised the stakes by announcing a live-fire exercise. Vietnam’s Northern Maritime Safety Corporation issued a notice that two live firing exercises would be held on 13 June in the waters near Hon Ong Island. The exercises would last for a total of nine hours and be conducted during the period eight am-noon and seven pm-midnight local time. The notice further declared, “All vessels are to refrain from engaging in activities in the area during the live-fire period”.⁹² Hon Ong Island is located approximately forty kilometres off Quang Nam province in central Vietnam.

Vietnam’s Foreign Ministry characterized the live-firing exercises as “a routine annual training activity of the Vietnam navy in the area where the Vietnam navy regularly conducts training [activities] that are programmed and planned annually for units of the Vietnam People’s Navy”.⁹³ Vietnam did not specify how many ships would be involved. The first phase of the exercise involved coastal artillery while the second part of the exercise involved missile corvettes firing their deck gun.

On 11 June, the *Global Times*, an English-language newspaper published by the Chinese Communist Party, editorialized that Vietnam's conduct of a live-firing exercises was the "lowest form of nationalism to create a new enmity between the people of the two countries. Hanoi seems to be looking to dissipate domestic pressure and buck up morale at home, while at the same time further drawing in the concern of international society over the South China Sea dispute".⁹⁴ The editorial stated that China has "never sought to politically blackmail smaller countries. But when a small country turns that around and tries to blackmail China, the Chinese people will on the one hand feel rather angry, while on the other hand find it quite amusing". In conclusion, the editorial opined "If Vietnam insists on making trouble, thinking that the more trouble it makes, the more benefits it gains, then we truly wish to remind those in Vietnam who determine policy to please read your history".

China's new wave of aggressive assertiveness provoked a patriotic response among students and a wider section of the Vietnamese community. Using Facebook and other social networking site they mounted eleven anti-China demonstrations in Hanoi commencing Sunday 5 June when an estimated three hundred Vietnamese gathered near the Chinese Embassy. On the same day a crowd estimated "at nearly 1,000" to "several thousand" gathered in Ho Chi Minh City.⁹⁵ On the following weekend, 12 June, two hundred demonstrators took to the streets of Hanoi while another three hundred marched in Ho Chi Minh City in a repeat of the previous weekend's protests.⁹⁶ The protestors held placards reading "Down with China," "The Spratlys and Paracels belong to Vietnam" and "Stop Violating Vietnam's Territory". Police intervention prevented a third demonstration from being held in Ho Chi Minh City while peaceful demonstrations continued in Hanoi on the weekends of 19 and 26 June. On the following two weekends the police intervened and broke up the demonstrations by detaining protesters no doubt following government instructions to fulfil Vietnam's commitment to China "to steer public opinion". No demonstrations occurred on Sunday 31 July. Despite police intervention the anti-China protests continued thereafter but with reduced numbers. On 18 August the Hanoi People's Committee issued a directive ordering a halt to public demonstrations, when a crowd of nearly fifty protesters defied this ban on the following weekend, the police intervened once again and detained fifteen activists.⁹⁷

During early June, growing enmity between nationalists in China and Vietnam spilled over into cyberspace. According to Nguyen Minh Duc, director of the Bach Khoa Internetwork Security Centre, more than two hundred Vietnamese websites were subject to cyber attacks. Among the sites affected were those of the ministries of Agriculture and Rural Development and Foreign Affairs where hackers succeeded in posting Chinese flags and slogans.⁹⁸

6. Shangri-La Dialogue

Many of the major incidents in the South China Sea in the first half of 2011 occurred prior to the annual meeting of the Shangri-La Dialogue held in Singapore from 3-5 June. Defence Ministers raised South China Sea territorial disputes in all plenary sessions at the dialogue. Malaysia's Prime Minister Dato' Sri Najib Tun Razak, who gave the opening keynote address, offered the upbeat assessment that "ASEAN and China will soon be able to agree on a more binding code of conduct to replace the 2002 Declaration on Conduct in the South China Sea" and that "overlapping claims in the South China Sea... have generally been managed with remarkable restraint". He then offered this insight into Malaysia's policy: "I remain fully committed to the common ASEAN position in terms of our engagement with China on the South China Sea, I am equally determined to ensure our bilateral relationship remains unaffected and, in fact, continues to go from strength to strength".⁹⁹

US Secretary of Defense Robert Gates, while not mentioning the South China Sea specifically, stated the well-known position that the US had a "national interest in freedom of navigation..." He also stressed the importance of customary international law as a guide for "the appropriate use of the maritime domain, and rights of access to it".¹⁰⁰ China's Defence Minister put on record his country's commitment "to maintaining peace and stability in South China Sea". He noted that, "at present, the general situation in the South China Sea remains stable".¹⁰¹

In contrast, Vietnam's Defence Minister spoke in detail about the legal basis for activities at sea "to facilitate cooperation for development and deter actions that risk our common interests, regionally and nationally". Minister Thanh specifically raised the *Binh Minh 02* cable-cutting incident that had raised "considerable concern on the maintenance of peace and stability in the East Sea". He ended his remarks on this incident with these words: "We truly expect no repetition of similar incidents".¹⁰² Four days later a second cable-cutting incident occurred despite General Liang's private remarks cited above.

The Philippine Secretary of National Defence, Voltaire Gazmin, reportedly watered down comments on the South China Sea in his draft text before delivery.¹⁰³ His address began by declaring that, "maritime security is one of our foremost concerns". In an obvious reference to the 2 March Reed Bank incident Gazmin stated that the actions by other states "make... the Philippines worry and concerned. These actions necessarily create insecurity not only to the government but more disturbingly to ordinary citizens who depend on the maritime environment for their livelihood". He then gave details of recent incidents involving Chinese vessels without mentioning China by name.¹⁰⁴

Malaysia's Defence Minister Datuk Seri Dr Ahmad Zahid Hamidi drew attention to disputes in the South China Sea – geopolitics, Sea Lines of Communication, security and competition over petroleum resources. He argued that the 2002 DOC needed to be “supported by actual activities that can promote confidence building among the claimants” and suggested that “claimant countries in the South China Sea work towards identifying and realizing actual confidence-building (CBM) activities that would help alleviate some of the tension in the area”.¹⁰⁵

7. Conclusion

China's aggressive assertion of sovereignty over the South China Sea in the first half of 2001 has raised the security stakes for Southeast Asian states and all maritime powers that sail through these waters. Ensuring the security of the South China Sea is now an international issue that must be addressed multilaterally by all concerned states.

Three major incidents mark the new wave of Chinese aggressive assertiveness. On 2 March Chinese patrol boats operating within the Philippine's Kalayaan Island Group approached a Philippine seismic survey ship in waters off Reed Bank and ordered it to leave the area. On 26 May, three China Maritime Surveillance ships accosted a Vietnamese state-owned oil exploration vessel deep within Vietnam's declared Exclusive Economic Zone (EEZ). The vessel was ordered to leave the area after a Chinese ship deliberately cut its submerged survey cable. And on 9 June, a second Vietnamese exploration vessel was accosted by Chinese boats leading to an alleged second cable-cutting incident.

In May 2009, when Malaysia and Vietnam filed a joint submission to the United Nations Commission on the Limits of Continental Shelf, China lodged a protest accompanied by a map. The Chinese map contained nine dash marks in a rough U-shape covering virtually all of the South China Sea. China claims “indisputable sovereignty” over the South China Sea. Yet it has never made clear the basis of this claim despite two decades of entreaties by regional states. It is unclear what it is that China is claiming. Does China claim sovereignty over all the rocks and features within these dash marks? Or is China claiming the South China Sea as its territorial waters?

Some maritime specialists speculate that China's claim is based on the nine rocks it occupies in the Spratly archipelago. In other words, China claims that the rocks are in fact islands in international law and thus attract a two hundred nautical mile (three hundred and seventy kilometers) EEZ. This is a legal fiction. Islands must be able to sustain human habitation and have an economic function. Rocks, which do not meet these criteria, cannot claim an EEZ or continental shelf.

China's dash marks cut into the EEZs that have been declared by Vietnam and the Philippines. These EEZs are based firmly in international law. Both states have drawn straight base lines around their coasts and then extended their claim from these baselines seaward out to two hundred nautical miles. Under the United Nations Convention on Law of the Sea littoral states have sovereignty over these waters in terms of exploitation of natural resources such as fisheries and oil and gas deposits on the ocean floor.

In November 2002, China and ASEAN reached agreement on a Declaration on Conduct of Parties in the South China Sea. This was a non-binding document in which the signatories pledged not to use force to settle their sovereignty disputes. The DOC, which contains numerous proposed confidence-building measures, has never been implemented.

Chinese assertiveness in pushing its sovereignty claims in the South China Sea in 2009 and 2010 provoked an international backlash. South China Sea disputes featured prominently at the ASEAN Regional Forum and at the inaugural ASEAN Defense Ministers Meeting Plus in 2010. China was outmanoeuvred diplomatically and sought to limit further damage by agreeing to revive the heretofore-moribund ASEAN-China Joint Working Group to Implement the Declaration on Conduct of Parties. This working group had been stalled over China's insistence that territorial and sovereignty claims could only be settled bilaterally by the states concerned. China also objected to a clause in the draft guidelines to implement the DOC, drawn up by ASEAN, that mentioned ASEAN members would gather first to work out a common position before meeting with China. In July 2011, ASEAN and China finally reached agreement on the guidelines to implement the DOC after ASEAN quietly dropped the offending clause.¹⁰⁶

According to an assessment by a veteran commentator: "Hard-headed strategists in Southeast Asia know that adopting the implementing guidelines is hardly a constraint on China's increasingly aggressive behavior in the South China Sea. The real restraint on China is the presence of the U.S. Navy and the need to have stable U.S.-China relations."¹⁰⁷

ASEAN, under the chairmanship of Indonesia, has been pushing China to upgrade the DOC into a more binding Code of Conduct. Some regional diplomats are hopeful that an agreement can be reached by the tenth anniversary of the DOC in November 2012. This is unlikely to be achieved unless ASEAN maintains its unity and cohesion and adopts a common stance. It is clear there are "nervous Nellies" among its members.

In the early to mid-1990s, when China began to occupy rocks in the Spratlys including the celebrated Mischief Reef, security analysts described Chinese strategy as "creeping assertiveness" and "talk and take". The events during the first half of 2011 are best described as aggressive assertiveness. China appears to be paying back Vietnam for its role in internationalizing the

South China Sea when it was Chair of ASEAN. Chinese actions in the Reed Bank area are designed to expose ambiguities in the US-Philippines Mutual Security Treaty over whether or not the Kalayaan Island Group is covered by this treaty.

ASEAN and the international community, both of which rely on transit through the South China Sea, must diplomatically confront China over its aggressive assertiveness. They should bring collective diplomatic pressure to bear on China to faithfully implement the guidelines to implement the DOC adopted between ASEAN and China in Bali in July 2011. ASEAN should also seek endorsement for its diplomatic position at the East Asia Summit to be held in November 2011.

Meanwhile, both the Philippines and Vietnam should continue to enhance their capacity to exert national sovereignty over their EEZs. Their weakness only invites China to act more assertively. On 11 June, Nguyen Phuong Nga, spokesperson for the Ministry of Foreign Affairs, responded to a question about a possible role for the United States and other countries in resolving South China Sea disputes, by replying, "Maintaining maritime peace, stability security and safety in the Eastern Sea is in the common interests of all nations within and outside the region. Every effort by the international community toward peace and stability in the Eastern Sea is welcome".¹⁰⁸ It is in the interest of the United States and its allies as well as India to assist both nations in capacity building in the area of maritime security. At the same time this "coalition of like-minded states" should back ASEAN in its efforts to secure agreement on a code of conduct for the South China Sea. If China is not forthcoming, ASEAN members themselves could draw up a Treaty on a Code of Conduct in the South China Sea, and after ratification, open it to accession by non-member states along the lines of the ASEAN Treaty of Amity and Cooperation and the Southeast Asian Nuclear-Free Weapons Zone Treaty.

Notes

- ⁺ This is a revised version of a paper originally delivered to the Conference on Maritime Security in the South China Sea, sponsored by the Center for Strategic and International Studies, Washington, D.C., 20-21 June 2011.
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South China Sea Issue in China-ASEAN Relations: An Alternative Approach to Ease the Tension⁺

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Abstract

The rising tension in the South China Sea since 2009 almost overturns the sound political and economic relations established between China and the ASEAN states since 1997. Better handling of the issue to ease the tension of territorial disputes in the South China Sea is thus the key to good-neighbourliness among China and ASEAN's claiming states. The ASEAN-China Declaration of the Conduct of Parties (DOC) signed by China and the ASEAN countries in 2002 has not reached its purpose of promoting a peaceful, friendly and harmonious environment in the South China Sea. Instead, the past decade has witnessed numerous clashes between the sovereignty-claimants. Hence, the South China Sea has actually become a potential "battlefield" if consultations or negotiations among the parties concerned have not been effectively or well handled. This paper describes the current overlapping sovereignty claims of related parties around the South China Sea, introduces the mainstream opinions in mainland China toward this critical sovereignty issue, and discusses the evolving academic viewpoints of the Chinese scholars on the South China Sea's territorial disputes, and attempts to seek an alternative approach to handle these complicated sovereignty disputes and raises some proposals for this purpose.

Keywords: *China, ASEAN, South China Sea (SCS), diplomacy, sovereignty*

JEL classification: *F51, F52, F59, N45*

1. Introduction

The tension in the South China Sea (SCS) among China and the ASEAN claiming states over sovereignty has drastically escalated since 2009, and has almost overturned the sound political and economic relations established between China and the concerned states since 1997. Hitherto, the relations

were usually described as “the ‘the golden age of partnership’”.¹ Therefore, better handling the issue so as to ease the tension of territorial disputes of South China Sea among the sovereignty-claiming states is the key to good-neighbourliness among China and ASEAN’s claiming states.

The 1982 UN Convention on the Law of Sea (UNCLOS) created a number of guidelines concerning the statues of islands, the continental shelf, enclosed seas, and territorial limits. However, the guidelines have not solved the territorial jurisdictional disputes, but added complications to the overlapping claims in the South China Sea. Among those relevant to the South China Sea are: (1) Article 3, which states that “every state has the right to establish the breadth of its territorial sea up to a limit not exceeding 12 nautical miles”. (2) Article 55-75 define the concept of an Exclusive Economic Zone (EEZ), which is an area up to 200 nautical miles beyond and adjacent to the territorial sea. The EEZ gives coastal states “sovereign rights for the purpose of exploring and exploiting, conserving and managing the natural resources, whether living or non-living, of the waters superjacent to the seabed and its subsoil...” (3) Article 76 defines the continental shelf of a nation, which “comprises the seabed and subsoil of the submarine areas that extend beyond its territorial sea throughout the natural prolongation of its land territory to the outer edge of the continental margin, or to a distance of 200 nautical miles ...” This is important because Article 77 allows every nation or party to exercise “over the continental shelf sovereign rights for the purpose of exploring it and exploiting its natural resources.” (4) Article 121 states rocks that cannot sustain human habitation or economic life of their own shall have no exclusive economic zone or continental shelf.² Thus, it can be seen that the establishment of the EEZ creates the potential for overlapping claims in the South China Sea. Claims could be made by any nation that could establish a settlement on the islands in the region.

The ASEAN-China Declaration of the Conduct of Parties (DOC) on the South China Sea signed by China and ASEAN countries in 2002 also has not reached its purpose of promoting a peaceful, friendly and harmonious environment in the South China Sea. Instead, the past decade has witnessed numerous clashes between China and Vietnam, China and the Philippines, Taiwan and the Vietnam, Vietnam and the Philippines, the Philippines and Malaysia, and Malaysia and Brunei. The South China Sea has actually become potential “battle field” if consultations or negotiations among the parties concerned have not been effectively or well handled.

After a brief description on the current overlapping sovereignty claims of related parties around the sea, this paper then introduces the mainstream opinions of the Chinese people in mainland China toward this critical sovereignty issue, followed up by a discussion on the evolving academic viewpoints of the Chinese scholars toward the South China Sea’s territorial

disputes, along with the development of the situation in the region. From the academic perspective, this paper also attempts to seek an alternative approach to handle the complicated sovereignty disputes, and raise some proposals. First is the establishment of an effective mechanism for this particular issue within the framework of ASEAN-China Strategic Partnership for Peace and Prosperity, with an aim to develop a code of conduct with binding guidelines for actions related to fishery, transportation, oil exploration, etc. Second, bilateral and multilateral dialogues are needed in mitigating tensions over South China Sea, and East Asia Summit (EAS) can play an important role in this respect. Third, emphasis should be put on setting aside disputes for joint maintenance of maritime security, and the governments concerned should pledge not to seek unilateral benefit from security cooperation.

2. Main Actions of Sovereignty-Claiming States in this New Round of Tension of South China Sea Disputes and the Reasons

2.1. Main Actions of Sovereignty-Claiming States since 2009

The South China Sea has long been a disputed region with overlapping claims of sovereignty rights by five countries and six parties, based on reasons as different as century-old principle of discovery, 200-mile exclusive economic zone (EEZ), geographic proximity, effective occupation and control, and vital interest.

As matter of fact, UNCLOS added even more complicating and contradictory factors to the solution of territory disputes in the South China Sea.

The Commission on the Limits of the Continental Shelf (CLCS or the Commission), a body set by UNCLOS to accept submissions of claims by the Coastal States Parties (CSP) to define the outer limit of extended continental shelf.³

Due to the approaching deadline (13th May 1999) of claiming outer continental shelves (OCS) designed by the Commission on the Limits of the Continental Shelf, the tension in the South China Sea between China and the ASEAN's claiming states has been increasing since 2009.⁴

On 6th May 2009, Malaysia and Vietnam made a joint submission relating to an area in the South of the South China Sea. On 8th May 2009, Vietnam made a submission on its own relating to an area near the centre of the South China Sea. Previously, Vietnam had invited Brunei to make a joint submission together with Malaysia. On 12th May 2009, Brunei had made a submission to the CLCS to show that a disputed area of the South China Sea is also situated beyond 200 nautical miles from the baseline from which Brunei's territorial sea is measured, but Brunei had not protested Malaysia and Vietnam's joint submission.⁵

While Indonesia is not technically a claimant state, it has a clear interest in the issue, especially as the “nine-dotted line” map, from which the Chinese claim is based upon, actually includes the water around the Natuna Islands. In an interview, Indonesian President Susilo Bambang Yudhoyono, claimed that as the chair of ASEAN this year, one of his top priorities would be to make progress over the South China Sea disputes by bringing China into multilateral talks. However, Indonesia “has not taken the action to submit claims to CLCS. Since the 1990s, Jakarta “has sought clarification over Chinese claims, but has so far failed to receive an unequivocal response.”⁶

The Philippines has not made a submission to CLCS for any area in the South China Sea. The reason for not making such a submission is to “avoid creating new conflicts or exacerbating existing ones.” The Philippines has not protested immediately either Vietnam’s own submission or Malaysia and Vietnam’s joint submission.⁷ Nevertheless, on 16th February 2009, the final version of a bill that determines Philippine’s archipelagic baselines was given approval by a legislative committee. The bill placed the disputed islands in the South China Sea – Scarborough Shoal and Kalayaan Island Group – under a regime of Islands of the Republic of the Philippines, while they were also claimed by the other three parties, Vietnam, China, and Chinese Taipei.⁸ On 10th March 2009, the former President Gloria Macapagal-Arroyo signed the bill.

Akbayan party member and academic Dr Walden Bello has also made a legislative proposal (House Resolution No. 1350) officially naming the region the “West Philippine Sea” in order to strengthen the Philippine’s claims to these controversial waters and the natural resources found within.⁹ On 10th June 2011, the Aquino government has apparently made it settled doctrine to use “West Philippine Sea” to refer to the waters west of the country via a statement of Malacañang through China’s Ambassador to the Philippines Mr Liu Jianchao 刘建超.¹⁰

On 7th May 2009, China made immediate objections to the Vietnamese submission and Vietnamese-Malaysian joint submissions to CLCS. It protested that these actions infringed upon Chinese sovereignty, sovereign rights and jurisdiction in the South China Sea. China has not made any submission. According to one analyst, “the reason for this is clear: it is impossible to justify China’s U-shaped dotted line using UNCLOS’s scientific criteria for the outer limits of the continental shelf.” At the same time, China has presented the U-shaped line to the UN body “in the context of maritime delimitation” to show Chinese sovereignty over the South China Sea.¹¹ In response to the action taken by the Philippine legislature, the Chinese Foreign Ministry issued statements reiterating the Chinese sovereignty over the Huangyan Island and Nansha Islands. Any other country that makes territorial claims on Huangyan Island and Nansha islands is therefore taking illegal and invalid action.¹² In

addition, China has sent its patrol boats to the South China Sea to safeguard the interests of Chinese fishermen.

During the 10th IISS Asia Security Summit of Shangri-la Dialogue held in Singapore on 5th June 2011, General Liang Guanglie 梁光烈, the Minister of Defense in representative of Chinese government again reiterated the consistent Chinese government policy toward the South China Sea. He said that China is committed to maintaining peace and stability in South China Sea, and has been actively keeping dialogues and consultations with ASEAN countries in implementing 2002 Declaration on the Code of Conduct on South China Sea, and acknowledged the settlement of the territorial and jurisdictional disputes by peaceful means through friendly consultations and negotiation by sovereign states involved.¹³

2.2. Other Major Factors for this Round of Tension

In addition to the factors mentioned above, several factors adding to the tension are illustrated as follows:

2.2.1. South China Sea has become important route for trade and commerce, hence safety of transportation has become very important

In the context of the driving forces of economic globalization and East Asian regionalization, the region as a whole has brought forth a higher rate of economic growth through FDI and international trade in the latest two decades. Especially along with the booming of various Free Trade Agreements (FTAs) and Regional Trade Agreements (RTAs) within and without the region, the shipping route of South China Sea is becoming more and more important for global trade and commerce. Thus for, over half of the world's shipping by tonnage and the half of the world's oil tanker traffic sail through these waters every year, intra-Asian trade is now valued at around \$1 trillion.¹⁴ Taking the past decade of total trade value between ASEAN and China for example, it has increased from US\$395.2 hundred million in 2000 to US\$2,927.8 hundred million in 2010, according to Chinese official figures, with an increase of almost 6.4 fold.¹⁵ Many of the Chinese and ASEAN member states' imports and exports as well as the goods from other western countries are most likely to take the sea route. Along with the robustness of East Asian economic growth and economic integration, maritime piracy has also become an issue in the South China Sea since 1990s. According to the annual report of international Maritime Bureau, altogether there were 239 reported pirate attacks in 2006, of which 88 attacks occurred in the South China Sea.¹⁶ The pirate attacks have decreased due to the measures taken by the governments in the region. However, the safety of the shipping route is no doubt still a matter of paramount important.

2.2.2. Rich marine resources, both living and non-living, are exploited under unregulated, unreported and even illegal state actions that cause serious problems

Since the SCS claimers in Southeast Asia make claims using the 200-sea-mile EEZ as the legal base, the consequences are indeed serious. Clashes between different groups of fishers and between alleged illegal fishermen and maritime law enforcement forces occur regularly in the area. The alleged illegal, unregulated and unreported fishing and oil exploration among claimers have been causing serious problems in the South China Sea not only for marine environmental protection, but also for the harmony of the neighbouring countries around the South China Sea. As the fisheries have been over-exploited and catches have declined over the years, even though the South China Sea is one of the world's most productive fishing grounds. As Sam Bateman pointed out, "in a large part, this is due to the lack of agreed limits to maritime jurisdiction," which "... has contributed to over fishing through a 'beggar thy neighbor' approach."¹⁷

Asia's vibrant economic growth also has increased substantially the demand for energy. More and more countries in the region have becoming conscious of energy security as their energy self sufficiency has been declining for years. Oil deposits have been found in most of the littoral states of the South China Sea, the oil reserves of the area has been estimated at about 7.0 billion barrels of oil while oil production in the region is around 2.5 million barrels per day, with Malaysia so far being the most active producer among the claimant states. In addition, the South China Sea also contains rich hydrocarbon resources. According to the estimates by the U.S. Geological Survey, about 60%-70% of the region's hydrocarbon resources are natural gas. Many hydrocarbon fields have been explored by Brunei, Indonesia, Malaysia, Thailand, Vietnam and the Philippines.¹⁸ As early as in 1998, more than 1000 oil wells were already dug by the countries around the South China Sea in cooperation with many western oil companies. The figure is now expected to rise to about 2000. However, China has not dug a single oil field up to today.

2.2.3. Cold War mentality of "China threat"

The third and most important factor is that the cold war mentality of "China threat" is not disappearing but escalating.

I still remember a question I raised in my interview with a well-known scholar 16 years ago in 1995 when I was a Visiting Professor at Ateneo de Manila University of the Philippines at that time: "What could China do to improve the Sino-Philippine bilateral relations?" The answer I received was

that “China should expand trade and increase investment in the Philippines.” “China does not have such an image.” On the contrary, “the outflow of Filipino-Chinese merchants investing in their ancestral home had caused the shortage of Philippine investment becoming much more severe.” Sixteen years have passed while China’s economy has been rapid growing. China hopes to become a more responsible actor in the region, wishing to share common prosperity with its neighbours through expanding trade, outward investment and foreign assistance to the Philippines and some other less developed ASEAN member states. Ironically, the “China Threat” theory has not disappeared but somehow has become more entrenched. Hence, the question remains whether a prosperous China or a poor China will benefit the region as well as the world?

In fact, some propaganda machines are overestimating China’s economic and military power. Although China’s GDP in total is ranked the second in the world, the GDP per capita of China is still far behind many middle-level income countries. More than 20 million Chinese people are still living under the poverty line, and the disparity between rural and urban areas, East and West, inland and coastal regions is very large. In addition, due to the different way of measurement used in the calculation of economic size, some renowned economists, including Nobel Laureates Joseph E. Stiglitz and Paul Krugman, have reached the consensus that China’s economic growth rate probably is only half of what is officially calculated.¹⁹ The past years have also seen the progress of China’s defense and military modernization. However, such progress is within the legitimate need of self-defense.²⁰

Therefore, the saying of “China’s rising” is wrong. It has already been rectified by Chinese academic community as “China’s peaceful development” instead of “China’s rise”. China has promised again and again to follow unswervingly the path of peaceful development that is fundamentally different from the path of colonial expansion that some countries used to take historically. The path taken by China ensures common interests and win-win situations with the rest of the world, and will bring benefits shared by all nations.²¹

2.2.4. *US engagement in Asia*

Finally, the intensity of US engagement in Asia in recent years has added a tense atmosphere in the region.

Amid heightening tensions in the South China Sea, US Secretary of State Hillary Clinton made an important statement affirming US engagement in Asia at ASEAN Regional Forum in July 2010. Addressing reporters after attending the 17th ministerial meeting of the Association of Southeast Asian

Nations (ASEAN) Regional Forum, Clinton declared, “The United States, like every other nation, has a national interest in freedom of navigation, open access to Asia’s maritime commons, and respect for international law in the South China Sea. We share these interests with not only ASEAN members and ASEAN Regional Forum participants but with other maritime nations and the broader international community.”²²

Chinese officials were at the beginning alarmed by the US, especially the latter made its intention in such a high-profile manner, but soon realized that Clinton’s position was probably a result of coordinated action with some of the concerned Asian nations. In other words, the US was urged by the officials from the Philippines, Malaysia, and Vietnam to remain as a balancer. The South China Sea claimant states want the US to “continue to have a sizable military presence in the South China Sea so as to weigh in much more heavily on the South China Sea disputes.”²³

Chinese officials and academics have always cautioned the US not to involve itself in the South China Sea issue, publicly or in private. Most recently, the Chinese vice Foreign Minister Cui Tiankai 崔天凯 told foreign media before attending the first round of the China-US consultations of the Asia-Pacific affairs on 22nd June 2011, that “the U.S. is not a South China Sea claimant state, so should stay away from these disputes.” He also said: “I think that some South China Sea claimant states are actually playing with fire with the hope that the U.S. can be of help. Some Americans think that they can help the situation, we appreciate this gesture but this attitude often only makes things more complicated.”²⁴

3. Mainstream Chinese Opinions toward the Recent Tension of South China Sea’s Territorial Disputes

Along with the intensified situation in the South China Sea, a lot of discussions and arguments are taking place in China not only among the academics but also in the general public. Like the other claimant states, China’s domestic public opinion tends to be more nationalistic on the issue of the South China Sea.

A public debate erupted in China over this question: Should China officially upgrade the South China Sea to a “core interest,” placing it on par with Tibet, Taiwan and Xinjiang, so that military intervention is justified? The website of the *People’s Daily* posted a survey asking readers whether it was now necessary to label the South China Sea a “core interest”. As of January 2011, 97 per cent of nearly 4,300 respondents said “yes”.²⁵ The Internet survey that I conducted on my own also showed that regardless of age or gender, Internet users tend to articulate strong nationalistic voices to defend China’s sovereignty in the South China Sea.

3.1. Perspectives of Military Scholars

Western media have already paid attention to the hard-line position of China's military toward South China Sea territory disputes. There was actually an argument how to respond Clinton's statement of "national interests" in the South China Sea. Using the terms "core interest" or "indisputable sovereignty" Chinese senior military officers weighed in on the debate. Earlier in the year, Chinese military officials reportedly told their American counterparts on at least two occasions that the South China Sea was a "core interest" presumably on a par with Taiwan and Tibet.²⁶

The Chinese military finds it hard to tolerate military exercises of some claimant states with outside powers in the South China Sea in which China is the unspoken target of the exercises. The sudden changes of atmosphere in the South China Sea, caused by the actions taken by some claimant states to submit their claims to the CLCS, no doubts set off a new upsurge of strong nationalism in China. Some voices even suggested that it is the right time to adopt necessary measures to "teach some countries a lesson", and "China is legally entitled to take military action to repel the invaders".

Almost all of Chinese senior military officials share the same common feeling – "to defend the motherland is the sole responsibility of the military." As a popular Chinese saying goes, "if people do not attack us, we will not attack them, if we are attacked, we will certainly counterattack." Nevertheless, the military is under the control of the Communist Party in China. The military has to listen to the Party and obey the order of the Party.

Mr Han Xudong 韩旭东, an army colonel and a scholar at the National Defense University, argued that a "low-intensity armed conflict" might occur in the South China Sea in the near future if China decides that the peaceful means to stop illegal occupation of the islands in the sea by the claimant states has failed,²⁷ despite the fact that "China's comprehensive national strength, especially in military capabilities, is not yet enough to safeguard all of the core national interests. In this case, it's not a good idea to reveal the core national interests."²⁸ Mr Zhang Zhaozhong 张召忠, a well-known military analyst and also a professor at National Defense University, considered that the best time of solving the territory disputes and to recover China's sovereignty in the South China Sea by peaceful means has already passed, and diplomatic negotiations will lead to nowhere.²⁹ He also expressed no confidence in using international judicial process to resolve the conflicts.³⁰ Zhang has maintained that while China hopes to resolve the dispute in peaceful manner, one must have the courage to use the sword if it is really in need.³¹

Scholars from the prestigious Institute of Military Sciences (or Academy of Military Sciences) have also appeared in the media in China to assert China's sovereignty over the South China Sea. In March 2009, Luo Yuan 罗援, a

researcher at the Institute and a major general of the People's Liberation Army, warned other claimant states not to misconstrue China's restraint as China's weakness in the area. He advocated for the strategic expansion of China into the sea and construction of a "blue-water" navy.³² In June 2011, Luo, now affiliated with the Research Society on Military Sciences, which is sponsored by the Institute of Military Sciences, contended that China has been a "victim" in the South China Sea for too long. China's patience and tolerance of the activities of the claimant states will not be forever, and the claimant states in Southeast Asia should stop trying China's patience.³³

3.2. Perspectives of Civilian Scholars

Chinese scholars working in the civilian institutions also offer their opinions and analyses on the South China Sea during this recent round of tension between the claimant states.

Many news articles have been reporting that in return of Hillary Clinton's characterization of US "national interest" in the South China Sea, the Chinese government adopts the term "core interest". Tracing the source, it appeared first in a populist Chinese newspaper, the English-language edition of the *Global Times*. After Mrs Clinton's statements, it published an angry editorial that linked the South China Sea to China's core interests – "China will never waive its right to protect its core interest with military means."³⁴

An article written by Mr Dai Bingguo 戴秉国, a member of Standing Committee of Chinese Communist Party, posted on the website of the Department of Foreign Affairs before the end of 2010 has broadened the definition of the term by saying that China has three core interests: maintaining its political system, defending its sovereignty and promoting its economic development.³⁵ Due to the tense situation in the area at that time, the article has stirred up some strong nationalism in China, and the public opinion has taken the South China Sea and all other sovereignty disputes as falling under "core interests". Arguably, the term "core interest" has the consequence of making the situation even more complicated.

The Chinese government inclines to use the term of "indisputable sovereignty" instead of the term "core interest" as its official policy, and claims that "China has indisputable sovereignty" over virtually the entire South China Sea, a view which is shared by Taiwan. Both sides of the Taiwan Straits recognize basically the legal status of China's dotted line in the South China Sea, and scholars from both sides have expressed for many times desires to cooperate on the issue. I suppose the reason to adopt the term "indisputable sovereignty" instead of "core interest" is mainly to express the goodwill of China's "good neighbour" diplomacy, but it is by no means less assertive.

Many scholars hold the viewpoint that while the Chinese government has adopted a conciliatory and flexible attitude to the issue of territorial disputes in the South China Sea, with an aim to maintain good-neighbourly relations with Southeast Asian countries since earlier 1980s, what it has received from this policy has been constant provocations and hostilities from the claimant states. A near-consensus among these scholars is that China has to do something more pro-active on the issue of the South China Sea, instead of continuing the present policies of “shelving the disputes and working for joint development” and of peaceful settlement of these disputes in according with the UNCLOS. There are strong voices to be heard that “the territorial disputes have never been shelved. Joint exploration or development on the South China Sea between the claimant states has not been started, but resources, especially oil and hydrocarbon, have been continuously carved up” while China has not began a single operation in the claimed territory.³⁶ More than twenty years of China’s commitment to good-neighbour policy, the situation in the South China Sea has not become any less messy. As “joint development” has become quite impossible in the present situation, the Chinese can only take the measure of “active presence, moderate development” in the South China Sea.

The practice of cooperating and working together by some claimant states in this new round tension raises a new question: whether territorial disputes are now to be solved through ASEAN? More important than this, the disputes in the South China Sea are also teaching a lesson to the Chinese government: that China’s economic “helping hand” in the region will not lower the tensions and hostilities resulting from the disputes and will not solve these disputes.

4. Conclusion: An Alternative Approach to Reduce Tension in the South China Sea

Like other Southeast Asian claimant states, the Chinese government is also under the public pressure regarding the South China Sea. If China gave away more territory to foreign states, the national honour would be under attack and the people and the military would question the legitimacy of the government. It is of the outmost importance that the government is not considered by the people or the military as internally or externally weak, which in turn could have severe political consequences.

China’s South China Sea policy at the moment has not changed much, as General Liang pointed out in his speech at the 10th IISS Asian Security Summit during 3rd-5th June 2011. The core of China’s policy has been characterized by Mark Valencia as “Three-No” strategy: “no” to internationalization of the conflict, “no” to multilateral negotiations and “no” to specification of China’s territorial demands.³⁷ With the deteriorating

situation in the South China Sea, there is an inclination on the part of China to be more pro-active to resolve the complicated issue of the South China Sea, or at least to ease the tension, here and now, and not leave it to the next generation. To my understanding and survey, China will firmly insist the first “no”, but will allow some room of flexibility in executing the second “no” and the third “no”. With an aim to reduce the tension and to turn the disputed sea into a zone of peace, freedom, friendship and cooperation, I make some suggestions here as an alternative approach.

4.1. An Effective Mechanism Is Needed To Be Established within the Framework of China-ASEAN Partnership

Since the 2002 ASEAN-China Declaration of the Conduct of Parties (DOC) in the South China Sea is neither a legally binding agreement nor an enforceable document, it “has failed to provide any mechanism or procedure to ensure that the parties comply with their obligation to respect the provisions of this declaration.” The joint working group that has been set up to manage the dispute and monitor DOC’s implementation has “failed to make any concrete progress so far.”³⁸ Therefore, a new organ (or mechanism) should be established with acceptable rules and regulations, so as to develop the confidence, and to act as a mediator for handling the conflicts when clashes, conflicts or disputes appear. However, the new organ (or mechanism) must be within the framework of China-ASEAN Partnership, but include Chinese Taipei.

4.2. Setting Up the Official Track of Multilateral Dialogues within East Asian Summit

The official track of multilateral dialogues aiming at turning the disputed sea into a zone of peace, freedom, friendship and cooperation could be set up within the framework of East Asian Summit, which now includes the US and Russia, called “Ten Plus Eight”. But multilateral dialogues do not mean the internationalization of the issue. The task of the track is to provide some constructive suggestions through multilateral exchanges and interactions, and not engage in any alliance targeting a third party.

4.3. Starting All Kinds of Joint Exploration in the Disputed Area

Dr Rommel C. Banlaoi wrote that “... as an interim measure, the Philippines and China shall seriously start talking about joint development in the South China Sea. Rather than determining which countries have ownership or rights to the disputed territories in the South China Sea, the Philippines and China

should open their channels of communication to candidly consider the idea of joint development so that when they celebrate the annual anniversary of their ties in the future, they will share common accomplishments rather than exchange harsh words.³⁹

Setting aside disputes for all kinds of joint exploration is now very needed. Sadly, the joint marine seismic undertaking (JMSU), agreed by the Arroyo administration with China, has been accused by the Philippine Congress as one of the crimes committed by her during her presidency.

4.4. Bilateral-level Negotiation

Last but not least, territorial disputes of the South China Sea have to be solved on the basis of bilateral-level negotiation.

Unlike economic cooperation and East Asian regionalization in which China hopes that ASEAN will play the role of the “hub” while China is willing to be one of the “spokes”. China’s goodwill toward the ASEAN countries include its willingness to let ASEAN have the leading role to play in regional economic affairs and in bringing “common development and prosperity” to ASEAN member states amid the tide of regionalization.⁴⁰ Sovereignty is closely related to nationalism, and all parties in the conflict are driven in part by nationalism and the belief in the indisputable sovereignty of the “mother country”. What China has been said about or accused of, concerning nationalism and sovereignty, could also be applied to the other nations in the region. Many parties in a territorial dispute feel the pressure from their own people, especially in the Internet age, not to concede any piece of territory. This internal pressure makes compromises hard to reach. However, the Shanghai Cooperation Organization (SCO) has set a good example in solving the territorial disputes between member countries (China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan) by bilateral border talks.

Notes

- ⁺ An earlier version of this paper was presented at the International Conference on “The South China Sea: Toward a Region of Peace, Cooperation and Progress”, jointly organized by the Foreign Service Institute of the Ministry of Foreign Affairs of the Philippines, the National Defense College of the Philippines and the Development Academy of Vietnam on 5th-6th July 2011, at Dusit Thani Hotel in Makati, Metro Manila, the Philippines. The author would like to indicate that this paper represents her personal views, not those of the institutions.
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1. See Palanca (2007).
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3. The CSPs can make a full or partial submission, or a joint submission. The CSPs can also submit their preliminary information indicative of the outer limits of the extended continental shelf. Objections to submissions can also be made.
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15. Shen (2010).
16. Wu (2009: 100).
17. Bateman (2009: 31).
18. <http://www.eia.doe.gov/emeu/cabs/schina.html>
19. Shen (2009).
20. China's latest defense white paper reiterated that "China adheres to a defense policy that is pure in nature" and "whether at present or in the future, no matter how developed it may be, China will never seek hegemony or military expansion." Adopted from Liang Guanglie, "A Better Future through Security Cooperation", speech at The 10th IISS Asia Security Summit, Singapore, 5th June 2011 <<http://www.iiss.org/conferences/the-shangri-la-dialogue/shangri-la-dialogue-2011/speeches/fourth-plenary-session/general-liang-guanglie-english/>>.

21. *Ibid.*
22. Quoted in Carlyle A. Thayer, "The South China Sea: China's 'Indisputable Sovereignty' Versus America's 'National Interest'", *China-US Focus*, 23rd June 2011. <<http://www.chinausfocus.com/peace-security/the-south-china-sea-china%E2%80%99s-%E2%80%9Cindisputable-sovereignty%E2%80%9D-versus-america%E2%80%99s-%E2%80%9Cnational-interest%E2%80%9D/>>
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Clashing American Images of an Emergent China and 21st-Century China-ASEAN Relations: 2001-2008⁺

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Abstract

This article examines the clashing images of an emergent China among American China Watchers. In the early years of the 21st century, these American China Watchers dismissed the image of China as a military threat to the US. Instead, they observed that China uses its growing economic resources and multilateral diplomacy to enhance its relations with the ASEAN member-states. Eventually, they perceived China's emergence as a constraint on American political and economic interests in Southeast Asia. They depicted China as pervasively influential and applying soft-power to engage the US in a zero-sum game in the region. However, this image is negated by a contrasting view that accentuates the limits of Chinese diplomatic gambit. In conclusion, the article links these clashing images to Beijing's foreign policy objectives in Southeast Asia, and Washington's strategy of hedging against any challenge that an emergent China poses.

Keywords: *China's emergence, China's charm offensive, China-US relations, perception in international relations*

JEL classification: *F53, F59, N45, Q34*

1. Introduction

A major issue in contemporary East Asia is China's emergence as a regional economic power. In less than three decades, China was able to transform its command and slow-growing autarkic economy into a dynamic market-oriented one that has become the world's most formidable exporting juggernaut. The People's Republic of China (PRC) is now a major player in the global economy, the driving force behind the rapid recovery of East Asian economies after the 1997 Asian financial crisis, and an influential regional power.

Currently, it uses its booming economy to dispense commercial opportunities and economic assistance to the member states of the Association of Southeast Asian Nations (ASEAN) and to draw them gradually into its political orbit. These countries have realized again soon enough that China's burgeoning economy greatly benefits them. At present, regional trade flourishes due to the huge Chinese market for industrial components, raw materials, food, and other consumer exports. Thus, a vigorous economic relationship has been established between China's import growth and its increasing exports to its neighbouring states. These developments, in turn, have transformed China into an influential great power in Southeast Asia.

This turn of events has caused concerns in Washington D.C. Given the sheer size of China's economy, its growing trade, and expanding overseas investments and Official Development Assistance (ODA) with Southeast Asian countries, American China Watchers have warned that Chinese influence has pervaded Southeast Asia, in much the same way that American influence has spread in Central America and, to a lesser degree, in the Andean region of South America (De Santis, 2005: 23-36). Indeed, China has become a major uncertainty to US foreign policy in East Asia and a powerful nation with the "greatest potential to compete militarily with the U.S." (Abramowitz and Bosworth, 2003: 15; Connetta, 2006: 8). While disagreeing over China's long-term intention and the future of US-China relations, most American China Watchers believe that "managing the rise of China constitutes one of the greatest challenges facing the United States in the early 21st century" (Scott, 2007: 158-166).

This article explores the different and clashing images of an emergent China and its increasingly cooperative relations with the ASEAN member-states among a number of American China Watchers. It addresses this pivotal question: In the light of China's emergence, how do some American China Watchers view China's emergence as an economic power in East Asia, and enhanced China-ASEAN relations? Other specific questions follow: How does China try to improve its relations with the ASEAN member-states? Is China's charm offensive undermining American influence and prestige in Southeast Asia? Historically, how do American China Watchers view this development? What are their different and clashing perceptions on China's emergence and China-ASEAN relations? What is the relationship between these clashing views and US foreign policy *vis-à-vis* the China challenge in Southeast Asia?

2. Images and Perceptions in International Relations

Since the start of the 21st century, many American China Watchers are engaged in a perennial and intense debate on how Washington should view and

respond to Beijing's growing economic and political clout in Southeast Asia. They are unanimous in arguing that China's increasing regional influence is a valid foreign policy concern for the US. The bone of contention is whether or not China has the intention and capability to challenge the US's hegemonic position in Southeast Asia. Some regard China as a formidable challenge to American interests in this part of the world. Others believe that China is a conservative, if not a constructive regional status quo power. A few argue the country it is not powerful enough to challenge the US and may, in fact, evolve into an American partner or a de facto ally. To these American China Watchers, "China, after decades of exerting only modest influence in Asia, is now a more active and important regional actor." (Saunders, 2008: 127) Thus, they all share the belief that China is a power to contend with in Southeast Asia that potentially can be either a partner or a challenge to the US.

By focusing on perceptions, this study assumes that current foreign policy debates, recommendations and positions on China's emergence in Southeast Asia are indicative of how American China Watchers view the world. This perceptual analysis considers such variables as motivation, mindset, images, and institutional affiliation among others. As a methodology, the perceptual system which builds mental representation in the form of images (or mindset) through the use of psychological mechanism, or categorization has been found to influence policy recommendation or position of scholars, analysts, and even government officials (Kulma, 1999: 76). The most prominent source of these images is their published works.

In their 1961 work *The Foundations of International Politics*, Harold and Margaret Sprout highlights the importance of perception in the formulation of policy and in policy debates. These two Princeton scholars explored the psychological environment that consists of ideas derived from the individuals' perception of conditions and events interpreted in the light of their conscious memories and sub-consciously stored in their knowledge (Sprout and Sprout, 1963: 46-47). The psychological environment may or may not correspond closely to reality but it affects policy recommendations in two ways: (1) may perceive what does not exist or may fail to perceive what does exist; and (2) since what is perceived is interpreted in the light of past experience, individuals with different backgrounds may interpret quite differently the same perceived objects or events (*ibid.*: 48).

Another classic work on the role of perception in international relations is Robert Jervis's *Perception and Misperception in International Politics*. In his book, Jervis argues that it is often impossible to explain crucial decisions and policies without reference to the decision-makers' beliefs about the world and images of others (Jervis, 1976: 28). Interestingly, he points out that in policy debates, it is generally useful not to ask if anyone is right; but usually it is be more fruitful to ask why people differ and how they come to see the

world as they do (*ibid.*: 29). He also contents that differing perceptions are the root causes of many inter-state disputes. Frequently, when actors do not realize this, they misunderstand their disagreements and engage in an endless debate (*ibid.*: 31).

Since the late 1990s, there has been a plethora of works on the perceptual dimension of US-China relations. Among them are Michael G. Kulma's "The Evolution of U.S. Images of China: A Political Psychological Perspective" (Kulma, 1999: 162-188), Andrew Bingham Kennedy's "China's Perceptions of U.S. Intentions toward Taiwan: How Hostile a Hegemon?" (Kennedy, 2007: 268-287), Biwu Zhang's "Chinese Perceptions of American Power, 1991-2005" (Zhang, 2005: 667-686) and Qin Yaqing, "A Response to Yong Deng: Power, Perception and Cultural Lens." (Qin, 2001: 155-158). These works share a commonality of ideas. First, all emphasize the following ideas – international relations are notoriously rife with misperceptions and US-China relations are prone to misperceptions and misunderstanding (Kennedy, 2007: 286). China and the US tend to misperceive each other's power and capability and this fact matters significantly in their bilateral relations. Third, in tackling the environmental factors in international relations, there is a basic belief in Margaret and Harold Sprout's aphorism that "what matters is how decision-makers imagine the state's power to be, not how it actually is" (Zhang, 2005: 668).

3. China's Charm Offensive in Southeast Asia

With its long civilization and central geographic location, China has always considered itself as a great power in East Asia. Now, it is in a position to challenge the dominant power in the region – the US – given its considerable military capability and rapid economic growth in the past two decades. However, it does not dare confront the US head-on soon or in the immediate future. China's concentrates on economic development to ensure its comprehensive security, without subordinating its efforts to meet direct challenges from any superpower (Ong, 2002: 179). China's main pressing security concern is maintaining its dynamic economic relations with Japan, South Korea, the US and the ASEAN states. Beijing's baseline goals include rapid economic growth, continuous pursuit of economic liberalization, globalization, and social liberalization, political consolidation (for the communist party), and the upkeep of a credible and modern military force directed against Taiwan. All these are directed towards developing its regional influence and certainly not to challenge the US on a global scale (Overholt, 2008: 124).

Despite its cooperative relations with the US, most Chinese regard the world's sole superpower as a threat to their national security and domestic stability (Scott, 2007: 158). This distrust stems from Washington's tacit

support of the status quo in the Taiwan Straits and its alleged agenda of subverting the few remaining socialist states in the world through a process of “peaceful evolution” (Ong, 2002: 116). This deep-seated suspicion of the US is exacerbated by increased American military presence in Southeast Asia as a result of the Bush Administration war on terror after 9/11. Repeatedly, China has articulated the need for a new world order that is multipolar rather than unipolar as a defensive measure to what it perceives as a structural threat from the region’s dominant power. More importantly, it uses its structural power to foster a regional order which allows Southeast Asia states to freely side with either of the two powers (China and the US) without making any firm commitment to any of them (Odgaard, 2007: 54). Using its prowess in the fields of security, production, and finance, China maintains a situation of “unstable balancing” in East Asia without directly challenging American pre-eminence in the region (*ibid.*: 54). To carry out this diplomatic gambit, China co-opts the Southeast Asian countries by providing them side-payments and institutional voice through its rapidly growing economy; and by supporting cooperative and integrative projects in the region.

During the 5th China-ASEAN summit in November 2001, Beijing offered its Southeast Asian neighbours a free-trade deal that could be established in the next few years. The following year, during the 6th China-ASEAN summit, the two sides signed the Framework Agreement on China-ASEAN Comprehensive Economic Cooperation, paving the way for the formation of a China-ASEAN free trade zone by 2010. Since 2005, China and the ASEAN states have lowered their tariffs on more than 7,000 products.¹ Consequently, China-ASEAN trade has grown rapidly. Their two-way trade volume in 2006 amounted to US\$160.8 billion, which translates into a 23.4 per cent increase from the 2005 trade level.² China and the ASEAN are now the fourth biggest trading partners. In July 2007, China and the 10 ASEAN member-states signed the ASEAN-China Agreement on Trade and Services, which provides for cooperation in high-technology services, energy, and construction, and for the eventual establishment of a comprehensive free-trade area in East Asia.

China boosted its economic ties with almost all of the Southeast Asian states including traditional US allies such the Philippines, Thailand and to large extent, Singapore. With weakening global demand for ASEAN exports, and the US yet to recover from the current economic recession, ASEAN-China trade relations are expected to intensify. During the 2008 China-ASEAN Business and Investment Summit in Nanning, ASEAN economic officials indicated their intention to deepen their trade ties with China to reduce their economies’ reliance on the export markets of the US, Western Europe, and Japan.³ The ASEAN countries hope that China’s domestic demand will increase eventually and thus, provide some leverage on the sluggish growth in the Organization for Economic Cooperation and Development (OECD)

market. Early in 2007, economic ties between China and the ASEAN states were acknowledged during a seminar conducted by the China-ASEAN Business Council in Beijing. The gathering noted that over the past 15 years, bilateral economic and trade relations between China and ASEAN have developed rapidly and the mechanism for cooperation between the two sides “has been operating better and better”.⁴ It was also predicted that ASEAN export growth would be stimulated by East Asian countries like China and Japan, and not by long-haul markets such as Western Europe and the United States. Southeast Asian economists now label China as an “economic power that should be best viewed as a business partner, not a competitor, given the wide room it has for expansion in trade and investment relations”.⁵

China also dispenses side-payments to the smaller ASEAN states, through the framework of the APT process and multilateral arrangements. Chinese diplomats consider the APT as the “main channel of East Asian regional cooperation” signifying its relative importance *vis-à-vis* other regional fora (Moore, 2004: 118). Through the APT, the PRC has consolidated its bilateral links with the ASEAN countries. It has donated US\$1 million to the ASEAN Development Fund, and committed to train 8,000 ASEAN professionals within five years. It will also administer and finance a series of agro-technology training programmes for ASEAN member-states organization in 2007.⁶ During the 2007 ASEAN-China summit, China hinted that it will favourably consider establishing economic and trade zones with sound infrastructure and complete industrial chains in a number of ASEAN countries that will be linked with its own economic zones along its coastal areas. China has also provided the ASEAN member-states US\$750 million in loans and has invested heavily in their major infrastructure projects. In 2007, Chinese companies signed a US\$2.8 billion contract to build coal-fired electric plants in Indonesia, significantly outbidding other foreign companies.⁷ In the Philippines, China has agreed to finance and construct the US\$450 million North Luzon rail project while Chinese agricultural technology is developing the country’s hybrid rice and hybrid corn as Manila seeks to develop self-reliance and sufficiency in food production and supply.⁸ Since 2002, China has also extended economic assistance and investments to Cambodia, Laos, Myanmar, Thailand, and Vietnam through the framework of the Greater Mekong Sub-Region (GMS).⁹ During the 2003 ASEAN Summit in Bali, China proposed to revitalize the moribund Brunei-Indonesia-Malaysia-Philippines East Asian Growth Areas (BIMP-EAGA) through technical and capital assistance for its projects, for strengthened socio-economic relations, and intensified trade relations with the sub-regional group.

China also interacts with its Southeast Asian partners in several regional economic fora. The notion that regionalism elsewhere benefits member economies, and the fear of damage to domestic economic interests if access

to foreign markets similar to that enjoyed by competitors is not negotiated, are the primary reasons behind China's enthusiasm for regional economic arrangements. Most prominent among them are the Asia-Pacific Economic Cooperation (APEC), ASEAN plus Three (APT), Shanghai Cooperation Organization (SCO), the Boao Forum for Asia (BFA), and the Tumen River Area Development Programme. For China, this means that each regional forum has a slightly different political and economic dynamic. But they all serve China's foreign policy goals. With domestic economic growth extremely dependent on the regional economy, Chinese leaders see regionalism as a mechanism by which countries can work together to address the vagaries and instability of the world economy. Likewise, they view regionalism as a way of responding to the forces of globalization. As a form of multilateralism, regional groupings could advance China's national security concerns by counter-balancing the US's financial and military power, which remains relatively unchecked since the collapse of the Soviet Union in 1991.

4. Promoting China's Vision of Regional Security

Another means by which China applies its stratagem of unstable power balancing is undermining indirectly the US's well-established system of alliances and forward-deployed forces in Asia. Specifically, China debunks the basis (the so-called China threat) of these alliances and their obsolete Cold War mental mode. This became too apparent when China announced its "New Security Concept" (NSC) in 1998. Premised on cooperative and coordinated security, the NSC presents a pattern of diplomatic-defense relationship with countries that are neither allies nor adversaries of China. According to Beijing, the new concept is suited to a post-Cold War environment characterized by peace and development but threatened by non-traditional (non-state) security challenges, e.g., transnational crimes, international terrorism, etc.

China has consistently promoted this concept in its conduct of regional and international security affairs. The Shanghai Cooperation Organization (SCO) basically incorporates China's approach in addressing non-traditional security challenges such as terrorism, separatism, extremism, and drug trafficking (Information Office of the State Council of the People's Republic of China, 2006: 87). In 2006, the country hosted the 6th meeting of the Council of the Shanghai Cooperation Organization where China and the member states signed a friendly, long-term, "good-neighbour" agreement to enhance their cooperation in economic, trade and security matters.¹⁰ Furthermore, through the ASEAN Regional Forum (ARF), Beijing has hosted or helped finance and organized various symposia and workshops on counter-terrorism, non-traditional security challenges, and the non-proliferation of weapons of mass destruction in China and in various parts

of Southeast Asia. China also assisted Indonesia in dealing with the avian influenza epidemic last year and this year, and it announced that it would host a China-ASEAN symposium on the prevention and control of human infection with pathological avian influenza. It will also conduct training courses on reconstruction and management of disaster-hit areas for ASEAN officials and experts this year.

The establishment of the East Asia Summit (EAS) in December 2005 was the culmination of China's efforts to advance its NSC in the region. Malaysia initiated the formation of the EAS, but with China's support and active encouragement. The opportune timing of the summit boded well for China's emergence as a regional power in East Asia. This was manifested during the 2nd EAS in Cebu City, Philippines in January 2007, when China took centre stage despite the presence of the US's allies and friends, namely Australia, Japan and to a certain degree, India. Apart from signing several economic agreements with ASEAN member-states, China pushed for regional community-building and economic integration.

5. Jumping on the ASEAN Bandwagon?

Another means by which China unbalances the US's strategic clout and influence in East Asia is multilateral consultation with the region's smaller states. China was earlier averse to regional groupings, fearing that these groupings could be used by some countries to punish and constrain the PRC. During the second half of the 1990s, Beijing was actively involved in the ARF. It quickly adjusted to ARF's incremental style by using its soft-power approach in containing inter-state disputes. In dealing with the ARF, Beijing has emphasized the following norms (Haacke, 2003: 137): (1) participating on an equal footing; (2) reaching unanimity through consensus; (3) seeking common ground while reserving differences; and (4) proceeding in an orderly and incremental manner. Consequently, China was able to protect its own interests in the ARF and promote ASEAN conventions as the underlying framework for cooperation in regional security affairs. In more concrete terms, Beijing prevented the ARF from being used as a means to balance and restrain China; boosted ASEAN's leadership role in the regional forum by constraining the US and Japan; and effectively projected the image of the PRC as a good neighbour.

Beijing has also become pragmatic in managing its territorial disputes with the ASEAN states over the Paracel and Spratly Islands. Though the PRC still clings to its historic claims over these islands, it is willing to settle this thorny issue through peaceful means, based on international law. In 2002, after four years of intensive negotiations, ASEAN and China signed a code of conduct aimed at demonstrating "restraint" in the South China Sea.

Significantly, the final draft included most of the text proposed by ASEAN and little of what was presented by China. In the aftermath of the 2nd EAS summit, China expressed confidence that ASEAN and China would soon be able to agree on activities and projects envisioned by the 2002 Declaration on the Conduct of Parties in the South China Sea.¹¹ A clear indication of the relaxation of tension in the Spratlys was the conduct of the Tripartite Agreement for Joint Marine Seismic Survey by three claimant states – China, the Philippines, and Vietnam. The survey involved a three-phase programme of data-gathering, consolidation and interpretation of about 11,000 kilometers of 2D seismic data on the South China Sea. The initial phase ended in November 2005, the second phase began in 2007, and the project was completed in June 2008. The undertaking served as a module of regional cooperation, and a major move that could build trust and confidence among the claimant states.

Also during the 2nd EAS summit, China announced its hosting of China-ASEAN workshop on peace-keeping in the later part of 2007, to promote defense cooperation, understanding and confidence among the armed forces of China and the ASEAN states.¹² The activity was considered the first of its kind between the two sides, and another important defense exchange programme aligned with the China-ASEAN regional security seminar regularly held in Beijing since 2003. At the same event, China mentioned the importance of the People's Liberation Army's Navy (PLAN) ship visits to ASEAN ports on friendly calls in fostering friendship and mutual trust. Along with other ongoing security and military exchange programmes with the ASEAN states, this proposal could be interpreted as China's gambit to marginalize and eventually exclude the US from regional security affairs. This initiative marked a radical departure from Beijing's position in the 1990s, when it avoided any security dialogue with ASEAN member-states, let alone with their armed services.

6. First Image: From a Military to a Multi-Dimensional Challenge

During the Cold War, American China Watchers considered Chinese power in terms of its coercive element. They were taken aback when Beijing began using its symbolic, intellectual-ideological, economic and cultural resources in its charm offensive in Southeast Asia in the late 1990s and in the early 21st century. Because of the US's engagement in the Korean War in the early 1950s, American policy-makers, academics, and analysts generally perceived China in substantially strategic terms. Consequently, they overlooked the rapid growth of the Chinese economy in the late 1990s, and the development and refinement of Chinese diplomatic apparatus (Lampton, 2007: 115). This realization of China's "charm offensive" impressed upon them the centrality

of economic prowess and soft-power in China's foreign policy. Furthermore, with China's active involvement in global affairs, there was a felt need for Washington to engage Beijing in its own game of charm offensive (*ibid.*: 116).

Accordingly, China has been using its growing political clout and increasing economic resources in a patient, low-key, and highly effective manner. It has greatly improved its historically problematic relations with the Southeast Asian states by taking a more cooperative approach to resolve territorial disputes, providing generous ODA packages, and forging free-trade agreements. American observers have also noted former President Bush's and his close advisers' obsession with the counter-insurgency campaign in Iraq and Afghanistan, the declining image of the US abroad, and the previous administration's perceived inattention and neglect of East Asia. Observing the intellectual frenzy in Washington triggered by the deciphering of China's charm offensive in Southeast Asia, *The Economist* noted in 2005:

In Southeast Asia, China has skillfully positioned itself as a central player, to the extent that Americans are beginning to feel left out. On December 14 in Kuala Lumpur the first East Asian Summit will be held, involving the ten members of the Association of Southeast Asian Nations (ASEAN) plus China, Japan, South Korea, Australia, New Zealand and India. With no American leaders invited, there is no doubt that China will be the star of the show. Its position will be bolstered by a surging economy that is generating trade surpluses with China for several Asian countries. In contrast to the record trade deficit between China and America that is fueling so much American fear of a looming China threat.¹³

In the late 1990s and early 21st century, many American China Watchers tended to view China primarily as a regional economic and military power posing the greatest uncertainty to the US (Scott, 2007: 127). Their focus was "China's growing defense expenditures and the modernization of the People's Liberation Army (PLA)" which presents the US with far-ranging potential challenges (*ibid.*: 124). In *The United States and a Rising China: Strategic and Military Implications*, the authors view China's emergence as primarily a military challenge to the US (Khalilzad *et al.*, 1999). Commissioned by the Rand Corporation, this study argues that the Chinese foreign policy goal is comprehensive national power to raise living standard of the population, and set the technological-industrial base for a strong military (*ibid.*: xi). It claims that China's economic modernization is aligned with military modernization. It is projected that by 2015, China will become a formidable (military) power – one that might be labeled a multi-dimensional regional competitor that can exercise sea denial against the US Navy and threaten US operating locations in the whole of East Asia with its long-range strike capability among others

(Cliff *et al.*, 2007). It further asserts that China will eventually pursue its territorial claims in the South China Sea and the Spratlys, protect its business interests and ethnic Chinese population in Southeast Asia, and secure deference from its less-powerful neighbours. (*ibid.*: 27-36).

The construct of an emergent China as a military threat to the US and its neighbouring states, however, was modified in the second half of the first decade of the 21st century. This new image projects China as a patient but confident actor using its soft-power instruments to expand its influence in Southeast Asia in particular and in the global economy in general (Garrison, 2005: 25). It recognizes Beijing's subtle and adroit diplomatic gambits to ally the fears and concerns of the less powerful ASEAN states by establishing mutually beneficial political, economic, and cultural ties with them. This representation casts China's policy of peaceful emergence as a "sophisticated neo-mercantilist approach" in competing for power that has been altered by globalization (*ibid.*: 25). Thus, China's charm offensive or soft-power diplomacy is not seen as an inherent or immediate threat to US interests in Southeast Asia although it can potentially destabilize the regional and the global economic systems in the future (*ibid.*: 25). Furthermore, this view regards China as neither America's friend nor an enemy. However, it can threaten American interest in the near term period. Hence, the US is warned to remain vigilant and not to label its relation with China as simply hostile or friendly (*ibid.*: 30).

Hugh De Santis's 2005 article contends that an emergent China will utilize its economic power and multilateral diplomacy to alter the strategic landscape of East Asia at the expense of the US (De Santis, 2005). He observes that China is now a global manufacturing hub and its regionally integrated economic power supports its geo-strategic ambitions. The China-led Southeast Asian economic integration weakens the US-centred hub-and-spoke framework of East Asian security and forces Washington to share power with Beijing in the Asia-Pacific region (*ibid.*: 31-32). He also deplores the Bush Administration's obsession with the war on terror, and its utter neglect of China's expansion of influence in Southeast Asia (*ibid.*: 23).

In his 2007 article, Jin H. Pak affirms that China uses cooperative and multilateral diplomacy to transform infamous image as a military threat to Southeast Asian states. This, according to Pak, subverts America's bilateral alliances while Washington remains enmeshed in the Middle East and Central Asia (Pak, 2007). China's use of soft power jibes its grand strategy – which is based on the adroit combination of force and diplomacy. As such, it actually does not represent a fundamental belief in the virtues of cooperative diplomacy. He predicts two possible outcomes for China's soft-power diplomacy or charm offensive in Southeast Asia: (1) the PRC can succeed in forming a regional security organization in which it plays a hegemonic role, in

which such a development could seriously dilute the US's regional influence, especially if the US does not prioritize Southeast Asia; and (2) China may encounter serious domestic and external challenges that can jeopardize its strategic goals and cause it to revert to more forceful, bilateral forms of diplomacy, including military coercion (*ibid.*: 57).

The January 2008 U.S. Congressional Research Service study also envisages China's practices of soft-power diplomacy or charm offensive will expand its economic and political clout in Southeast Asia. It asserts that "China's growing use of soft-power in Southeast Asia has presented new challenges to U.S. foreign policy in the region".¹⁴ The study argues that China wields "power in the region through diplomacy and, to a lesser extent, draws admiration as a model for development, for its ancient culture, and an emphasis on 'shared Asian values'". It observes that "along with offering economic inducements, China has allayed concerns that it poses a military or economic threat, assured its neighbours that it strives to be a responsible member of the international community, and produced real benefits to the region through aid, trade and investment"¹⁵. The study acknowledges that China has shifted away from hard power to soft power and its increasing power and influence will eventually constrain US interests in the region.

The August 2008 U.S. Congressional Research Service study further reinforces this image of China wielding soft-power to undermine US influence and interests in Southeast Asia.¹⁶ It argues that "China's influence and image have been bolstered through its increasingly open and sophisticated diplomatic corps as well as through prominent PRC-funded infrastructure, public works, and economic investment projects in many developing countries".¹⁷ With its increasing wealth, expanding economic ties, and sophisticated diplomatic moves, China projects the image of an emergent but benign and non-threatening power. The study also admonishes American policy-makers that Beijing's soft-power diplomacy is more effective than that of Washington since the former's overseas activities and investments are conducted by strong, well-funded state-owned companies.¹⁸ Consequently, major Chinese government activities attract more international attention and give a "hard" edge to PRC soft power.¹⁹ In comparison, the US has little to match such centrally directed activities, particularly in the wake of years of US budget cutbacks in high-profile US international public diplomacy programmes. Furthermore, it raises the possibility that eventually, "China's charm offensive will be a means of building the so-called 'Beijing Consensus', a group of authoritarian states with market economies that can challenge the 'Washington Consensus', composed of liberal market economies governed by democratic regimes."²⁰

Joshua Kurlantzick's *Charm Offensive: How China's Soft Power Is Transforming the World* comprehensively explains China's soft power and

sophisticated diplomacy to transform its image and international relations (Kurlantzick, 2007). Chinese statecraft or charm offensive has changed people's perception of China as a threat to that of a benefactor (*ibid.*: 5). This transformation was caused in large measure by soft power, which enabled China to become a "great power". The book also discusses the history of China's charm offensive that began soon after Beijing felt the backlash of initially using hard power to intimidate its Southeast Asian neighbours. These countries condemned China's aggressive behavior and strengthened their security relations with Washington. To rectify its mistake, China focused on building its global soft power.

To Kurlantzick, China's charm offensive aims to: (a) transform China's image into a benign, peaceful and constructive actor in international affairs; (b) obtain the necessary resources to fuel its economy; and (c) build a ring of allies who will share Beijing's values of non-interference in domestic affairs and authoritarian rule (*ibid.*: 39-42). He observes that China uses economic resources, cultural tools, and migration to push its charm offensive all over the world. He notes that Washington is unmindful how China exerts its influence and that American public diplomacy apparatus was adversely affected by budget cuts and lack of Congressional support in the 1990s. In conclusion, he focuses a transformed China expanding its preeminent power in Southeast Asia, and even developing its spheres of influence in other parts of world, like Central Asia and Africa (*ibid.*: 236).

These aforementioned works dismiss the image of China as a military challenge to the US and its neighbouring states. Instead, they picture a peaceful and cooperative China wielding soft power in Southeast Asia with the US unintentionally abetting Chinese influence in the region. They portray China as posing a multi-faceted challenge to the US while projecting a "benign self-image". This benign representation is reflected by China's accommodating foreign policy based on active participation in regional organizations, providing significant amount of ODA packages, extending economic opportunities to its neighbouring countries with its increasing affluent market, and consolidating its economic and political relations with the Southeast Asian states.

All these studies are critical of the heavy-handed policies and confrontational anti-terrorism rhetoric of the Bush administration after 9/11 that have alienated a number of Asian states. They also mention the considerable erosion of American political and diplomatic clout in the region because of the ongoing and protracted US counter-insurgency campaigns in Iraq and Afghanistan. To sum up, they uphold an image of China wielding its soft power that has become more apparent and intense in contrast to America's diminishing stature and influence in Southeast Asia.

7. Second Image: Visualizing the Limits of an Emergent China

Nevertheless, some China Watchers have rejected the alarmist image that China has become powerful and influential in Southeast Asia at the US's expense. They see China as a far more complex threat to American interests and power in the region. They contend as well that China's political and economic clout is beset by the US's more potent comprehensive power, the Southeast Asia countries' general distrust of Chinese power and influence, and by Chinese domestic problems. This second image of China that challenges American foreign policy cannot merely be likened to that of the former Soviet Union competing for global dominance and leadership. Albeit its increasing power, China still wrestles with enormous domestic problems, remains distracted by internal reforms and development, and appears reluctant to challenge Washington at present and in the near future. Thus, it projects a fumbling China that cannot actually challenge American interest even in the short-term period.

Hence, the second image presents a China that is hardly a peer competitor of the US. Internally, its leadership is preoccupied with ensuring the survival of the party and the regime. Externally, it is still distrusted by its neighbouring states and some of its diplomatic and political ventures are frowned upon by Asian societies. As one American scholar quips: "The rise of Chinese power generates global responses that Beijing cannot fully control and that may not be in its interests." (Lampton, 2007: 115) This image considers China as an outsider in the super-power league. Although considering that China could become a superpower in the future, the view acknowledges that it might fail to become one if it makes the wrong decision or it is overwhelmed by domestic challenges.

Dr Phillip C. Saunders' "China's Global Activism: Strategy, Drivers and Tools" examines China's emergence in the light of the second image (Saunders, 2006). Saunders accepts the outlook that China has committed its wealth of resources to improve its relations with key countries since 2001. In doing so, China has expanded its influence in many parts of the world (*ibid*: 28). The country has also taken advantage of opportunities created by Washington's preoccupation with the war on terror and the unpopularity of some of its policies (*ibid*: 28). Saunders also recognizes that China's pragmatic and non-ideological approach to bilateral relations provides some states with an alternative or leverage against dependence on Washington. This, according to him, reduces American influence in many countries (*ibid*: 28).

Saunders contends, however, that China's current activism in global affairs is not aimed at challenging the US since it is primarily driven by domestic forces. These domestic forces include: (a) China's anxiety over US strategic efforts to contain or subvert China; and (b) its desire for

uninterrupted access to international markets and resources. According to him, in situations where economic and strategic interests clash, the Chinese political leadership would usually compromise the later to enable the economy to grow (*ibid.*: 28). Economic factors matter more to China. This is the reason why Beijing has been accommodating to Washington since 2001. In his conclusion, Saunders draws a picture of a kind and gentle China, and notes optimistically while “China’s global influence will increase, China will still operate within the framework of global institutions established by the United States” (*ibid.*: 30).

Bronson Percival’s *The Dragon Looks South: China and Southeast Asia in the New Century* offers a fresh and very insightful look at China’s emergence and relations with the US and the ASEAN member-states (Percival 2007). Percival rejects outright the image of China bent on challenging the US while the Southeast Asian countries are caught in the middle and forced to choose between the two strategic competitors. He also dismisses the notion that the Beijing-Washington relationship is a zero-sum game, in which any gain for China becomes a loss for the US and *vice versa* (*ibid.*: 145). Convincingly, he argues that the two great powers have their own specific spheres of influence in Southeast Asia, but they cooperate and rely on their mix of foreign policy instruments.

To Percival, China, the Southeast Asia countries and the US are linked in a complex system of trading relations. In actuality, China and Southeast Asia are involved in the processing trade managed largely by American-owned transnational corporation. Products produced by China and Southeast Asia countries are usually exported to the US market. Moreover, the American market remains the most important for these countries. Moreover, the US and China wield different forms of instrument so that while they “sit side-by-side, they seldom bump up against each other” (*ibid.*: 145). Since the US possesses overwhelming military power, China dares not challenge the American military prowess. Instead, it persistently questions the relevance of traditional security, and belies the assumption that China poses a military threat to Southeast Asia. Percival also maintains that as a continental state, China looms as the predominant external influence in Southeast Asia, while the US, as the leading naval power, remains a security guarantor of the democracies of maritime Southeast Asia (*ibid.*: 147). In his conclusion, he argues that the seemingly US-China competition for power and influence in Southeast Asia is simplistic and misleading. According to him, these two powers are part of the four major external participants (along with Japan and India) engaged in an elaborate and complicated Southeast Asian dance (*ibid.*: 148).

This second image is likewise reflected in the Rand Corporation’s detailed case study on China’s emergence and the East Asian states’ responses to this development from 2006 to 2007 (Medeiros *et al.*, 2008). This study

depicts China as a regional power player caught up in a complicated/tragic Catch-22 situation. As the country expands its involvement and influence in East Asian economy and security, it correspondingly increases its role in Asian affairs. China's emergence has brought changes to US alliances and security partnership in Asia. Its influences, too, is pervasive that Chinese preferences and interests have to be factored in the foreign policy decisions of some Southeast Asia states. Nevertheless, the study confirms that the more China expands its regional power and influence, the more these Southeast Asian countries consolidate their economic and security relations with the US (*ibid.*: xv).

The study also acknowledges that both the US and China are jockeying for power and influence in East Asia. However, it is not a zero-sum game as regional responses do not involve choosing between the two powers. Instead, these states have forged security ties with other regional powers like Japan, India, and Australia. Smaller East Asian/Pacific powers appear as dynamic, active and to a certain degree, crafty players that confidently engage China while enjoying security commitments from the US. These states also widen their manoeuvring room by positioning themselves to benefit from their ties with both big powers (*ibid.*: xv). The RAND study depicts a China struggling to gain an offensive influence that could marginalize the US in Southeast Asia. Again, the more China asserts itself, the more these smaller powers pursue stability through an American involvement in the region. In this regard, the study tersely notes: "China's diplomatic overreaches in Asia in recent years have prompted occasional backlashes and a further embrace of the United States" (*ibid.*: 232; Medeiros, 2009).

China's Rise: Challenges and Opportunities, published by the Peterson Institute for International Economics and Center for Strategic and International Studies, also casts the second image of an emergent China (Bergsten *et al.*, 2008). This comprehensive study presents an affluent, benign, and cooperative China viewed with suspicion and distrust by its neighbours. China continues to cultivate soft power through its actions and policies (*ibid.*: 214). It not only extends substantive overseas financial and infrastructural assistance, but sends its doctors and teachers to other countries, provides educational opportunities in China for international students, and promotes its culture abroad. Accordingly, China has succeeded in influencing smaller states in Southeast Asia, Africa, and elsewhere, and this has enhanced the foundation of China's soft power over time (*ibid.*: 215). Significantly, the study indicates that China highlights non-military aspect of its comprehensive power, as well as its positive relationships with virtually all of its neighbours.

The study, however, observes that East Asia is generally wary of China's emergence. In fact, countries in the region are circumspect of the ultimate implication of China's transformation as a new economic powerhouse. China

has territorial disputes in East and South China Sea, and lingering border problems with India and Korea. Concerned countries are still apprehensive about their unresolved disputes with China (*ibid.*: 221). The study, in a way, equates China to the late 19th century Bismarkian Germany characterized as a contented, affluent, and relatively benign power. Nevertheless, it was regarded with distrust and suspicion by neighbouring states because of what it might do with its increasing power in the future.

8. Clashing Images of an Emergent China

China's emergence in East Asia and its improved relations with Southeast Asian states have caught the attention of American China Watchers. Since the early years of the new millennium, China's increasing trade, investment and ODA linkages with ASEAN states, made possible by its rapid economic growth and development, have brought mutually benefits to the mainland and its neighbours. Furthermore, China's new and cooperative diplomacy has been widely appreciated in Southeast Asia. Hence, some American China Watchers uphold the image of an emergent China that poses a serious economic and political challenge to American interests in Southeast Asia. They regard China as a rival or a competitor of the US as the former offers more opportunities for trade, investments, and even regional integration. Thus, Southeast Asian countries are drawn to China's economic and political orbit. Proponents of this first image of China have raised the issue of the US's neglect of Southeast Asia because of its preoccupation with Iraq and Afghanistan.

Another group of American China Watchers, however, rejects this image of a powerful and threatening China. Instead, they envisage an emergent China whose capabilities are actually finite, a fledgling regional power that is remotely capable of challenging the US for regional leadership or hegemony. This second image projects China as an active player in regional affairs whose diplomatic moves are sometimes undermined by its neighbouring states' inherent distrust of Chinese power and intention. It likewise accentuates China's mercantilist foreign policy, domestic problems, bad governance, and rigid adherence to a one-party system. These factors tarnish its charm offensive and overall global reputation. Although the Southeast Asian countries accept Chinese economic largesse and opportunities, they shrewdly maintain strong political and military ties with competing powers in the region like the US, Japan, and even India. In addition, this second image of China affirms that the US has latent reserves of soft power and still holds comprehensive power in the region. It projects a fumbling but nevertheless a benign China.

The existence of these two clashing images of an emergent China in the US can be linked to three factors in American society and government.

The first is the propensity of the American public, the media, and certain US government sectors to look for a new geo-strategic competitor in the post-Cold War era. Shaped by the Cold War from the 1940s to the late 1980s, this national predisposition thrives due to these ideological assumptions about China (Overholt, 2008: 236): (1) China today is simply a continuation of Mao's China that was aggressive, revolutionary, and expansionary; (2) because it is ruled by a communist party, 21st century China must be imperialistic and militaristic as the Soviet Union; and (3) the emergence of rising powers in the past inevitably triggered violent disruptions in the international system. The prevalence of these beliefs in post-Cold War American polity also explains the growing corpus of Chinese threat literature in the US since the late 1990s (Scott, 2007: 116-120).

The second factor that fuels this clash of images is the cognitive dissonance among American China Watchers on the nature and implications of China's emergence in East Asia. Based on the historical lessons of the World War II and the Cold War, it has been assumed that any rising power necessarily constitutes an automatic strategic/military challenge to the US. Since it is an emerging power, then China is likely to become a rising military power that will geo-strategically challenge the US in the near future. Noting the Soviet Union's collapse in 1991, the Chinese political leadership has taken a different path in its pursuit of comprehensive security. Beijing has realized the risk of adopting a clear-cut development strategy based on a "strong army, rich country" model. Instead, China concentrates on economic development and seeks a peaceful environment in which it can pursue domestic reforms and expand trading and investment opportunities with many states as possible (Ong, 2002: 180). Beijing intends to develop its comprehensive national power in the long run. However, it regards economic power as a crucial element before it can constitute the industrial and technological base necessary to support a modern military capability robust enough to deter any would-be aggressor (*ibid.*: 179). However, despite Beijing's pragmatic and cooperative approach in its current diplomatic gambit in East Asia, public opinion polls uniformly reveal that Americans have more negative views of China than do most other people (Lampton, 2007: 117). Thus, the US appears tougher and more suspicious of China than other states. Consequently, both countries view each other with deep mutual ambivalence, if not mounting distrust (Scott, 2007: 127). This generates the conflicting images of an emergent China among American China Watchers.

The two clashing images of an emergent China can also be linked with Washington's current policy *vis-à-vis* Beijing – hedging. Faced by China's increasing political and economic clout in the early 21st century, the US has decided not to confront nor contain the latter but to adopt a proactive hedge strategy to manage China's capabilities and influence its intentions. The

hedge strategy assumes that among the new powers, China has the greatest potential to compete militarily with the US in the future.²¹ This strategy, however, does not consider China as an immediate threat or a Soviet-style rival. Rather, it sees China as inching its way to a direct confrontation with the US. Therefore, it prescribes that Washington openly communicate to Beijing that the US intends to remain a dominant Pacific power and that China can ill-afford a miniature arms race or a geo-political rivalry with the US.²² The strategy also requires the US to tighten its bilateral alliances across Asia, limit Chinese influence among its allies, and steer China away from the path of confrontation with the US.

This strategy is primarily a reaction to China's diplomatic gambit of peaceful emergence in East Asia. Since the latter part of the 1990s, Beijing has reassured Southeast Asian states that China's emergence need not be feared – that no China threat actually exists. Time and again, it stresses that the rise of China is an opportunity for mutual economic benefit, and for the development of a stronger regional Asian position *vis-à-vis* the US (Morton, 2007: 1-2). Seemingly, many East Asian states now consider China as an essential economic partner and a non-threatening and constructive political actor in the region. Consequently, China has succeeded in recasting its traditional image as a military threat in East Asia. The Bush Administration then believed that it could not force its Asian allies (except Japan) to choose between the US and China as this move would not serve America's long-term regional interests. It adopted the hedge strategy in recognition of a complicated, multi-faceted, and dynamic geostrategic game in which China plays the role of a patient player ready to engage the US in both cooperative and competitive relations.

The hedging strategy, however, is fraught with paradoxes. For example, while Washington's policy *vis-à-vis* Beijing is generally pragmatic and cooperative, a Chinese threat perception still lingers in some quarters of the US government, specifically in the Department of Defense. The strategy's core objective is to integrate China into the current international system. However, the policy also provides for the strengthening of US-Japan security relations, the revitalization of American bilateral alliances in East Asia, and the deployment of additional air and naval units from the Atlantic in to the Pacific Ocean. These are clear-cut military measures intended to balance and not to entice an emerging power. These two images of China present a major dilemma in American foreign policy in an era of unipolarity – whether to consider an emergent power as a threat or a challenge to American interests and leadership or to treat it as a partner in managing the international system. Washington's policy *vis-à-vis* Beijing, in a way, fuels a debate on these two clashing images of an emergent China.

9. Conclusion

Since the beginning of the 21st century, China's emergence as a regional power and its improved political and economic relations with ASEAN states have preoccupied many American China Watchers. Apparently, they have rejected the traditional image of China as a military/ideological threat to the US. Instead, they have depicted China as using its economic and politico/diplomatic resources to generate soft power for its charm offensive in Southeast Asia. Still, these American China Watchers are divided into two camps: one camp sees a crafty and opportunistic China that relies on soft-power and multilateral diplomacy to undermine American politico/diplomatic position in Southeast Asia and advances its own strategic interests. The other camp clings to the image of a defensive and fledgling China that applies its soft-power despite diplomatic backlashes, on wary neighbouring states, which are under the shadow of a more powerful hegemon – the US.

The first image depicts a strong and threatening China that is incrementally challenging the US interests. The second image pictures a relatively benign and possibly cooperative emergent power. These two images of China and the intense debate they unleash can be traced back to the American society's ideological assumptions about Beijing, the general propensity of the American state to seek potential foes or friends in a unipolar world, and more significantly, Washington's current policy of hedging against China. As Washington continues this hedging policy, these clashing images of an emergent China will endure among American China Watchers way into the mid-21st century.

Notes

- ⁺ This article was written by the author while he was a visiting scholar at Arizona State University in 2009.
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American Perspective versus Chinese Expectation on China's Rise

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Abstract

According to Pew Global Attitudes survey released in July 2011, most of the survey participants say that China either will replace or already has replaced the United States as the world's superpower. China's emergence as a great power has become inevitable. US-China relations will profoundly impact on the entire world. In order to promote global peace and development, while shifting the balance of world power, some questions need to be scrutinized: How do Americans view China's rise? Where is China heading? Will the US and China get along? How the US and China work together on urgent international issues? This paper will look into American perspective on China's rise and China's expectation from various angles, find the similarities and differences between American perspective and China's expectation in some major areas of economy, military, ideology, and foreign policy, and attempt to find a realistic way to improve the China-US relations.

Keywords: *China, Chinese foreign policy, Chinese politics, China-US relations, America*

JEL classification: *F51, F52, F59, N45*

1. Introduction

As early as 1993 David Shambaugh foresaw that China would become a superpower in the early twenty-first century.¹ China has already surpassed the Japanese economy and has become the second largest world economy. *The Economist* predicts that China will overtake the United States as the world's largest economy within the next ten years.² Former US Secretary of State Henry Kissinger told CNN in June 2011 that the Communist nation poses a "big challenge" for the United States.³ Apparently, US-China relations will profoundly impact on the entire world.⁴ The issue of improving the

relationship between China and the US has become the most important subject in the twenty-first century.

According to Aaron Friedberg, one of the most authoritative American analysts of China's foreign policy, there are three main camps in contemporary international relations theorizing: liberalism, realism, and constructivism. However, each of the three theoretical schools is divided into two variants: "one of which is essentially optimistic about the future of US-China relations, the other distinctly pessimistic."⁵ The prevalent opinion in the US is that a rising China has reshaped the existing global order and challenged the world leadership of the US. American pessimistic international theory suggests that this time period of the relationship between the United States and China is the worst after the Jet flights collision over Hainan Island in 2000. Aaron L. Friedberg points out that "Hu Jintao's visit may mark the end of an era of relatively smooth relations between the US and China."⁶ The Chinese government insists that the responsibility for the difficulties in China-US relations does not lie with China and it is up to the US to improve relations between the two countries. Ample evidence suggests that the US is preparing a long cold war with China.⁸

Although both American optimistic liberals and pessimistic realists have offered constructive opinions on the current status of US-China relations, they have paid less attention to the issues of what caused such a difficult relationship and how to improve US-China relations. This paper attempts to examine the main factors that affect US-China relations, analyze the differences between Western and Chinese perspectives on China's rise, and explore remedy to improve US-China relations. This paper will argue that the conflicts between the two nations are normal while China is rising, because the conflicts are derived from different perspectives. The conflicts are real, but they might make the two nations more cautious in dealing with their relations. Thus, the US must be confident of its leading position in the international society in order to appropriately manage China's rise in the twenty-first century.

2. The US Remains the World Superpower

While China is rising, the voice of American mainstream still does not believe the US is inevitably declining.⁹ Thomas J. Christensen, the former Deputy Assistant Secretary of State for East Asian and Pacific Affairs, points out that media has "often exaggerated China's rise in influence and the declining power of the United States."¹⁰ However, some argue that American people have heard all these stories of American decline before, but this time is for real.¹¹ US debts have reached another record high of \$14 trillion and it will

reach 15 trillion by May 2011. Every American shares almost \$46,000 debt.¹² About \$4.4 trillion among \$14 trillion debts was held by foreign governments that purchase US securities. This reasonably raises a question: who owns the US?¹³ The mounting debt is a cancer of the nation which could drag the US down if the government cannot gradually reduce the debts.

American people increasingly feel that China is catching up to the US. According to a survey conducted by the Washington-based Pew Research Center for the People and the Press in 2011, about 47 per cent of participants say China, not the US, is the world's top economic power, while 31 per cent of participants continue to name the US. The result of the survey obviously contradicts the reality, but it reflects that American people feel anxious with China's growing power and influence. US officials have admitted that China's rise is a source of anxiety, as they worry about that the US is at risk of falling behind in a global battle for influence with China.¹⁴ Secretary of State Hillary Clinton has warned that the US is struggling to hold its role as global leader.¹⁵

The United States does not want to be the number 2 in the world. The majority of Americans are not happy that China will become the largest economy, superseding the United States.¹⁶ Both optimists and pessimists hold mixed feelings with China's rise, viewing China as an economic competitor and political rival.¹⁷ Thomas Friedman points out that "China is a threat, China is a customer, and China is an opportunity."¹⁸ Generally, realists believe that the relationship will basically be stable and peaceful,¹⁹ but pessimistic realists always suggest that "rising states usually want to translate their power into greater authority in the global system in order to reshape the existing global order in accordance."²⁰ They believe that since the start of the world financial crisis in 2008, China has begun to stand up by taking assertive strategy toward the US.²¹ They question whether China is departing from Deng Xiaoping 邓小平's foreign policy of *tao guang yang hui* 韬光养晦 (hide brightness and cherish obscurity) toward the US.

Elizabeth Economy, director for Asian Studies at Council on Foreign Relations, notes that the consensus of the Deng era began to fray and Beijing began to expand its influence to the rest of the world.²² In ASEAN meeting in 2010, Chinese foreign minister Yang Jiechi 杨洁篪 told Southeast Asian counterparts that "China is a big country and other countries are small countries, and that is just a fact."²³ China claims that the South China Sea was a core interest of the nation and oppose any attempt to internationalize the South China Sea issues. China's assertive approach has stirred anxiety across Asia.²⁴ As a result, some of China's neighbouring countries, such as India, Indonesia, Japan, and Vietnam, are working more closely with the US as a balance to the expansion of China's influence. John Lee, a foreign policy

specialist, warns that China is losing friends worldwide and China maybe the loneliest rising power in recent history.²⁵

Nevertheless, China holds different viewpoints on why China's relations with neighbouring countries are deteriorating. According to *2011 Pacific Blue Book* published by the Institute of Asia-Pacific Studies of the Academy of Social Sciences in January 2011, all problems with its bordering countries are not the results of China's new foreign policy but derived from the action of the US returning to Asia. China views that the United States seeks to contain China's rise and attempts to block it. The US claims that it still has a vital role in helping to manage this changing balance of power in Southeast Asia.²⁶ Hillary Clinton points out that the US has a national interest in the freedom of open access to the South China Sea.²⁷ The majority of Asian countries welcome the presence of the US Seventh Fleet in Asia.²⁸ If both the US and China claim core interest in the region, the potential for conflict between the two nations is much greater.

Some prominent American scholars are pessimistic on China's rise for a long time. As early as 1997, Richard Bernstein and Ross Munro in their book *The Coming Conflict with China* argued that war between China and the US was a distinctive possibility. In 2005, Robert D. Kaplan noted that whether or not there will be a Sino-American war is no longer a question. The remaining question is how the United States should fight China.²⁹ David Gordon recently observes that the US "is heading into a more conflict-ridden world, with U.S.-China tensions at its core."³⁰ John Mearsheimer warned that "The United States and China are likely to engage in an intense security competition with considerable potential for war."³¹ Thus, Susan L. Shirk, former deputy assistant secretary for China in the Bureau of East Asia, suggests that "China needs to reassure the United States that China's rise is not a threat and will not challenge America's dominant position."³²

Is it inevitable for a rising China to threaten the US and the West? The answer depends on how the US views China's rise and how views itself. The reality is that the US remains the most powerful country in the world, and China does not have political, military and economic power to challenge the US regardless of China's intention. To be sure, while the Chinese economy is growing, it is very normal for China to expand its influence abroad, because the nature of capital is to seek for profits through investing no matter where it invests. As a result, the US is unavoidably facing challenges from the Chinese economy. Competition is the healthy symptom of market economy. China's rise will not necessarily create the same scenarios of World War I and II. Military conflict is not inherent in a nation's rise, and the United States in the twentieth century is a good example of a state achieving eminence without conflict with the then dominant countries.³³ Hopefully, China's performance will be better in the twenty-first century.

3. Two Different Perspectives

Conflicts between the US and China are real, but they will not necessarily turn into a war. Instead, the conflicts would remind both sides that they should more carefully examine the direct source of the conflicts – different perspectives – in order to find a common ground to peacefully co-exist. Most scholars agree that the conflict between the two countries mainly include their political incompatibility, economic competition and military competition, but there are disagreements on what is the fundamental conflict between the two countries.

3.1. Political Incompatibility

A country's foreign policy is the extension of its internal political system; and political differences between the two countries fundamentally affect US-China relations. The nature of China's foreign policy toward the West is not rooted in the growing economic power of China, but is fundamentally driven by the nature of Chinese political system. The current Chinese society is unstable. Chinese society is full of people's dissatisfactions because of serious social injustice and government corruption. A recent survey shows that only six per cent of Chinese people see themselves as happy, despite the government's efforts to improve Chinese sense of happiness.³⁴ People's dissatisfaction could spark off social violence anytime. The Chinese government feels very nervous with people's discontent. This explains why Chinese internal security spending exceeds defense budget in 2011.³⁵

China's rapid economic growth has generated other changes in all social aspects, but it does not mean that China has departed away from the communist political system. At the present time, China still adheres to the one-party system; Marxism is Chinese official ideology; Chinese economics is called socialist market economy with Chinese characteristics; and Chinese media is strictly subject to censorship. All these indicate that the socialist system is still present.³⁶ Although China is no longer a typical Leninist state, China remains unchanged in its political nature.³⁷ What change for the Communist Party of China (CPC hereafter) in the post-Mao era are not the political system but only economic measures and political strategies. Gabriella Montinola observes that "Nearly all of the formal aspects of democracy are absent, notably, individual rights of free speech and political participation, a viable system of competition for political office, and a set of constitutional limits on the state."³⁸ It is too early to argue that the CPC is dead and that China is on the way toward an alternative model of democracy to the West.³⁹ At present, the main schools of political thoughts, including neo-Maoism, neo-liberalism, and neo-Confucianism, are intensively debating approaches

of reforming Chinese social and political systems. The direction of Chinese political system is really uncertain.

In American viewpoint, one of the reasons for the current difficult bilateral relations is that in 2010 the Chinese government negatively responded to Nobel Peace Prize Committee's decision to honor Chinese political dissident Liu Xiaobo 刘晓波. Liu was put in jail after the crackdown of Tiananmen Square Incident and was released in early 1991, but the Chinese government arrested him again after Liu wrote the *Charter 08*, which calls for modern democracy and an end to the Communist Party's political dominance.⁴⁰ The Chinese government believes that the Nobel Peace Prize Committee's decision is an attempt to deny the legitimate Chinese judicial judgement and undermine the Chinese political system.⁴¹ The Chinese government defied the Nobel Peace Prize decision by continuing to jail Liu and forbidding any members of his family to attend the Nobel ceremonies in Oslo. During the ceremony, the president of the Nobel Committee placed Liu's Nobel diploma and medal on an empty chair where Liu was supposed to have been sitting. One commentator notes that "There could be no clearer evidence of the fundamental differences between China's political system and America's than the empty chair that represented Liu on the Nobel stage."⁴² Apparently, the political standpoints between the CPC and Western governments cannot be compromised.

Americans view the Chinese political system as directly countering the core values of the West, and they see no fundamental way for the two countries to co-exist. Americans will never trust a communist system that denies basic freedoms to its own people.⁴³ Thus, especially to idealists, a transition to democracy is a crucial step not only to China's future success, but also to the future of China-US relations.⁴⁴ However, the Chinese government has insisted that China's development must come with "socialism with Chinese characteristics", the so-called "China model" or "Beijing Consensus". Chinese official media has persistently argued that it is wrong for the West to impose its ways on other cultures.

Even if the Chinese political situation is not getting worse, which is most likely, the CPC will continue to postpone fundamental political reform. The political and ideological battle between the two nations will be inevitable. The US does not have any other choice but to do business with China. Practically, Western political leaders often take realistic approaches and push aside political disagreements in favour of maintaining the crucial economic relationship, because many Westerners see the economic ties between the two nations as a means of binding them together. Idealists define Chinese president Hu Jintao's state visit to the United States as a "trade mission".⁴⁵ The agenda of the 2010 summit indicates that China's political issue is not Washington's top concern. During the joint press conference President Obama

emphasized the different historical tradition and cultural system which sounds to defend Chinese political system. Obviously, the Obama administration took a soft attitude toward China's political issue instead of making the Chinese government angry.

The CPC remains powerful and there is no other opposition party in China to compete with the CPC. The total numbers of the party members have continued to climb, almost reaching 80 million, although the majority of the party members use the *dang piao* 党票 (the title of party member) for professional advancement instead of any strong commitment to the communist belief. Under this circumstance, it is best for China to reform its political system within the current political system and continue to use the CPC as the main vehicle to drive China toward the future. Thus, political reform in China will be a slow process. In this sense, China's road toward democratization might be different from the normal pattern of Western societies. Gordon White notes that "many of the current proposals for rapid and radical democratization are fraught with wishful thinking, and many of the assertions about the punitive complementarities between democracy and socio-economic progress are simplistic and misleading."⁴⁶ After the Jasmine Revolution in the Middle East, the CPC will take it more cautiously in approaching political reform in order to maintain social stability.

3.2. Economic Competition

The intensive economic competition may constitute one of the biggest barriers to the bilateral relations. China is the fastest growing economy in the world with an average growth rate of nine per cent a year over the past three decades, about five times faster than the US. While some American analysts believe that a healthy Chinese economy is vital to the US, others argue that China's growing economic power will threaten US hegemony due to the following reasons.

China holds almost \$1 trillion US government bonds, but it lags far behind other Asian and European countries in direct investment in the US. While Chinese companies invested only \$791 million in US companies in 2009, South Korean companies invested \$12 billion, Japanese firms \$264.2 billion, German firms \$218 billion, and British companies \$453 billion.⁴⁷

The US trade deficit with China continues to increase. China's goods exports to the US were \$229.2 billion, while US goods exports to China were \$55.8 billion, with the US trade deficit in goods at \$173.4 billion in 2010. The US trade deficit with China is expected to hit \$270 billion in 2011.⁴⁸ The US trade deficit with China causes the United States to lose 2.4 million jobs to China. The fear of losing jobs has been one of major reasons for the US to be skeptical of China.⁴⁹

The trade imbalance stems in part from the undervalued Chinese currency. The US accuses China of artificially lowering the cost of goods it exports and helps to attract foreign companies to locate production in China. The US believes that it hurts American exports and damages the financial recovery around the world. Although the US Treasury refrained in February 2011 from labelling China a currency manipulator, it warned that the *yuan* is still substantially undervalued, and thus, “more rapid progress is needed.”⁵⁰

The Chinese government has placed trade barriers to restrict foreign investors and unfairly disadvantages foreign competitors. For examples, China provides illegal subsidies to the production of wind power equipment and censored Google and forced it to shut down China-based Internet search engine. The Chinese government also put restrictions on some export products, such as rare earth minerals, to enhance its power to influence global prices.⁵¹ Consequently, more clean-energy technology companies are moving operations to China to save costs.⁵²

However, the Chinese government claims that all these arguments are without legitimate basis. First of all, China’s GDP does not represent the power of China’s economy. Although China’s total GDP is the second largest economy in the world, its GDP per capita is only about \$4500, only about a tenth of the US’s, ranking below hundred in the world.⁵³ China will have to take a long time to catch up with the US.⁵⁴ The Asian Development Bank already predicted that that China’s growth rates in the next two decades “will be only a little more than half of what they were in the last 30 years.”⁵⁵

China is only the world’s low-cost workshop for assembling products, so it has its great limits. China could not continue to develop its indigenous industry without advanced technology. China just began to build an economy that relies on innovation rather than imitation.⁵⁶ In addition, China faces serious challenges. One of the challenges is environmental degradation. Sixteen of 20 most polluted cities in the world are in China; air quality in three quarters of Chinese cities falls below the standard; and one third of Chinese land is affected by acid rain. China is one of the major sources for global warming. China’s coal-fired power plants fall as acid rain on Seoul, South Korea, and Tokyo. According to the *Journal of Geophysical Research*, much of the particulate pollution over Los Angeles originates in China.⁵⁷ China has to spend \$170 billion a year to fix the environmental problems and it is expected to spend more in the years to come.⁵⁸

Regarding the currency exchange rates, according to the Chinese government, it is the US, not China, that aims to manipulate currency policy. The US allowed the dollar to fall 23 per cent from its early 2002 peak against all of trading partners. By contrast, in 2010 China’s central bank has issued a statement pledging to increase currency flexibility. China has already let

its currency rise against the US dollar from 8.27 *yuan* for every dollar to 6.6 *yuan* by February 2011.⁵⁹

3.3. Arms Race

While China is rising, the military dimension becomes more important to US-China relations. There is a growing debate in the United States on the future of the Chinese military development, concerning with China's military capabilities and intentions.⁶⁰ In December 2010, U.S defense secretary Robert Gates visited China and concluded that China's military development will challenge the US military power in Asia and may challenge the capability of the US military operations worldwide.

In American view, China has the fastest growing military budget. In 2010, the defense budget was 532.115 billion *yuan* (about 78 billion USD), and is expected to hit 601 billion (9.1 billion USD) in 2011. China has maintained an annual average increase in defense expenditure of 12.9 per cent since 1989.⁶¹ China's military development lacks transparency, so US officials remain largely in the dark about China's long term goals.⁶²

China has accelerated its military modernization, including foreign purchases and indigenous production of high-technology equipment.⁶³ First, Chinese J-20 fifth-generation stealth fighter has reached an initial operational capability and may contest US air supremacy with the F-22.⁶⁴ Second, China has developed an anti-ship ballistic missile – the DF-21D. American military experts point out that the DF-21D is designed to sink American super-carriers and affect US support for its Pacific allies.⁶⁵ Third, "China is developing "counter-space" weapons that could shoot down satellites. Gregory Schulte, deputy secretary of defense for space policy, points out that "the investment China is putting into counter-space capabilities is a matter of concern to us."⁶⁶

The recent South China Sea sovereignty issue has intensified China's relations not only with some Asian countries, such as Vietnam, Philippines, and Malaysia, but also with the US. In June of 2011, China urged the US to stay out of South China Sea dispute, and warned that US involvement may make the situation worse.⁶⁷ China has claimed the entire South China Sea as its "core interest" and declared that China will consider launching a pre-emptive nuclear strike if the country finds itself faced with a critical situation in a war with another nuclear state. An American military officer suggests that Chinese military ambition shows that "China's imperialism is on full display."⁶⁸

China's military development has drawn concerns from the US and also caused alarm in many of its Asia-Pacific neighbours who fear the consequences of a strong Chinese military. In American viewpoint, since

there is no obvious threat to China, why has China accelerated the process of military modernization?⁶⁹ In Chinese viewpoint, however, a nation's power must be supported by its military power. As major powers rise economically, military modernization usually follows. Technology and science is the main driving force of developing military power in the twenty-first century. It is necessary for China to modernize its military force because Chinese military lags far behind the US and the European countries. It is not China, but the US, that has the largest defense budget in the world, accounting for 47 per cent of the world's total military spending. There are about 154 countries with US troops and 63 countries with US military bases and troops.⁷⁰ The Chinese defense minister Liang Guanglie told Robert Gates that China is not an advanced military country and China poses no threat to the rest of the world.

Regardless of whether China's military development is a threat to the US, the reality is that neither the US nor China is able to dominate each other. A military clash between them would exhaust both countries.⁷¹ Chinese vice-foreign minister Cui Tiankai 崔天凯 has made similar comments that "I don't think anyone in the Asia-Pacific region has the ability of encircling China, and I do not think that many countries in the Asian-Pacific would become part of that circle. China and the US don't have any other choices but to work together."

4. Building Mutual Trust and Understanding

Although the US and China hold different perspectives on China's rise, the two nations are interdependent during the age of globalization. To be sure, none of both sides wants to be dependent on the other, but neither side can afford a split.⁷² In the past three decades, the US and China have achieved progress in cooperation in economic, trade, and other fields, including military cooperation in three areas: exchange of antiterrorism information, prevention of nuclear proliferation, and the hosting of six-party talks on the North Korea nuclear program. At present, the Afghanistan war is not yet over, al-Qaida terrorism remains active, and the issue of nuclear proliferation is still in the air. The two nations will continue to work together in all these areas. All these suggest that the two economic giants are more likely to find a common ground to co-exist.

However, if the two governments do not compromise different perspectives, a cold war between the two nations is possible, but the cold war will inevitably damage the interests of both countries. When Henry Kissinger was interviewed by Fareed Zakaria from CNN in June 2011, he made it clear that another Cold War is not the answer.⁷³ During the summit of China and the US in December 2010, President Barack Obama and Hu Jintao tried to downplay

differences and vowed stronger cooperation between the two countries, but it is impossible to quickly overcome the sense of mistrust and solve structural problems through a state dinner.

Henry Kissinger in his book *On China* suggests that “The best outcome in the American debate would be to combine the two approaches: for the idealists to recognize that principles need to be implemented over time and hence must be occasionally adjusted to circumstance; and for the ‘realists’ to accept that values have their own reality and must be built into operational policies.” This recommendation can be also applied to China’s side.

First of all, the US and China should find a realistic way to prevent the bilateral relations from getting worse. Both sides should accept the differences between the two countries. The Chinese government does not want to see the West apply universal values to China, nor Western support of Tibetan and Taiwanese independent movement, nor the sale of weapons to Taiwan. By contrast, the US demands some change in China, including reforming Chinese political system, increasing Chinese individual and religious freedoms, improving market economy to ensure equal competition, expanding citizen participation, and making transparent military development. Obviously, there is an “increasing unwillingness of Washington and Beijing to understand each other’s viewpoints.”⁷⁴ This suggests that both sides need to patiently and gradually narrow the gap between the two perspectives. In political area, China’s political reform is necessary but it could not in overnight completely change the system. Although it is proper to criticize China for its human rights violations, the US should not ignore the substantial progress China has made since 1978.⁷⁵ In economic area, protectionism would harm both nations but active engagement is the best way to minimize the conflicts. In military area, although the US has reasons to take China’s recent military development cautiously, Chinese military force remains a decade behind the United States.⁷⁶ China is not an existential challenge to the United States.⁷⁷ If the US keeps its confidence, it is able to manage all challenges from China’s rise.

Mutual understanding is critical to narrowing the gap between the two perspectives. At the present time, the “mistrust of Beijing throughout Asia and in Washington is palpable.”⁷⁸ It is widely believed that most Americans not only distrust but also despise China.⁷⁹ During the US’s mid-term election in 2010, many candidates played the China card, running advertisements on US televisions against China. Similarly, Beijing does not share many of the same interests as the United States and its allies.⁸⁰ A significant number of Chinese people believe that the US has been trying to block China’s rise.

Mutual understanding is at least partially based on a common value system. The US remains the leader of the existing global order; and the value of democracy continues to be the mainstream of the existing global order. The core value of modern democracy, such as individual rights, justice, equality

and common good, is the cornerstone of Western societies that guides their governments in making foreign policy.

On the one hand, from an idealistic perspective, Chinese political liberalization is essential to building mutual trust. China is well positioned to keep growing for years to come. Question is where China is going. Is China departing away from the West? Or, is China heading towards the West? Although nobody knows where China is headed,⁸¹ it is evident that China's growing economic power does not automatically translate into political power and international authority. It is hard to believe that China could become an internationally recognized world leader without accepting universal values. In order to make peace with the existing global order, China really needs to make well-balanced development between economic growth and political liberalization through domestic political reform. If China becomes democratic, the relationship between the two countries will stabilize and, ultimately, "it will enter into the democratic zone of peace."⁸²

On the other hand, the Chinese cultural and history tradition will affect the process of China's democratization. This is one of the most important reasons for the former US Secretary of State Henry Kissinger in *On China* to make a bold argument that it is important to begin with an appreciation of China's long history in order to any attempt understand China's future world role.⁸³ China was humiliated by the West for a century, so nationalism in China is very strong. Chinese State Councilor Dai Bingguo 戴秉国 at a Joint Press Conference of the Second Round of the China-US Strategic and Economic Dialogues in 2010 explained that "China's number one core interest is to maintain its fundamental system and state security; next is state sovereignty and territorial integrity; and third is the continued stable development of the economy and society."⁸⁴ Theoretically, it is the most important for the CPC to maintain its communist political system; practically, territorial integrity is the essential issues among China's core interests, especially territorial integrity of Taiwan with China.

Taiwan is the most important issue for the US-China relations since the outbreak of the Korean War. The unification of the mainland with Taiwan is the common will of the Chinese government and the majority of the Chinese people. Mainland China will never relinquish this mission under any circumstance. If the Chinese government made a wrong policy on Taiwan, it could trigger anti-government movement at home. If the US made a wrong policy on Taiwan issue, it could hurt the feelings of the majority of the Chinese people and trigger anti-American nationalism. Charles Glaser, director of the Institute for Security and Conflict Studies at George Washington University, recently suggests that the US should modify its foreign policy and make concessions to Beijing, including the possibility of backing away from its commitment to Taiwan in order to avoid a war between

the US and China.⁸⁵ It is also worth noting that it is not wise for the CPC to unify Taiwan before changing the nature of its political system unless Taiwan claims independence, because the political gap between mainland China and Taiwan is huge. The CPC might be capable of taking over Taiwan by military force but it would be difficult to win the support from the majority of Taiwanese people.

For the long term, cultural exchange is the key to help in building mutual trust and understanding between the two countries. Nevertheless, China's three decades economic development is a "single-minded pursuit of economic growth."⁸⁶ While China's trade surplus has exceeded \$21 billion in 2010, its cultural product trade deficit is growing. The ratio of imports of cultural products to exports was 10:1 years ago and is believed to be much higher today.⁸⁷ This reflects that the influence of Chinese culture in the West is limited. To lower the distrust between China and the US, China should renovate its culture by introducing universal values and world advanced cultures into China, but it is uncertain if the CCP is willing to open up its political domains to facilitate the emergence of a modernized culture.⁸⁸ The CPC has recently attempted to revive Confucianism, but the result of this effort is uncertain. As a matter of fact, this attempt does not only indicate that the CPC has exhausted its cultural resources, but also imply that the re-invention of Chinese cultural tradition has become desperately urgent.

International relations are directly interacted by governments; the top leaders of both countries are significantly important to making US-China foreign policy. American president's decision is determined not only by its domestic economic situation, but also by influences from congress and public opinion. In this sense, the American president plays a less role in making foreign policy. After the charismatic leader Chairman Mao died in 1976, the power of the CPC has been decentralized. Although China's policymaking process has already become pluralized, the top leader of the CPC still plays a critical role in making foreign policy due to the nature of communist political system. The political orientation of other top Chinese leaders and the leaders of the Foreign Ministry also contribute to foreign policy making. Therefore, in order to avoid unnecessary mistakes in foreign policy making process, both countries' leaders need to be open-minded and carefully listen to the voices coming from think tanks and common citizens.

5. Conclusion

China's economic and military power is growing, but China's international influence is still constrained by the stagnation of political system, cultural deficit, and the low level of comprehensive economic and military power. The United States remains the dominant power in the world. The exaggeration

of China's power is in part derived from psychological impact and media exaggeration. The United States must keep confidence and accept challenges from the rising power. Different perspectives could generate healthy competition in which people can learn how to live with others during the age of globalization. The disagreements between the two giants will continue. The CPC will maintain its basic attributes of communist political system. Market economic competition continues to be driven by making profits. Both sides will keep defending its national interests through developing their military muscles. Nobody can stop all these disagreements but there is nothing to fear different perspectives, if both sides could carefully treat each other. Overestimating China's economic and military power would create anxiety; overacting to China's rise would worsen the bilateral relations. The most important thing for both sides to do is to clearly understand political isolation, economic protectionism and military confrontation are not the solution. Realistically, building mutual trust and understanding through cultural exchange program and positive engagement is the best way to reduce the risk of great power war.

Notes

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Development of Japan-China Relations since 1972

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Abstract

Since the normalization of diplomatic relations in 1972, Japan-China relations experienced three periods: a “*heiwa yuko*” (peace and friendship) era; a “*seirei keinetsu*” (politically cold, economically hot) era; and an era of “*senryaku teki gokei kankei*” (mutually beneficial relations based on common strategic interests). Japan and China are perpetual neighbours, neither of which can simply relocate, and cannot but seek a win-win situation. For that purpose, this article argues the importance to manage bilateral relations based on the following principles: first, their relations should be guided by common interests, not driven by emotions; second, sensitive issues such as past history, Taiwan or the East China Sea disputes may sometimes shake their relations, which requires them to pursue a new thinking; third, a wide range of frank and candid communication networks between the governments, business sectors, academia and individuals is necessary; fourth, Japan-China relations are not only confined to bilateral purposes, but should also contribute to a new framework for Asia and the world; and fifth, both governments need to address to public diplomacy, a core target of which is the young generation. Japan’s relationship with the US and China determined Japan’s destiny in early 20th century and it still remains valid now. Japan’s diplomatic option is not “US or China,” but “US and China.” The US remains the most important partner for Japan, while Japan should and can cooperate with China on a bilateral, regional and global basis.

Keywords: *Japan-China strategic relationship, the US factor, diplomacy*

JEL classification: *F51, F52, F59, N45*

1. Introduction

This article reviews the development of Japan-China relations since the normalization of diplomatic relations in 1972, and suggests a desirable future relationship.

At the beginning, the article briefly reviews international as well as domestic factors that encouraged both nations to realize the normalization, and how they enjoyed a period of “peace and friendship” until the late 1980s. Then the article examines how the June 4 Tiananmen Incident and the collapse of Berlin Wall changed strategic circumstances surrounding both nations in the late 1980s and the 1990s. The Japanese perception towards China also changed negatively as Japan declined and China reemerged during that period. Political disputes also influenced bilateral relations. Prime Minister Koizumi’s regular annual worship to the Yasukuni Shrine during his premiership created a decisive factor in worsening bilateral political relations. The article studies how those factors led to a vicious cycle in the trans-century period though economic interdependence was further deepened, which was called a period of “politically cold, economically hot.”

After Koizumi stepped down, Abe initiated a new China policy. The successive cabinets, including the Democratic Party of Japan (DPJ)-led government since 2009, have basically followed this guiding principle. The article analyzes the new stage of a win-win bilateral relationship, characterized by a “mutually beneficial relationship based on common strategic interests,” and proposes that this strategic relationship should become a basis for future bilateral relations. In promoting a mutually beneficial relationship based on common strategic interests, the article advises that both Japan and China need to treat politically sensitive issues in a clever and restraint manner. They include the past history, the Taiwan issue, and also the East China Sea, especially the Senkaku/Diaoyudao Islands issue.

The US and China are two most important countries for Japan. Japan’s relations with those two states determined Japan’s destiny in early 20th century. Japan’s mishandling of China caused serious conflict with the US and resulted in the Pacific War, which finally brought about a catastrophic failure for Japan. The article finally suggests the best option for Japan in its relations with China, taking into consideration the relations with the US, which remains the most important partner for Japan.

2. Normalization in 1972

The year 1971 is remembered by Japanese as the year of two “Nixon Shocks”. One was economic and another was political shock. On August 15, 1971, President Nixon declared unilaterally that the US government would impose a 10 per cent import surcharge and stop the convertibility of the US dollar to gold, thus putting an end to the Bretton Woods system. Another Nixon shock was directly related to China. Dr Kissinger, Assistant to Nixon for national security affairs secretly visited Beijing via Pakistan from July 9 to 11, 1971.¹ After his preparatory work with the Chinese side, both the US and Chinese

governments announced on July 15 (US time) that Nixon would make a visit to China at an appropriate time before May 1972 at the invitation of Premier Zhou Enlai for the discussion of the normalization of the bilateral relationship and exchanging views on issues of mutual concern.² His visit to China as the first for a US President was carried out on February 21-28, 1972. The notification of Nixon's China visit to the Japanese government came out almost at the same time as the public announcement was remembered as a bitter lesson for Japanese diplomacy not only from the viewpoint of serious strategic shift coming from President Nixon's visit to China, but also from a psychological shock that Japan was ignored or at least nonchalantly treated by the US. It may not be realistic, however, to anticipate that the US would consult this kind of critical strategic shift of its foreign policy with Japan closely in advance as even the State Department was not informed in detail, either, and became a "victim" of Dr Kissinger's secret China diplomacy.³ Fearful of leaks, Dr Kissinger did not involve the US State Department in the negotiation process of Shanghai Communiqué, and as a result the State Department was not allowed to read its draft until twenty-four hours before it was to be released.⁴

There had been movements towards normalization between Japan and China since the founding of the People's Republic of China (PRC) in 1949. However, those movements could not make the Japanese government move to the direction of normalization because of international as well as, to a less degree, domestic reasons. Nixon's China visit, however, changed the situation. Kakuei Tanaka won the presidential election of the Liberal Democratic Party (LDP), by defeating his opponent Takeo Fukuda and was accordingly appointed prime minister in July 1972. Tanaka held a press conference on July 5, stating that the basic issue of Japan-China relationship was to normalize relations through governmental consultations and that the time had come.⁵ Tanaka, accompanied by Foreign Minister Ohira and Chief Cabinet Secretary Nikaido, visited China at the invitation of Premier Zhou Enlai on September 25-30, 1972. Both governments finally reached agreement on the normalization of official relations by issuing a Joint Communiqué on September 29.

There had been several main issues to be resolved between both governments before the normalization. With regard to the historic issue, the Japanese side referred to the responsibility for the serious damage that it caused in the past to the Chinese people and deeply reproached itself.⁶ Regarding the representation of China, the Japanese government accepted the government of the PRC as the sole legal government of China.⁷

The status of Taiwan was another sensitive issue. The Chinese government reiterated its position that Taiwan is an inalienable part of the territory of the PRC.⁸ Japan maintained its basic position that it was not in a position to

judge the legal status of Taiwan any more since the former renounced all rights, titles and claims over the latter as a result of having accepted the San Francisco Peace Treaty, which came into effect in 1952. In consistent with the principle, the Japanese government stated that it fully understands and respects the stand of the Chinese government and firmly maintains its stance under Article 8 of the Potsdam Proclamation.⁹ Regarding the Peace Treaty between Japan and Republic of China entering into force on August 5, 1952, which the government of the PRC had claimed invalid, there was no reference in the Joint Communiqué of 1972. However, as having agreed with the Chinese side in advance, Ohira stated in the press conference in Beijing after signing the Joint Communiqué that as a result of the normalization of diplomatic relations between Japan and China, it was the interpretation of the Japanese government that the Peace Treaty between Japan and “Republic of China” had lost its standing implications and had expired.¹⁰

The Chinese government declared its renouncement of war reparation demand to Japan.¹¹ The legal position of the Japanese government on the issue was that it had been already resolved as a result of the conclusion of the Peace Treaty between Japan and the “Republic of China” in 1952,¹² which the government of the PRC could never accept. Though the Japanese government maintained its basic legal position on the issue, Ohira, at his press conference, referred to this issue that taking into consideration the great damage that the Chinese people had received through the unhappy Japan-China War, Japan should appreciate frankly and appropriately the Chinese renouncement of war reparations on Japan.¹³ Later the Japanese government did not seem to focus on the difference of interpretations between the two governments but just referred, when necessary, that issues regarding war reparation between Japan and China have not existed any longer since the issuance of the Joint Communiqué in 1972, when normalization of diplomatic relations was realized.

There were several factors which made the Japan-China official relationship come to fruition more than six years ahead of the US that finally normalized with China in 1979. First of all, Japan and China were confronted with the common neighbouring enemy, the Soviet Union. Second, Nixon’s China visit assured Japan that the US government would not object Japan’s diplomatic step for normalization with China. Third, atonement feelings among Japanese public towards the Chinese resulting from the war were very strong in general. The so-called “friendly people” in Japan had worked hard for peace and friendship exchanges between the people in both countries and had paved the way for normalization from a grassroots level for a long period of time before normalization. Most Japanese public, intellectuals, mass media as well as many politicians and the business community also supported and encouraged normalization with China. Fourth, Tanaka’s political leadership

also contributed to an earlier realization of normalization. Fifth, Taiwan was a colony of Japan for fifty years until the end of WWII and pro-Taiwan Japanese politicians were not few, but Japan's relationship with Taiwan, different from US case, was mainly economic, not military.

After Mao Zedong passed away and the "Gang of Four" was arrested in 1976, Deng Xiaoping, a reformist, finally revived and came to the real force again in 1978 after ups and downs. He navigated China towards a new direction by adopting an openness and reform policy at the Third Plenum of the 11th Party Congress in December 1978,¹⁴ which determined China's course afterwards.¹⁵ Though China's economic status in the world still remained small, strategic circumstances surrounding Japan and China did not alter fundamentally until the end of Cold War and the Tiananmen Incident in 1989. The Peace and Friendship Treaty was signed on August 12, 1978 and entered into force on October 23, 1978. China had criticized that the Soviet Union was seeking hegemony. Japan considered its relations with the Soviet Union and watered down the hegemony clause. That was the main reason it took six years for negotiations to be concluded. The subsequent shift in international relations reminds us of the famous words by British statesman in the mid-19th century, Lord Palmerston that we have no eternal allies and no perpetual enemies and our national interests are eternal and perpetual.¹⁶

Japan and China, in general, developed and promoted a stable bilateral relationship through the rest of the 1970s and 1980s though politically difficult and sensitive questions sometimes occurred, including the issues of the Senkaku/Diaoyudao Islands,¹⁷ the history textbooks used at Japanese high schools,¹⁸ prime minister's worship at the Yasukuni Shrine,¹⁹ and the "Kokuryo Dormitory" case.²⁰ In fact, the leaders of both Japan and China wisely handled the questions so that both countries could maintain peace and friendly relations in the 1970s and the 1980s. Sentimental slogans such as "*nicchu yuko sese daidai*" (Japan-China friendship for generations) and "*ichii taisui*" (Japan and China are separated only by a very narrow sea) were prevalent among governments and people. It could be said that the period between the 1972 normalization and the 1989 Tiananmen Incident and the collapse of Berlin Wall was a "peace and friendship" period.

3. Vicious Cycles in Trans-Century Period

The world faced a dramatic shift of East-West relations in the late 1980s. Japan and China were not allowed to be outsiders in this historic global structural change. The year 1989 was an unforgettable year for both Japan and China. Mikhail Gorbachev, the Soviet leader, visited China in May to restore Sino-Soviet normal relations. It was the first time since 1959 that a top Soviet leader visited China.²¹ The end of Cold War and Sino-Soviet *rapprochement*

had brought about a new strategic circumstance in the regional as well as in the global politics.

The democracy movement broke out in Beijing and other cities around China.²² The movement, however, ended with crackdown by the government as an “anti-revolutionary rebellion” on 4 June 1989. Chinese leaders were convinced that China took a right choice in contrast with the Soviet case. The Soviet Union hastened political reform too quickly before realizing economic reform and finally collapsed, whereas China has taken its economic reform first and succeeded in making China progress and stable under the strong Communist Party leadership. Party General Secretary Zhao Ziyang was dismissed because he “supported the turbulence and made a mistake of splitting Party” and was replaced by Jiang Zemin, then party secretary of Shanghai municipal committee. However, the Party’s basic line of economic development through reform and openness policy was firmly maintained.²³

The Arch G7 Summit in Paris adopted Political Declaration on China on July 15, 1989 and condemned the violent repression in China in defiance of human rights, but at the same time, anticipated that the Chinese government would create conditions to avoid their isolation and provide for a return to cooperation based on the resumption of movement towards political and economic reform and openness.²⁴ Japan, as a neighbouring country with a close historic link that could receive a larger and more direct impact from China, echoed western nations in condemning the human rights situations in China. At the same time, however, it stressed on the importance to encourage China to continue to take a road of modernization through reform and an openness policy and to engage it in the international community. The isolation of China was the least desirable option for Japan. It was because of this principle that Prime Minister Toshiki Kaifu visited China in August 1991 as the first political leader among western developed nations since the June 4 Incident.

The *Showa* Emperor passed away on January 7, 1989 and the *Showa* Era was replaced by *Heisei* Era. Sixty-four calendar years of *Showa* (1926-1989) could be divided into two periods: prewar militarism and postwar pacifism. During the *Showa* Era, prewar and almost three decades of postwar periods are characterized as an unhappy period in long history of Japan-China bilateral relations. The year 1992 marked the 20th anniversary of diplomatic relations, and an unprecedented event was planned as something symbolic for promoting friendship and goodwill relations in the new era: a visit to China by Their Majesties, Emperor and Empress. The new Emperor Akihito, born in 1933, became the first emperor enthroned under the new peaceful constitution. The June 4 Incident, however, created a barrier for realizing Emperor’s China visit for the Japanese side. There were views among some Japanese, especially conservatives and rightists, that it was premature to promote Emperor’s visit to China. The Japanese government carefully and patiently waited for the

prevailing situations to improve and finally decided that the Emperor and Empress would make an official visit to China on October 23-28, 1992.²⁵ His visit was a great success. China's hospitality was perfect. The Emperor's speech at the welcoming banquet on October 23 hosted by President Yang Shangkun at the Great Hall of the People touched the Chinese participants.²⁶ The Chinese government recognized that the Emperor's speech on historic issues was a further step forward that included a strong sense of remorse though it may not be an apology.²⁷ The Japanese government as well as the public, especially Foreign Ministry officials, including the author, who accompanied the Emperor and became a member of the historic mission were filled with the euphoria that the Emperor's China visit, which they believed was necessary to be made sooner or later at an appropriate matured time, was in fact finally carried out almost perfectly. They also believed that a new forward-looking Japan-China relationship was about to start. The reality, however, was not so simple and easy.

Since the June 4 Incident, the Chinese government further stressed patriotic education for the youth to disseminate the idea that it is the CCP that has played a core role in fighting with western imperialism, especially Japanese militarism, and regained Chinese pride and glory after more than one hundred years of humiliation. As communist ideology almost completely lost its attractiveness among people, the CCP needed a legitimacy to convince people that a present stable and prosperous Chinese society could not have been achieved without its leadership, and only the CCP can provide its people with the assurance that China will keep growing and prospering. When the CCP appeals to people's nationalism, Japan would be in danger of becoming a main scapegoat. Second, international strategic circumstances have fundamentally altered as a result of the end of Cold War. Russia does not pose a greater threat to Japan and China. Third, the Chinese economy expanded almost 10 per cent annually in average since 1978 when reform and openness policy was adopted. Chinese people had more confidence for their future, whereas Japan suffered from long-term economic difficulties after the bubble economy was burst in the early 1990s. The Japanese system, which had functioned effectively and made great contributions to the Japanese miracle in good old days, did not seem to work as they had. A growing number of Japanese were losing confidence in their future. Warm sentiments that had prevailed among both nations towards each other gradually disappeared and nationalisms of Japan and China tended to come into conflict more easily and directly.

The standout event symbolizing the changing atmosphere was Jiang Zemin's state visit to Japan in November 1998 to commemorate the 20th anniversary of Peace and Friendship Treaty. Jiang realized a hand-over of Hong Kong from the United Kingdom to China peacefully and successfully on July 1, 1997. Hong Kong was a symbol of western colonization and China's

humiliating modern history. Therefore, its return to China under Jiang helped him to strengthen his legitimacy as a Chinese leader. Jiang made an official visit to the US from late October to early November in 1997. He started his visit by stopping at Pearl Harbor, Hawaii to remind the American people that China and the US, as allies, fought with the common enemy, Japan during WWII. In his meeting with Clinton, both leaders agreed on the building of “constructive strategic partnership.” The following year, Clinton visited China on June 23 – July 3, 1998 without visiting any other country, including US allies in Asia such as Japan and the Republic of Korea. It was unprecedented that the US president made a foreign visit to any single country for such a long period of time.

President Jiang’s visit to Japan was conducted under such offensive Chinese diplomatic atmosphere. In other words, China did not strongly feel that it was necessary to compromise with Japan. This was the first official visit by a Chinese president to Japan. His visit, which had been originally scheduled in September, was postponed to November due to large flooding in China that he had to tackle. Consequently, a visit to Japan by Korean President Kim Dae Jung preceded Jiang’s visit. Kim visited Japan in October 1998 and in the Joint Declaration issued on October 8, Japanese Prime Minister Keizo Obuchi expressed his deep remorse and heartfelt apology to the Korean people for tremendous damage and suffering that Japan had caused.²⁸ Kim accepted Obuchi’s frank and forward-looking statement in a very positive manner and highly appreciated the role that Japan has played for the peace and prosperity of the international community under the postwar Peace Constitution.²⁹

It was unfortunate that the Japan-Korea Joint Declaration became China’s baseline in considering how the past history issue was to be written in the Japan-China Joint Declaration. In the former’s case, Korea responded to Japan’s apology by accepting it with sincerity and highly appreciating a peaceful road Japan has taken after the war, whereas in the latter’s case, China only focused on historic issues and showed no clear interest on future-oriented bilateral relations. In the Japan-China Joint Declaration (JCJD) issued on November 26, regarding the past history issue, the Japanese side expressed deep remorse for the serious distress and damage that Japan had caused to the Chinese people through its aggression against China.³⁰ However, the JCJD did not contain an expression of “apology”. Jiang repeated the history issue on various occasions during his visit, including meetings with Obuchi, a lecture at Waseda University, a press conference and furthermore even on the occasion of the welcoming banquet hosted by the Emperor. Not only nationalists and rightists but also a majority of ordinary Japanese and the mass media, in other words, the Japanese mainstream that had had warm sentiments towards China came to be a little bit fed up with statements on the past history repeated by

the Chinese president.³¹ Jiang's state visit to Japan thus is remembered as a disaster for the bilateral relationship. The bilateral relationship gradually became characterized as a conflict of nationalisms, and was in danger of entering into a vicious circle unless both countries managed wisely.

Japan's ODA to China became another target. Japan started its ODA to China in 1979. Since then for thirty years until 2008, Japan provided a total amount of approximately US\$35 billion: ¥3.2 trillion yen loan, ¥147.2 billion grant aid, and ¥150.5 billion technical assistance.³² Japan's ODA has been spent on large-scale infrastructure constructions such as highways, airports, sea ports, power plants and projects in sectors of medicine and the environment, and played an important role in helping China's development and modernization. However, especially since the late 1990s, a necessity to review Japan's ODA to China was often pointed out in Japan for the following reasons. First, the necessity to keep providing China with ODA was challenged because Japan experienced a lost decade and suffered from severe economic and fiscal conditions in the 1990s, whereas China achieved a rapid economic growth during the same period. Second, Japan became more critical about China's compliance with Japan's ODA Charter, which calls for full attention to military expenditures, democratization and basic human rights and freedoms. Third, China, one of the biggest recipients of Japan's ODA, also provided its aid to third countries for political and economic purposes. Fourth, China was reluctant to make publicity efforts within the country on Japan's ODA. And fifth, as a result of Chinese economic development, its priority agenda has shifted from infrastructure constructions in coastal areas to projects for narrowing gap between coastal areas and inland regions, and global issues, etc. As a result of the review process, a new ODA plan to China was drafted, and Japan's ODA to China was gradually reduced in amount. New yen loan projects finally ended in 2007 fiscal year.

Junichiro Koizumi replaced Yoshiro Mori and became the 87th prime minister in April 2001. He used the slogan of "structural reform with no sacred cow" and enjoyed 1,980 days premiership, which ranked the third longest after Eisaku Sato (2,798 days) and Shigeru Yoshida (2,616 days) in post-war Japanese political history. Koizumi approached a rising China in a very positive manner, that is, as a challenge and opportunity rather than a threat. He delivered this message in his speech in front of Zhu Rongji, Chinese Premier, titled "Asia in a New Century: Challenge and Opportunity" at the Boao Forum for Asia, Hainan Island, on April 12, 2002.³³ Koizumi's approach to the past history issue was also very candid and he did not hesitate to admit Japan's mistakes in the past. He visited Beijing on October 8, 2001 and spoke to the press after visiting the Marco Polo Bridge, where Japan-China war broke out on July 7, 1937. At the Anti-Japanese War Memorial nearby he strongly felt the cruelty of the war and watched various displays

in the memorial with a heart-felt apology and regret towards the Chinese victims.³⁴ However, Koizumi's only action that China could never accept was his worship to the Yasukuni Shrine each year during his term. In spite of continuing expansion of bilateral economic relations, political development between Japan and China was very limited and deadlocked during Koizumi's term. Though he remained in power for five years and five months, he could not visit Beijing any more. The Chinese government leaders did not visit Japan during his term, either. This was unprecedented in the bilateral relationship. The Japan-China relationship at that time was often described as "*seirei keinetsu*" or "politically cold, economically hot."

The worsening of the Japan-China relationship was accelerated by a series of events. Five North Korean refugees, including a little girl, attempted to seek asylum at Japanese Consulate General in Shenyang, Liaoning Province on May 8, 2002, but they were blocked by the Chinese security guards inside the area of the consulate general. The video scene was broadcasted by Japanese TV news programmes,³⁵ which created strong criticism among the Japanese public against the Foreign Ministry of Japan for its failure to ensure consular immunities and to protect human rights as well as a negative image of the Chinese authorities. Chinese citizens were reported to be killed and injured by Japanese chemical weapons abandoned during WWII in Qiqihaer, Heilongjiang Province, in August 2003.³⁶ A Japanese company in Osaka organized a tour to Zhuhai, Guangdong Province for its employees in September 2003, and some of them were arrested there for group prostitution.³⁷ In October, a performance of Japanese students and teachers at Xibei University in Xian, Shaanxi Province was misunderstood by Chinese students as ridiculing them, which stimulated Chinese nationalism and caused anti-Japanese demonstration.³⁸ Anti-Japanese behaviour by a Chinese audience at Asia Football Cup in summer 2004 also reflected the worsening sentiments of many Chinese towards Japan.³⁹ A Chinese submarine's interference in Japan's territorial sea occurred in November 2004.⁴⁰ A worldwide campaign for acquiring permanent membership of the UN Security Council by the Japanese government triggered strong opposition by China, and finally led to large scale anti-Japanese demonstrations in big cities such as Beijing and Shanghai. Their actions became escalated to the extent that they even attacked facilities of Japanese Embassy in Beijing and Consulate General in Shanghai in spring 2005.⁴¹ A weekly magazine, *Shukan Bunshun*⁴² reported on December 27, 2005 that a Japanese officer of the Consulate General of Japan in Shanghai committed suicide on May 6 the previous year after being blackmailed by an officer of the Chinese local public safety authorities regarding his inappropriate relations with a Chinese hostess at a *karaoke*-bar. The Foreign Ministry of Japan released a press announcement on this case that there was a violation of the Vienna Convention of Consular Relations

by the Chinese local authorities.⁴³ The Chinese government argued that the Japanese government must have another intention in highlighting the incident one and half years later, which the Chinese government expressed a strong resentment.⁴⁴ The perception of the Japanese general public toward China worsened accordingly as a result of the above-described events. The Cabinet Office (former Prime Minister's Office) of the Japanese government regularly conducts an opinion survey on diplomacy each year. According to the survey in 1980, 78.6 per cent Japanese answered that they had intimate feelings towards China, and only 14.7 per cent said that they did not feel intimacy towards China, while in 2005 the former declined to 32.4 per cent and the latter increased to 63.4 per cent.⁴⁵

4. Win-Win Relations Based on Common Strategic Interests

Shinzo Abe became prime minister in September 2006. In recognition of past history, Abe had been regarded as a more firmly principled, rooted and conservative politician than Koizumi. In fact, Abe, in his policy speech at the Diet stated that he would further promote "assertive diplomacy". Therefore, Abe's approach to China, including the Yasukuni Shrine issue was a bit surprising and unexpected. He announced his ambiguous strategy on the Yasukuni issue: not to confirm whether he would visit or had visited the Yasukuni Shrine. In fact, under this principle, he did not worship the Yasukuni Shrine during his term. The Chinese government accepted Abe's ambiguous strategy. Then he made a surprising announcement that he would visit China in October 2006. It was the first time for a Japanese prime minister to choose China as the first country to visit after assuming a post. Japanese prime minister's visit to Beijing finally resumed for the first time in five years. Abe's China visit was called a visit to "break ice" by the Chinese side. Thus, *seirei keinetsu* or a politically cold, economically hot period under the Koizumi government had finally passed away.

The Joint Press Statement⁴⁶ was issued during Abe's visit to Beijing on October 8. Both sides confirmed that Japan-China relations have become one of their most important bilateral relations. This expression was first adopted orally by Prime Minister Kiichi Miyazawa in 1992, but it was written in the document for the first time. Both leaders shared the view that the two countries would strive to build a mutually beneficial relationship based on common "strategic" interests.⁴⁷ In the past, China preferred expressions such as "peace," "friendship" and "goodwill" with neighbouring countries, including Japan. Furthermore, Japan had not been regarded by China as a fully independent actor in international politics, as the former had been obedient to the US foreign policy from China's viewpoint, and could not be described as a "strategic" partner. China started to use the expression, "strategic dialogue"

in 2005 for the title of a vice-foreign minister level's regular meeting between the two governments, but the joint statement during Abe's China visit was the first occasion to describe the Japan-China bilateral relationship as strategic. The joint press statement also included other positive elements. The Japanese side emphasized Japan's peaceful path more than 60 years after the war, which was highly appreciated by the Chinese side. Both sides reaffirmed facilitation of dialogue and consultation in order to make the East China Sea a "Sea of Peace, Cooperation and Friendship". They also agreed to start a joint research of history by Japanese and Chinese scholars. Thus Abe's visit paved a way for a new bilateral relationship that would be guided by strategic rather than emotional considerations. Here "common strategic interests" include bilateral, regional and global areas that would create mutual benefits to both sides and promote a win-win relationship such as the promotion of economic and people-to-people exchanges, the settlement of disputes in a peaceful, cooperative and creative way, the realization of nuclear-free zone of the Korean Peninsula, the deepening of East Asian economic integration, anti-terrorist cooperation, and energy security and climate change.

Abe's visit was followed by Wen Jiabao's visit to Japan in April 2007. His visit was called a visit to "melt ice". Chinese premier's visit was the first time since October 2000. The concrete cooperation package included various programmes, such as the launching of the "Japan-China High-Level Economic Dialogue", which was to be co-chaired by the Japanese foreign minister and Chinese vice premier and attended by main economic and finance-related ministers of both sides to discuss macro-economy, bilateral trade and investment, energy and the environment, as well as regional and global economic coordination and cooperation. The first meeting was held in Beijing in December 2007. Wen made a speech⁴⁸ in the Japanese Diet on April 12, delivering a very positive message to Japanese political leaders and people. With regard to the past history issue, he spoke that the Japanese government and leaders officially admitted aggression, and expressed their deep remorse and apologies to the damaged countries, which the Chinese government and people highly appreciated. Regarding Chinese development, he said that the Japanese government and people have provided support and assistance to Chinese modernization, which Chinese people would never forget. Hu Jintao made a state visit to Japan in May 2008 to consolidate the new bilateral relationship by issuing the Joint Statement on "Comprehensive Promotion of a Mutually Beneficial Relationship Based on Common Strategic Interests", followed by a "Joint Press Statement on the Strengthening Exchange and Cooperation", which includes 70 action plans in various fields.⁴⁹ The Joint Statement was regarded by both governments as one among four important basic political documents regulating Japan-China relations since normalization. The three other preceding documents are: the

Joint Communiqué for diplomatic normalization in 1972, the Peace and Friendship Treaty in 1978, and the Joint Declaration on Building a Partnership of Friendship and Cooperation for Peace and Development in 1998.

The general elections of the House of Representatives in Japan were held on August 30, 2009 and the DPJ, the largest opposition, gained a landslide victory, which gained 308 seats out of 480, while the ruling LDP declined to 119 from 300. This was the first time for the LDP to drop from the status of the largest party in the House of Representatives since its founding in 1955, and also the first time to step down from the ruling party except for a period of around a year during 1993 and 1994. Yukio Hatoyama, head of the DPJ, was appointed prime minister and organized a new cabinet on September 16 in coalition with Social Democratic Party and the People's New Party because DPJ members alone did not reach the majority in the House of Councilors. Hatoyama contributed an article entitled "A New Path for Japan" to the op-ed column of *The New York Times*.⁵⁰ He stressed that the Japan-US security pact will continue to be the cornerstone of Japanese diplomatic policy, but added that the era of US unilateralism may come to an end. He set up Japan's diplomatic agenda in pursuing its national interest when caught between the US, which is fighting to retain its position as the world's dominant power, and China, which is seeking ways to become dominant. He argued for the creation of an East Asian community as Japan's long-term foreign policy target. In his first meeting with Hu Jintao at New York on September 21, both leaders confirmed the promotion of mutually beneficial relations based on common strategic interests as a guiding principle even under the Japanese new government.⁵¹ Hatoyama, however, resigned in June 2010 because his drift position on Futenma US Marine Corps Base in Okinawa created a suspicion and even distrust of the US government. Naoto Kan succeeded him and became the sixth prime minister in the last five years. He tried to improve Japan-US relations and also maintained the basic policy on Japan-China relations, but did not take any outstanding initiative because, in addition to a weak domestic political basis after the DPJ lost seats in the elections of House of Councilors in July 2010, he was so preoccupied with damage control of the worsened Sino-Japanese relationship resulting from the collision case of a Chinese fishing boat with Japanese Coast Guard vessels near the Senkaku Islands that occurred in September 2010 and also with East Japan Great Earthquake related affairs.

5. The US and Japan-China Relations

The Japan-US relationship remains the cornerstone of Japan's foreign policy and the most important bilateral relationship for Japan. Japan's greatest diplomatic failure in the early *Showa* era, or from the 1930s to 1945 was

that it conflicted seriously with the US regarding the “China issue”. As early as the 1920s, a Japanese journalist understood this point. Shigeharu Matsumoto, who had been the Shanghai bureau chief of *The Domei Tsusin* (Domei News Agency) in the 1930s, recalled in his memoir that he had reached understanding during his study in the US in 1925 that the main issue if war were to break out between the US and Japan was China as the US would never allow Japan to take so many liberties and dominate the Chinese market.⁵² He recognized that the China issue was a core of Japan-US relations, that is to say, Japan-China relations are another side of Japan-US relations. Relations with the US and China were, and also are Japan’s two most important relations, as they are two sides of the same coin. This situation remains the same in the 21st century.

Chinese people still hold ambivalent sentiments towards Japan, that is, a mixture of inferiority and superiority complexes. China has a traditional ethno-centralism. Chinese use several expressions on Japan when they look down on it. A typical one is “*xiao riben*” (small Japan). China suffered from Western aggression more than a hundred years since the Opium War. The humiliation resulting from invasions by western powers, particularly by Japan left deep scars to Chinese people. Mindless speeches by Japanese politicians and prime ministers’ worship to the Yasukuni Shrine, where fourteen Class A criminals are enshrined, remind Chinese people of a lack of deep remorse for the past by Japan. There is a suspicion and distrust of Japan. As the Chinese economy grows at a rapid speed, Chinese self-confidence also becomes stronger. Chinese are recovering from a trauma of Japanese aggression but it is still not complete. In sum, a lack of mutual trust between both governments and people remains a serious problem.

The US-China relationship is usually guided by strategic considerations, in other words, it is based on mutual interests, while the Japan-China relationship is heavily affected by emotion. The author was in Beijing when NATO mistakenly bombed the Chinese Embassy in Belgrade in May 1999, and saw furious Chinese students protested and pelt the US Embassy with stones. Just after George Bush Jr. became President in 2001, the US-China relationship worsened when US and Chinese military aircraft crashed near Hainan Island. US military sales to Taiwan became another unstable factor. The Sino-American relationship, however, returned to normal situations after 9/11 as if nothing had happened. The author could hardly believe that a recovery would occur in such a short period if similar incidents occurred between Japan and China. It would surely take a much longer time to heal the damage. The reason is that the US-China relationship is based on strategic considerations, while the Japan-China relationship was an emotionally-driven relationship.

6. Japan and China Need to Overcome Difficulties

There are three thorns, i.e., three main obstacles which could easily harm or destabilize the Japan-China political relationship and consequently the whole relations: the historic issues; the Taiwan issue; and the East China Sea, especially the Senkaku/Diaoyudao issue.

First, regarding the past history issue, inappropriate statements occasionally made by Japanese politicians, including cabinet members, help to convince China that it has a good reason to doubt the sincerity of Japanese on the recognition of Japan's aggression to China before and during WWII. However, there is a perception gap. The Japanese government has repeatedly expressed its basic position on the war on various occasions.⁵³ It is needless to say that the Japanese government should be mindful about the past history issue so that they should not harm the feelings of Chinese people. However, an increasing number of Japanese feel that China exaggerates speeches and actions made by a very small number of rightists who are rather isolated from Japanese society as if they were representing the Japanese mainstream. During the Koizumi administration, the Japan-China relationship entered into political troubles, and the main reason was his regular worship to the Yasukuni Shrine. The Yasukuni Shrine has two aspects that Japanese leaders must bear in mind: its sensitivity for neighbouring nations, especially China and Korea; and the necessity to commemorate and honor the Japanese soldiers who died in war. It is natural that government leaders respect those who devoted their lives to their own country. The US has Arlington National Cemetery, while China has the Memorial for the People's Heroes in Tiananmen Square in their own capitals. However, for historic reasons, Japanese leaders should be prudent. They should think of a way so that the feelings of the people of neighbouring countries and also of the Japanese who lost family members can be respected at the same time. It should be emphasized, however, that the Yasukuni issue has little to do with a revival of militarism or ultra-nationalism. This may result from a perception gap between Japan and China regarding history. WWII was the Pacific (anti-American) war for Japan, but it was the anti-Japanese war for China. Japan tries to approach history as objectively as possible and the government prefers to leave the judgment of the character of the war for historians' academic research, while the Chinese government tends to see history as lessons for the present. Japanese custom requires people feel solemnly and respect the dead regardless how he or she was treated before death. As for Chinese, evil is evil, a "bad guy" is a "bad guy" even after they die. China often compares German and Japanese attitudes *vis-à-vis* past history, saying that Germany has gained trust from neighbours through the very clear position firmly taken and expressed on historic misdeeds, while Japan is still reluctant to do so. The Japanese side, however, does not necessarily accept such an argument, claiming that what was conducted by Japan and Germany

during the war has different characters, and is not appropriate for a simple comparison. Nazi Germany's massacre of Jewish people in essence had nothing to do with the war itself, while the brutal behaviour of Japanese soldiers mainly resulted from a lack of discipline in the execution of the war. Furthermore, the Japanese government has sincerely resolved the war reparation issues by concluding multilateral or bilateral peace treaties with relevant nations. On the other hand, Germany, having been split into two after the war, chose to pay reparations to individuals without concluding peace treaties with relevant countries.⁵⁴ China's political stance is that Japan's aggression was initiated by a handful of militarists, and that the vast majority of Japanese people are, like Chinese people, the victim of the war. Consensus on the evaluation of the war, however, has not been reached in Japan. China criticizes the fact that Japan does not squarely reflect on the history. Japan complains that China does not fairly evaluate sixty years' of a peaceful road Japan has pursued after WWII, and sometimes uses the history issue for political purposes.

Second, the Taiwan issue is also a very sensitive issue between the two countries as is the case in US-China relationship but not exactly in the same way. When both countries normalized diplomatic relations in 1972, the Joint Communiqué says: "The Government of China reiterates that Taiwan is an inalienable part of the territory. The Government of Japan fully understands and respects this stand of the Government of China." The Japanese government used an expression "fully understands and respects" instead of "recognizes", because Japan is not in a position to determine the legal status of Taiwan, a sovereignty over which Japan had already renounced as a result of accepting the San Francisco Peace Treaty. Based on this principle, the Japanese government has maintained very careful and restraint approaches in dealing with Taiwan policy. Japan does not support "Two Chinas" or "Taiwan Independence". No single Japanese incumbent cabinet member has ever visited Taiwan since normalization and Japan has not yet received visits of the incumbent Taiwanese president.⁵⁵ It is understandable that China still holds concerns over the development of Japan-Taiwan relations because Taiwan had been a former colony of Japan for fifty years and Taiwanese of older generation like Lee Teng-hui received education under the Japanese rule and their mentality seems to be closer to Japanese rather than to mainland Chinese. The Japanese government should continue to be aware of the sensitivity of the Taiwan issue. However, China's suspicion that Japan still has political motives to expand its influence over Taiwan is unrealistic and entirely wrong. Since Ma Ying-jeou of the KMT was elected president in 2008 after eight years' Chen Shui-bian administration led by the Democratic Progressive Party (DPP), relations across the Taiwan Straits have been improved. It is necessary to examine closely how the development of the cross straits relations will affect Japan-China relations as well as Japan-Taiwan relations.

Third, the East China Sea related issues, especially the issue of the Senkaku/Diaoyudao Islands. The official position of the Japanese government is that there exists no issue of territorial sovereignty to be resolved concerning the Senkaku Islands, because there is no doubt that the islands are clearly an inherent territory of Japan in light of historical facts and based on international law, and indeed the islands are now under the valid control of Japan.⁵⁶ However, China also claims sovereignty over the islands.⁵⁷ Territorial disputes could easily stimulate nationalism of both sides. A Chinese fishing trawler entered Japan's territorial sea near the Senkaku Islands on September 7, 2010.⁵⁸ It did not obey the instruction by the Japanese Coast Guard and further collided with two Japanese patrol vessels. The captain of the trawler was arrested and taken by the coast guard, together with other fourteen crew members, for investigation. The case was sent to the Japan's public prosecutor's office for obstructing the enforcement of public duties. The fourteen crew members were released with the trawler on September 13, and the prosecutor's office in Naha, Okinawa Prefecture finally released the captain by suspending the legal procedure on September 24.⁵⁹ During and after the incident, the Chinese government, as well as the public strongly protested against the Japanese government's action, by taking counter measures such as postponement of a series of exchanges and meetings, including the suspension of a cabinet minister level exchange, and a substantial embargo of rare earths export to Japan, of which China accounts for 97 per cent of the world's supply.⁶⁰ The Chinese government further requested apology and compensation even after the captain was released. Anti-Japanese demonstrations took place in Chinese cities such as Xian, Chengdu, Zhengzhou, and Wuhan,⁶¹ while anti-Chinese demonstrations were also organized and implemented by protesters in Japan in a more modest and disciplined manner. Both sides should not try to stimulate nationalism of both nationals, and should not lose their greater common strategic interests. This issue should be treated in a cool and restrained manner, otherwise, it would take a longer time for both countries to recover the damage and return to a normal track. With regard to China's military modernization, China has increased its military budget with a double digit for the last 22 consecutive years until 2009. China has a strong preference to create aircraft carriers, by which its navy tries to expand the power projection capability in the East and South Sea and even beyond that. Chinese navy has become active in the region. China needs to explain clearly its intentions to neighbours, including Japan, otherwise a lack of transparency and unclear intention of its actions could lead to unforeseen situations with Japan that seeks for more "normal" sovereign state, including defense policy.⁶²

There are negative and positive scenarios on the future of Japan-China relations. The traditional communist ideology has almost entirely lost

attractiveness among the Chinese people. Making people rich and society prosperous remains the most important task for the CCP. They say that China is implementing “socialist market economy”. It could be interpreted as a state capitalism or capitalism under the strong leadership of the CCP bureaucratic rule. Any policy will be acceptable as long as the CCP can maintain its political control over China and Chinese society can prosper. There is a potential contradiction between market economy and political dictatorship. The market economy can be implemented regardless of the existence of the CCP. Therefore, the CCP would face a legitimacy crisis sooner or later. Its final card is nationalism, in other words, to remind Chinese people that it is the CCP that recovered a national pride and glory by defeating Japanese imperialism and putting an end to over hundred years’ humiliation by western powers since Opium War in 1840-1842. It seems that the CCP itself has been keenly aware of the possible conflicts between economic and political systems unless well prepared in advance, and tries to seek a soft landing. Now the centripetal force is not ideology but nationalism. It means that the CCP needs to emphasize the role of the CCP in the process of defeating Japan and founding a new China. Japan might continue to be a scapegoat for the CCP to maintain its power and legitimacy. That is a negative scenario. But what is dangerous of this approach is that the modern history tells us that anti-Japanese movements and anti-government movements are both sides of the same coin. In the age of globalization with the development of telecommunications and information technologies, including the internet and mobile phones, it has become more and more difficult for the CCP to control people, and it cannot use anti-Japanese movements as a political card to exert its political pressure on Japan as the movement might become beyond the government control and create an unexpected political and social turmoil, which the government never wants to see. A positive scenario should be sought. As China becomes wealthy and Chinese people recover their confidence and play a more important role in the region as well as in the world, it is possible that Chinese complex sentiments towards Japan will be softened and they will treat Japan more coolly and objectively. Both countries will be able to strengthen to build a constructive relationship based on mutual trust and common interests. There are signs for the positive scenario. A famous young Chinese movie director, Lu Chuan shot a movie of Nanjing Incident, titled “*Nanjing! Nanjing!*”, in 2008. The movie attracted a historical number of Chinese audiences after it was screened in early 2009. What was different from the former movies and TV dramas describing Japan-China war period was that Japanese actors were used to play Japanese soldiers, who spoke and behaved in natural and native ways, and a Japanese soldier played a main part of the story. In the past, Japanese soldiers were played by Chinese actors and caricatured as strange, bad and cruel characters. In this movie, however,

there are bad and good Japanese soldiers. They change from ordinary, gentle persons who play with local children and miss their family left in Japan to abnormal soldiers who conduct cruel killings, depending on the situation. The Japanese soldier, the leading character of the movie, finally commits suicide after releasing Chinese prisoners due to major mental strain. There are splits in the evaluation on the movie among Chinese, but the Chinese government took it as one of the ten movies worth watching on the occasion of 60th anniversary of their national foundation. The author interprets, and his counterpart in the Chinese government and academia basically agrees, that one of the backgrounds for a fundamental change of the portrayal of Japanese soldiers in the movie is that more Chinese have been able to face up to an unhappy bilateral history in a less emotional and more balanced way, as they are becoming richer, more confident in China's current and future status, and overcoming complex sentiments towards Japan.

7. Conclusion

Since the normalization of diplomatic relations in 1972, Japan-China relations experienced a "*heiwa yuko*" (peace and friendship) era in the first two decades and a "*seirei keinetsu*" (politically cold, economically hot) era for almost a decade from the late 1990s until 2006. Japan-China relations then have welcomed an era of "*senryaku teki gokei kankei*" (mutually beneficial relations based on common strategic interests) since 2006. As Aso said, Japan and China are perpetual neighbours, neither of which can simply relocate.⁶³ It is necessary to manage Japan-China relations looking towards a forward direction based on the following principles.

First, bilateral relations should be guided by common interests, not driven by emotions. Japan-China relations are too important to be influenced by temporary emotional feelings. In other words, they should build matured relations based on common strategic interests rather than emotional relations driven by "like" or "dislike". Both countries need to seek a "plus-sum", not a "zero-sum" relationship. Only win-win situations based on common interests can ensure stable bilateral relations. Second, nevertheless, sensitive issues such as past history, Taiwan or the East China Sea disputes may sometimes shake Japan-China relations. With regard to the historic issue, Japan should squarely face up and firmly maintain the basic position that through its colonial rule and aggression in the past, Japan caused tremendous damage and suffering to the people of many countries, particularly to those of Asian nations, and express a deep remorse and heart-felt apology. China, at the same time, needs to appreciate positively Japan's consistent position as a peaceful country since the end of the war, and welcome and support its increasingly active role in the world. Japan is not what it used to be before and during

the war, and China has also risen from being a sleeping lion to a leading powerhouse. Both governments and people should notice that they are already in a new age where they themselves as well as surrounding circumstances have changed and a new thinking is required. Third, in the era of “friendship”, both countries, especially Japan, tended to be self-restrained in dialogue in order not to create tensions. However, strategic relations must be something which allows both sides to exchange views in a frank manner. A wide range of frank and candid communication networks between the governments, business sectors, academia and individuals is necessary for promoting relations based on trust and respect in the true sense of the word. Fourth, Japan-China relations are not only confined to bilateral purposes, but also should contribute to the establishment of a new framework for Asia and the world. Fifth, a government-to-government relationship is critically important but also limited and cannot cover all aspects of Japan-China wide and deep relations. Especially as a result of information technology developments such as mobile phones and internet, it has become more and more important for both governments to address to public diplomacy. The young generation is a main target as they are the source of future leaders. More frequent and large exchanges of youth in both countries are essential to deepen and widen a correct understanding without mutual prejudice.

Almost four decades have passed since Japan and China normalized official relations in 1972. It is indeed amazing to see how much the bilateral relationship has been widened and deepened during that period. Total bilateral trade volume, excluding Hong Kong in 2008 amounted to US\$266.6 billion, which ranked the largest among Japanese bilateral trades and 24.7 per cent larger than Japan-US trade volume. Japanese companies in China employ directly or indirectly 9.2 million Chinese workers.⁶⁴ There are approximately 22,700 Japanese enterprises operating in China as of the end of 2006.⁶⁵ The number of Japanese who visited China in 2007 reached around 4 million, while the number of Chinese who went to Japan in the same year was around 1.21 million. According to the winter 2008 air flight schedule, 635 total carriers including 297 Japanese and 338 Chinese carriers flew every week between 18 Japanese and 22 Chinese airports, and the number of passengers in 2007 reached 7.37 million.⁶⁶ There were 125,417 Japanese citizens registered to Japanese Embassy and Consulates General in China, including Hong Kong in 2007, which accounted for 11.8 per cent of total Japanese registered overseas. Chinese citizens registered to the Japanese Immigration Authorities as long-term residents amounted to 606,889 as of the end of 2007, which surpassed Korean citizens and have become the largest foreign group in Japan for the first time since 1959 when the authorities started to count registered foreigners. Around 90,000 Chinese studied in Japan, while 18,000

Japanese studied in China in 2008. As of February 2008, 332 pairs of local governments in both countries have established sister city relations.⁶⁷ Those trends will continue in the future, and Japan-China relations will be more closely interconnected. Now the time has come for both states to be able to make the best use of the advantage as neighbours.

Japan's relationship with the US and China determined Japan's destiny in early 20th century. This still remains valid now. The worst and greatest failure of Japanese diplomacy and military in early *Showa* era is that Japan's China policy seriously conflicted with the US to the extent that the bilateral relationship became impossible to recover and maintain, and led to the Pacific War. How to keep an appropriate distance and closeness with China is an important but difficult task for Japanese diplomacy. Now it seems that many Japanese are confused and embarrassed by a new situation where they are going to encounter a "strong China" for the first time in more than a hundred years since the first Japan-China War in the late 19th century. China was dominant in East Asian tributary system before the Opium War. In fact, China occupied around 30 per cent of global GDP a few hundred years ago.⁶⁸ The Japanese Empire advanced into a "weak" China from the late 19th century to the early 20th century. Now East Asia has entered an unprecedented new period when two "strong" Asian nations are destined to coexist. The Japanese perception towards China often swings between positive and negative directions. Japan needs to take a well-balanced approach towards China based on common strategic interests rather than swinging sentiments. Public support is essential to diplomacy. It is, however, dangerous if diplomacy is driven by temporary public enthusiasm, because diplomacy is a cool and realistic professional art for coordinating national interests with foreign states though important foreign policies need to be politically authorized with the trust of the people through elections.

Japan's diplomatic option is not "US or China", but "US and China". Having said that, the US remains the best and strongest partner for Japan. Both countries share common values such as democracy, freedom, human rights and market economy. In addition, the security relationship with the US is a cornerstone of Japan's foreign policy and is indeed critical for Japan's survival. On the other hand, Japan does not share basic values with China. Furthermore, China poses uncertainty to Japan. However, it does not mean that Japan should become "anti-China" or confront China. Japan needs to maintain and strengthen the relationship with the US on one hand, and at the same time there are various areas where Japan and China should and can cooperate with each other on a bilateral, regional and global basis from the viewpoint of common strategic interests. This is the most realistic and wise option for Japanese diplomacy.

Notes

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1. Henry Kissinger. *Diplomacy*. New York: Simon & Schuster Paperbacks, 1994, p. 726.
 2. Kazankai. *Nicchu Kankei Kihon Shiryoshu 1949-1997* (Basic Documents of Japan-China Relations 1949-1997). Tokyo: Kazankai, 1998, p. 873.
 3. Gerald L. Curtis. *U.S. Policy toward Japan from Nixon to Clinton: An Assessment*. Tokyo: Japan Center for International Exchange, 2000, p. 8.
 4. Henry Kissinger. *Years of Renewal*. New York: Simon & Schuster, 1999, p. 84.
 5. *Mainichi Shimbun*, July 6, 1972.
 6. Preamble of the Joint Communiqué states: "The Japanese side is keenly conscious of the responsibility for the serious damage that Japan caused in the past to the Chinese people through war, and deeply reproaches itself."
 7. Article 2 of the Joint Communiqué states: "The Government of Japan recognizes that Government of the People's Republic of China as the sole legal Government of China."
 8. Article 3 of the Joint Communiqué states: "The Government of the People's Republic of China reiterates that Taiwan is an inalienable part of the territory of the People's Republic of China. The Government of Japan fully understands and respects this stand of the Government of the People's Republic of China, and it firmly maintains its stand under Article 8 of the Potsdam Proclamation."
 9. Article 8 of Potsdam Declaration on July 26, 1945, which Japan had accepted, states that "the terms of the Cairo Declaration shall be carried out and Japanese sovereignty shall be limited to the island of Honshu, Hokkaido, Kyushu, Shikoku and such minor islands as we determine." The Cairo Declaration on November 27, 1943 refers to Taiwan that "all the territories Japan has stolen from the Chinese, such as Manchuria, Formosa, and the Pescadores, shall be restored to the Republic of China."
 10. Kazankai. *Nicchu Kankei Kihon Shiryoshu 1949-1997* (Basic Documents of Japan-China Relations 1949-1997). Tokyo: Kazankai, 1998, p. 431.
 11. Article 5 of the Joint Communiqué states: "The Government of the People's Republic of China declares that in the interest of the friendship between the Chinese and the Japanese peoples, it renounces its demand for war reparation from Japan."

12. Article 11 of the Peace Treaty between Japan and the Republic of China states that issues arising out of the existence of the state of war between Japan and the Republic of China shall be resolved in accordance with relevant provisions of San Francisco Peace Treaty. Article 14 (b) of the San Francisco Peace Treaty states that the Allied Powers waive all reparations claims of the Allied Powers and their nationals arising out of any actions taken by Japan and its nationals in the course of the prosecution of the war.
13. Kazankai. *Nicchu Kankei Kihon Shiryoshu 1949-1997* (Basic Documents of Japan-China Relations 1949-1997). Tokyo: Kazankai, 1998, p. 431.
14. The public announcement on the result of the Third Plenum of the 11th Party Congress, passed on December 22, 1978 stressed on the construction of socialist modernization, and economic and technological revolution as the next party mission.
15. Deng Xiaoping changed the tone of economic development from political dogmatism to pragmatic approach. His “cat theory” is popular for describing a new approach. He is said to have spoken: “It does not matter if a cat is black or white, so long as it catches mice.”
16. Speech to the British House of Commons on March 1, 1848.
17. In April 1978, approximately 100 to 200 Chinese fishing boats suddenly entered the territorial sea of the Senkaku/Diaoyudao Islands, over which Japan has exercised its control and both nations claim the sovereignty. The Chinese government later explained it was accidental, and the boats all left the area. Nobuyuki Sugimoto, the former consul-general in Shanghai and Japanese China-hand diplomat who was working at China Division of the Foreign Ministry, wrote in his book that Japan’s Coast Guard found out that the fishing boats had received instructions via radio from naval bases in Yantai, Shandong Province and Xiamen, Fujian Province. (杉本信行 (Sugimoto, Nobuyuki). 大地の咆哮 *Daichi no Hoko* (Cry from Earth). Tokyo: PHP, 2006, pp. 62-63) Deng Xiaoping, in his press conference in Tokyo on October 25, 1978 during his visit to Japan for exchanging documents of Peace and Friendship Treaty said that it would be appropriate to put this issue aside temporarily or even ten years as the next generation would be wiser than the current generation. (*Asahi Shimbun*, October 26, 1978) The Japanese government, however, maintains the position that no territorial issue exists between Japan and China as it is clear that *the Senkaku* belongs to Japan historically as well as from the viewpoint of international law, and in fact Japan physically controls the islands.
18. The Japanese media reported in June 1982 that the Ministry of Education forced textbook publishing companies to revise the expression on Japan-China War from “aggression” to “advancement” in history textbooks for senior high schools. The Chinese government started to criticize a month later. The initial report by the media proved to be incorrect, but Kiichi Miyazawa, then chief cabinet secretary issued a statement on August 26, 1982, promising that the Japanese government would listen to criticisms by Asian neighbours earnestly and correct as appropriate. The issue thus started to calm down.
19. Eleven out of fifteen post war prime ministers had visited the Yasukuni Shrine under the private title or without making clear their character of the visit until

- Nakasone carried out the official visit in 1985. Fourteen Class A criminals were enshrined to the Yasukuni Shrine in 1978, and the Chinese government started to strongly oppose prime minister's visit regardless of its character, official or private since Nakasone's worship. Since then only two incumbent prime ministers, Hashimoto and Koizumi visited the shrine. Emperor has not visited the shrine since Class A criminals proved to be enshrined.
20. The Kokaryo Dormitory was at Kyoto and originally provided for Chinese students during WWII. After the war, it was registered under the name of the "Republic of China" in 1961, but when Cultural Revolution started in mainland in 1966, conflicts occurred between residents supporting the CCP and the Chinese Nationalist Party (KMT). Therefore, the government of Republic of China sued those CCP supporters, requesting the vacation of the dormitory in 1967. However, as a result of normalization of diplomatic relations between Japan and China, a legal status of the "government of Republic of China" in Japan was disputed with regard to ownership of the dormitory. Several judgments were done in courts, but a legal settlement is not yet completed.
 21. Nikita Khrushchev, First Secretary of the Soviet Communist Party and Premier, visited China in September 1959 on his way back from the first US visit. He left China on the third day of a planned seven days visit as Sino-Soviet split worsened. In 1960, he decided to pull Soviet experts from China.
 22. June 4 Incident is a series of demonstrations for pro-democracy and anti-corruption initiated by students and intellectuals, and supported by citizens in and near Tiananmen Square as well as main cities in China, which was intensified by the death of Hu Yaobang, the former General Secretary of the CCP on April 15, 1989. However, martial law was declared on May 19, and the military finally cleared Tiananmen Square on June 4. Zhao Ziyang, General Secretary was dismissed for his pro-demonstrations approach. The number of dead remains unclear though the Chinese government officially announced that there were 319 killed in the incident but no deaths in the square. The Chinese government was confronted with strong criticisms from the rest of the world, but it has maintained its position that the incident was an anti-revolutionary rebellion.
 23. The decisions were made at the Fourth Plenary of 13th Party Congress held in Beijing on June 23 to 24. This was the first official meeting of the CCP since June 4 Incident though an irregular Politburo Enlargement Meeting was convened on June 19 to 21.
 24. Website of Foreign Ministry of Japan. (May 15, 2009, http://www.mofa.go.jp/policy/economy/summit/2000/past_summit/15/e15_e.html)
 25. Prime Minister Kiichi Miyazawa's Statement on August 25, 1992 regarding Visit to China by Their Majesties, Emperor and Empress.
 26. Regarding history, Emperor spoke that in the long history of bilateral relations, there was an unhappy period when Japan gave a great suffering to Chinese people, which he deeply deplores.
 27. Qian Qichen. *Waijiao Shiji* (Ten Stories of a Diplomat). Beijing: Beijing Zhishi Chubanshe, 2003, p. 195.
 28. Article 2 of the Joint Declaration. (June 5, 2009, <http://www.mofa.go.jp/region/asia-paci/korea/joint9810.html>)

29. Article 3 of the Joint Declaration. (June 5, 2009, <http://www.mofa.go.jp/region/asia-paci/korea/joint9810.html>)
30. Japan-China Joint Declaration on Building a Partnership of Friendship and Cooperation for Peace and Development, November 26, 1998.
31. Akihiko Tanaka. *Asia no Naka no Nippon* (Japan in Asia). Tokyo: NTT Shuppan, 2007, p. 288.
32. Website of Foreign Ministry of Japan. (May 15, 2009, <http://www.mofa.go.jp/mofaj/gaiko/oda/data/gaiyou/odaproject/aisa/china/index>)
33. Prime Minister Koizumi spoke at the forum: "Some see the economic development of China as a threat. I do not. I believe that its dynamic economic development presents challenges as well as opportunity for Japan. I believe a rising economic tide and expansion of the market in China will stimulate competition and will prove to be a tremendous opportunity for the world economy as a whole ... I see the advancement of Japan-China economic relations, not as a hollowing-out of Japanese industry, but as an opportunity to nurture new industries in Japan and to develop their activities in the Chinese market. Our integrated efforts for economic reform in both countries should advance the wheel of economic relations."
34. 飯島勲 (Iijima, Isao), 実録小泉外交 *Jitsuroku Koizumi Gaiko* (Documentary Koizumi Diplomacy). Tokyo: Nihon Keizai Shimbun Shuppansha, 2007, p. 36.
35. A Japanese journalist, who had been informed of the attempted asylum in advance, shot the scene at the site.
36. Forty-four Chinese citizens were reported to get injured by abandoned Japanese chemical weapons at Qiqihaer on August 4, 2003, out of whom a person was dead. (Xinhua News Agency, March 18, 2006)
37. Chinese Foreign Ministry expressed a strong resentment to the Japanese Embassy in Beijing on September 29. (*Mainichi Shimbun*, September 29, 2003, *Yomiuri Shimbun*, October 9, 2003)
38. Several hundreds of Chinese students marched in the city for requesting an apology from the relevant Japanese. Chinese Foreign Ministry requested to the Japanese Embassy in Beijing to take appropriate measures. The university decided to fire the Japanese teacher and remove the three students from the university. (*Asahi Shimbun*, October 31, 2003, *People's Daily* (Japanese edition), November 1, 2003.)
39. The final game of Asia Football Cup was held in Beijing on August 7, 2004 and Japan defeated China by 3 to 1. At the stadium, Japan's national anthem was not heard because of heavy booing, Japan's national flags were burnt down, Japanese supporters could not leave the stadium for a few hours after the game for safety reason, and an Embassy car for Deputy Chief of Mission was attacked and had its window broken. (*Yomiuri Shimbun*, August 8, 2004)
40. A Japan's Maritime Self-Defense Forces plane found a nuclear submarine interfering Japan's territorial sea in Okinawa on November 10, 2004. The Chinese government expressed a regret, explaining that it occurred for a technical reason. (Website of Foreign Ministry of Japan (May 20, 2010, http://www.mofa-go.jp/mofaj/press/kaiken/gaisho/g_0411.html))
41. The Chinese government expressed sympathy and regret but insisted that the Chinese side was not responsible for the incident, and Japan should squarely face

- history. (Website of Foreign Ministry of Japan (May 20, 2010, http://www.mofa.go.jp/mofaj/area/china/j_kogi01.html)
42. *Shukan Bunshun* (Weekly Bunshun), January 5 and 12, 2006.
 43. Press Release by Foreign Ministry of Japan on December 31, 2005. (Website of Foreign Ministry of Japan, February 16, 2010, http://www.mofa.go.jp/mofaj/press/release/17/ris_1231a.html)
 44. Press Conference by Chinese Foreign Ministry spokesperson, Qing Gang on December 30, 2005. (Website of Foreign Ministry of China, February 16, 2010, <http://sf.chinaconsulatesf.org/chin/gxh/wzb/fyrbt/dhdw/t228826.htm>)
 45. 外交に関する世論調査 *Gaiko ni Kansuru Yoron Chosa* (Public Survey on Diplomacy) in 1980 and 2005, conducted by Cabinet Office (former Prime Minister's Office). (<http://www8.cao.go.jp/survey>)
 46. There are Japanese and Chinese texts. English provisional translation is also available in the website of Foreign Ministry of Japan. (May 10, 2009, <http://www.mofa.go.jp/region/asia-paci/china/joint0610.html>)
 47. The author worked for the Japanese Embassy in Beijing from 1997 to 1999, and remembers that in the process of negotiation with Chinese counterpart for drafting a joint declaration to be issued on the occasion of Chinese President, Jiang Zemin's official visit to Japan in November 1998, the Chinese side never preferred using the word "strategic" in its relations with Japan in spite of the fact that this expression was used in its relations with great powers such as the US and Russia.
 48. Website of Foreign Ministry of China. (January 7, 2010, http://www.fmprc.gov.cn/chn/pds/gjhdq/gj/yz/1206_25/1209/t310780.htm)
 49. Website of Foreign Ministry of Japan. (January 7, 2010, <http://www.mofa.go.jp/region/asia-paci/china/joint0805.html>)
 50. *The New York Times*, August 27, 2009.
 51. Foreign Ministry of Japan. Outline of Japan-China Summit Meeting, September 22, 2009. (October 1, 2009, http://www.mofa.go.jp/mofaj/area/china/visit/0909_sk.html)
 52. Shigeharu Matsumoto, *Shanghai Jidai* (Shanghai Period), Vol. 1. Tokyo: Chuokoronsha, 1974, pp. 18-19.
 53. The following are examples of what has been written or spoken by the Japanese government and leaders on the past history issue:

"The Japanese side is keenly conscious of the responsibility for the serious damage that Japan caused in the past to the Chinese people through war, and deeply reproaches itself." (Joint Communiqué of the Government of Japan and the Government of the People's Republic of China, on September 29, 1972)

"In the long history of relationship between our two countries, there was an unfortunate period, in which my country inflicted great sufferings on the people of China. I deeply deplore this." (Speech by His Majesty the Emperor of Japan at a welcoming dinner hosted by Chinese President Yang Shangkun, on October 23, 1992)

"Japan ..., through its colonial rule and aggression, caused tremendous damage and suffering to the people of many countries, particularly to those of Asian nations. In the hope that no such mistakes be made in the future, I (Prime

Minister Murayama) regard, in a spirit of humility, these irrefutable facts of history, and express here once again my feelings of deep remorse and state my heartfelt apology.” (Statement by Prime Minister Murayama on the occasion of 50th anniversary of the end of WWII, on August 15, 1995)

“The Japanese side is keenly conscious of the responsibility for the serious distress and damage that Japan caused to the Chinese people through its aggression against China during a certain period in the past and expressed deep remorse for this.” (Japan-China Joint Declaration on Building a Partnership of Friendship and Cooperation for Peace and Development, on November 26, 1998)

“I looked at the exhibitions with heart felt apology and condolences to those Chinese people who were sacrificed during Japanese aggression.” (Prime Minister Koizumi’s interview after visiting the Memorial Museum for the Anti-Japanese War in Beijing on October 8, 2001)

54. According to the Foreign Ministry of Japan, both Japan and Germany have sincerely responded to the past history issue. But at the same time, Japan and Germany are completely different in what occurred during the war, and how they resolved the issue after the war under respective situations. Japan resolved the issues such as war reparation through bilateral and multilateral peace treaties such as San Francisco Peace Treaty, which was a generally accepted way. For examples, through San Francisco Treaty, Japan paid reparations to the Philippines (US\$550 million), Vietnam (US\$39 million) and International Committee of the Red Cross (ICRC) (£4.5 million). Japan also abandoned its assets overseas (US\$23.681 billion). Through bilateral treaties, Japan paid US\$200 million to Burma and US\$223 million to Indonesia. (Website of the Foreign Ministry of Japan (May 21, 2010, <http://www.mofa.go.jp/mofaj/area/taisen/qa/03.html>)) Germany, which had been divided into two after the war, could not solve the issue in the same manner. Germany, therefore, provided individual compensations. Thus Japan and Germany were in different situations, and it is not appropriate to simply compare and evaluate the two countries’ approach. (Foreign Ministry of Japan. *Past History Questions and Answers*, May 21, 2010, <http://www.mofa.go.jp/mofaj/area/taisen/qa/10.html>)
55. The Japanese government did not permit Lee Teng-hui’s visit to Japan while he was President. As of January 2010, he visited Japan five times, but only after he resigned in March 2000, i.e., in April 2001, December 2004-January 2005, May-June 2007, September 2008, and in September 2009.
56. Ministry of Foreign Affairs of Japan, *Recent Developments in Japan-China Relations: Basic Facts on the Senkaku Islands and the Recent Incident*. Tokyo: Ministry of Foreign Affairs of Japan, October 2010, p. 7. The Senkaku Islands are not included in the territory which Japan renounced under the San Francisco Peace Treaty. They were under the US administration as a part of Okinawa until 1972 when they returned to Japan. China expressed no objection to the status of the islands under US administration. In fact, it was not until 1970, when the possibility of petroleum resources on the continental shelf surrounding the islands came to surface, that China began to claim the sovereignty over the Senkaku Islands.

57. China claims that the Diaoyu Islands have been in its territory ever since the early period of the Ming Dynasty (1368-1644), and Japan illegally took over the islands as subsidiary islands of Taiwan in 1895 after the Shimonoseki Treaty was signed as a result of China's defeat in the Sino-Japanese War of 1894-1895. It insists that San Francisco Treaty was unlawful and illegitimate and Okinawa Reversion Agreement between Japan and the US in 1971 was a blatant infringement on China's territorial sovereignty. The Chinese government has been resolutely fighting over its sovereignty rights as it believes that Japan continues its unlawful occupation of the islands. (China Daily, October 12, 2010)
58. Website of Ministry of Foreign Affairs of Japan. (October 19, 2010, http://www.mofa.go.jp/region/asia-paci/china/r-relations/major_e.html)
59. Deputy of Okinawa District Public Prosecutor's Office made a press conference on September 24, explaining that the Chinese captain was released because his action was not taken based on a well prepared plan but for escaping from the chase of the Japanese coast guard, and the prosecutor's office also took into consideration a possible impact of the case on Japanese nationals as well as future Japan-China relations. (*Yomiuri Shimbun*, September 24, 2010) The spokesman denied a political decision was made for the captain's release, but a "consideration" on "future Japan-China relations" is extraordinary for the public prosecutor's office as a decision factor and some suspect that it indicates a possible highly political instruction was delivered to the prosecutor's office. Naoto Kan, prime minister, however, replied in New York on September 24 that it was a decision made solemnly by the public prosecutor's office that took into general considerations characters of the case and relevant laws and regulations. (*Yomiuri Shimbun*, September 25, 2010) Thus he denied a political pressure by the government high profiles to the public prosecutor's office.
60. The Chinese authorities denied the embargo of rare earths though the customs authorities did not authorize the export of rare earths to Japan for certain period after the case took place.
61. The Chinese government expressed understanding on Chinese people's righteous indignation but at the same time pointed out that the government would not support irrational and illegal actions to express patriotism. (Press spokesperson, Mr Ma Chaoxu's remarks on October 16, 2010, <http://www.fmprc.gov.cn/chn/gxh/tyb/fjrbt/t761694.htm>)
62. "National Defense Program Guidelines for Fiscal Year 2011 and Beyond" approved by the Japanese Security Council and the Cabinet on December 17, 2010 warns that "China is steadily increasing its defense expenditure. China is widely and rapidly modernizing its military force, mainly its capability for extended-range power projection. In addition, China has been expanding and intensifying its maritime activities in the surrounding waters. These trends, together with insufficient transparency over China's military forces and its security policy, are of concern for the regional and global community." (Website of Japan's Ministry of Defense, June 14, 2011, <http://www.mod.go.jp/j/approach/agenda/guideline/2011/index.html>)
63. Remarks "My Personal Conviction regarding Japan-China Relations" by Taro Aso, Prime Minister of Japan at the reception to commemorate the 30th

- anniversary of the conclusion of the Treaty of Peace and Friendship between Japan and the People's Republic of China, at Great Hall of the People, Beijing, on October 24, 2008. (September 9, 2009, <http://www.mofa.go.jp/region/asia-paci/china/address0810.html>)
64. Bo Xilai, then Chinese Commerce Minister's statement in *People's Daily*, April 23, 2005.
 65. *Chinese Trade Statistics 2007*.
 66. Ministry of Foreign Affairs of Japan, *Japan and China: Building a Mutually Beneficial Relationship Based on Common Strategic Interests*. Tokyo: Ministry of Foreign Affairs of Japan, 2009.
 67. Statistics by Council of Local Authorities for International Relations (Japan).
 68. Speech by Dai Bingguo, State Councilor of China at ASEAN Secretariat in Jakarta on January 22, 2010. (Website of Foreign Ministry of China, February 5, 2010, <http://www.fmprc.gov.cn/chn/gxh/tyb/zyxw/t653376.htm>)

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Glossary

Abe Shinzō 安倍 晋三
Asahi Shimbun 朝日新聞
Dōmei Tsūshinsha 同盟通信社
en (yen) 円 / 圓
Fukuda Takeo 福田赳夫
Hatoyama Yukio 鳩山由紀夫
Heisei 平成
heiwa yuko 平和友好
ichii taisui 一衣帶水
Kaifu Toshiki 海部俊樹
Kan Naoto 菅直人
Koizumi Junichiro 小泉 純一郎
Kokaryo 光華寮
Kyōto 京都
Mainichi Shimbun 毎日新聞
Miyazawa Kiichi 宮澤喜一
Mori Yoshirō 森喜朗
Naha-shi 那霸市
nicchu yuko sese daidai 日中友好世世代代
Obuchi Keizō 小渕恵三
Ōhira Masayoshi 大平正芳
Okinawa-ken 沖縄県
Ōsaka 大阪
Satō Eisaku 佐藤榮作
seirei keinetsu 政冷經熱
Senkaku Shotō 尖閣諸島
senryaku teki gokei kankei 戰略的互惠關係
Shimonoseki Jōyaku 下関条約
Shōwa 昭和
Shukan Bunshun 週刊文春
Tanaka Kakuei 田中角榮
Tōkyō 東京
Waseda Daigaku 早稻田大学
Yasukuni Jinja 靖国神社
Yomiuri Shimbun 読売新聞
Yoshida Shigeru 吉田茂

Cross-Strait Economic Integration in the Regional Political Economy

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Abstract

The recently signed Economic Cooperation Framework Agreement between Taiwan and China is not only a result of the intensifying economic relationship across the Strait but is also to further secure the connection between the two sides. Taiwan enjoys short-term economic benefits but ECFA favours China's political intentions in the longer term. Moreover, putting cross-Strait economic integration into a regional context, Taiwan is likely to join the current wave of "China-centred" regionalization. China's gravity in regional economic integration has been greatly enhanced subsequent to the recently signed trade agreements with Southeast Asian countries, Hong Kong, Macao and Taiwan. China's expansion of power in East Asia could pose a challenge to the status quo in the region and American interests in particular. How the US responds to China's increasing dominance in the regional economy is critical for the future development of economic integration in East Asia.

Keywords: *cross-Strait relation, US-Asia economic relations, regional economic integration in East Asia*

JEL classification: *F13, F15, F53, F59*

1. Introduction

There are two aspects to the evaluation of the progress of economic integration between Taiwan and China. One is the investigation of trade and investment relationships and the other is via the analysis of institutional interactions between the two sides. Over the past two decades, trade and investment relationships between Taiwan and China have been prosperous even though there is no free trade agreement to promote it. The driver behind the closer Taiwan-China economic integration has been mostly based on the business interests of entrepreneurs, each side's national economic development

policy and the global economic situation, rather than any arranged economic cooperative mechanism between Taiwan and China.

The lagging development of institutionalized cross-Strait economic relations has improved since the current Taiwanese President, Ma Ying-jeou 馬英九, took office in 2008. The recent improvement in government-to-government cooperation on cross-Strait economic affairs includes the easing of the RMB-NTD conversion business in Taiwan, cross-Strait securities investment, the ceiling on Mainland-bound investment in Taiwan, the permitting of Mainland capital to invest in Taiwan's stock market, direct flights between the two sides and the opening up of Taiwan to Chinese tourists. Representative of the progress in institutionalized cross-Strait economic relations was the signing of the Economic Cooperation Framework Agreement (ECFA) in June 2010. It was a historical moment because Taiwan and China, who have both claimed themselves to be the only legal government of China and denied formal recognition of each other, committed themselves to trimming tariff and commercial barriers. Although ECFA is a product of intensified cross-Strait economic relations, it also plays an active role in securing the future connection between Taiwan and China. Indeed, the establishment of more measures of economic cooperation across the Strait was not surprising as both sides have vigorously sought to improve relations after the Kuomintang 國民黨 (KMT) regained Taiwan presidency in 2008. Contrary to President Chen Shui-bian 陳水扁's era (2000-2008), where his strong "Taiwan consciousness" was less favoured by China, President Ma's emphasis on Chinese ethnicity and Chinese identity won much of China's applause. With the same "One China" principle¹ in mind, the two sides found room to cooperate, especially in economic affairs.

Until June 2010, the most noticeable measure on ECFA was the early harvest programme which has taken effect since January 1st 2011. According to the ECFA early harvest programme, China will lower tariffs on 539 items, which accounted for 16 per cent of China's total imports from Taiwan in 2009. Meanwhile, Taiwan will lower tariffs on 267 items, which accounted for 11 per cent of Taiwan's total imports from China in 2009. The items that China opens up to Taiwan range from agricultural goods to manufacturing products such as petrochemicals, machinery, transport equipments and textiles. However, Taiwan opens up no agricultural goods to China and the manufacturing items listed in the early harvest programme are quite limited. As China eliminates tariffs on almost twice as many goods as Taiwan, the economic benefits favour Taiwan more than China. On the trade in services listed on the early harvest programme, China also opens up more of its service sector for Taiwanese entrepreneurs to invest in on the mainland, such as banking, securities and futures, insurance and business services.² Taiwanese companies will be allowed to conduct a wider variety of business in China

than vice versa. In January 2011, the Cross-Strait Economic Cooperation Committee (ECC), composed of officials from the Straits Exchange Foundation (SEF) and the Association for Relations across the Taiwan Straits (ARTS), was formed to promote, oversee and carry out the economic agreement. It was decided during the ECC's first meeting in February 2011 to establish six working groups, including those on trade in goods, trade in services, dispute settlement, investment, industrial cooperation and custom cooperation, in order to complete ECFA-related follow-up negotiations.³

The establishment of an economic cooperation mechanism has implications not only for Taiwan and China but also for the future development of regional economic integration. Given China's economic significance in terms of GDP, trade volume, foreign investment and foreign reserves, and Taiwan's role as an important foreign investor and high technology producer in the region, the signing of ECFA indeed has its strategic importance in the region. Both Japan and South Korea expressed their concern over competition with Taiwanese manufactured products in the Chinese market after ECFA was initiated.⁴ In addition, the signing of ECFA, though a step forward in regional economic integration, also signifies a structural modification in the regional political economy. The regional production network has experienced great changes since China's emergence in recent decades. Some smaller economies in Asia have been displaced by China from their traditional export markets, owing to the switch of Foreign Direct Investment (FDI) from these economies to China. They have then sought a closer trading connection with China as well as with each other.⁵ For China, its signing of FTAs with neighbouring countries seems to firmly consolidate its commercial relations with the Asian economies. Putting the cross-Strait economic relationship within this changing regional context, this paper argues that Taiwan is actually following the wave towards a "China-centred" regionalization. The conventional "China-centred" regionalization concept would be further supported by the different sorts of FTA between China, Hong Kong, Macao and Southeast countries. This raises an important question as to whether this "China-centred" regionalization would challenge US influence in the region. In contrast to China, the US has been less involved in East Asia's economic integration process. The decreasing weight of trade with the US in Taiwan's and other Asian countries' total foreign trade signifies the more remote relationships between the US and East Asia.

The organization of this paper is as follows. It begins with an overview of the cross-Strait economic relations. Although China needed investment from Taiwan for its initial economic growth, as this division of labour across the Strait became mature, Taiwan found itself unable to break its economic connection with China. The recently signed ECFA will deepen the existing production network across the Strait and make the island's economy more

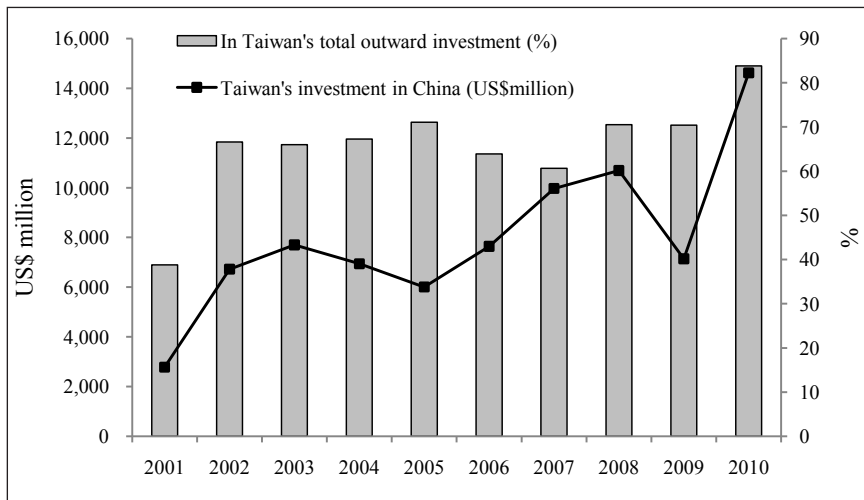
dependent on China. Both China and Taiwan's strategic consideration for ECFA will also be discussed. In general, Taiwan enjoys more economic benefits in the short term but ECFA will be in favour of China's political purpose in the longer term. Finally, the signing of ECFA symbolizes Taiwan's legitimate entry into the "China-centred" regionalization and further enhances China's gravity within regional economic integration. China's signing of free trade agreements, including the ECFA with Taiwan, CEPA with Hong Kong and Macao and the China-ASEAN FTA, signifies that future economic relationships with these economies are to be guaranteed. Owing to China's large economic size, potential consumption power and manufacturing capability, the "China-centred" regionalization will surely pose a challenge to the US. How the US will respond to this China-centred regionalization is critical to the future development of Taiwan-China relations as well as regional economic integration.

2. Overview of Cross-Strait Economic Integration

Cross-Strait economic contact was initiated even before the Taiwanese government had approved it. China's figures show that, before 1988, the cumulative amount realized by Taiwanese investments in China had already reached US\$22 million. It then jumped rapidly in one year to US\$160 million in 1989.⁶ During that time, Taiwan's outward investment, whether in China or in Southeast Asia, was to play a defensive role in retaining export markets for Taiwanese firms since the domestic investment environment was worsening. After 1990, Taiwanese investment in China surged to unprecedented levels as Taiwan's investment regulations regarding mainland China began to be progressively loosened. By 1993, according to Taiwan's Ministry of Economic Affairs (MOEA), the geographical distribution of Taiwanese investment had already changed significantly from Southeast Asia to China. The geographical proximity, similar culture and language and the overseas Chinese connection (*guanxi* 關係) also attracted Taiwanese investment to mainland China. The Asian financial crisis in 1997 promoted another rush of Taiwanese investment in China where the impact of the crisis was less serious. After 2000, while investment in other Asian countries such as in Singapore and Hong Kong continued to increase slightly, investment in other Southeast Asia countries decreased noticeably. However, investment in China still grew swiftly and massively. From 2000 to 2005, Taiwan's total investment in China (excluding Hong Kong) was 12 times larger than the investment in the combined Southeast Asia countries (Singapore, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam).

As shown in Figure 1, in 2001, Taiwan's investment in China was US\$2,784 million which accounted for around 39 per cent of Taiwan's total

Figure 1 Taiwan's Investment in China, 2001-2010



Source: Monthly Report 2010, Investment Commission, MOEA, Taiwan.

outward investment. But in 2010, Taiwan's investment in the mainland was US\$14,618 million, accounting for 84 per cent of Taiwan's total outward investment. Although Taiwan began to invest in the mainland later, its enormous investment has made it possible for it to catch up with other leading foreign investors in China in a short time. According to figures from the PRC's Ministry of Commerce, in 2010 the island's investment was US\$6.7 billion. About 6.3 per cent of total FDI in China was from Taiwan, which also made it the second largest foreign investor in mainland, only behind Hong Kong (see Table 1).

In addition, Taiwan's investment in China has traditionally concentrated on the manufacturing sector. The large amount of manufacturing investment in China not only constituted the principal Taiwanese investment on the mainland but Taiwan's outward investment in manufacturing is almost all in China. From 1991 to 2010, about 86 per cent of Taiwan's investment in China was in the manufacturing sector whereas the service sector took 12 per cent of Taiwan's total investment on the mainland (see Figure 2). The MOEA's figures also show that in 2010, 90.7 per cent (US\$10.8 billion) of Taiwan's outward investment in the manufacturing sector was in China whereas only 9.3 per cent (US\$1.1 billion) of Taiwan's manufacturing investment was in other countries.

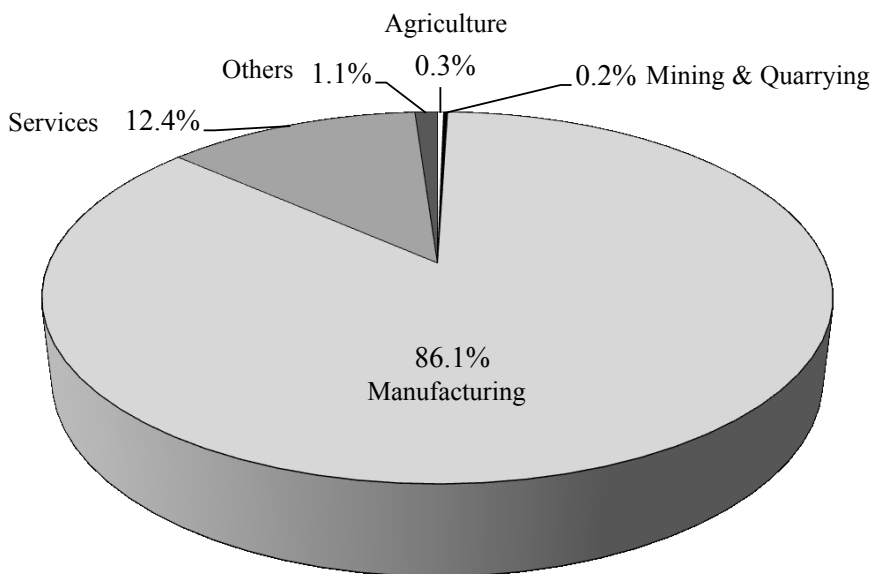
Among the different manufacturing sectors invested in China, *electronic parts and components* and *computers, electronic and optical products* were

Table 1 Top 10 FDI in China in 2010

Ranking	FDI Origin	Amounts (US\$ billion)	As % of Total FDI
1	HK	67.5	63.9
2	Taiwan	6.7	6.3
3	Singapore	5.7	5.4
4	Japan	4.2	4.0
5	US	4.1	3.9
6	South Korea	2.7	2.6
7	UK	1.6	1.5
8	France	1.2	1.1
9	Holland	1.0	0.9
10	Germany	0.9	0.9
Total		95.6	90.5

Source: Ministry of Commerce of the PRC.

Figure 2 Taiwan's Investment in China by Industry, 1991-2010



Source: Monthly Report 2010, Investment Commission, MOEA (in Chinese).

the main areas invested in by Taiwanese firms, which took about 19.6 per cent and 17.7 per cent of Taiwan's total manufacturing investment on the mainland, followed by *electrical equipment* (10.4 per cent), *fabricated metal products* (6.7 per cent) and *plastic products* (5.8 per cent) (see Table 2). This is different from two decades ago when traditional manufacturing sectors also took an important part of Taiwan's total investment in China.⁷ Another feature of Taiwan's manufacturing investment in China is the shift from labour-intensive industries led by small- and medium-sized firms to capital- and technology-intensive large enterprises. The increase in the size of each investment project clearly demonstrates this tendency. As Table 3 shows, the investment amounts for each investment was US\$0.74 million and increased to US\$18.8 million in 2010. The rise in value of each investment project suggests that many large Taiwanese enterprises with greater financial resources began to invest in China.

Table 2 Sectoral Distribution of Taiwan's Manufacturing Investment in China in 2010

Sectors	%	Sectors	%	Sectors	%
Electronic parts and components	19.6	Basic metal	3.0	Wearing apparel and clothing accessories	1.1
Computers, electronic and optical products	17.7	Manufacturing not elsewhere classified	2.8	Medical goods	0.8
Electrical equipment	10.4	Textiles mills	2.7	Beverages	0.7
Fabricated metal products	6.7	Pulp, paper and paper products	2.0	Wood and bamboo products	0.4
Plastic products	5.8	Motor vehicles and parts	1.9	Furniture	0.5
Machinery equipment	4.9	Chemical products	1.5	Petroleum and coal products	0.3
Chemical material	4.7	Other transport equipment	1.5	Printing and reproduction of recorded media	0.3
Non-metallic mineral products	4.6	Leather, fur and related products	1.4	Total	100
Food	3.1	Rubber products	1.4		

Source: Monthly Report 2010, Investment Commission, MOEA (in Chinese).

Table 3 Taiwan's Manufacturing Investment in China by Cases and Amounts, 1991-2010

	Number of Cases	Investment Amount (US\$1,000)	Amounts per Case (US\$1,000)
1991	235	173,058	736.4
1992	262	246,382	940.4
1993	8,432	2,955,618	350.5
1994	810	886,492	1,094.4
1995	409	998,576	2,441.5
1996	322	1,115,905	3,465.5
1997	7,756	3,902,660	503.2
1998	1,124	1,830,689	1,628.7
1999	422	1,166,098	2,763.3
2000	692	2,384,246	3,445.4
2001	879	2,513,959	2,860.0
2002	2,517	6,077,594	2,414.6
2003	3,084	6,807,514	2,207.4
2004	1,284	6,284,971	4,894.8
2005	901	5,281,921	5,862.3
2006	774	6,649,291	8,590.8
2007	652	8,765,998	13,444.8
2008	401	8,761,185	21,848.3
2009	404	5,892,078	14,584.4
2010	576	10,840,822	18,820.9

Source: Monthly Report 2010, Investment Commission, MOEA (in Chinese).

The expansion of investment in China deepened the production network between the two sides and therefore induced Taiwanese exports to China. During the past decade, trade between Taiwan and China has progressed even more significantly. As shown in Table 4, in 2001, according to Taiwan's official figures, Taiwan's imports from China was about US\$5,904 million and only accounted for about 5.5 per cent of the island's total imports. However, it enlarged 6 times and accounted for 14.3 per cent of Taiwan's total imports in 2010. Taiwan's exports to China also increased from US\$4,895.3 million in 2001 to US\$76,935 million in 2010, and about 28 per cent of Taiwan's total exports were designated for the mainland. If exports to Hong Kong are included, Taiwan's total exports to China are over 40 per cent of the island's total exports. Exports to the mainland and Hong Kong together accounted for

Table 4 Trade Relationships between Taiwan and China, 2001-2010

	Taiwan				China				US\$ million; %
	Imports from China		Exports to China		Imports from Taiwan		Exports to Taiwan		
	Amounts	As % of Taiwan's total imports	Amounts	As % of Taiwan's total exports	Amounts	As % of China's total imports	Amounts	As % of China's total exports	
2001	5,903.8	5.5	4,895.3	3.9	25,497.1	11.3	5,039.9	2.0	
2002	7,968.3	7.0	10,526.7	7.8	27,344.0	11.2	5,001.7	1.9	
2003	11,017.5	8.6	22,890.3	15.2	38,082.5	12.9	6,589.6	2.0	
2004	16,791.5	10.0	36,349.0	19.9	49,364.2	12.0	9,013.8	2.1	
2005	20,093.1	11.0	43,643.3	22.0	64,759.6	11.6	13,547.8	2.3	
2006	24,782.3	12.2	51,808.2	23.1	74,655.1	11.3	16,558.7	2.2	
2007	28,014.1	12.8	62,416.4	25.3	87,140.6	11.0	20,739.5	2.1	
2008	31,390.5	13.1	66,883.0	26.2	100,985.9	10.6	23,480.4	1.9	
2009	24,422.6	14.0	54,248.1	26.6	103,325.0	9.1	25,885.7	1.8	
2010	35,952.1	14.3	76,935.4	28.0	85,706.0	8.5	20,466.3	1.7	

Note: All the above figures do not include Taiwan's trade with Hong Kong.
Source: The Bureau of Foreign Trade, MOEA, Taiwan, for Taiwan's trade with China; GTI-World Trade Atlas for China's trade with Taiwan.

about 27 per cent of Taiwan's GDP. The high exports to China also meant Taiwan maintained its trade surplus and contributed to its enormous foreign exchange reserves. In 2010 for example, Taiwan's trade surplus *vis-à-vis* China and Hong Kong was about US\$77 billion but Taiwan's total trade surplus was around US\$23 billion. If there were no trade surplus with China, including Hong Kong, Taiwan would not be able to finance its imports from Japan and South Korea and its trade balance would be in deficit.⁸

The typical pattern of Taiwanese investment in China is to import intermediate and capital goods from Taiwan and export finished goods to developed countries, mainly the US. Hence, most of Taiwan's exports to China were driven by Taiwanese enterprises investing in China for procurement purposes. In 2010, for example, around 44 per cent of Taiwan's exports to China were electronic machinery and 18 per cent was optical and photographic related products.⁹ Meanwhile, as part of China's total export volumes, Taiwanese enterprises on the mainland also play an important role. According to the *Top 200 Exporting Companies in China* issued by the PRC's Ministry of Commerce, in 2009, among the top 10 exporting companies in China, 7 of them were Taiwan enterprises' children companies. In particular, Taiwanese owned firms, Quanta Computer, Foxconn and Compal, were the three leading exporting companies in China. These large Taiwanese export-oriented companies are registered in third places and mean that the official figures concerning Taiwan's investment in China is rather low.

In brief, cross-Strait relations in trade and investment over the past decades show an asymmetric dependence of China on Taiwan's investment in manufacturing to support its export-driven economic development. What Taiwan has gained in return is the expanding economies of scale that lowers costs in order to keep their products competitive in the international market. Although China needed investment from Taiwan initially for its economic growth, when this division of labour across the Strait became mature, Taiwan found that it could no longer break its economic connection with China. Taiwan needs exports to China to sustain its economic growth. In other words, China's dependence on Taiwan's investment finally resulted in Taiwan's reliance on trade with China. The intensified economic integration finally brought about an institutionalized economic relationship.

3. China: A Political Look from Taiwan Strait to across the Pacific Ocean

The principal motivation behind China's signing up of ECFA is political and Chinese leaders have not hidden their wishes for unification with Taiwan in several public speeches. In fact, Beijing has actively promoted cross-Strait commercial expansion as part of an "embedded reunification" strategy

since the leadership of Deng Xiaoping 鄧小平.¹⁰ Chinese Vice-Minister of Commerce, Gao Hucheng 高虎城, has mentioned that the agreement was an arrangement made under the precondition of “one China” and the “1992 consensus”.¹¹ In January 2011, a Chinese government spokeswoman further stated that relations between the mainland and Taiwan will not be improved if the “1992 Consensus” is not observed.¹² During China’s National People’s Congress in March 2011, Premier Wen Jiabao 溫家寶 highlighted in a government work report that China “... will adhere to the major principles and policies for developing relations between the two sides of the Taiwan Straits and promoting the peaceful reunification of our motherland in the new situation”.¹³ In fact, “One Country, Two Systems” has been the principal of PRC’s policy towards Taiwan and China has not changed this. The minimal amount of economic benefit for China could foster Taiwanese economic dependency and further advance China’s political agenda of unification with Taiwan.¹⁴ Apart from the political intention, economically, ECFA would ensure the continued inflow of Taiwan’s investment, which has been important to support China’s export-driven economy as already mentioned. Since the 1990s, Taiwan’s manufacturing investment in China has successfully integrated the mainland into the regional production network. The facilitation of Taiwan’s investment to the mainland will be helpful for China’s further industrialization and development. Moreover, Taiwan is a small economy with only a population of 23 million. Its domestic market is not so attractive for Chinese entrepreneurs. Inducing Taiwan’s financial capital into the mainland is therefore more essential than asking Taiwan to open up its market.

At the regional level, ECFA served as a step forward in China’s growing economic connection with the region. After its accession to the World Trade Organization (hereafter WTO) in 2001, China moved quickly to develop its free trade ties with other economies. The most significant was its FTA with ASEAN countries, namely ASEAN+1 in 2002. In 2004, the Agreement on Trade in Goods of the China-ASEAN FTA was signed and entered into force in July 2005. In January 2007, the two parties signed the Agreement on Trade in Services, which entered into effect in July of the same year. In August 2009, the two parties signed the Agreement on Investment. Under this Agreement, the 6 original ASEAN members (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) and China had to eliminate tariffs on 90 per cent of their products by 2010. The remaining four countries (Cambodia, Lao PDR, Myanmar and Vietnam) will follow suit by 2015. In 2003, China signed the “Closer Economic Partnership Arrangement” (CEPA) with Hong Kong and Macao respectively. As it offers a better deal than China’s WTO commitments, CEPA strengthened Hong Kong’s role as a platform for doing business in China. Supplementary measures of CEPA were signed from 2004 to 2009. In addition, China concluded FTAs with Singapore and New Zealand

in 2008. Meanwhile, China is also looking for expanding its economic ties with Japan and South Korea via ASEAN+3. Some regard China's FTA strategy as an integral part of its "peaceful rise" policy which aims to escalate Chinese influence in the region politically and economically. FTAs with neighbouring countries would not only ease the "China threat" concerns but also safeguard foreign raw material imports.¹⁵

In fact, market forces have since a long time been in the leading position to direct East Asia's economic integration and China's increasing FTAs have also been supported by its growing economic and commercial ties with its neighbouring countries. China has already replaced the US to become the largest export destination for ASEAN, Taiwan, Hong Kong, Japan and South Korea. At the same time, China also seeks the expansion of its exports to neighbouring countries. Chinese leaders hope that, with continued progress in FTA, Chinese products can penetrate into more countries and therefore minimize the impact of dependence on Western markets.¹⁶ Especially after the global financial crisis in 2008, the slowdown of Western countries' demand made many Asian countries realize the importance of export diversification. Compared with the US's exports, China's exports to Japan, Taiwan, South Korea, Hong Kong and ASEAN were greater in terms of absolute amount.

From 1991 to present, China has kept an annual economic growth rate above 8 per cent. When the global financial crisis damaged many economies around the world, China's economy, although it was also hit by the decline of global demand, stood relatively firm.¹⁷ Since 2010, China's economy has surpassed Japan as the world's second largest in terms of GDP, only behind the US.¹⁸ In terms of trade and investment, China has been significant not only at the regional level but also in the world. It was also one of the most attractive investment destinations in the world. In 2009, WTO's figures shows that China was the largest exporter and second largest importer in the world, only behind the US, unless the European Union is treated as a single unit. Owing to its large exports, China has the world's largest current account surplus and owns a third of world's currency reserves.

Even without massive outward investment in other countries, thus further establishing a regional production network – just as Japan had done so before it – China, with its huge economic size and recent progress in FTAs with major economies in East Asia, has also strengthened its significant role in connecting the regional economies. By contrast, the US's role in regional economic integration has diminished to some extent. China's deepening economic engagement with Asian economies, together with its huge economic size, population and influence in world affairs, signifies that China will inevitably play a dominating role in the regional political economy. China's rising economic dominance in the region is also posing a challenge to the US presence in East Asia.

4. Taiwan: Standing with the Giant towards the China-Centered Regionalization

In contrast to China's increasing economic openness to Taiwan over the last decade, the Taiwanese government showed more hesitation in opening up its economy to China. However, the uncontrollable rising economic interchanges forced Taiwan's government to legalize the economic relationship with China.¹⁹ Seeing the unavoidable rising economic interaction across the Strait, the establishment of a more formerly legalized economic relationship with China became urgent for Taiwan. Different from China, Taiwan's willingness to sign ECFA with China was therefore not to promote the cross-Strait economic relationship. But rather, it was more a passive reaction by the government to the uncontrollable ever-closer relationship with the mainland.

Ma's administration took ECFA as being comparable to an FTA and as a means to promote the island's economic growth. On one hand, Taiwan has been excluded from the growing free trade agreements in recent years because of China's pressure. Prior to ECFA, Taiwan had only signed FTAs with a few countries in Central and South America (Panama, Honduras, Guatemala, Nicaragua and Salvador) which accounted for a small proportion of Taiwan's external trade. This worried the government, especially when the FTA between China and ASEAN took effect on 1 January 2011. ASEAN's further trade negotiations with China, Japan and South Korea to form ASEAN+3 is believed by the government to further diminish Taiwan's economic significance in the region. As a result, the threat of marginalization in the region pushed Taiwan's government as well as Taiwanese entrepreneurs to pursue an economic agreement with China, Taiwan's most important trading partner. On the other hand, a sustained economic prosperity subsequent to the deepened economic relationship between Taiwan and China may help the KMT to retain the Presidency in 2012. Although Taiwan's economic success in the past might not have been directly linked to the KMT's economic policy,²⁰ the Democratic Progressive Party (DPP)'s inability to further advance the island's economic development during Chen's presidency, and its failure to provide a credible alternative to the ECFA, provide the KMT much room in promoting ECFA.

According to the Taiwanese government's estimates, economically, ECFA would raise Taiwan's economic growth rate between 1.65 per cent and 1.72 per cent and increase total employment by about 2.5~2.6 per cent, that is, approximately 26,000 new jobs will be created after ECFA takes effect.²¹ With just over 1.3 billion population, China's domestic market is not only huge but also rapidly growing. Many foreign investors found it difficult to enter. Taiwan, with its similar linguistic and cultural background, its closer and a legalized economic relationship with China, is likely to catch the attention of foreign investors who will want to cooperate with Taiwanese entrepreneurs

in the Chinese market or setting up R&D centres on the island. As China's economy is expected to be prosperous in the following years, Taiwan, due to its geographic proximity with China, and its strong connection with mainland, has the potential to become a logistics centre in the region.

Nonetheless, as China is still not an essential export market for final goods, Taiwan's dependence on the mainland for its export-led economic growth has its limits. In 2009, for example, the export of goods and services contributed to 60.5 per cent of Taiwan's economic growth rate.²² Although China is Taiwan's largest export destination, Taiwan's exports to China are based on their production network. In 2010, about 50 per cent of Taiwan's exports to China were electrical machinery and optical instruments. European Union countries and the United States are the main export market for China. In 2010, these two markets accounted for 38 per cent of China's total exports. Most of the exports from China to the US and EU are final goods. The increase or decrease of China's imports from Taiwan is therefore dependant on the EU and US demand for final goods.

Although it seems that ECFA would enable Taiwan to gain more economic benefits than China gets from Taiwan, Taiwan's position at the negotiating table with China will weaken in the future. The reason is that the release of economic privileges from China will mean that the island's economy will increasingly depend on the mainland rather than vice versa. The strong economic link with China signifies a powerful impact on a small economy such as Taiwan's, if there are any changes to China's economy, including China's economic policies changes and economic fluctuation caused by global financial turmoil or business cycles.

Comparing Taiwan and China's main trading partners (see Table 5), Taiwan was China's 5th importer and China was Taiwan's largest export destination in 2010. However, most of the imports from Taiwan are industrial goods which are highly substitutable by other industrial goods from Japan, South Korea and some ASEAN countries. This is why ECFA made Japanese and Korean manufacturers feel threatened as a high percentage of Korean and a considerable share of Japanese exports to China overlap with those from Taiwan. Therefore, if there is any disagreement between Taiwan and China, China can switch its import sources from Taiwan to Japan and South Korea. It would be difficult for Taiwan to find a substitute market for its export of semi-industrial goods, originally designated for manufacturing firms in China in the short term. Meanwhile, contrary to the mainland's huge domestic market, Taiwan is not a key export market for China. In 2010, Taiwan was China's 11th largest export market. China's exports to Taiwan only accounted for less than 2 per cent of China's total exports. The opening up of Taiwan's market to China is thus not really essential for China but Taiwanese imports from China are important. China was Taiwan's second largest import source. In 2010, 14.2

Table 5 Taiwan and China's Main Trading Partners in 2010 (percentage)

	China		Taiwan	
	Main Import Sources	Main Export Destination	Main Import Sources	Main Export Destination
1	Japan (12.7)	EU27 (19.7)	Japan (20.8)	China (27.8)
2	EU27 (12.1)	US (17.9)	China (14.2)	ASEAN10 (15.4)
3	ASEAN10 (11.1)	HK (13.8)	ASEAN10 (11.5)	HK (13.1)
4	South Korea (9.9)	ASEAN10 (8.8)	US (10.0)	US (11.6)
5	Taiwan (8.3)	Japan (7.6)	EU 27 (8.4)	EU27 (10.4)
6	US (7.3)	South Korea (4.4)	South Korea (6.4)	Japan (6.5)
Total	61.4	72.2	71.4	84.8

Source: GTI-World Trade Atlas.

per cent of Taiwan's total import was from China. In brief, Taiwan depends on China for exports much more than China depends on Taiwan. ECFA promotes the trade between the two sides and at the same time deepens Taiwan's trade dependence on the mainland.

Moreover, the Taiwanese government's expectation that China will allow Taiwan's negotiation of FTAs with other countries is doubtful. Even though the cross-Strait relationship has much improved in recent years, Taiwan's "appearance" on the global stage is still a sensitive issue for Chinese leaders. Soon after Taiwan signed ECFA with China, both Singapore and the Philippines expressed their interests in negotiating FTA with Taiwan.²³ But the Chinese government continued to object to foreign countries signing free trade agreements with the island. Furthermore, the US arm sales to Taiwan and the uncertainty of Taiwan's political climate after the 2012 presidential election will also make continuous progress of ECFA and Taiwan's FTA with other countries uncertain.

5. Concluding Remarks

Cross-Strait relations in trade and investment over the past decades have shown an asymmetric dependence of China on Taiwan's investment in manufacturing to support its export-driven economic development. What Taiwan has in return are expanding economies of scale that lowers costs in order to maintain the competitiveness of its products in the international market. Although China initially needed investment from Taiwan for its

economic growth, when this division of labour across the Strait became mature, Taiwan found that it could no longer break its economic connection with China. In other words, China's dependence on Taiwan's investment finally resulted in Taiwan's reliance on trade with China.

Contrary to the conventional thinking that China's signing of ECFA is for political purpose and Taiwan has more economic concerns, this paper shows China's economic consideration and Taiwan's political reason. Politically, ECFA serves China's reunification purpose with Taiwan and the current ruling party KMT would also benefit from it to win the presidential election in 2012. From an economic perspective, ECFA would ensure the continued investment from Taiwan to China, which is an essential element for China's further industrial upgrading. As Taiwan's domestic market is limited, the opening up of Taiwan's market is not important for China. In the long term, a closer economic relationship would have more potential impact on Taiwan than on China, due to their different economic sizes. Taiwan's political sovereignty will also be undermined. In addition, the signing of ECFA symbolizes Taiwan's legitimate entry into the "China-centred regionalization" process and further enhances China's gravity in the regional economic integration

ECFA would allow Taiwan to go a step closer to China, economically and then politically, which also means a step away from the United States. But contrary to the resistance to deepening the relations with China by Taiwan's opposition party, the Obama administration in the US has generally welcomed the economic engagement between the two sides as it will be helpful in reducing the tension in the Taiwan Strait and benefit the region's stability. American officials not only responded positively to the signing of ECFA but even called for further exchanges between Taiwan and China.²⁴ Prior to the conclusion of ECFA, Washington reconfirmed its commitment to a one-China policy based on the three US-China communiqués and the Taiwan Relations Act.²⁵

In fact, America's response on ECFA was not surprising. The US has long been excluded from the regional economic integration. In contrast to China, which has signed FTAs or quasi-FTAs with the main economies in East Asia in recent years, the US has only signed an FTA with Singapore in 2004. The only regional free trade agreement negotiation that involved the US was the Free Trade Area of the Asia Pacific (FTAAP). In 2009, President Obama announced the US's intention to enter into negotiations for a free trade agreement with Asia-Pacific, known as the Trans-Pacific Partnership (TPP) Agreement, with the objective of shaping a high-standard, broad-based regional pact. The US has demonstrated its desire to increase its engagement in Asia by entering into the TPP talks but it is still premature to assume that TPP can be successfully negotiated.²⁶ In addition, the current members in negotiation over TPP with the US (Brunei, Chile, New Zealand, Singapore,

Australia, Malaysia, Peru, United States, and Vietnam) are not important trading partners for America. The potential economic benefits are therefore not significant and the final approval of the TPP by the US Congress is uncertain. The “high quality” issue in TPP, such as agriculture, intellectual property protection, services, labour and the environment, are also possible to barriers to some ardent free traders.

Even though it seems that China engages more in East Asia’s economic integration than the US, the increasing trade between China and the rest of the region did not divert trade from America. The US and European Union countries still act as the major destination of final products for China. In 2010, EU and the US were China’s two largest export destinations, and accounted for 19.7 per cent and 17.9 per cent of China’s total exports respectively. China’s economic opening up has enlarged the original regional production network but it has not changed the US-Asia commercial relationship. The original US-Asia supply and demand relationship that caused the American trade deficit still remains the same. The only thing that has changed is that the trade deficit with Japan and the NIEs has been replaced with a trade deficit with China.

The trade agreements with Taiwan, Hong Kong, Macao, and ASEAN may not only strengthen China’s existing trade relationship with them but also amplify China’s importance in the regional trading bloc. Since China’s economic force is based on foreign investment with export-oriented production, the “China-led” regionalization is therefore vulnerable to the external environment. Therefore, in the short term, the trade agreements privilege small economies by consolidating their connection with China. China is unable to challenge US dominance at this moment. However, in the long term, it is highly possible that a “China-led” Asia will be on the collision course with the US-led West for global economic leadership. How will the US respond to China’s current rising dominance in the regional economy is critical for the future development of economic integration in East Asia and global economic stability.

Notes

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1. That political agreement is: There is one China and Taiwan is part of China and both sides can express their different meaning on "One China", whether it is one China under KMT or CPC leadership. This is also referred to as "1992 Consensus" as it is claimed to result from political discussions between the two sides (Taiwan-based Strait Exchange Foundation and China-based Association for Relations across the Taiwan Strait) in Hong Kong in 1992. However, some pro-Taiwan independence politicians oppose this principal and argue that there was no such political agreement between Taiwan and China in 1992.
2. In the financial sector, Taiwanese banks are allowed to conduct Renminbi (the Chinese currency, hereafter RMB) business on the mainland after 2 years of business operation in China, which is superior to the WTO treatment (requiring 3 years of operation and 2 years of profits). In the non-financial services sectors listed in the early harvest programme, except for professional services and accounting, auditing services, which are equal to WTO treatment, the other ones are superior to the WTO treatment. Taiwanese services suppliers will be allowed to set up wholly-owned enterprises in China. The 9 services items Taiwan opens to China are basically equivalent to those that China has agreed to open, except for convention and communication services.
3. "First Cross-Strait co-op committee meets in Taiwan", *China Daily*, 22 February 2011, <http://www.chinadaily.com.cn/china/2011-02/22/content_12060834.htm> (accessed 5 May 2011).
4. However, Japan and Korea's reaction regarding ECFA was different. Japanese businesses took Taiwan as a short-cut to successfully enter into Chinese market after ECFA was put into practice while Korean entrepreneurs urged its government to sign a trade agreement with China. "Taiwan challenges to Korea, Japan", *Asia Times online* <http://www.atimes.com/atimes/China_Business/LG22Cb01.html> (accessed 29 March 2011).
5. *Emerging Asian Regionalism: A Partnership for Shared Prosperity*, Asian Development Bank, December 2008, pp. 58-66.
6. The figures are selected from Taiwan Affairs Office of State Council, PRC.
7. In 1991, food and beverage processing accounted for 15.8 per cent of Taiwan's total manufacturing investment in China while 18.4 per cent was in plastic products, 22 per cent was in textiles, gourmet and footwear and 25.8 per cent was in electronic and electrical appliances. See Min-Hua Chiang (2010), *Taiwan in the Web of US Hegemony 1949-2005*, VDM Publishing House Ltd., Saarbrücke, Germany, p. 195.
8. Japan and South Korea are Taiwan's two major trade deficits sources. In 2010, Taiwan had US\$33.9 billion trade deficit with Japan and US\$5.4 billion trade deficit with South Korea.
9. Figures calculated from GTI-World Trade Atlas.
10. Christopher M. Dent, "Taiwan and the New Regional Political Economy of East Asia", *The China Quarterly*, No. 182, June 2005, p. 400.

11. Li Ching-Lieh, "ECFA must guarantee free-trade agreements", *Taipei Times*, 12 August 2010 <<http://www.taipeitimes.com/News/editorials/archives/2010/08/12/2003480148>> (accessed 5 May 2011).
12. "Chinese spokeswoman stress importance of 1992 Consensus to improving Cross-Strait relations", Spokesperson's remarks, Taiwan Affairs Office of the State Council PRC, 12 January 2011 <http://www.gwytb.gov.cn/en/SpokespersonRemarks/201103/t20110316_1788627.htm> (accessed 4 May 2011).
13. "Report on the Work of the Government", delivered at the Fourth Session of the Eleventh National People's Congress, 5 March 2011 <<http://online.wsj.com/public/resources/documents/2011NPCWorkReportEng.pdf>> (accessed 4 May 2011).
14. *2010 Report to Congress of the US-China Economic and Security Review Commission*, November 2010, U.S. Government Printing Office, pp. 145-146.
15. Pasha L. Hsieh, "The China-Taiwan ECFA, Geopolitical Dimensions and WTO Law", *Journal of International Economic Law*, Vol. 14, No. 1, p. 132.
16. China FTA Network.
17. In 2009, the economic growth rate was -3.9 per cent in Euro Area, -5.4 per cent in Japan, -2.5 per cent in the US and -2.2 per cent in developing countries, excluding China and India. China's economic growth rate was 9.2 per cent. The World Bank, *Global Economic Prospect: Crisis, Finance and Growth*, 2010, Washington, p. 3; IMF, World Economic Outlook Database, April 2011.
18. In 2010, China's GDP was valued US\$ 5.87 trillion, US was US\$ 14.67 trillion and Japan's was US\$ 5.46 trillion. IMF, World Economic Outlook Database, April 2011.
19. As China is becoming more open to the global economy, China's FDI promotion policy and the opening up of the US market to China's products are more powerful than the Taiwan government's unilateral restrictions on trading with and investing in the mainland. As a result, the Taiwanese government could only open its economic door to China subsequent to this unavoidable closer economic relationship with China.
20. Generally, Taiwan's development can be characterized by three principal influences. The first is the considerable contribution of private enterprises to the economic boom. The second influence is the appropriate state policy. Those scholars who emphasized the state argued that the exploitation of comparative advantage in Taiwan as well as in other Newly Industrializing Countries (hereafter NIC) was through the governments' industrial planning. From the statist viewpoint, a strong government was the key to rapid growth as the state's autonomous power facilitates the national growth strategy and prevents policy distortion due to opposition from domestic interest groups. Thirdly, some argue that the international economic environment played an even more important role in shaping Taiwan's economic transformation. External influences, including the Japanese colonial legacy, US aid at the initial stage of post-war development and subsequent economic dependence on the US and Japan, are all indispensable to Taiwan's economic success.
21. Ministry of Economic Affairs, Taiwan <<http://www.ecfa.org.tw/index.aspx>> (accessed 2 April 2011).

22. *Taiwan Statistical Data Book 2010*, CEPD, Taiwan, Table 3-9b, p. 66.
23. "Philippines, Singapore FTAs to follow ECFA", *The China Post* <<http://www.chinapost.com.tw/business/asia/asian-market/2010/05/21/257419/Philippines-Singapore.htm>> (accessed 30 March 2010).
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Book Review

Ian Storey, *Southeast Asia and the Rise of China: The Search for Security*, London and New York: Routledge, 2011, 362pp. + xv.

One of the key issues occupying the attention of scholars of International Relations and Asian Security in the 21st century is the astounding rise of China as a great power. Against this backdrop, there have been numerous studies focusing on the sources, manifestations and consequences of Chinese growing power in the international system. Many of these studies have sought to examine the perceptions and responses of other states – particularly the smaller countries along China's periphery – *vis-à-vis* Beijing's growing economic and military might. Given Southeast Asia's geographical proximity as well as its close historical and socioeconomic ties with the Asian giant, it is not surprising that a large number of articles and books have chosen to focus on the member countries of the Association of Southeast Asian Nations (ASEAN), attempting to address how and why these smaller states have reacted to China's growing power the way they have.

The book under review, which is about China's evolving relationships with eleven Southeast Asian states (the ten ASEAN countries and East Timor) since 1949, is the latest and a welcome addition to the existing body of literatures. As highlighted by its subtitle, the book focuses primarily on the security dimension of Southeast Asia-China relations, although it also covers the political and economic interactions between the two sides. The author justifies his focus by noting that "the security implications of China's rising power has been a constant preoccupation for the countries of Southeast Asia." (p. 2)

Storey's book makes important contributions to the scholarship on Southeast Asia-China relations and Asian security, in at least three major areas.

First, this well-researched book provides a comprehensive and systematic analysis of the development of Sino-Southeast Asian relations as an instance of asymmetric power relations in the contemporary interstate system. While there is no shortage of work on this phenomenon, few have approached the subject as thorough and as painstakingly as Storey did in this volume (exceptions include Bronson Percival's 2007 *The Dragon Looks South*). Storey's book is comprehensive not only in terms of its scope (security as well as political and economic interactions, as noted), but also in terms of time

span (both Cold War and post-Cold War periods) and geographical spread (all 11 Southeast Asian states).

It is systematic in its analysis and presentation. In trying to scrutinize the dynamics of Sino-Southeast Asian relations in an orderly manner, the author has chosen to firstly, trace the evolution of the asymmetric relations at the regional level (the focus of Part I), before moving onto analyzing the respective bilateral ties between China and each of the 11 smaller states (Parts II and III). The first part, which consists of three chapters, offers a chronological overview of the development of China-Southeast Asian relations since the establishment of the People's Republic of China (PRC) in October 1949 until October 2010. The chapters show how the relations have been transformed from one plagued by mutual aversion during much of the Cold War period chiefly due to ideological differences and the "overseas Chinese" problem (Chapter 1), to one characterized by "engagement and hedging" in the 1990s (Chapter 2) and "charm offensive" in the first decade of the 21st century (Chapter 3). In these pages, Storey systematically analyzes how China's carefully calculated moves along with Southeast Asian states' responses and reappraisal in the light of a series of "game changing" processes since the early 1990s – such as the end of the Cold War, the Asian financial crisis of 1997-1998, the growing intra-regional trade, the proliferation of multilateral institutions in the Asia-Pacific, and the perceived US' preoccupation with its "war on terror" post-September 11 – have led to the transformation *and* institutionalization of relations between China and ASEAN as a regional grouping over the past two decades. Towards the end of Part I, the author provides a brief analysis on how the friction in the South China Sea since 2007 has affected the relations.

The discussion on these regional dynamics offers useful macro insights to better analyze the bilateral interactions between China and the smaller Southeast Asian countries, which are the focus of Parts II and III of the book. The second part consists of five chapters (Chapters 4-8), which details the PRC's relations with each of the five mainland Southeast Asian states, namely, Vietnam, Thailand, Burma/Myanmar, Laos, and Cambodia. The third part (Chapters 9-14) completes the circle by looking into China's ties with each of the six maritime Southeast Asian countries of Indonesia, Malaysia, Singapore, the Philippines, Brunei, and East Timor.

This brings us to the second contribution of Storey's book. That is, by focusing on bilateralism and by devoting a chapter-length analysis to each of the bilateral ties, the book helps to fill a gap in the exiting literatures, which, by and large, have tended to study Sino-Southeast Asian relations on a regional- or ASEAN-wide basis. While the regional approach has the virtue of underscoring certain common characteristics and overarching concerns shared by most or all of the smaller states, it nonetheless has its own limitations. For

instance, it may leave the incorrect impression that there is a “common” or “united” policy among the Southeast Asian states vis-à-vis China. It may also obscure the nuanced approaches and perceptions held by the smaller states toward the rising power.

In contrast, focusing on each of the bilateral interactions between China and individual Southeast Asian states – an approach adopted by Storey – not only allows a more refined way of highlighting the distinctive patterns of each of the bilateral ties (ranging, for instance, from cyclical tensions, special relations to instrumental deference), but it also enables the task of comparing the similarities and differences across the smaller states’ policies toward certain aspects of Sino-Southeast Asian ties in a sharper manner. Storey himself has observed that, despite the growth of multilateralism in the Asia-Pacific, “bilateral interaction has been the most important facet of inter-state relations.” (p. 1)

The author’s detailed and fascinating analyses in each of the country-based chapters duly highlight how different Southeast Asian states had perceived and reacted to some issues in subtly different ways. These include: the legacies of their historical ties with China, the geopolitical meanings of an increasingly mighty PRC, the impact of China’s economic rise, the preferred approach to “manage” the giant-next-door, as well as the role of balance of power and regional multilateral institutions. Although the author may not have dealt with each of these issues in each of the country chapters, his focus on bilateral dynamics has provided valuable insights as to how and why the smaller states have come to cope with their giant northern neighbour the way they have.

The third contribution of the book is that, it has unequivocally identified a range of key causal factors shaping the smaller states’ policies toward the rising power. The author identifies his explanatory variables at the outset by stating that: “In examining state responses to the PRC, account is taken of external stimuli as well as the influence of domestic political and economic factors.” (p. 2) Throughout the country chapters in the book, the author highlights and analyzes how a variety of external and domestic factors have driven the Southeast Asian states’ policies. In his final analysis, Storey, a Senior Fellow at the Institute of Southeast Asian Studies (ISEAS), concludes that “each of the 11 countries took a different path in their relations with China”, because of “an eclectic mix of elite perceptions, state ideology, geography, security concerns, economic aspirations and responses to changes in the geographical environment.” (p. 286)

Future studies could build on Storey’s work to further explore – on comparative basis – how external and internal factors have interacted to shape the individual Southeast Asian countries’ *perceptions* of China, their *prioritizations* of “national” interests and policy instruments, and

their eventual *decisions vis-à-vis* Beijing. Comparing the differences and similarities across the states' responses will highlight a range of themes that are of crucial policy importance. They are, *inter alia*, the smaller states' relative perceptivity about China's charm diplomacy and economic statecraft, their respective views on the efficacy of engagement policy, their individual stance about the instrumentality of US presence, their preferred approach to manage the Spratly disputes, etc. These are all crucial policy questions for analysts and policymakers, not least because of the recent developments in the South China Sea. The convergence and divergence of the Southeast Asian states' views on these issues will not only affect the states' respective relations with the major powers, they will also have important bearings on regional institutional building and regional order.

My main disagreement with the book is its conceptualization and operationalization of the term "hedging". As a matter of fact, Storey is probably one of the earliest to use the term to describe Southeast Asian states' strategic responses toward China, along with C.P. Chung (2002 & 2004), but before Evelyn Goh (2005 & 2006), C.C. Kuik (2008 & 2010), and John Ciorciari (2009). In a chapter analyzing Singapore's China policy in a book titled *The China Threat: Perceptions, Myths and Reality* (co-edited by him and Herbert Yee), Storey (2002: 219) describes the ASEAN states' responses as "a hedging policy" that is "designed to maintain the balance of power in the Asia-Pacific region and provide a limited deterrence against the PRC." In the present book, Storey deploys the term in various places. For instance, on page 2, he refers hedging as policies that are aimed at "safeguarding against a more assertive or even aggressive China". Elsewhere, on page 47, he uses the term as "a prudent measure of strategic insurance should China fail to respond positively to Southeast Asia overtures". On page 30, he writes that "in an uncertain strategic environment, the United States' military presence underpins regional stability by acting as a counterweight to a rising China. By hedging, the ASEAN states could keep their strategic options open against the possibility of a future security threat from the PRC." Along the same line, he notes that the states "hedged by actively supporting a continued U.S. military presence and, in some cases, strengthened their air and naval forces." (p. 62)

These conceptions and operationalizations of hedging are correct but incomplete, for four reasons: (i) the conceptions did not fully reflect the two-pronged nature of the behaviour – hedging is not a single-directional act of safeguarding against certain dangers, but an act that entails two sets of *opposite and counteractive approaches* aimed at minimizing all perceived risks while simultaneously still trying to maximize all possible benefits; (ii) the conceptions did not specify how hedging is distinguishable from and related to other forms of state strategies, such as "balancing" and

“bandwagoning” as discussed on page 47 – is hedging “partially-balancing”, “partially-bandwagoning”, and/or somewhere in between the full-fledged version of the two strategies? (iii) in terms of operationalization, one can argue that *the goals* of the smaller states’ hedging behaviour are not necessarily just to safeguard against the risk of an aggressive China, but rather to safeguard against *multiple and all potential risks* that may stem from the problem of uncertainties in the international system – these include, but not limited to: the strategic risks of a retreating US as the key provider of regional security, the political and military risks of entrapment, the economic risks of being excluded from a huge market, the economic and political risks of becoming too dependent on a certain actor, as well as the long-term geopolitical risks of antagonizing a neighbouring giant; and (iv) along the same line of reasoning, one can also argue that *the means* of hedging are not confined to military tools of statecraft (US military presence and the states’ own armament), but also include non-military statecraft like multilateral institutions, geopolitical coalitions, economic partnerships, etc. Different conceptions of the term would lead analysts to focus on different variables in describing and explaining the smaller states’ hedging behaviour.

These notwithstanding, *Southeast Asia and the Rise of China* should be recognized as an important and thoughtful work. It should be an essential reading for everyone who wishes to have a better understanding of the dynamics of Southeast Asia-China relations. This book, along with Storey’s earlier scholarly writings and policy analyses, has established him as one of the leading authorities on the subject matter.

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