

# The Impact of China's Resurgence on the Political Economy of East Asia: Economic Integration and Security Challenges?

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## **Declaration**

I certify that this thesis does not incorporate without acknowledgment any material previously submitted for a degree or diploma in any university; and that to the best of my knowledge and belief it does not contain any material previously published or written by another person except where due reference is made in the text.

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## **Abstract**

The economic reforms embarked upon by China after 1978 allowed it to re-emerge as a major player in the political economy of East Asia, drawing Northeast and Southeast Asia together through linkages with the Overseas Chinese Business Sphere and participation in East Asia's regional processes and arrangements. Growing economic ties with Taiwan played a crucial role in this process of regional integration. At the same time, China's rise meant that various Northeast Asian security challenges in which it was a key protagonist, especially over Taiwan, became significant issues on Southeast Asia's regional agenda via ASEAN and the East Asian Summit after 2005.

The growing economic and security linkages between Northeast and Southeast Asia raised important questions about whether China's rise will follow a peaceful path, or result inevitably in military conflict, as realist theorists in International Relations argue, and whether the mechanisms for managing regional tensions in East Asia are resilient enough.

This thesis considers these contemporary issues in historical context. The evolution of the political economy of East Asia was marked by three phases of influence after 1945, beginning with US hegemony during the Cold War and followed by Japan's economic leadership. The rise of China, which challenged both US military primacy and Japanese economic dominance, is the third phase. An historical perspective shows many themes unchanged in East Asia: Southeast Asia was concerned about preserving its independence in the face of the great powers, and the security challenges confronting Northeast Asia in 2011 were the same as during the Cold War. Nonetheless, China's rise shifted great power relations in the region. The thesis shows how this happened historically and how the shifts impacted on East Asia's political economy and the security challenges centring on the Korean Peninsula, Taiwan and the East and South China Seas.

The thesis argues that China was committed firmly to rising peacefully in support of a domestic political strategy aimed at maximising economic growth, which is essential for social stability. Growing regional economic interdependence and the desire to avoid war saw China manage tensions by seeking to preserve the status quo in East Asia via bilateral negotiations and regional engagement. China became more, rather than less, constrained by its rise, a conclusion broadly in line with liberal International Relations theories.

China's regional engagement was conducted in line with the "ASEAN Way" of consensus seeking dialogue and non-binding declarations. Unlike many analysts, the thesis argues that the "ASEAN Way" of regionalism was sufficiently robust and will continue to serve future regional security arrangements as they evolve. The key questions, though, are whether the US, which recommitted to East Asia after 2009, and reasserted its determination in 2011 to lead an "Asia Pacific Century", will accept the "ASEAN Way" or seek greater institutionalisation of regional arrangements and a commitment to binding treaties, and how China will manage relations with the US, especially if it seeks to strengthen its historical alliance network and forge new ones as a basis for managing regional tensions.

China's rise was the subject of extensive debate among Chinese scholars of International Relations. The thesis makes these debates available to an English-speaking readership, highlighting the insights they provide into how China's rise impacted on the political economy of East Asia and the historical security challenges it faces, and contributed to a distinctive East Asian regionalism.

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## Acronyms

ADB	Asian Development Bank
AFC	Asian Financial Crisis
AMC	Asset Management Corporation
AMF	Asian Monetary Fund
APEC	Asia-Pacific Economic Cooperation
ARATS	Association for Relations across the Taiwan Straits
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
BSA	Bilateral Swap Agreement
CAFTA	China-ASEAN Free Trade Area
CASS	Chinese Academy of Social Sciences
CBRC	China Banking Regulatory Commission
CCP	Chinese Communist Party
CRS	Congressional Research Service
DOC	Declaration on the Conduct of Parties in the South China Sea
DPP	Democratic Progressive Party
EAEC	East Asian Economic Caucus
EEZ	Exclusive Economic Zone
FDI	Foreign Direct Investment
GATT	General Agreements on Tariff and Trade
GFC	Global Financial Crisis
IAEA	International Atomic Energy Agency
IMF	International Monetary Fund
KMT	Kuomintang
LDP	Liberal Democratic Party
MFN	Most-Favoured Nation
NAFTA	North American Free Trade Area
NIE	Newly Industrialised Economy
NPL	Non-Performing Loan
NPT	Nuclear Proliferation Treaty
NUC	National Unification Council
ODA	Official Development Assistance
PBC	People's Bank of China
PLA	People's Liberation Army
PRC	People's Republic of China
SALT	Strategic Arms Limitation Treaty
SEATO	Southeast Asia Treaty Organisation
SEF	Straits Exchange Foundation
SEZ	Special Economic Zone
SLOC	Sea-Lanes of Communication
SOE	State-Owned Enterprise
TAC	Treaty of Amity and Cooperation in Southeast Asia
TRA	Taiwan Relations Act
TVE	Town and Village Enterprise



UNCLOS United Nations Convention on the Law of the Sea  
WTO World Trade Organisation

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## 1 Introduction

One of the most remarkable events in recent international history is the rise of China, from a position of weakness in the 19<sup>th</sup> and early 20<sup>th</sup> centuries during its “century of humiliation” and the subsequent Maoist era, to become an economic powerhouse in East Asia, the producer of a majority of the world’s consumer goods and its second largest economy. The rise of China transformed the political economy of East Asia and changed relations with the great powers in East Asia, especially the US which sought to retain a significant strategic stake in the region.

This thesis joins the debate over the impact of China’s rise, which I contextualise historically in order to shed light on the region’s growing economic interdependency and integration of Northeast with Southeast Asia. An important question debated extensively in the literature is whether its rise is peaceful, or whether, as some predict, China will consolidate military power and pursue its interests by force.

East Asian integration was increasingly visible not only in the economic but also in the security realm. Several longstanding security issues which were historically Northeast Asian in focus, such as the status of Taiwan, tensions on the Korean peninsula and disputes over territory in the East China Sea, appeared increasingly regularly on a common East Asian regional security agenda. This is another reason why the historical perspective taken here was helpful, as the main security issues in East Asia during the Cold War remained. The thesis outlines the origins of these issues, and how China’s rise influenced the way they were dealt with at a regional level. A distinctive form of East Asian regionalism emerged, which had important implications for whether China’s rise was peaceful and how threats to security were managed.

This thesis also makes the Chinese scholarly literature on all the political economy and security issues considered in the thesis more accessible to Western readers, by establishing a dialogue with western schools of thought.

For the remainder of the chapter I review, in Section 1.1, some of the more influential points of view on China's ascendancy and what it means for the future of the East Asian region and, in section 1.2, I outline the main themes of the thesis.

## 1.1 Background: a review of the literature on China's rise

There are a variety of perspectives on the impact of China's rise on East Asia. Some commentators took a pessimistic view and argued that as China became more powerful, conflict with the US and Japan was likely or even inevitable. Others were relatively optimistic that China's rise would be peaceful.

### 1.1.1.1 Pessimistic views

#### 1.1.1.1.1 The realist perspective

As Aaron Friedberg pointed out, most realists are pessimists on the question of whether China's rise will be peaceful.<sup>1</sup> Realists highlight the anarchic nature of the international system, which is driven fundamentally by the distribution of power, particularly military power, among states as primary actors in the international system. Military strength is decisive in shaping the pattern of relations among states.<sup>2</sup> Accordingly, the main goal of states is to pursue the national interest and maximise power if possible, while preserving the balance of power if necessary. In the absence of any higher form of authority to resolve disputes and impose order, conflict and war are natural and inevitable. Therefore, security is the top priority for states.<sup>3</sup>

From the realist perspective, China's rise challenged US primacy in East Asia and posed a threat to regional order.<sup>4</sup> This gloomy appraisal portrays international relations between existing and rising powers as largely a "zero-sum" power struggle for leadership. Pessimistic

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<sup>1</sup> Friedberg, Aaron L. "The Future of U.S.-China Relations: Is Conflict Inevitable?" *International Security* 30, no. 2 (2005), pp. 7-45.

<sup>2</sup> Mearsheimer, John J. *The Tragedy of Great Power Politics*. New York: Norton, 2001.

<sup>3</sup> The prominent and pioneering works on realism are: Morgenthau, Hans J. *Politics among Nations: The Struggle for Power and Peace*. 4th ed. New York: Knopf, 1967; Waltz, Kenneth N. *Theory of International Politics*. Boston, Mass.: McGraw-Hill, 1979. This perception came to be called the neo-realist or structural realist approach. The school of offensive realism portrays great power transitions as zero-sum game. The most prominent examples are Mearsheimer, John J. *The Tragedy of Great Power Politics*. New York: Norton, 2001; and Zakaria, Fareed. *From Wealth to Power: The Unusual Origins of America's World Role*. Princeton, N.J.: Princeton University Press, 1999.

<sup>4</sup> Segal, Gerald. "The Coming Confrontation between China and Japan?" *World Policy Journal* 10, no. 2 (1993), pp. 27-32; Bernstein, Richard, and Ross H. Munro. "The Coming Conflict with America." *Foreign Affairs* 76, no. 2 (1997), pp. 18-32.

realists tend to look through the prism of the history of relations between incumbent leading great powers and their challengers, a history accompanied by war. The conclusion of history is that the US-China relation will be war-prone.<sup>5</sup> Pessimistic realists used the historical example of Wilhelmine Germany to “pigeonhole” today’s China, because it shared with Germany, in the words of Nicholas Kristof in 1993, “the sense of wounded pride”, “the annoyance of a giant that has been battered and cheated by the rest of the world”, regardless of the major differences between the two.<sup>6</sup> Kristof’s view was hardly unique. John Mearsheimer argued that China was more dangerous than Wilhelmine Germany. He wrote of “a future Chinese threat so worrisome that it might be far more powerful and dangerous than any of the potential hegemonies that the United States confronted in the twentieth century....Neither Wilhelmine Germany, nor imperial Japan....”<sup>7</sup>

Even if conflict between two great powers was not inevitable in the near term, China was a “strategic competitor” of the US, as former Secretary of State Condoleezza Rice labelled it.<sup>8</sup> Shambaugh suggested that competition will likely lead to a cold war or major global rivalry during the 21<sup>st</sup> century.<sup>9</sup> China’s rapid economic growth since the early 1990s, from a realist zero-sum perspective, was a threat, as Thomas Christensen pointed out, because it reduced the relative power of the US and its regional allies.<sup>10</sup>

China’s economic growth enabled increased military spending and defence modernisation thus posing, in the realist view, a threat to regional security. China’s ranking by the World Bank as the third largest economy (using purchasing power parity) in 1993 was described as “threatening” because it was considered likely that China would become “the next economic superpower”.<sup>11</sup> As “the fastest growing economy in the world”, associated with a “fast growing military budget”, China was able to “seek a more powerful role, because that

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<sup>5</sup> Kennedy, Paul M. *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*. London: Unwin Hyman, 1988.

<sup>6</sup> Kristof, Nicholas D. "The Rise of China." *Foreign Affairs* 72, no. 5 (1993), p. 72.

<sup>7</sup> Mearsheimer, John J. *The Tragedy of Great Power Politics*, p. 401.

<sup>8</sup> Rice, Condoleezza. "Promoting National Interest." *Foreign Affairs* 79, no. 1 (2000), pp. 45-62.

<sup>9</sup> Shambaugh, David. "The United States and China: A New Cold War?" *Current History* 94, no. 593 (1995), pp. 241-47; Bernstein, Richard, and Ross H. Munro. "The Coming Conflict with America." *Foreign Affairs* 76, no. 2 (1997), pp. 18-32.

<sup>10</sup> Christensen, Thomas J. "Fostering Stability or Creating a Monster? The Rise of China and US Policy toward East Asia." *International Security* 31, no. 1 (2006), pp. 81-126.

<sup>11</sup> Overholt, William H. *China: The Next Economic Superpower*. London: Weidenfeld & Nicolson, 1993.



is what great powers are supposed to do”, Kristof claimed, continuing that “the South China Sea is the most likely site for a war”.<sup>12</sup>

In 1994 Denny Roy saw a new “hegemon on the horizon”, arguing that China will likely use force to achieve its political goal of regional hegemony. He cited three factors in support: First, an authoritarian and unstable regime was war-prone; second, China was a “dissatisfied” power, not a “status quo” power, trying to recover territory and prestige lost to the West during the “century of humiliation”; and, third, the Chinese government found it easy to use patriotism to mobilise citizens in support of military confrontations.<sup>13</sup>

China’s military threat was echoed by other pessimistic observers. In a subsequent review article, Roy concluded that “Chinese defence spending has risen significantly in recent years, prompting many analysts to ask why military funding is increasing when external threats to China’s security are at an all-time low”. Therefore, “they concluded that China’s intention is to become a military superpower in the 21<sup>st</sup> century, to pursue regional hegemony”.<sup>14</sup>

By documenting Beijing’s defence modernisation and military buildup, Timperlake and Triplett concluded that China posed an extraordinary threat to the US and the rest of the world because of the People’s Liberation Army’s (PLA) notorious historical record of aggression.<sup>15</sup> Bill Gertz argued that the China threat was due primarily to the opaque nature of the Communist government and military system.<sup>16</sup> He dismissed the pacifying effect of economic interdependence through increased trade and investment. A powerful China challenged US hegemony in East Asia and, as a long-term goal, tried and push the US out of the region.

In *Why we must contain China*, conservative journalist Charles Krauthammer characterised China as a “bully” that “tries relentlessly to expand its deep reach into the South China Sea”, concluding that the US must contain “a rising, threatening China”.<sup>17</sup> His zero-sum view was

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<sup>12</sup> Kristof, Nicholas D. "The Rise of China." *Foreign Affairs* 72, no. 5 (1993), pp. 59-67.

<sup>13</sup> Roy, Denny. "Hegemon on the Horizon? China's Threat to East Asian Security." *International Security* 19, no. 1 (1994), pp. 149-68.

<sup>14</sup> Roy, Denny. "The" China Threat" Issue: Major Arguments." *Asian Survey* 36, no. 8 (1996), pp. 758-71.

<sup>15</sup> Timperlake, Edward, and William C Triplett. *Red Dragon Rising: Communist China's Military Threat to America*. Washington: Regnery Pub., 1999.

<sup>16</sup> Gertz, Bill. *The China Threat: How the People's Republic Targets America*. Washington: Regnery Pub., 2002.

<sup>17</sup> Krauthammer, Charles. "Why We Must Contain China." *Time* (July 31, 1995), <http://www.time.com/time/magazine/article/0,9171,983245,00.html>. Accessed 11/11/2010.

reaffirmed a decade later, when he characterised the prospect of China's diplomatic success in hosting six-party talks on North Korean denuclearisation, and solving the knottiest problem in the Asia Pacific, as Beijing's gain in "relative power" at the expense of US influence.<sup>18</sup>

Perhaps one of the most populist accounts of China's rise was Ross Munro and Richard Bernstein's *The Coming Conflict With China*, published in 1997. They stressed China's "hegemonic ambition" to replace the US as the preeminent power in Asia; that "its basic material and human conditions and its own assessment of its national interest combine to make a Chinese move towards Asian hegemony virtually inevitable".<sup>19</sup> China's rise was contrary to American interests.

Michael Swaine concluded that China was in the process of acquiring new military capabilities and undertaking force deployments that fundamentally altered security perceptions in East Asia, stimulating a widespread military response among the major powers. This new "regional military posture", he argued, increased the chances of tension and instability.<sup>20</sup> Robert Sutter concurred that China's primary goal in Asia was to be the dominant power, presenting a serious challenge to US interests. China's foreign policy was maneuvering to counter and undercut US influence.<sup>21</sup>

As China's capabilities grew, Friedberg feared that China's leaders wanted to "define their interests more expansively and to seek a greater degree of influence over what is going on around them".<sup>22</sup> According to Robert Gilpin, "a more wealthy and more powerful state will select a larger bundle of security and welfare goals than a less wealthy and less powerful state".<sup>23</sup> This intimate connection between wealth and ambition was also alluded to by

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<sup>18</sup> Krauthammer, Charles. "China's Moment." *The Washington Post* (September 23, 2005), <http://www.washingtonpost.com/wpdyn/content/article/2005/09/22/AR2005092202257.html>. Accessed 11/11/2010.

<sup>19</sup> Munro, Ross H., and Richard Bernstein. *The Coming Conflict with China*. New York: Knopf, 1997, p. 53.

<sup>20</sup> Swaine, Michael D. "China's Regional Military Posture." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley, Calif.: University of California Press, 2005, pp. 266-88.

<sup>21</sup> Sutter, Robert. "China's Regional Strategy and Why It May Not Be Good for America." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley, Calif.: University of California Press, 2005, pp. 289-305.

<sup>22</sup> Friedberg, Aaron L. "The Future of U.S.-China Relations: Is Conflict Inevitable?" *International Security* 30, no. 2 (2005), p. 19.

<sup>23</sup> Gilpin, Robert. *War and Change in International Politics*. New York: Cambridge University Press, 1981, pp. 22-23.

Samuel Huntington.<sup>24</sup> From a realist perspective, according to Mearsheimer, a rising China was likely to “dictate the boundaries of acceptable behaviour to neighbouring countries”.<sup>25</sup> A powerful China might challenge territorial boundaries, in particular disputed territories in the South China Sea and Taiwan.<sup>26</sup> Furthermore, it was argued that China will extend its power into the South and East China Seas to secure essential sea-lanes of communication<sup>27</sup> and, as it grows stronger, pursue a “more assertive and less cooperative” foreign policy.<sup>28</sup>

#### 1.1.1.1.2 The liberal perspective

The liberal perspective tends to take an optimistic view of China’s rise. However, one strand of thought that pressed for a more pessimistic outlook related to the role played by international democratisation in stabilising international relations. Liberals believe that democracy leads to peace, because democratic states avoid military conflict with one another.<sup>29</sup> The authoritarian nature of the Chinese government was singled out by liberals as a reason for concern. Some “optimists” argued that democratisation was under way,<sup>30</sup> though, according to Edward Mansfield and Jack Snyder, even a democratising China was threatening. States are most likely to initiate conflict when in transition from authoritarianism toward democracy.<sup>31</sup>

Aaron Friedberg claimed that “most observers would agree that China today is neither a totalitarian state nor a democracy”, but rather “an authoritarian regime of dubious legitimacy with an uncertain grip on power”.<sup>32</sup> Brzezinski saw China as “neither totalitarian

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<sup>24</sup> Huntington, Samuel P. "America's Changing Strategic Interests." *Survival* 33, no. 1 (1991), pp. 3-17.

<sup>25</sup> Mearsheimer, John J. "China's Unpeaceful Rise." *Current History* 105, no. 690 (2006), pp. 160-62.

<sup>26</sup> Bernstein, Richard, and Ross H. Munro. "The Coming Conflict with America." *Foreign Affairs* 76, no. 2 (1997), p. 18; Kristof, Nicholas D. "The Rise of China." *Foreign Affairs* 72, no. 5 (1993), p. 67.

<sup>27</sup> Bernstein, Richard, and Ross H. Munro. "The Coming Conflict with America." *Foreign Affairs* 76, no. 2 (1997), p. 19.

<sup>28</sup> Roy, Denny. "Hegemon on the Horizon? China's Threat to East Asian Security." *International Security* 19, no. 1 (1994), p. 150.

<sup>29</sup> Elman, Miriam Fendius. "The Need for a Qualitative Test of the Democratic Peace Theory." *In Paths to Peace: Is Democracy the Answer?*, edited by Miriam Fendius Elman, Cambridge, Mass.: MIT Press, 1997, pp. 1-57.

<sup>30</sup> Pei, Minxin. "'Creeping Democratization' in China." *Journal of Democracy* 6, no. 4 (1995), pp. 65-79; Pei, Minxin. "China's Evolution toward Soft Authoritarianism." In *What If China Doesn't Democratize? Implications for War and Peace*, edited by Edward Friedman and Barrett L. McCormick, New York: M.E. Sharpe, 2000, pp. 74-98.

<sup>31</sup> Mansfield, Edward D, and Jack Snyder. "Democratization and the Danger of War." *International Security* 20, no. 1 (1995), pp. 5-38.

<sup>32</sup> Friedberg, Aaron L. "The Future of U.S.-China Relations: Is Conflict Inevitable?" *International Security* 30, no. 2 (2005), p. 29.

nor democratic politically but an oligarchic-bureaucratic dictatorship".<sup>33</sup> The Chinese government's promises to continue to deliver economic growth, combined with appeals to nationalism, replaced communist ideology as the basis for legitimacy.<sup>34</sup> Denny Roy provided a gloomy view of Sino-US relations on this point because the US holds its commitment to democratic values very deeply; if the US ceased to criticise China on democracy and Taiwan, then it was less likely to perceive the US as a rival.<sup>35</sup>

#### 1.1.1.1.3 The constructivist perspective

Constructivists argue that international relations are "socially constructed". Unlike realists who emphasise that relations between states are a product of objective material factors, in particular military power, constructivists see interactions among states as shaped by subjective factors such as the beliefs and ideas that influence how actors interpret events and data.<sup>36</sup> The most important beliefs and ideas are identity, norms, and culture.<sup>37</sup> As Thomas J. Christensen and Aaron Friedberg pointed out, most constructivist scholars are optimists.<sup>38</sup> However, Alexander Wendt argued that, nevertheless, some "construction constraints" were so deeply rooted in people's minds as to make transformative strategies impossible.<sup>39</sup>

Thomas Berger was pessimistic about the prospect of regional stability, claiming that "the chief source of instability in the region today lies in the peculiar construction of national identity and interest on the part of the chief regional actors..."<sup>40</sup> The reason, he explained, was the deeply-rooted memory among Chinese and Koreans of the bitter history of conflict

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<sup>33</sup> Brzezinski, Zbigniew. "Living with China." *The National Interest*, no. 59 (2000), p. 11.

<sup>34</sup> Kissinger, Henry A. "China: Containment Won't Work." *The Washington Post* (June 13, 2005), <http://www.washingtonpost.com/wp-dyn/content/article/2005/06/12/AR2005061201533.html>. Accessed 12/07/2010

<sup>35</sup> Roy, Denny. "Rising China and U.S. Interests: Inevitable Vs. Contingent Hazards." *Orbis* 47, no. 1 (2003), pp. 125-37.

<sup>36</sup> For the classical account of constructivism approach in International Relations, see Wendt, Alexander. *Social Theory of International Politics*. New York: Cambridge University Press, 1999; Wendt, Alexander. "Constructing International Politics." *International Security* 20, no. 1 (1995), pp. 71-81.

<sup>37</sup> Jepperson, Ronald L, Alexander Wendt, and Peter J Katzenstein. "Norms, Identity, and Culture in National Security." In *The Culture of National Security: Norms and Identity in World Politics*, edited by Peter J Katzenstein, New York: Columbia University Press, 1996, pp. 33-75.

<sup>38</sup> Friedberg, Aaron L. "The Future of US-China Relations: Is Conflict Inevitable?" *International Security* 30, no. 2 (2005), pp. 34-36; Christensen, Thomas J. "Fostering Stability or Creating a Monster? The Rise of China and US Policy toward East Asia." *International Security* 31, no. 1 (2006), pp. 81-126.

<sup>39</sup> Wendt, Alexander. "Constructing International Politics." *International Security* 20, no. 1 (1995), p. 80.

<sup>40</sup> Berger, Thomas "Set for Stability? Prospects for Conflict and Cooperation in East Asia." *Review of International Studies* 26, no. 3 (2000), p. 420.

in the era of imperialism. Mutual insecurity generated by history was not pacified by economic interdependence or regional arrangements.<sup>41</sup> Some scholars noted the intensity and persistence of China's hostile images of Japan, causing continued suspicion on both sides.<sup>42</sup>

Regarding Sino-US relations, mutual perceptions were problematic. Holding a belief in its "manifest destiny", the US saw democracy as a universal model and was likely to continue to see the Chinese Communist regime as illegitimate and potentially dangerous. Thus the US saw itself as the defender of freedom in East Asia,<sup>43</sup> while China saw the US as a bully and threat, preventing it from reunifying with Taiwan.<sup>44</sup> When Wang Jisi, Dean of School of International Studies at Beijing University, was asked, "Who is your enemy?" by a delegation of visiting American academics in 2010, he replied: "Most Chinese would say the US is the enemy".<sup>45</sup>

#### 1.1.1.2 Optimistic views

Many analysts saw a variety of reasons not to fear China or the prospect that its rise will result in conflict: (i) China was simply not powerful enough to pose a significant military challenge; (ii) military expansionism was not historically part of Chinese culture; (iii) increased engagement and institutional involvement with the international community decreased the likelihood of conflict; (iv) economic cooperation and interdependence likewise reduced the likelihood of conflict; and (v) shared common global interests with the US made cooperation more attractive than military pursuits.

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<sup>41</sup> *Ibid.*

<sup>42</sup> Whiting, Allen S. *China Eyes Japan*. Berkeley: University of California Press, 1989; Manning, Robert A. "Burdens of the Past, Dilemmas of the Future: Sino-Japanese Relations in the Emerging International System." *The Washington Quarterly* 17, no. 1 (1994), pp. 45-58; Kristof, Nicholas D. "The Problem of Memory." *Foreign Affairs* 77, no. 6 (1998), pp. 37-49.

<sup>43</sup> George W. Bush used the term *crusade* to describe the war on terrorism, referring to "... this incredibly important crusade to *defend freedom*, this campaign to do what is right for our children and our grandchildren." Office of the Press Secretary, the White House. "President Rallies the Troops in Alaska " (February 16, 2002 ), <http://georgewbush-whitehouse.archives.gov/news/releases/2002/02/20020216-1.html>. Accessed 11/11/2010.

<sup>44</sup> Vogel, Ezra F. "Courting the People of China." *The Washington Post* (May 14, 2001), <http://search.proquest.com/docview/409108346?accountid=10910>. Accessed 15/10/2009.

<sup>45</sup> "Friend or Foe? A Special Report on China's Place in the World." *The Economist* 397, no. 8711 (December 4th-10th 2010), p. 8.

#### 1.1.1.2.1 Weak China

Some scholars argued that China's power was not as strong as it sometimes appeared. According to Thomas G. Rawski, in *What's Happening to China's GDP Statistics?*, the accuracy of the Chinese government's statistics was highly questionable, pointing out that figures released by the National Bureau of Statistics were not in line with those of the provincial or municipal data.<sup>46</sup> Arthur Waldron wrote that "China's leadership has worked hard to convince its populace and foreign investors that the country is economically healthy and growing, but key evidence indicates otherwise". He concluded "that today China's economy is dysfunctionally bifurcated" and that "the risk-laden charade cannot continue indefinitely".<sup>47</sup> Moreover, China's economic rise was all about face-lifting and showcase projects of government spending, with a lack of greater efficiency in resource utilisation. Economic development was too highly dependent on exports dominated by foreign invested companies, leaving China vulnerable to external shocks.<sup>48</sup>

Other scholars argued that domestic social and political problems disrupted unbridled growth. Instead of hailing China's strong economic fundamentals – a high savings rate, huge labour force, and powerful work ethic – as perceived by Western investors, Pei Minxin presented the dark side of China's rise: a flawed system of crony capitalism, rampant corruption, and widening inequality. He was sceptical about whether China can rise or not.<sup>49</sup> Impressive growth tended to ignore the hidden costs and low quality which were largely the consequences of bad governance due to institutional weaknesses in the political system. Pei lamented that China was trapped in "partial reform", and suggested that the way to get out of this "trapped transition" is to initiate political reform.<sup>50</sup>

Joe Studwell, the Chief Editor of *China Economy* in the US, likened the Chinese economy to "a building on a beach" and predicted that it will plunge into large-scale political and

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<sup>46</sup> Rawski, Thomas G. "What Is Happening to China's GDP Statistics?" *China Economic Review* 12, no. 4 (2001), pp. 347-54.

<sup>47</sup> Waldron, Arthur. "China's Economic Façade." *The Washington Post* (March 21, 2002), <http://search.proquest.com/docview/409247229?accountid=10910>. Accessed 11/11/2010.

<sup>48</sup> Waldron, Arthur. "The Rise of China: Military and Political Implications." *Review of International Studies* 31, no. 4 (2005), pp. 715-33.

<sup>49</sup> Pei, Minxin. "The Dark Side of China's Rise." *Foreign Policy*, no. 153 (2006), pp. 32-40.

<sup>50</sup> Pei, Minxin. *China's Trapped Transition: The Limits of Developmental Autocracy*. Cambridge, Mass.: Harvard University Press, 2006.

economic crisis, warning against investing in the bottomless pit of China.<sup>51</sup> Gordon Chang famously went even further, predicting that China will collapse. He described China as “a paper dragon”. “Peer beneath the veneer of modernisation since Mao's death”, he continued, “and the symptoms of decay are everywhere: Deflation grips the economy, state-owned enterprises are failing, banks are hopelessly insolvent, foreign investment continues to decline, and Communist party corruption eats away at the fabric of society”.<sup>52</sup>

Some argued that China was far from becoming a first-class military power, and therefore did not pose a serious challenge to the US. Gallagher argued that China was unlikely to wage war over disputed territory because it could not afford the military and economic consequences.<sup>53</sup> For Gerald Segal, China was a second-rate military power,<sup>54</sup> while Robert Ross argued that China’s military threat “has been mistakenly inflated”.<sup>55</sup> The backwardness of its defence industries and outdated military technology limited severely China’s power projection capabilities.<sup>56</sup> Ross concluded that China was too weak to pose a challenge to the balance of power in East Asia. Even though considerable progress was made modernising its offshore maritime capabilities, China did not threaten US vital interests in Southeast Asia.<sup>57</sup>

A subtly different version of the “weak China” argument was that China will never ascend to leadership in East Asia, because other great powers are in a position of unassailable dominance. Katzenstein, in this vein, argued that Japan, because of its political closeness to the US, and technological prowess, occupied a leading position in East Asia that China could never hope to usurp.<sup>58</sup>

#### 1.1.1.2.2 History

Some analysts believe that military expansionism was never a historical feature of Chinese state behaviour. While realists claim that it may restore its original greatness, and that a

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<sup>51</sup> Studwell, Joe. *The China Dream: The Elusive Quest for the Greatest Untapped Market on Earth*. London: Profile Books, 2003.

<sup>52</sup> Chang, Gordon G. *The Coming Collapse of China*. 1st ed. New York: Random House, 2001.

<sup>53</sup> Gallagher, Michael G. "China's Illusory Threat to the South China Sea." *International Security* 19, no. 1 (1994), pp. 169-94.

<sup>54</sup> Segal, Gerald. "Does China Matter?" *Foreign Affairs* 78, no. 5 (1999), pp. 24-36.

<sup>55</sup> Ross, Robert S. "Beijing as a Conservative Power." *Foreign Affairs* 76, no. 2 (1997), pp. 33-44.

<sup>56</sup> Nathan, Andrew J, and Robert S Ross. *The Great Wall and the Empty Fortress: China's Search for Security*. New York: Norton, 1997.

<sup>57</sup> Ross, Robert S. "Assessing the China Threat." *The National Interest* 81 (2005), pp. 81-87.

<sup>58</sup> Katzenstein, Peter J. *A world of regions: Asia and Europe in the American imperium*. Ithaca: Cornell University Press, 2005.

powerful China will seek to return to the Middle Kingdom,<sup>59</sup> the late influential American historian John Fairbank noted that its tribute system, which dominated East Asia for centuries, was relatively benign and defensive.<sup>60</sup> Though Alastair Iain Johnston argued that traditional China's strategic culture was more consistent with a hard *Realpolitik*, or *parabellum* mindset, than the Confucian-Mencian tradition,<sup>61</sup> Shambaugh pointed out that historically China's statecraft was not coercive.<sup>62</sup> Even Henry Kissinger accepted that China had no history of military expansionism.<sup>63</sup>

Wang Gungwu argued that China was undergoing a "fourth rise", one that was very different from previous rises in the Qin, Tang and Ming dynasties, during which imperial China exerted strong influence mainly through culture. China integrated itself into the Western international system so that Professor Wang dismissed the idea that it sought to change that system. Instead, China was a major force promoting economic integration in East Asia by participating in regional institutions. Compared with its past, China was more proactive.<sup>64</sup>

#### 1.1.1.2.3 Institutions

Liberals view the international system as capable of three transformations: the emergence of a variety of norms, rules and institutions, an increase in trade and economic interdependence, and increased democratisation,<sup>65</sup> which are conducive to cultivating cooperation among states, and having a pacifying effect on conflict.<sup>66</sup>

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<sup>59</sup> Kristof, Nicholas D. "The Rise of China." *Foreign Affairs* 72, no. 5 (1993), pp. 70-72.

<sup>60</sup> Fairbank, John K. "A Preliminary Framework." In *The Chinese World Order: Traditional China's Foreign Relations*, edited by John K Fairbank. Cambridge, Mass.: Harvard University Press, 1968, pp. 1-19.

<sup>61</sup> Johnston, Alastair Iain. *Cultural Realism: Strategic Culture and Grand Strategy in Chinese History*. Princeton, N.J.: Princeton University Press, 1995.

<sup>62</sup> Shambaugh, David. "China Engages Asia: Reshaping the Regional Order." *International Security* 29, no. 3 (2005), p. 95.

<sup>63</sup> Kissinger, Henry A. "China: Containment Won't Work." *The Washington Post* (June 13, 2005), <http://www.washingtonpost.com/wp-dyn/content/article/2005/06/12/AR2005061201533.html>.

<sup>64</sup> Wang, Gungwu. "China Embracing Its Fourth Rise." *Global Times* (February 27, 2010), <http://www.people.com.cn/GB/junshi/2366645.html>. Accessed 06/10/2010

<sup>65</sup> Keohane, Robert O., and Joseph S. Nye. *Power and Interdependence*. 2nd ed. Glenview, Ill.: Scott, Foresman, 1989; Keohane, Robert O. *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton, N.J.: Princeton University Press, 1984.

<sup>66</sup> For an overview regarding the existence of what liberals describe as the "Kantian triangle", see Russett, Bruce M., and John R Oneal. *Triangulating Peace: Democracy, Interdependence, and International Organizations*. New York: Norton, 2001.



Liberals have great faith in international institutions regulating and coordinating cooperation among states. Institutions changed how actors defined their interests but also the identity of actors, making them more peaceful and cooperative. Institutions helped states communicate better with one another.<sup>67</sup>

From the liberal perspective, China's increased participation in multilateral international and regional organisations were strong grounds for optimism about the peaceful future of East Asia. Margaret Pearson demonstrated that multilateral institutions such as the World Bank, International Monetary Fund (IMF) and World Trade Organisation (WTO) played a significant role in integrating China into the global economy. In her view engagement encouraged China to play by the "rules of the game" and engage in cooperative behaviour. With WTO accession in 2001, the Chinese government's numerous policy reforms to conform with international rules were seen as strong evidence for the value of engaging China by means of multinational institutions.<sup>68</sup> Alastair Iain Johnston and Paul Evans argued that China's participation in multilateral security institutions increased dramatically during 1990-2011, helping to bolster its image as a responsible and cooperative major power, and a stabilising regional influence.<sup>69</sup>

In East Asia, China embraced multilateralism and became actively involved in regional institutions promoting cooperation,<sup>70</sup> notably the Association of Southeast Asian Nations (ASEAN), ASEAN Regional Forum (ARF), ASEAN+1 (ASEAN-China Cooperation) and ASEAN+3.<sup>71</sup> Despite disputes over the South China Sea, China signed ASEAN's *Declaration of*

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<sup>67</sup> Keohane, Robert O. *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton, N.J.: Princeton University Press, 1984.

<sup>68</sup> Pearson, Margaret M. "The Major Multilateral Economic Institutions Engage China." In *Engaging China: The Management of an Emerging Power*, edited by Alastair Iain Johnston and Robert S. Ross, New York: Routledge, 1999, pp. 207-34.

<sup>69</sup> Johnston, Alastair Iain, and Paul Evans. "China's Engagement with Multilateral Security Institutions." In *Engaging China: The Management of an Emerging Power*, edited by Alastair Iain Johnston and Robert S Ross, New York: Routledge, 1999, pp. 235-72.

<sup>70</sup> Kuik, Cheng-Chwee. "Multilateralism in China's ASEAN Policy: Its Evolution, Characteristics, and Aspiration." *Contemporary Southeast Asia* 27, no. 1 (2005), pp. 102-23.

<sup>71</sup> Acharya, Amitav. "Realism, Institutionalism, and the Asian Economic Crisis." *Contemporary Southeast Asia* 21, no. 1 (1999), pp. 1-29; Kuik, Cheng-Chwee. "Multilateralism in China's ASEAN Policy: Its Evolution, Characteristics, and Aspiration." *Contemporary Southeast Asia* 27, no. 1 (2005), pp. 102-23.

*Code of Conduct on the South China Sea*. David Kang argued that China sought peaceful resolution of territorial disputes rather than expansionism.<sup>72</sup>

Development of Sino-ASEAN relations was cited by Chinese scholars as strong evidence that China was committed to rising peacefully.<sup>73</sup> Thomas Christensen argued that institutions offered the opportunity for, in particular, China, Japan and South Korea to communicate with each other and reduce mutual distrust and misperceptions resulting from historical enmities.<sup>74</sup> Michael Yahuda's examination of China's contribution to regional cooperation demonstrated that it was a mechanism for it to work together with neighbours to better manage tensions.<sup>75</sup> For optimists, China's absorption into international and regional institutions had a positive impact on Sino-US relations. Yahuda argued that US pre-eminence in East Asia was not threatened despite China's economic growth and defence modernisation.<sup>76</sup> David Lampton noted that the growing strength of China's remunerative (money), coercive (guns), and normative (ideas) powers did not produce a Sino-centric regional order. In fact, "the principal directions in which Chinese policy" moved were "consistent with fundamental US interests". The US made adjustments in response to China's rise, but the tendency towards increased interdependence and integration was very much in US interests.<sup>77</sup>

From a constructivist perspective, China's increasing participation in international and regional arrangements will change underlying beliefs, interests and conceptions of national identity. Some scholars noted that its gradual acceptance of regional institutions was a significant change in attitudes towards multilateralism, from caution and suspicion in the

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<sup>72</sup> Kang, David C. *China Rising: Peace, Power, and Order in East Asia*. New York: Columbia University Press, 2007.

<sup>73</sup> Zhai, Kun. "The Rise of China and the Development of Relations between the PRC and ASEAN, 1991-2020: A Historical Survey and a Strategy for the Future." *Far Eastern Affairs*, no. 4 (2005), pp. 28-42; Yang, Qing. "China's Path to Peaceful Rise: From the Development of China-ASEAN Relations Perspective." *In China's New Path to Peaceful Rise*, edited by The Institute of International Strategic Research of Party School of Central Committee, Beijing: Party School of Central Committee Press 2004, pp. 276-301.

<sup>74</sup> Christensen, Thomas J. "Fostering Stability or Creating a Monster? The Rise of China and US Policy toward East Asia." *International Security* 31, no. 1 (2006), pp. 81-126.

<sup>75</sup> Yahuda, Michael. "The Evolving Asian Order: The Accommodation of Rising Chinese Power." *In Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley, Calif.: University of California Press, 2005, pp. 347-61.

<sup>76</sup> *Ibid.*

<sup>77</sup> Lampton, David M. "China's Rise in Asia Need Not Be at America's Expense." *In Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley, Calif.: University of California Press, 2005, pp. 306-26.

early 1990s to a comfortable level of active involvement by the late 1990s.<sup>78</sup> Alastair Iain Johnston and Paul Evans wrote that China's leaders became "more sensitive to social incentives" and more fearful "of appearing to be the pariah".<sup>79</sup> For Kang, China's identity over thirty years was transformed "from an ideologically driven, isolated state under Mao Zedong into an active regional and global player with deep international ties".<sup>80</sup> It moved beyond long-held "victim" to "great power" mentality, as Evan Medeiros and Taylor Fravel observed. They argued that China's new diplomatic face looked more confident, and officials talked explicitly about the need to "share global responsibilities".<sup>81</sup>

#### 1.1.1.2.4 Economic cooperation and interdependence

From a liberal perspective, economic exchange allows trade and investment to flow between states, providing more benefits from cooperation than competition. States have a strong self-interest in avoiding conflict and preserving peace. Thus, economic cooperation and interdependence between China, its neighbours, and the US, reduced the likelihood of conflict.

Closer economic ties with ASEAN were marked by the China-ASEAN Free Trade Area (CAFTA), which came into effect on 1 January 2010. Arguably, the agreement signaled greater East Asian cooperation and interdependence.<sup>82</sup> Nevertheless, concerns were expressed about whether CAFTA was an economic threat to Southeast Asia.<sup>83</sup> John Ravenhill's analysis of the

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<sup>78</sup> Kuik, Cheng-Chwee. "Multilateralism in China's ASEAN Policy: Its Evolution, Characteristics, and Aspiration." *Contemporary Southeast Asia* 27, no. 1 (2005), pp. 102-23; Shambaugh, David. "China Engages Asia: Reshaping the Regional Order." *International Security* 29, no. 3 (2005), pp. 64-99; Johnston, Alastair Iain. "The Myth of the ASEAN Way? Explaining the Evolution of the ASEAN Regional Forum." In *Imperfect Unions: Security Institutions over Time and Space*, edited by Helga Laftendorn, Robert O Keohane and Celeste A Wallander, New York: Oxford University Press, 1999, pp. 287-324.

<sup>79</sup> Johnston, Alastair Iain, and Paul Evans. "China's Engagement with Multilateral Security Institutions." *Engaging China: The Management of an Emerging Power*, edited by Alastair Iain Johnston and Robert S Ross, p. 265.

<sup>80</sup> Kang, David C. *China Rising: Peace, Power, and Order in East Asia*, 2007, p. 80.

<sup>81</sup> Medeiros, Evan S., and M. Taylor Fravel. "China's New Diplomacy." *Foreign Affairs* 82, no. 6 (2003), pp. 22-35.

<sup>82</sup> Cai, Kevin G. "The ASEAN-China Free Trade Agreement and East Asian Regional Grouping." *Contemporary Southeast Asia*, 25, no. 3 (2003), pp. 387-404; Sheng, Lijun. "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations." *ISEAS Working Paper: International Politics & Security Issues Series*, no. 1 (2003), pp. 1-23.

<sup>83</sup> Weiss, John, and Shanwei Gao. "People's Republic of China's Export Threat to ASEAN: Competition in the US and Japanese Markets." *Asian Development Bank Institute Discussion Paper*, no. 2 (2002), pp. 1-28; Weiss, John. "People's Republic of China and Its Neighbors: Partners or Competitors for Trade and Investment?" *Asian Development Bank Institute Research Paper Series*, no. 13 (2004).

economic data indicated a very positive impact.<sup>84</sup> Kevin Cai argued that CAFTA was a significant development which will facilitate the forging of an East Asian regional grouping.<sup>85</sup> While China's motivations for cultivating closer economic ties with ASEAN through ASEAN+3 and CAFTA were economically and strategically motivated, that is, intended to dilute the US presence,<sup>86</sup> Sheng Lijun contended that its economic and security interests were not necessarily at odds with the US.<sup>87</sup>

Kang argued that Southeast Asian economies "accommodated" rather than "balanced" China. They saw it as a stabilising force.<sup>88</sup> Rapid development of Beijing-Seoul economic and political relations after the early 1990s served as a buffer against instability caused by North Korea's nuclear program, while limiting US ability to undertake unilateral military action.<sup>89</sup> Jae Ho Chung argued that strategic realignments on the Peninsula may occur, but only in the long term,<sup>90</sup> though Kang took a more optimistic view, applauding the triumph of economic interdependence over power politics in South Korea's foreign policy.<sup>91</sup> On the Korean Peninsula, diminished US influence stood in stark contrast to increased Chinese influence in dealing with the North Korea issue.<sup>92</sup>

The Chinese and US economies were intertwined to such an extent that the coupling was described as "Chimerica" by Niall Ferguson.<sup>93</sup> China had the largest trade surplus with the US and was its largest creditor. While such interdependence was viewed by some as a threat,<sup>94</sup> as Nicholas Lardy pointed out,<sup>95</sup> others took a more balanced view, arguing that US

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<sup>84</sup> Ravenhill, John. "Is China an Economic Threat to Southeast Asia?" *Asian Survey* 46, no. 5 (2006), pp. 653-74.

<sup>85</sup> Cai, Kevin G. "The ASEAN-China Free Trade Agreement and East Asian Regional Grouping." *Contemporary Southeast Asia*, 25, no. 3 (2003), pp. 387-404.

<sup>86</sup> Sheng, Lijun. "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations." *ISEAS Working Paper: International Politics & Security Issues Series*, no. 1 (2003), pp. 1-23; Ba, Alice D. "China and ASEAN: Renavigating Relations for a 21st-Century Asia." *Asian Survey* 43, no. 4 (2003), pp. 622-47.

<sup>87</sup> Sheng, Lijun. "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations." *ISEAS Working Paper: International Politics & Security Issues Series*, no. 1 (2003), pp. 1-23.

<sup>88</sup> Kang, David C. *China Rising: Peace, Power, and Order in East Asia*, pp. 126-152.

<sup>89</sup> Chung, Jae Ho. "China's Ascendancy and the Korean Peninsula: From Interest Reevaluation to Strategic Realignment." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley, Calif: University of California Press 2005, pp. 151-69.

<sup>90</sup> *Ibid.*

<sup>91</sup> Kang, David C. *China Rising: Peace, Power, and Order in East Asia*, pp. 104-25.

<sup>92</sup> *Ibid.*

<sup>93</sup> Ferguson, Niall, and Schularick Moritz. "'Chimerica' and the Global Asset Market Boom." *International Finance* 10, no. 3 (2007), pp. 215-39.

<sup>94</sup> Elwell, Craig K., Marc Labonte, and Wayne M. Morrison. "Is China a Threat to the US Economy?" *CRS Report for Congress, RL33604* (Updated January 23, 2007), [www.fas.org/sgp/crs/row/RL33604.pdf](http://www.fas.org/sgp/crs/row/RL33604.pdf). Accessed 22/12/2010.

economic problems existed for decades, China did not do any more than Japan in the 1980s, and that scapegoating China could not solve US problems.<sup>96</sup> China's economic growth brought enormous benefits not only to US companies and consumers,<sup>97</sup> but also to the US Treasury.<sup>98</sup> Lampton noted that China was not just a seller, but a buyer and investor.<sup>99</sup> In Lardy's view, China represented an economic opportunity for the US.<sup>100</sup>

Taking a liberal view, Brzezinski dismissed Mearsheimer's pessimistic anticipation of China's violent rise. He observed, instead, that political realities directed China to maintain economic growth rather than pursue confrontational policies.<sup>101</sup> Robert Ross reminded us of the importance of geography in the distribution of power. He argued that East Asia was a bipolar system in which the US was a maritime power and China a continental power. The "balance" was stable and likely to remain peaceful, as China could not choose to compete directly with the US military.<sup>102</sup>

#### 1.1.1.2.5 Common interests

Some scholars stressed that sharing interests in common with the international community, especially the US, meant that the cooperative pursuit of those interests was more attractive than pursuing them by military means. James Richardson contended that contemporary shared political and economic interests outweigh potential conflict deriving from the

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<sup>95</sup> Lardy, Nicholas R. "The Economic Rise of China: Threat or Opportunity?" *Federal Reserve Bank of Cleveland* (August 1, 2003), [www.clevelandfed.org/research/commentary/2003/0801.pdf](http://www.clevelandfed.org/research/commentary/2003/0801.pdf). Accessed 05/07/2009

<sup>96</sup> Bergsten, C. Fred, Bates Gill, Nicholas R. Lardy, and Derek Mitchell. *China: The Balance Sheet: What the World Needs to Know Now About the Emerging Superpower*. New York: Public Affairs, 2006.

<sup>97</sup> Bergsten, C. Fred, Bates Gill, Nicholas R. Lardy, and Derek Mitchell. *China: The Balance Sheet: What the World Needs to Know Now About the Emerging Superpower*, pp. 73-117; Lampton, David M. "China's Rise in Asia Need Not Be at America's Expense." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, pp. 321-23.

<sup>98</sup> Lampton, David M. "China's Rise in Asia Need Not Be at America's Expense." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, p. 322; Ferguson, Niall. "'Chimerica' Is Headed for Divorce." *Newsweek* (August 14, 2009), <http://www.newsweek.com/id/212143/>. Accessed 25/08/2009.

<sup>99</sup> Lampton, David M. "The Faces of Chinese Power." *Foreign Affairs* 86, no. 1 (2007), pp. 115-27; Lampton, David M. *The Three Faces of Chinese Power: Might, Money and Minds*. Berkeley: University of California Press, 2008.

<sup>100</sup> Lardy, Nicholas R. "The Economic Rise of China: Threat or Opportunity?" *Federal Reserve Bank of Cleveland* (August 1, 2003), [www.clevelandfed.org/research/commentary/2003/0801.pdf](http://www.clevelandfed.org/research/commentary/2003/0801.pdf).

<sup>101</sup> Brzezinski, Zbigniew, and John J Mearsheimer. "Clash of the Titans." *Foreign Policy* 146, no. 1 (2005), pp. 46-49.

<sup>102</sup> Ross, Robert S. "The Geography of the Peace: East Asia in the Twenty-First Century." *International Security* 23, no. 4 (1999), pp. 81-118.

past.<sup>103</sup> Thus, for David Kang, conflict between China and the US was not inevitable. The two shared common interests in many areas such as stabilisation of the Korean Peninsula, concerns about terrorism and global pandemics. In particular, he argued that as the two economies were increasingly intertwined, their economic interests were also aligned.<sup>104</sup>

Kang's view was echoed by David Shambaugh who pointed out that Chinese and US interests converged across a range of regional issues. In addition to those noted by Kang, the two cooperated on dealing with non-traditional security issues such as drug smuggling and organised crime, and ensuring energy and economic security in the region.<sup>105</sup>

In a collaborative book *China: the Balance Sheet*, four leading China specialists concluded that China and the US had strong common interests on a range of issues that straddle economics and security. On the economic front, they had incentives to cooperate in order to maintain global economic and financial stability. On the security side, apart from the denuclearisation of North Korea and counter-terrorism, China and the US had "a particular joint interest" in preserving the stability of the Taiwan Straits, which would otherwise lead to regional conflict. Keeping China's economic growth on the right track was in the US's best interests.<sup>106</sup>

Indeed, common interests called for stronger Sino-US cooperation. Robert Zoellick, Deputy Secretary of State in the second Bush Administration, described China as "a responsible stakeholder",<sup>107</sup> in contrast to Secretary of State Rice's view of China as a "strategic competitor". The Obama administration went further, when Secretary of State Hillary Clinton stated that China and the US were "in the same boat" during the Global Financial

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<sup>103</sup> Richardson, James L. "Asia-Pacific: The Case for Geopolitical Optimism." *The National Interest*, no. 38 (1994), pp. 28-38.

<sup>104</sup> Kang, David C. *China Rising: Peace, Power, and Order in East Asia*, p. 199.

<sup>105</sup> Shambaugh, David. "China Engages Asia: Reshaping the Regional Order." *International Security* 29, no. 3 (2005), p. 92, table 2.

<sup>106</sup> Bergsten, C. Fred, Bates Gill, Nicholas R. Lardy, and Derek Mitchell. *China: The Balance Sheet: What the World Needs to Know Now About the Emerging Superpower*, pp. 155-61.

<sup>107</sup> Zoellick, Robert B. "Whither China: From Membership to Responsibility?" *Remarks to the National Committee on US-China Relations* (September 21, 2005),

<http://www.nbr.org/publications/analysis/pdf/vol16no4.pdf>. Accessed 21/02/2009

Crisis in 2009. President Obama committed to forging a shared path to the future “through sustained cooperation, not confrontation”.<sup>108</sup>

### 1.1.2 Chinese perspective

In the Chinese literature discussing China’s “peaceful rise”, a notable difference with the Western literature was greater emphasis on the notion that international relations is not a zero-sum game, and common interests should always be sought with other states. It must be noted, though, that there were few books and journal articles in Chinese academia in the 1990s on “the rise of China”. The literature was responsive largely to the so-called “China threat” thesis and, according to Herbert Yee and Zhu Feng, it was rhetorical, dogmatic and close to the official line.<sup>109</sup> More in-depth and serious studies appeared only after 1997, while still responding mainly to the China threat issue.<sup>110</sup> The following literature review provides the views of leading Chinese academics on China’s “peaceful rise”, first articulated officially as a national strategy in 2003.

#### 1.1.2.1 Pessimistic views

Some Chinese scholars were pessimistic about China’s peaceful rise. Arguing from a realist perspective, they claimed that a “peaceful rise” is impossible because the history of the rise of great powers is always accompanied by war. A peaceful rise has no historical precedent.

Professor Pan Wei argued that in neither ancient Greece, the Chinese Spring and Autumn and the Warring States (*chunqiu zhanguo*) periods, nor the history of western imperial expansionism, was the story of a “peaceful rise”. The rise of the US, whether in pursuit of or maintaining hegemony, was a history of fighting wars. He argued further that peace was made and maintained by force. He warned that China was far from having “risen”, if that meant “sitting with the US side by side” (*pingqi pingzuo*). China’s peaceful rise was a distant dream if not an illusion.<sup>111</sup> Pang Zhongying argued also that, historically, nearly all great

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<sup>108</sup> Office of the Press Secretary, The White House. "Remarks by the President at the US-China Economic and Strategic Dialogue." (July 27, 2009), [http://www.whitehouse.gov/the\\_press\\_office/Remarks-by-the-President-at-the-US/China-Strategic-and-Economic-Dialogue/](http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-at-the-US/China-Strategic-and-Economic-Dialogue/). Accessed 05/08/2009.

<sup>109</sup> Yee, Herbert, and Feng Zhu. "Chinese Perspective of the China Threat: Myth or Reality?" In *The China Threat: Perceptions, Myths and Reality*, edited by Herbert Yee and Ian. Storey, New York: Routledge, 2002, pp. 21-42.

<sup>110</sup> *Ibid.*

<sup>111</sup> Pan, Wei. "Regarding 'China's Peaceful Rise'." (2004), <http://www.irchina.org/xueren/china/view.asp?id=687>. Accessed 12/03/2009.

powers rise through non-peaceful means, so that history cannot lend experiential support for China's rise. Whether China will find a distinctive way to rise peacefully had to be tested by time.<sup>112</sup>

Professor Niu Jun from Beijing University argued that the US views China's rise through the prism of its own experience.<sup>113</sup> The claim that China is a peace-loving nation, he argued, was not a sufficient and convincing retort. It faced many challenges in a complicated regional environment. Niu Jun asked, for instance: "Suppose one day China's sea-lane through Southeast Asia is disrupted by a certain country, do we need a strong navy to protect China's maritime security?" How China was to achieve a peaceful rise was therefore a serious issue to contemplate.<sup>114</sup> Xiang Lanxin argued that the often-made argument that China should learn from Great Britain's imperial experiences, not the US, was misleading.<sup>115</sup> Its path was paved by military expansionism and had nothing to do with peace, so that the self-proclaimed concept of a peaceful rise was tantamount to wishful thinking.<sup>116</sup>

Professor Yan Xuetong from Qinghua University argued that as the gap between China and the US appeared to shrink, it is fair to say that China was challenging US primacy. But he stressed explicitly that the US posed a threat to peace by asking that if China wanted to maintain peace, yet the US acted aggressively, then how was China to respond? He concluded that maintaining peace while rising was a strategic dilemma.<sup>117</sup>

### 1.1.2.2 *Optimistic views*

The optimistic views in the Chinese literature mirrored the main themes found in the Western literature to some extent, with Chinese exponents of each of the five themes discussed under Western optimism. In addition, some Chinese scholars noted that the

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<sup>112</sup> Pang, Zhongying. "Five Ws and One H: Basic Issues Regarding China's Peaceful Rise." (2004), <http://news.sina.com.cn/o/2004-03-23/01042115815s.shtml>. Accessed 12/03/2009.

<sup>113</sup> Gu, Yuanyang, Jun Niu, and Jianmin Wu. "Looking Back on the Rise and Fall of Great Powers, Guiding China's Rise." *Global Times* (February 20, 2004), <http://www.irchina.org/news/view.asp?id=350>. Accessed 15/03/2009.

<sup>114</sup> *Ibid.*

<sup>115</sup> Xiang, Langxin. "Peaceful Rise and Geopolitics." (2004), <http://www.rus.org.cn/eWebEditor/Example/NewsSystem/disp.asp?dispid=259>. Accessed 12/03/2009.

<sup>116</sup> *Ibid.*

<sup>117</sup> Yao, Deyan, and Binyang Zhang. "Experts' Review on China's Strategy of Peaceful Rise." *International Herald* (April 7, 2004), <http://news.sina.com.cn/c/2004-04-07/18023106506.shtml>. Accessed 18/04/2009.



notion of a peaceful rise became intrinsic to China's image of itself. I review the writings of China's optimistic scholars, as well as a number of their policy recommendations.

#### 1.1.2.2.1 Weak China/is China rising?

Huang Annian, a professor from Beijing Normal University, argued that the word "rise" was too dramatic and inappropriate for describing China's national development strategy. First, because history provided no evidence that great powers rise peacefully, it was difficult to persuade others that China's rise will be peaceful. Secondly, China's "rise" was a long process for which it was difficult to frame starting and end points. Thirdly, putting "peaceful" before the word "rise" did not make much difference: the message was still that China was about to rise, and a rising country necessarily changed the balance of power.<sup>118</sup> Zhang Hongxi, Chief Editor of *World Affairs*, concluded that the very phrase "China's rise" was a poisonous drug, debilitating people's minds. Professor Niu Jun concurred, claiming that China's rise was a dream, not a reality, and nothing but a vague self-image in people's minds.<sup>119</sup> As a developing country with a large population living in poverty, it was by no means rising.<sup>120</sup> Liu Dexi, by way of contrast, analysed China's foreign policy over different historical periods and concluded that the pursuit of peace is at its essence.<sup>121</sup>

#### 1.1.2.2.2 Institutions

Others interpreted "peaceful rise" as not referring narrowly to a rise in material power, but to the (re-)emergence of Chinese civilization and reliance upon "soft power" to build political and cultural systems that suit national identity and develop the capacity to advance great-power status. Ren Donglai, through analysing the history of the 20<sup>th</sup> century, concluded that a market economy, democracy under the rule of law, and a peaceful internal and external environment were the institutional prerequisites for becoming a global power.<sup>122</sup> Professor Pang Zhongying from Renmin University, in *Five Ws and One H: the*

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<sup>118</sup> Huang, Annian. "On Peaceful Development and Peaceful Rise." (2008), <http://www.sciencenet.cn/m/Print.aspx?id=51862>. Accessed 18/04/2009.

<sup>119</sup> Niu, Jun. "The Rise of China: Between a Dream and the Reality." *International Economic Review*, no. 6 (2003), <http://www.irchina.org/xueren/china/view.asp?id=678>. Accessed 06/10/2009.

<sup>120</sup> Zhang, Hongxi. "Please Do Not Drink 'Ecstasy' Alcohol." *World Affairs* (December 28, 2005), <http://world.people.com.cn/GB/1030/3981659.html>. Accessed 06/10/2009.

<sup>121</sup> Liu, Dexi. "China's Development and Its Foreign Policy Direction." *World Politics Studies*, no. 1 (2004), pp. 29-36.

<sup>122</sup> Ren, Donglai. "Institutional Framework and Tradition of Thinking for Great Powers' Rise: The American Example." In *Great Powers*, edited by Quanxi Gao, Beijing: Beijing University Press, 2004, pp. 146-65.

*Basic Issues Regarding China's Peaceful Rise* and *Peaceful Rise lies in "Peace"*, suggested that foreign policy should be human-oriented (*yiren weiben*), and guaranteed by Ren's market economy, democratic politics and the rule of law.<sup>123</sup> Pang argued that peace is the end, means and consequence of China's rise.<sup>124</sup>

#### 1.1.2.2.3 Economic interdependence

Some believed that the conventional wisdom of the violent ascendancy of great powers was not an iron-clad law, so China's path to great power status can be peaceful. From an economic perspective, Su Jingxiang contended that economic growth benefited from interdependence in the era of globalisation, and integrating into the international system was compatible with China's national interests. Thus, it was logical that China's rise was peaceful.<sup>125</sup>

#### 1.1.2.2.4 Common interests

Xu Jian agreed for two reasons; it was consistent with common interests shared with the international community, and was China's declared international strategy.<sup>126</sup> Ding Songquan argued that Sino-US relations will be stable, healthy and constructive because of common interests and issues on which they need to cooperate.<sup>127</sup> Liu Huihua made the same argument,<sup>128</sup> as did Professor Wang Jisi.<sup>129</sup> On Sino-Japanese relations, Wang Shaopu argued that rivalry was not the necessary fate of bilateral relations. China's rise, instead, brought more opportunities for Japan, not less.<sup>130</sup>

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<sup>123</sup> Pang, Zhongying. "Five Ws and One H: Basic Issues Regarding China's Peaceful Rise." (2004), <http://news.sina.com.cn/o/2004-03-23/01042115815s.shtml>; Pang, Zhongying. "'Peaceful Rise' Lies in 'Peace'." *Southern Weekly* (March 25, 2004), <http://www.irchina.org/xueren/china/view.asp?id=681>. Accessed 12/03/2009.

<sup>124</sup> Pang, Zhongying. "Human-Oriented: The New Element in China's Foreign Policy" *Eastern Daily* (March 10, 2004), <http://www.irchina.org/xueren/china/view.asp?id=675>. Accessed 12/03/2009.

<sup>125</sup> Su, Jingxiang. "China's Peaceful Rise and East Asia's Future." *Contemporary World*, no. 1 (2004), pp. 14-16.

<sup>126</sup> Xu, Jian "Peaceful Rise Is China's Strategic Choice." *International Studies Perspectives*, no. 2 (2004), pp. 1-8.

<sup>127</sup> Ding, Songquan. "China's Rise and Sino-US Relations." *Journal of Hangzhou Normal University*, no. 1 (2003), pp. 112-16.

<sup>128</sup> Liu, Huihua "China's Rise Does Not Mean Sino-US Confrontation." *Global Times* (March 5, 2004), <http://www.people.com.cn/GB/junshi/2380355.html>. Accessed 06/10/2009.

<sup>129</sup> Wang, Jisi. "China's Search for Stability with America." *Foreign Affairs* 84, no. 5 (2005), pp. 39-48.

<sup>130</sup> Wang, Shaopu. "China's Rise and Its Relations with Japan." *World Economy Studies*, no. 12 (2003), pp. 4-6.

#### 1.1.2.2.5 Self-image/responsible power

A number of scholars argued that China's rise was likely to be peaceful because provoking military conflict was inconsistent with its self-image as a responsible power. Zhuang Liwei used the term "constructive rise", by which he meant that it should be evaluated in terms of the institutional innovation of Chinese society and expansion of its international influence. Zhuang proposed that China build the image of a power that shared international responsibility and advocated international cooperation. China's rise was not a zero-sum game in the way that conventional realists viewed world politics.<sup>131</sup>

#### 1.1.2.2.6 Policy

Several scholars went on to make recommendations about strategies that China should choose. Shi Feng suggested a single currency strategy between the mainland, Taiwan, Hong Kong and Macao in order to promote a yuan-dominant regional economy.<sup>132</sup> Huang Renguo argued that China pursue a comprehensive strategy of peace and development because overcoming obstacles to growth was to its advantage,<sup>133</sup> while Huang Renwei argued that the correct choice was a domestic policy of continuing reform and opening-up with a foreign policy of peace and development.<sup>134</sup> Xiang Lanxin suggested that China focus on building Eurasian cooperation while gradually reducing dependence on the Asia-Pacific, which over-emphasised the importance of US foreign policy on China's options.<sup>135</sup> Professor Shi Yinhong, from Renmin University, suggested that China required five long-term and basic "platforms": stable relations with the US, a Chinese-led regional multilateral security and economic cooperation mechanism, regional organisations, an economic foreign policy, and special relations with some countries (e.g. Russia) which were important geopolitically, though the China-US relationship was the most important.<sup>136</sup>

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<sup>131</sup> Zhuang, Liwei. "China: A Constructive Rise." *Nan feng chuang*, no. 1 (2004), pp. 22-25.

<sup>132</sup> Shi, Feng. "Single Currency: New Thinking on China's Peaceful Rise." *Review of Economic Research*, no. 5 (2004), pp. 2-16.

<sup>133</sup> Huang, Renguo. "On China's Rise." *Theory Monthly*, no. 8 (2005), pp. 46-48.

<sup>134</sup> Huang, Renwei. "Tentative Analysis of New Concept of China's Peace Strategy." *Studies on Mao Zedong and Deng Xiaoping's theories*, no. 6 (2004), pp. 59-62.

<sup>135</sup> Xiang, Langxin. "Peaceful Rise and Geopolitics." (2004), <http://www.rus.org.cn/eWebEditor/Example/NewsSystem/disp.asp?dispid=259>.

<sup>136</sup> Shi, Yinhong. "China's Peaceful Rise Requires Five Platforms, Sino-US Relations Is the Key." *International Herald* (March 22, 2004), <http://www.china.com.cn/chinese/zhuanti/hp/531497.htm>. Accessed 06/10/2009.

China was, at best, at the initial stage of rising. Whether China could fulfill what its leaders called the “period of strategic opportunity” was dependent on both internal stability and a peaceful external environment. Professor Wang Jisi from Beijing University argued that China should not take “peace” or “rise” for granted; an international opportunity was provided only when internal stability was guaranteed.<sup>137</sup> Professor Jiang Lingfei from the National Defence University tried to determine the stage of China’s development. He argued its international role shifted from challenging the system to advocating the status quo. Globalisation provided great opportunities for peaceful development.<sup>138</sup> Luo Yuan from the Academy of Military Sciences argued that nurturing a peaceful environment was in its early stages, and required a strong national defence force.<sup>139</sup> The primary task was to become a regional power.<sup>140</sup>

Yu Hongjun argued that “peaceful rise” as a strategic goal, was not only about economic growth but also improving comprehensive national power and enhancing China’s international position. He identified three stages: about to rise, rising, and risen, and argued that China was only just beginning to rise.<sup>141</sup> Wu agreed, arguing that it was merely part of East Asia’s “rise”,<sup>142</sup> while for Zhang Yunling, from the Chinese Academy of Social Sciences (CASS), China rise had started, but was a long process with many uncertainties and challenges.<sup>143</sup> Other scholars focussed on foreign policy behaviour. Huang Renguo argued that China’s good-neighbourly policy and diplomatic practices provided theoretical as well as reality-based foundations for a peaceful rise,<sup>144</sup> while Zheng Yongnian stressed the effectiveness of its economic diplomacy.<sup>145</sup> For Professor Meng Xiangqing from the National Defence University the key to China’s rise was prioritising national sovereignty and security by establishing itself as a responsible power and participating in, observing and modifying

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<sup>137</sup> Yao, Deyan, and Binyang Zhang. "Experts' Review on China's Strategy of Peaceful Rise." *International Herald* (April 7, 2004), <http://news.sina.com.cn/c/2004-04-07/18023106506.shtml>.

<sup>138</sup> *Ibid.*

<sup>139</sup> *Ibid.*

<sup>140</sup> *Ibid.*

<sup>141</sup> *Ibid.*

<sup>142</sup> Zhao, Yanping. "On China's Rise: China is a 'Dragon' Not a 'Polar Bear'." *China Youth Daily* (November 28, 2005), <http://world.people.com.cn/GB/1030/3894654.html>. Accessed 06/10/2009.

<sup>143</sup> Ma, Haiyan. "Experts' Comments on China's Rise: A Long Process, Full of Challenges." (August 31, 2009), [http://news.xinhuanet.com/politics/2009-08/31/content\\_11968560.htm](http://news.xinhuanet.com/politics/2009-08/31/content_11968560.htm). Accessed 05/01/2010.

<sup>144</sup> *Ibid.*

<sup>145</sup> Zheng, Yongnian. "How to Interpret China's Peaceful Rise." *Lianhe zaobao* (June 27, 2006), [http://www.zaobao.com/special/forum/pages3/forum\\_zp060627.html](http://www.zaobao.com/special/forum/pages3/forum_zp060627.html). Accessed 21/01/2009.

the international system.<sup>146</sup> Professor Yuan Zhibing from China's Research Centre of the Contemporary World agreed, adding that China should promote multicultural development.<sup>147</sup>

## 1.2 The approach taken in this thesis

Having reviewed some of the main western and Chinese perspectives on China's rise, the thesis argues that it reshaped the political economy of East Asia and became central to regional economic integration and cooperation on security issues. After briefly sketching the early history of China's preeminence in East Asia in order to more appropriately contextualise its "rise" as a "resurgence", I argue that the region moved through three phases after 1945, starting with US hegemony, followed by a period of Japanese economic leadership, and, finally, China's rise since the late 1990s, during which it began to shape the region economically, even while the US and Japan continued to play important but diminishing roles. *Contra* Katzenstein, I argue that Japan's lack of independence from the US was a political liability for any aspiration to East Asian leadership, and that China to a large extent supplanted Japan from its position of economic dominance, though, crucially, it did not supplant the US from its role as the region's "stabiliser". ASEAN sought to maintain this aspect of US influence while welcoming China's rise.

I argue that China embedded itself deeply in the affairs of East Asia through participation in numerous institutional fora, and that it did so as part of a deliberate calculation that regional engagement was in its best interests, increasing its political standing in the region. China attempted to change a threatening image by portraying itself as a responsible power and friend to its neighbours. I argue that the Asian Financial Crisis of 1997/8 was pivotal in this regard, allowing China to demonstrate goodwill in a tangible fashion.

While China's rise brought greater wealth and influence, it also brought distinctive strategic challenges. Realists argued that, left unchecked by the US, China's rise will allow it to dominate East Asia and from there dictate the terms of engagement with the world. Realists were concerned particularly that China would take a free hand to "resolve" current

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<sup>146</sup> Meng, Xiangqing. "The Historical Transformation of China's International Role." *Global Times* (January 5, 2006), <http://world.people.com.cn/GB/14549/4003160.html>. Accessed 21/01/2009.

<sup>147</sup> Yuan, Zhibing. "What Kind of Role Should China Play in the World?" *China's Economic Times* (October 27, 2005), [http://news.xinhuanet.com/comments/2005-10/27/content\\_3690647.htm](http://news.xinhuanet.com/comments/2005-10/27/content_3690647.htm). Accessed 23/01/2009.

territorial disputes and embark on an expansionist path. I argue, on the contrary, that, as it became more powerful, it became more responsible, with significant constraints on international behaviour. Some of these constraints were self-imposed willingly, such as a new-found enthusiasm for regional engagement, which compelled it to abide by ASEAN's norms. Other constraints were the result of a realisation that China was enmeshed so deeply in global markets that it could not act as it wished on issues such as reunification with Taiwan without jeopardising economic growth and, with it, social stability. The view put forward is that China's regional entanglements are a vindication of the liberal viewpoints discussed above. However, in contrast to the US-centric viewpoint from which the liberal argument is usually made, I argue that a similar set of considerations restricted the ability and inclination of the US to act in an overtly hostile way towards China. Both faced the dilemma that they had to balance conflicting strategic interests.

With regard to Sino-Japanese relations, I argue that they were an exception to the liberal prediction that closer economic interdependence defuses international tensions by giving a state a stake in another's interests. Instead, Sino-Japanese relations deteriorated sharply during China's rise, though they expanded economic ties in order to sustain mutual prosperity. I point out how the memory of Japanese brutality during the Pacific War continued to cast a long shadow.

Through the strictures that inclined the major powers in East Asia towards responsible behaviour, the significant issues of territoriality that plagued China in the early 21<sup>st</sup> century, namely Taiwan, and the South China and East China Seas, were managed relatively peacefully, settling into mutually acceptable stalemates short of conflict. Though all parties acted within this regional framework, I point to the risks of tensions rising and possible conflict. The US decision in 2009 to re-engage with East Asian security caught China by surprise, with the potential for difficulties in relations. As mentioned above, security issues were likely to figure more prominently on the agenda of East Asia as the region's economic integration deepened. The challenge for East Asia was to manage regional security successfully in the context of renewed American interest. I single Taiwan out, as simultaneously a key element in East Asian economic integration and a significant regional security challenge.

The first part of the thesis, Chapters 2-6, outlines China's rise and influence on the political economy of East Asia as described above, as well as considering the resulting changes in China's relations with ASEAN, the US and Japan. The second part, Chapters 7-9 focuses on the territorial disputes which caused tensions and agreement on mutual self-restraint and maintenance of the status quo. Throughout the thesis, I engage both Western and Chinese perspectives, establishing a dialogue that facilitates greater mutual understanding of China's rise.

## 2 The Evolution of the Political Economy of East Asia from 1945 until the Asian Financial Crisis

### 2.1 Introduction

China had a long history of pre-eminence in the political, economic and cultural realms in East Asia, and was for six centuries the largest economy in the world, before its dominion was brought to an end by Western imperialism and internal decline. This chapter provides a condensed history of China and East Asia until the 1970s. Its purpose is to provide a context within which we can evaluate the impact of China's rise on East Asia since the 1980s. This chapter emphasises that it was for many centuries the greatest power in East Asia and hence argues that China today is resurgent rather than rising. This chapter also describes the origins of US hegemony in the region, in order to frame our understanding of the manner and extent to which China's rise poses a challenge to US primacy. Finally, this chapter outlines the origins of the historical enmity between China and Japan, which persisted, actively shaping their destinies in the struggle for influence in East Asia.

### 2.2 The history of China as the Middle Kingdom of East Asia

For a large part of its recorded history, up until the middle of the nineteenth century, China viewed itself as the centre of the known world, the Middle Kingdom or central country (*zhongguo*).<sup>1</sup>

The Chinese image of order was a hierarchical one, in which the territory of the world (*tianxia* - all under Heaven) was presided over by the emperor or Son-of-Heaven (*tianzi*) in accordance with the Mandate of Heaven (*tianming*). Standing at the apex of the Chinese order, the emperor performed a dual role as both political ruler and spiritual symbol of Heaven. The theoretical basis of this hierarchical order was Confucian philosophy, which advocated the cultivation of social harmony through the principles of benevolent rule,

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<sup>1</sup> For a comprehensive history of China and its foreign relations, see some classical works of American historian John Fairbank. Fairbank, John K., and Denis C. Twitchett, eds. *The Cambridge History of China*. New York: Cambridge University Press, 1978; Fairbank, John K., and Ta-tuan Ch'en, eds. *The Chinese World Order: Traditional China's Foreign Relations*. Cambridge Mass.: Harvard University Press, 1968; Fairbank, John K., and Merle Goldman. *China: A New History*. Cambridge, Mass.: Belknap Press of Harvard University Press, 2006. For the history of China and Southeast Asia, see Stuart-Fox, Martin. *A Short History of China and Southeast Asia: Tribute, Trade and Influence*. Crows Nest, N.S.W: Allen & Unwin, 2003.



performance of correct rituals, and the inculcation of filial piety.<sup>2</sup> The emperor stood above all men because of his unique function of maintaining order and great harmony (*datong*) between human society and the rest of the cosmos.<sup>3</sup>

Imperial China's relations with surrounding territories were conducted through the mechanism of the tributary system, reflecting the hierarchical character of world order.<sup>4</sup> In the early years of the Han Dynasty, (206 B.C. – 220 A.D.), the system allowed imperial China to exercise political authority by displaying the emperor's virtuous action of benevolence aimed at attracting "barbarians" outside Chinese civilisation.<sup>5</sup> As John Fairbank pointed out, the relationship between emperor and barbarians "came to symbolise the actual relationship between China as the centre of culture and the rude tribes roundabout" which recognised the unique position of the Son-of-Heaven emperor's rule.<sup>6</sup> The submission of "the barbarians" to the emperor's benevolence was carried out in the ritual form of tribute, which the barbarians presented to the Imperial Court in exchange for "their place in the all-embracing Sino-centric cosmos".<sup>7</sup> The early stage of the tributary system was a diplomatic vehicle for Chinese foreign relations as a symbol that legitimised Chinese supremacy, but provided no real material gain for the imperial court.<sup>8</sup>

The tributary system worked relatively well for centuries, and foreign trade between imperial China and "the barbarians" developed and expanded during the Song Dynasty (960-1279), reaching its height during the Ming (1638-1644) and Qing (1644-1911) Dynasties.<sup>9</sup> Maritime trade expanded rapidly during the early Ming dynasty, linking China with Southeast Asian countries such as the Philippines, Cambodia, Java, and Pahang on the Malay Peninsula where an overseas Chinese business network formed and developed (see Section

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<sup>2</sup> Fairbank, John K. "A Preliminary Framework." In *The Chinese World Order: Traditional China's Foreign Relations*, edited by John K. Fairbank, pp. 1-6.

<sup>3</sup> *Ibid.*

<sup>4</sup> Fairbank, John K. "Tributary Trade and China's Relations with the West." *The Far Eastern Quarterly* 1, no. 2 (1942), pp. 129-49.

<sup>5</sup> Wang, Zhengyi. *World System and Rise of Powers*. Beijing: Beijing University Press, 2006, p. 138.

<sup>6</sup> Fairbank, John K. "Tributary Trade and China's Relations with the West." *The Far Eastern Quarterly* 1, no. 2 (1942), pp. 132-33.

<sup>7</sup> *Ibid.*, p. 133.

<sup>8</sup> *Ibid.*, p. 135.

<sup>9</sup> Kim, Samuel S. "The Evolving Asian System: Three Transformations." In *International Relations of Asia*, edited by David L. Shambaugh and Michael B. Yahuda, Lanham, Md.: Rowman & Littlefield Publishers, 2008, p. 38; Wang, Zhengyi. *World System and Rise of Powers*, p. 138.

3.1.3.3).<sup>10</sup> During the Ming and early Qing dynasties, about a hundred large Chinese junks traded every year with Southeast Asia.<sup>11</sup> Tributary states were granted trade privileges at the frontier and the capital.<sup>12</sup> By the beginning of the 19<sup>th</sup> century, the tributary system was dominated by commercial trade rather than tribute.<sup>13</sup> The evidence for this is the increase in the number of recorded tributed missions which had the objective of trade which grew from about 216 between 1662 to 1761 to 255 between 1762 and 1861.<sup>14</sup>

According to the late renowned economist Angus Maddison, by 1820 China was the world's largest economy, accounting for 33% of global GDP, exceeding the combined GDP of Western Europe and the US. China's GDP was eleven times that of Japan and eighteen times that of the US.<sup>15</sup> In fact, the Chinese economy was the largest for six centuries from 1300 to 1890.<sup>16</sup> In this light, the process through which China in the early years of the twenty-first century became once more the largest economy in East Asia can arguably be described as a return to previous form, rather than a new and unfamiliar state of affairs; hence it may be apt to describe China in the current era as resurgent rather than rising.

The first Opium War (1839-1842) marked the beginning of the end of Chinese pre-eminence and the beginning of its "century of humiliation" (*bainian guochi*).<sup>17</sup> In 1839, the Qing government dispatched Lin Zexu to Guangzhou to shut down the opium trade.<sup>18</sup> Britain used its naval strength and firepower to prevail and maintain the lucrative opium market. In 1842, the Qing government signed the Treaty of Nanjing, which provided Britain with extraterritoriality, an indemnity, a moderate tariff and Most-Favoured Nation (MFN) treatment, opened more treaty ports and ceded Hong Kong.<sup>19</sup> The United States and France

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<sup>10</sup> Fairbank, John K., and Merle Goldman. *China: A New History*, p. 200.

<sup>11</sup> *Ibid.*, pp. 194-95.

<sup>12</sup> Fairbank, John K. "A Preliminary Framework." In *The Chinese World Order: Traditional China's Foreign Relations*, edited by John K. Fairbank, p. 10.

<sup>13</sup> Fairbank, John K., and S. Y. Têng. "On the Ch'ing Tributary System." *Harvard Journal of Asiatic Studies* 6, no. 2 (1941), pp. 135-246.

<sup>14</sup> *Ibid.*, pp. 193-98, Table 5.

<sup>15</sup> Maddison, Angus. "China in the World Economy: 1300-2030." *International Journal of Business* 11, no. 3 (2006), p. 242, p. 252, Table 1, Table 6.

<sup>16</sup> *Ibid.*

<sup>17</sup> Kim, Samuel S. "The Evolving Asian System: Three Transformations." In *International Relations of Asia*, edited by David L. Shambaugh and Michael B. Yahuda, p. 39.

<sup>18</sup> Fairbank, John K., and Merle Goldman. *China: A New History*, p. 200.

<sup>19</sup> *Ibid.*

followed suit and signed treaties with China in 1844.<sup>20</sup> The Second Opium War (1856-1860) ended with the conclusion of a series of treaties with Western powers such as Britain, France, the US and Russia, further accelerating the decline of imperial China.<sup>21</sup> In response to Western gunboat diplomacy, the Qing government managed to survive under the so-called “self-strengthening” (*zhiqiang*) movement in the 1860s.<sup>22</sup> However, it failed because the need for a modern state to provide an effective response to Western encroachment ran directly counter to the requirements of the Confucian order.<sup>23</sup> Samuel Kim argued that the self-strengthening reformers wanted simply to borrow Western science and technology, in particular strong warships and efficient guns, to preserve the Confucian order but ignored the need for a system transformation similar to that of Japan during the Meiji Restoration (1868-1912),<sup>24</sup> which led to Japan’s rise as the dominant power in East Asia during the first half of the 20<sup>th</sup> century.<sup>25</sup>

In response to pressure from Western powers to open its doors, Japan took a different approach and underwent a social and political transformation during the Meiji era.<sup>26</sup> The Meiji reforms not only brought about the end of the country’s two and a half centuries of isolation under the Tokugawa Shogunate but also developed a modern economy and strong military apparatus through a series of sweeping changes in almost every aspect of society.<sup>27</sup> With its ascendancy, Japan began to pursue the prerogatives afforded the Western imperial powers. In the words of the Meiji elite, “if we take the initiative, we can dominate; if we do not, we will be dominated”.<sup>28</sup>

Competition between China and Japan for influence in the Korean peninsula led to the Sino-Japanese War in 1894, which ended with China’s crushing defeat. Under the 1895 Sino-

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<sup>20</sup> *Ibid.*, p. 201.

<sup>21</sup> Kim, Samuel S. "The Evolving Asian System: Three Transformations." In *International Relations of Asia*, edited by David L. Shambaugh and Michael B. Yahuda, p. 40.

<sup>22</sup> Fairbank, John K., and Merle Goldman. *China: A New History*, pp. 217-220.

<sup>23</sup> For a comprehensive analysis of this theme, see Wright, Mary Clabaugh. *The Last Stand of Chinese Conservatism: The T'ung-Chih Restoration, 1862-1874*. Stanford, Calif.: Stanford University Press, 1962.

<sup>24</sup> Kim, Samuel S. "The Evolving Asian System: Three Transformations." In *International Relations of Asia*, edited by David L. Shambaugh and Michael B. Yahuda, p. 39.

<sup>25</sup> For the history of the Meiji period, see Jansen, Marius B. "The Meiji State: 1868-1912." In *The Making of Modern Japan: A Reader*, edited by Tim Megarry, Dartford: Greenwich University Press, 1995, pp. 67-88.

<sup>26</sup> Jansen, Marius B. *The Making of Modern Japan*. Cambridge, Mass.: Belknap Press of Harvard University Press, 2002, pp. 333-473.

<sup>27</sup> Andressen, Curtis A. *A Short History of Japan: From Samurai to Sony*. Crows Nest, N.S.W.: Allen & Unwin, 2002, pp. 78-103.

<sup>28</sup> Cited in Kissinger, Henry. *On China*. New York: Penguin Press, 2011, p. 79.

Japanese Treaty of Shimonoseki, China paid a significant indemnity, and ceded Taiwan, the Penghu Islands, the Liaodong Peninsula including Port Arthur and control of Korea to Japan,<sup>29</sup> marking the end of the Sino-centric regional order. The loss of sovereignty over its territories was particularly painful, and during the 20<sup>th</sup> and 21<sup>st</sup> centuries was the subject of dispute. The disputes are the topic of Chapters 7 to 9.

Victory in the war with China was the beginning of Japanese dominance in East Asia. However, Japanese ambitions were scaled back when Germany, France, and Russia demanded that it return both Port Arthur and the Liaodong Peninsula.<sup>30</sup> Japan's compromise with the Western powers triggered not only a tremendous nationalist backlash but also resentment towards the Western powers.<sup>31</sup> Japan defeated Russia in the Russo-Japanese War of 1904-1905, the first "Asian victory" over a European power. In the Treaty of Portsmouth in 1905,<sup>32</sup> Japan regained control over the Liaodong Peninsula, Port Arthur, the southern half of Sakhalin Island, a part of the Russian-built Manchurian railway, and also Korea.<sup>33</sup> Japan formally annexed Korea as a colony in 1910. It was to become a springboard for further expansion into China with the invasion of Manchuria in 1931, and was the major source, along with Taiwan, of cheap food to support its growing population.<sup>34</sup> Over the next 25 years, Imperial Japan consolidated political control in the two colonies.<sup>35</sup>

As Japan moved towards military expansion in the 1930s, it began to pursue economic autarky, which gave rise to the idea of creating a self-sufficient "bloc of Asian nations led by the Japanese and free of Western powers".<sup>36</sup> With its industrial and military power, Masaru Tamamoto wrote that "Japan awarded itself the right to civilise the rest of Asia, thought to

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<sup>29</sup> Kim, Samuel S. "The Evolving Asian System: Three Transformations." In *International Relations of Asia*, edited by David L. Shambaugh and Michael B. Yahuda, p. 42.

<sup>30</sup> Andressen, Curtis A. *A Short History of Japan: From Samurai to Sony*, p. 93.

<sup>31</sup> *Ibid.*, p. 94.

<sup>32</sup> Peattie, Mark R. "Introduction." In *The Japanese Colonial Empire, 1895-1945*, edited by Ramon H. Myers and Mark R. Peattie, Princeton, N.J.: Princeton University Press 1984, pp. 16-17.

<sup>33</sup> Ho, Samuel Pao-San. "Colonialism and Development: Korea, Taiwan and Kwantung." In *The Japanese Colonial Empire, 1895-1945*, edited by Ramon H. Myers and Mark R. Peattie, Princeton, N.J.: Princeton University Press, 1984, pp. 347-98.

<sup>34</sup> Cumings, Bruce. "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences." *International Organization* 38, no. 1 (1984), pp. 1-40.

<sup>35</sup> Peattie, Mark R. "Introduction." In *The Japanese Colonial Empire, 1895-1945*, edited by Ramon H. Myers and Mark R. Peattie, p. 25.

<sup>36</sup> Kim, Samuel S. "The Evolving Asian System: Three Transformations." In *International Relations of Asia*, edited by David L. Shambaugh and Michael B. Yahuda, p. 45.

be floundering in a state of barbarism". The apogee of such thinking was the idea of "Japan's Greater East Asian Co-Prosperity Sphere"<sup>37</sup> through military expansion in the 1930s, in which Korea and Taiwan, Manchuria in China and the European colonies in Southeast Asia were to be incorporated into a Japanese Empire.<sup>38</sup> This initiative was driven by aspirations to become a major power on an equal footing with the Western imperial powers, and the pursuit of economic self-sufficiency.<sup>39</sup> Confronted with a US trade embargo on oil and raw material shipments, Japanese leaders sought to obtain these resources from Southeast Asia.<sup>40</sup> Tamamoto argued that it was "a justification for Japanese military expansion in the name of liberating Asia from Western imperialism". In 1937, Japan invaded China, marking the beginning of eight years of war characterised by particularly cruel treatment of the Chinese, of which the most infamous example was the Nanjing Massacre, in which between 200,000 and 300,000 Chinese lost their lives over the course of six weeks.<sup>41</sup> Similar treatment was meted out to the populations of other East Asian countries. The memory of this period of brutality resonated in the minds of East Asians for the remainder of the 20<sup>th</sup> century and after.

During the Second World War, Japan aligned itself with Nazi Germany and Fascist Italy through the Tripartite Pact in September 1940. It carried out a sweeping conquest of Allied-controlled territories in Southeast Asia, starting with French Indochina in 1941 and eventually bringing British-controlled Malaya, Borneo, Singapore, the Dutch East Indies and the US colony of the Philippines under their control by March 1942.<sup>42</sup> However, the eventual

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<sup>37</sup> Tamamoto, Masaru. "Japan's Uncertain Role." *World Policy Journal* 8, no. 4 (1991), pp. 582-83.

<sup>38</sup> Beasley, William G. *Japanese Imperialism, 1894-1945*. New York: Oxford University Press, 1987; Duus, Peter, Ramon H. Myers, and Mark R. Peattie. *The Japanese Informal Empire in China, 1895-1937*. Princeton, N.J.: Princeton University Press, 1989; Coble, Parks M. *Facing Japan: Chinese Politics and Japanese Imperialism, 1931-1937*. Cambridge, Mass: Council on East Asian Studies, Harvard University: Distributed by Harvard University Press 1991; Kimura, Mitsuhiko. "The Economics of Japanese Imperialism in Korea, 1910-1939." *The Economic History Review* 48, no. 3 (1995), pp. 555-74; Bix, Herbert P. "Japanese Imperialism and the Manchurian Economy, 1900-31." *The China Quarterly*, no. 51 (1972), pp. 425-43.

<sup>39</sup> Gordon, Bill. "Greater East Asia Co-Prosperity Sphere." (March 2000), <http://wgordon.web.wesleyan.edu/papers/coprospr.htm>. Accessed 25/06/2010; Beasley, William G. *Japanese Imperialism, 1894-1945*, pp. 233-50.

<sup>40</sup> Shiraishi, Takashi. "Japan and Southeast Asia." In *Network Power: Japan and Asia*, edited by Peter J. Katzenstein and Takashi Shiraishi, Ithaca: Cornell University Press 1997, p. 174.

<sup>41</sup> Crump, Thomas. *Asia-Pacific*. London: Hambledon Continuum, 2007, p. 12.

<sup>42</sup> *Ibid.*, pp. 12-14.

clash with the US brought about Japan's catastrophic defeat in 1945 and the end of the Japanese empire.<sup>43</sup>

The legacy of the Japanese occupation of Southeast Asia from 1941 to 1945 was profound. It shattered the myths of colonial white superiority and led to national movements for independence.<sup>44</sup> The colonial powers - Britain, Netherlands and France - saw a different world when they returned after the War. National independence forces waged long struggles which led to the eventual withdrawal of the colonial powers.<sup>45</sup>

Though the era which followed saw the rise of American political and military hegemony in East Asia, sometimes known as *Pax Americana*, on the economic front, US dominance gave way to a return of Japanese influence during the 1970s. Given the importance of the US and Japan in shaping post-war East Asia's political economy, a discussion of their role after World War II is crucial to understanding the regional order after 1997. This is the subject of the next two sections.

### 2.3 The US and East Asia in the post-war era

In the twenty years after the end of World War II, the US set about establishing economic hegemony in East Asia by building upon its Cold War-era global strategy of containing communism. Economically, the US pursued a triangular strategy which linked Japan, Southeast Asia and the US through trade and aid while, politically, it established alliances with Southeast Asia and Japan through bilateral military treaties.

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<sup>43</sup> Shiraishi, Takashi. "Japan and Southeast Asia." In *Network Power: Japan and Asia*, edited by Peter J. Katzenstein and Takashi Shiraishi, pp. 173-74.

<sup>44</sup> The number of people killed during the Nanjing Massacre is an issue of debate. Western scholars estimated that about 200,000 were killed, while the Chinese figure is 300,000. Comprehensive information about the Massacre can be found at the website of The Memorial Hall Of The Victims In the Nanjing Massacre By Japanese Invaders, <http://www.nj1937.org>.

<sup>45</sup> Indonesia declared its independence from Dutch colonial rule in 1945, Malaysia became independent from the British in 1957, the Philippines proclaimed its independence from the United States in 1946, and the countries of Indochina (Laos, Cambodia, Vietnam) were recognised as independent countries at the Geneva Conference in 1954. Thailand is an exception, as it was never colonised. For an account of Southeast Asian history, see Bayly, Christopher, and Tim Harper. *Forgotten Wars: Freedom and Revolution in Southeast Asia*. Cambridge, Mass.: Belknap Press of Harvard University Press, 2007; Osborne, Milton. *Southeast Asia: An Introductory History*. Crows Nest, N.S.W: Allen & Unwin, 2004; Church, Peter, ed. *A Short History of Southeast Asia*. 4th ed. Singapore: John Wiley & Sons (Asia), 2006.

### 2.3.1 Reconstruction of Japan-from political reform to economic recovery

The economic recovery of Japan was the key element of containment, and is essential to the story of both the rise and subsequent relative decline of US hegemony.

The unconditional surrender of Japan in 1945 brought an end to the Second World War in the Pacific. John Dower depicts a devastating picture of a nation shattered by war. The physical and human toll was immense: by the end of the war, more than 1.74m soldiers, sailors and airmen as well as nearly 1m civilians had been killed, almost 8m people were homeless, and 40% of Japan's urban areas had been destroyed.<sup>46</sup> As the victor, the US took primary responsibility for the transformation of its defeated enemy, taking on a "divine" mission to cleanse Japan of militarism and reorganise its economic and social structures along the lines of the US model of liberal democracy.<sup>47</sup>

Political reforms carried out from 1945 to 1947 were aimed at the main objectives of the occupation policy of "demilitarisation" and "democratisation", which would, *inter alia*, dismantle military power, build representative government, end monopolies, decentralise political power, liberate the press and education, and establish free labour unions. The economic dimension of the occupation policy placed strict limits and controls on heavy industry, which had served as a "machine of aggression" during the war.<sup>48</sup>

However, the attempt to achieve these objectives was "quickly paralysed by contradictions".<sup>49</sup> Rotter argued that the purge of the military left Japan without its most experienced political leaders. Dismantling the large *Zaibatsu* business conglomerates debilitated the recovery of industry production which was worsened by US insistence that Japan pay war reparations. In addition, labour unions and their movements seemed to allow a foothold for communism, which was otherwise to be strongly suppressed.<sup>50</sup> In short, the

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<sup>46</sup>Dower, John W. *Embracing defeat: Japan in the wake of World War II*. New York: W.W. Norton & Co., 1999, p. 45.

<sup>47</sup>Schaller, Michael. *The American occupation of Japan*. New York: Oxford University Press, 1985, p. 25.

<sup>48</sup>*Ibid.*, pp. 25-44.

<sup>49</sup>Rotter, Andrew Jon. *The path to Vietnam: origins of the American commitment to Southeast Asia*. Ithaca: Cornell University Press, 1987, p. 36.

<sup>50</sup>*Ibid.*, p. 37; Johnson, Chalmers A. *Conspiracy at Matsukawa*. Berkeley: University of California Press, 1972, p. 15. As Johnson pointed out, the Civil Liberties Directive of October 4, 1945, the first official act of democratisation by the occupation, was to free all so-called political prisoners, among them a number of Communists. In some ways, therefore, the occupation authorities unintentionally aided Japan's Communist movement.

policy of political reform “jeopardized the possibility of Japanese economic recovery”.<sup>51</sup> Chalmers Johnson holds the same view that basic contradictions in the occupation policy failed to “harmonize their democratic reforms with Japan’s need for economic recovery from the war”.<sup>52</sup>

Instead, the two-year-long American reformation policy contributed to falling production, rising unemployment, soaring inflation and a large trade deficit.<sup>53</sup> Furthermore, Japan’s pre-war colonial trade pattern, dependent on imports of rice, cotton, iron ore and petroleum from Korea, Manchuria, China and Taiwan, was destroyed by the war.<sup>54</sup> Japan lost these major sources of supply.

The US occupation policy changed as a result of its global containment strategy<sup>55</sup> with the onset of the Cold War in Europe in March 1947 and its subsequent extension to Asia with the “loss of China” in October 1949.<sup>56</sup> As the Cold War unfolded, the US began to regard Japan not only as a state that had to be developed along liberal lines, but also one that had to undergo reconstruction as a potential ally and source of stability in Northeast Asia.<sup>57</sup> Reforming Japan, therefore, was soon replaced by a US commitment to economic recovery “to deny Japan’s ultimate exploitation by the USSR”.<sup>58</sup>

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<sup>51</sup> Rotter, Andrew Jon. *The path to Vietnam : origins of the American commitment to Southeast Asia*, p. 37.

<sup>52</sup> Johnson, Chalmers A. *Conspiracy at Matsukawa*, p. 6.

<sup>53</sup> *Ibid.*, p. 14, Table 1.

<sup>54</sup> Cumings, Bruce. "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences." *International Organization* 38, no. 1 (1984), pp. 8-16.

<sup>55</sup> The term ‘containment’ was first introduced by George F. Kennan in 1947 when he called for ‘a long-term, patient but firm and vigilant containment of Russian expansive tendencies’, which mainly characterises American policy toward the Soviet Union during the Cold War era. See X. "The Sources of Soviet Conduct." *Foreign Affairs* (pre-1986) 25, no. 000004 (1947), p. 566. It was written by George Kennan.

<sup>56</sup> The origins of the Cold War can be traced back to the Truman Doctrine announced by President Truman in March 1947, in which it was stated that the United States would undertake a commitment towards Greece and Turkey to ‘support free peoples who are resisting attempted subjugation by armed minorities or outside pressures.’ For further analysis of the origins of the Cold War see Yahuda, Michael B. *The International Politics of the Asia-Pacific*. London: RoutledgeCurzon, 2004; Nagai, Yonosuke, and Akira Iriye, eds. *The Origins of the Cold War in Asia*. New York: Columbia University Press, 1977. See also Truman, Harry S. "Special Message to the Congress on Greece and Turkey: The Truman Doctrine." (March 12, 1947), <http://www.trumanlibrary.org/publicpapers/index.php?pid=2189&st=&st1>. Accessed 11/01/2010.

<sup>57</sup> Iriye, Akira. "Continuities in US-Japanese Relations, 1941-1949." In *The Origins of the Cold War in Asia*, edited by Yonosuke Nagai and Akira Iriye, New York: Columbia University Press, 1977, pp. 378-407.

<sup>58</sup> US government Policy Planning Staff document PPS/28/2, 26 May 1948; US government National Security Council document NSC49, 15 June 1949, quoted in Iriye, Akira. "Continuities in US-Japanese Relations, 1941-1949." In *The Origins of the Cold War in Asia*, edited by Yonosuke Nagai and Akira Iriye, p. 403.



East Asia's recovery and security required the revival of Japan's industrial production and trade. Therefore, a new occupation agenda was approved as *NSC 13/2* by US President Truman in 1948, shifting the prime objective of occupation from political reform to economic recovery. For Japan to be self-sufficient, a program of stabilisation halted reparations and lifted restrictions on most industries<sup>59</sup> while the Dodge Plan reduced the public budget,<sup>60</sup> tightened credit, reduced wages, imposed an industrial policy favouring exporters over domestic producers, curbed inflation, promoted big business and, most importantly, restored Japan as an industrial exporter. Also, a devalued exchange rate of 360 yen to the US\$ was set to encourage exports under the Plan in 1949.<sup>61</sup>

Nevertheless, not even economic assistance combined with the austerity programme could get Japan's fragile economy back on a self-supporting track.<sup>62</sup> It desperately needed capital and export markets to become the economy that the recovery plans were designed to achieve.

### 2.3.2 Implementation of containment in East Asia: a triangular strategy

Southeast Asia came to be seen increasingly as an important part of the US confrontation with the Soviet Union. Michael Yahuda noted that the purpose of the US policy of containment in East Asia was "to deny any further advances to communism in any form",<sup>63</sup> as manifested in the National Security Council's document *NSC-68*, which was approved by Truman after the outbreak of Korea War.<sup>64</sup> The strategic importance of the region was not only "as a source of raw materials, including rubber, tin and petroleum" and "the seaways of

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<sup>59</sup> Borden, William S. *The Pacific Alliance: United States Foreign Economic Policy and Japanese Trade Recovery, 1947-1955*. Madison, Wis.: University of Wisconsin Press, 1984, p. 73; also see Schaller, Michael. *Altered states: the United States and Japan since the occupation*. New York: Oxford University Press, 1997, p. 12.

<sup>60</sup> This plan was devised by Joseph Dodge, a Detroit banker who served as an economic advisor for post-war economic stabilisation programs in Germany and Japan. The government was forced to fire about 30 percent of its own employees in order to live with the new budget, and private industry, no longer able to meet payrolls out of subsidies, also began massive layoffs. Johnson, Chalmers A. *Conspiracy at Matsukawa*, pp. 69-70.

<sup>61</sup> It is to Dodge's credit that this rate remained stable until August of 1971.

<sup>62</sup> Bowen, John P. *The Gift of the Gods: The Impact of the Korean War on Japan*. Old Dominion Graphics Consultants, 1984, p. 7; Schaller, Michael. *Altered states: the United States and Japan since the occupation*, p. 47.

<sup>63</sup> Yahuda, Michael B. *The International Politics of the Asia-Pacific*, p. 45.

<sup>64</sup> Gaddis, John Lewis. *Strategies of Containment: A Critical Appraisal of American National Security Policy During the Cold War*. Rev. and expanded ed. New York: Oxford University Press, 2005, pp. 96-97.

east-west and north-south global communications” but also as a prospective “free world” where Soviet influence should never extend.<sup>65</sup>

US fears that East Asia could move into the Soviet orbit were exacerbated by the rising tide of decolonisation in Southeast Asia after the end of World War II. The US feared that local communist movements in the struggles for national independence would trigger a domino effect,<sup>66</sup> threatening “a stable and peaceful world”.<sup>67</sup> War-ravaged Southeast Asia needed US economic assistance. Mission trips in 1949-1950<sup>68</sup> resulted in the allocation of large amounts of economic and military aid to Vietnam, Burma, Thailand and Indonesia.

The economic foundations of the strategy of containment in East Asia were laid with Japan’s trade integration with Southeast Asia, based on the exchange of raw materials for Japanese manufactured goods, thus enhancing its industrial capacity as a source of export-earnings. The US domestic market was also opened to Japanese imports.<sup>69</sup>

The key to the program was the triangular integration of Japan’s future economic growth with the US and Southeast Asia. But post-war Southeast Asia was not compatible with US policy designs. The legacy of colonialism left the regional economy underdeveloped, which “ultimately frustrated Japanese and American attempts to foster Asian trade”.<sup>70</sup> A shortage of capital and lack of purchasing power, and a strong resistance in the newly independent

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<sup>65</sup> In this comprehensive overview of American policy in NSC68, containment was defined as an effort by all means short of war to “block further expansion of Soviet power; expose the falsities of Soviet pretensions; induce a retraction of the Kremlin’s control and influence and in general, so foster the seeds of destruction within the Soviet system that the Kremlin is brought at least to the point of modifying its behaviour to conform to generally accepted international standards.” See *Ibid.*

<sup>66</sup> Under the ‘domino theory’ it was believed that, when one nation fell to communism, others nearby would soon follow a similar path. See Holsti, Ole R. & Rosenau, James N. “Cold War Axioms in the Post-Vietnam Era.” In *Change in the international system*, edited by Randolph M. Siverson, and Alexander L. George. Boulder, Colo.: Westview Press, 1980, p. 287, Table 11.8 “Cold War Axioms”.

<sup>67</sup> Kennan, George. “The Sources of Soviet Conduct.” *Foreign Affairs* (pre-1986) 25, no. 4 (1947), p. 566.

<sup>68</sup> For details of American mission trips to Southeast Asia, see Hess and Rotter. See Hess, Gary R. *The United States’ emergence as a Southeast Asian power, 1940-1950*. New York: Columbia University Press, 1987, pp. 334-65; Rotter, Andrew Jon. *The path to Vietnam: origins of the American commitment to Southeast Asia*. Ithaca: Cornell University Press, 1987, pp. 165-203.

<sup>69</sup> There is a body of literature on this issue, see Hess, Gary R. *The United States’ emergence as a Southeast Asian power, 1940-1950*. New York: Columbia University Press, 1987; Rotter, Andrew Jon. *The path to Vietnam: origins of the American commitment to Southeast Asia*. Ithaca: Cornell University Press, 1987; Borden, William S. *The Pacific alliance: United States foreign economic policy and Japanese trade recovery, 1947-1955*. Madison, Wis.: University of Wisconsin Press, 1984; Forsberg, Aaron. *America and the Japanese Miracle: The Cold War Context of Japan’s Postwar Economic Revival, 1950-1960*. Chapel Hill, N.C.: University of North Carolina Press, 2000.

<sup>70</sup> Borden, William S. *The Pacific alliance : United States foreign economic policy and Japanese trade recovery, 1947-1955*, p. 197.

states to the possibility of forming a neo-colonial trade pattern with Japan, impeded economic integration.<sup>71</sup> Southeast Asia held strong anti-Japanese sentiments.<sup>72</sup>

### 2.3.3 The Korean War boom

The outbreak of the Korean War on 25 June 1950 brought an economic boom to Japan's ailing economy as an ideal supplier of logistics through US special military procurements. Prime Minister Yoshida Shigeru called it "a gift of the gods",<sup>73</sup> due to Japan's geographic proximity to the Korean peninsula, the economic effectiveness of a military campaign that mobilised its idle industrial capacity and low-cost labour, and the possibility that military procurement would furnish dollar earnings for Japan, which had been a bottleneck in its recovery since occupation.<sup>74</sup>

Military orders occasioned by the war injected large volumes of dollars which was the decisive factor in Japan's industrial recovery,<sup>75</sup> allowing production to increase dramatically, rising by only 5.8% in 1950, but 46% in 1951. Exports increased by 56%, and received a boost of \$500m<sup>76</sup> in 1950-1951.<sup>77</sup> The Korean boom was also a great blessing for heavy industry, including automobiles, steelmaking and shipbuilding, as well as textiles, construction, metals, communications, and chemical industries.<sup>78</sup> Japanese companies used

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<sup>71</sup> Schaller, Michael. *Altered states: the United States and Japan since the occupation*, p. 104.

<sup>72</sup> Mitsuru, Yamamoto. "The Cold War and US-Japan Economic Cooperation." In *The Origins of the Cold War in Asia*, edited by Yonosuke Nagai and Akira Iriye, New York: Columbia University Press, 1977, pp. 408-25.

<sup>73</sup> Dower, John W. *Empire and Aftermath: Yoshida Shigeru and the Japanese Experience, 1878-1954*, p. 541.

<sup>74</sup> For the significance of the impact of the Korean War on Japan's economy, see Bowen, John P. *The Gift of the Gods: The Impact of the Korean War on Japan*. Old Dominion Graphics Consultants, 1984; Stubbs, Richard. *Rethinking Asia's Economic Miracle: The Political Economy of War, Prosperity, and Crisis, Rethinking World Politics*. New York: Palgrave Macmillan, 2005.

<sup>75</sup> Johnson, Chalmers A. *Conspiracy at Matsukawa*, p. 23; Dower, John W. *Empire and aftermath: Yoshida Shigeru and the Japanese experience, 1878-1954*, p. 542.

<sup>76</sup> Note: All references in this thesis to dollar amounts that are indicated by the prefix \$, are to US Dollar, unless otherwise indicated.

<sup>77</sup> Bowen, John P. *The Gift of the Gods: The Impact of the Korean War on Japan*, p. 8.

<sup>78</sup> Borden, William S. *The Pacific alliance: United States foreign economic policy and Japanese trade recovery, 1947-1955*, p. 147; Dower, John W. *Empire and aftermath: Yoshida Shigeru and the Japanese experience, 1878-1954*, pp. 542-43; Stubbs, Richard. *Rethinking Asia's economic miracle: the political economy of war, prosperity, and crisis*, p. 69; Bowen, John P. *The Gift of the Gods: The Impact of the Korean War on Japan*, p. 13; Schaller, Michael. *Altered states: the United States and Japan since the occupation*, p. 48. According to Schaller, procurements amounted to \$329 million in 1950, accounting for 40 percent of Japan's total exports. Procurements and related military spending increased to \$800 million during 1952.

it as an opportunity to upgrade equipment and acquire advanced technology from the US, laying the foundation for later industrial development.<sup>79</sup>

The Korean War was a mixed blessing for Japan.<sup>80</sup> On the one hand, it was the greatest beneficiary of US military orders, and continued to benefit from economic cooperation. The US shifted policy from fostering self-support to cooperation<sup>81</sup> by institutionalising military spending and cementing long-term economic and security commitments. Japan, in return, stayed on the side of the US to form an anti-Communist alliance. On the other hand, its trade pattern was redirected towards the West and away from China. During the years of occupation (1947-1952), the share of Japan's imports from China was less than 2% of the total, and the same was true of exports to China.<sup>82</sup>

The US consolidated its anti-Communist alliances in East Asia through a series of security treaties. The "loss of China" in 1949 and the outbreak of the Korean War in 1950 intensified the view that the threat of Communism destabilised Southeast Asia, which was at varying stages of decolonisation.<sup>83</sup> The US signed bilateral mutual defence treaties with Japan and the Philippines in 1951, South Korea in 1953 and Taiwan in 1954.<sup>84</sup> Furthermore, a collective security treaty, the Southeast Asia Treaty Organisation (SEATO), was signed in 1954<sup>85</sup> for the purpose of filling the power vacuum that was expected to be created by the French

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<sup>79</sup> Dower, John W. *Empire and aftermath: Yoshida Shigeru and the Japanese experience, 1878-1954*, p. 543.

<sup>80</sup> Borden, William S. *The Pacific Alliance: United States Foreign Economic Policy and Japanese Trade Recovery, 1947-1955*, p. 150. As Borden pointed out, Japan had four possible trade outlets: first, trade with China for primary products which was restricted by the US; second, trade with Southeast Asia for primary products which was supported by the US; third, trade with the dollar area but only with US congressional protection; and fourth, earning dollars through US military spending, which was seen by the US as a long-term strategy to integrate Japan with Southeast Asia.

<sup>81</sup> *Ibid.*, p. 149.

<sup>82</sup> For example, in 1952, the last year of the occupation, the share of Japan's import trade with China was as small as 0.73 percent of its total imports, and that of exports with China was just 0.05 percent of its total. *Ibid.*, Table 1.6.

<sup>83</sup> Jervis, Robert. "The Impact of the Korean War on the Cold War." *The Journal of Conflict Resolution* 24, no. 4 (1980), pp. 563-92; Gallicchio, Marc S. *The Cold War Begins in Asia: American East Asian Policy and the Fall of the Japanese Empire*. New York: Columbia University Press, 1988; Kim, Samuel S. "The Evolving Asian System: Three Transformations." In *International Relations of Asia*, edited by David L. Shambaugh and Michael B. Yahuda, pp. 35-56.

<sup>84</sup> Hemmer, Christopher, and Peter J. Katzenstein. "Why Is There No NATO in Asia? Collective Identity, Regionalism, and the Origins of Multilateralism." *International Organization* 56, no. 3 (2002), pp. 575-607.

<sup>85</sup> The United States, France, Great Britain, New Zealand, Australia, the Philippines, Thailand and Pakistan formed the Southeast Asia Treaty Organisation, headquartered in Bangkok, in September 1954. Only two Southeast Asian countries, the Philippines and Thailand, became members. When the Vietnam War ended in 1975, the most prominent reason for SEATO's existence disappeared. As a result, SEATO formally disbanded in 1977. For a comprehensive account of the organisation, see Modelski, George, ed. *SEATO, Six Studies*. Melbourne: Cheshire for the Australian National University, 1962.

military withdrawal from Indochina,<sup>86</sup> though the Philippines and Thailand were the only Southeast Asian signatories.<sup>87</sup> Under this system, which became known as the “hub and spokes” security model, East Asian states were linked economically and militarily to the US, but only weakly with each other.<sup>88</sup>

#### 2.3.4 US-Japan economic cooperation

Although the Korean War infused new life into the Japanese economy, fundamental problems remained unresolved: “Japan has not yet answered its need and proved its ability to earn its own living with normal exports in increasingly competitive world markets”.<sup>89</sup> In the wake of the “gift from the Gods” came inflation, a lack of raw materials, production bottlenecks and increased dependence on the US, as consequences of the artificial stimulus of war orders.<sup>90</sup> Even the large dollar injection created by US military spending was unable to fill Japan’s dollar gap. In 1952, Japan’s trade deficit was \$755m, worse than the previous year’s \$640m.<sup>91</sup>

As the Cold War proceeded, Japan’s economic growth became tied to economic and military programs under the new framework of economic cooperation from early 1951. Washington realised that “Japan is an important border area in the ideological clash between Communism and Democracy, and that only a self-supporting and democratic Japan can stand fast against the Communists”.<sup>92</sup> Meanwhile, Japan was used as “a springboard and source of supply for the extension of further aid to the Far Eastern areas”.

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<sup>86</sup> Hosoya, Chihiro. "From the Yoshida Letter to the Nixon Shock." In *The United States and Japan in the Postwar World*, edited by Akira Iriye and Warren I. Cohen, Lexington: The University Press of Kentucky, 1985, pp. 21-35.

<sup>87</sup> For the document of US mutual security treaties with Asian countries, see US Department of state. "Treaties in Force 2011." <http://www.state.gov/documents/organization/169274.pdf>. Accessed 10/10/2011.

<sup>88</sup> Crone, Donald. "The Politics of Emerging Pacific Cooperation." *Pacific Affairs* 65, no. 1 (1992), pp. 68-83; Nau, Henry R. *At Home Abroad: Identity and Power in American Foreign Policy*. Ithaca: Cornell University Press, 2002; Ikenberry, G. John. "Liberalism and Empire: Logics of Order in the American Unipolar Age." *Review of International Studies* 30, no. 4 (2004), pp. 609-30.

<sup>89</sup> Borden, William S. *The Pacific alliance: United States foreign economic policy and Japanese trade recovery, 1947-1955*, p. 148; Forsberg, Aaron. *America and the Japanese miracle: the Cold War context of Japan's post-war economic revival, 1950-1960*, p. 85.

<sup>90</sup> Forsberg, Aaron. *America and the Japanese miracle: the Cold War context of Japan's post-war economic revival, 1950-1960*, p. 85.

<sup>91</sup> *Ibid.*, p. 14, Table 2.

<sup>92</sup> Dower, John W. *Empire and aftermath: Yoshida Shigeru and the Japanese experience, 1878-1954*, p. 419.

By the time the occupation ended in April 1952, Japan's economic recovery relied heavily on the US. In order to "keep Japan on our side", the US granted MFN status to Japan in 1953, accompanied by continuing military procurements. It was incorporated into a Mutual Security System under the *Mutual Defence Assistance Agreement* signed in 1954, according to which the US pledged to provide \$100m in offshore procurement annually. In August 1955, the US succeeded in arranging Japan's entry into the General Agreements on Tariff and Trade (GATT) in response to a complaint that tariff barriers in the US and Europe prompted demand for increasing trade with China and the Soviet Union. As a result, Japanese exports to the US increased to \$449m.<sup>93</sup> The US defended these moves with the argument that "the immediate sacrifice of accepting Japanese goods paled before the long-term threat of a Communist Japan".<sup>94</sup> Between 1954 and 1962, US economic aid was millions of dollars from various sources such as technical assistance and other procurement programmes.<sup>95</sup> As a result of reconstruction, Japan entered a new stage of high-speed growth beginning in 1955.<sup>96</sup>

### 2.3.5 US military hegemony established through security treaties with East Asia

The Korean War was the beginning of the Cold War in Asia.<sup>97</sup> Its "impact on the course of international relations in East Asia was to establish the political fault lines in the region in the next two decades".<sup>98</sup> Through diplomatic and military ties, the US formed a Pacific alliance, providing allies with enormous economic and military assistance, especially during the first two decades of the Cold War (see Table 2-1). Moreover, alliance partners gained privileged access to the US market, laying the foundation for the emergence of the Newly

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<sup>93</sup> In fact, the US became the only nation which was willing to absorb higher levels of Japanese exports because half of the thirty-three GATT members, including the European and British Commonwealth states, invoked escape clauses and imposed high tariffs against Japanese textile and manufactured goods until the early 1960s. Schaller, Michael. *Altered states: the United States and Japan since the occupation*, p. 108. For details about Japanese trade integration with the West and the negotiation on its GATT membership, see Forsberg, Aaron. *America and the Japanese miracle: the Cold War context of Japan's post-war economic revival, 1950-1960*, pp. 137-68.

<sup>94</sup> Borden, William S. *The Pacific Alliance: United States Foreign Economic Policy and Japanese Trade Recovery, 1947-1955*, p. 179.

<sup>95</sup> *Ibid.*

<sup>96</sup> Forsberg, Aaron. *America and the Japanese miracle: the Cold War context of Japan's post-war economic revival, 1950-1960*, pp. 199-201.

<sup>97</sup> For an excellent exposition of the Korean War, Cumings, Bruce. *The Origins of the Korean War: Liberation and the Emergence of Separate Regimes, 1945-1947*. Princeton, N.J.: Princeton University Press, 1981; Cumings, Bruce. *The Origins of the Korean War*. Vol. 2. Princeton, N.J.: Princeton University Press, 1990.

<sup>98</sup> Cumings, Bruce. *The Origins of the Korean War*. Vol. 2, p. 85.

Industrialised Economies (NIEs) - South Korea, Singapore, Taiwan, and Hong Kong - in the early 1970s.<sup>99</sup>

**Table 2-1. American Military and Economic Assistance to Southeast Asia in \$ millions (1946-1974)**

	<b>Military Assistance</b>	<b>Economic Assistance</b>	<b>Total</b>
<b>Burma</b>	80.8	107.5	188.3
<b>Indochina (pre-1962)</b>	716.9	825.6	1542.5
<b>Indonesia</b>	177.3	1868.3	2045.6
<b>Khmer Republic</b>	750.2	551.4	1301.6
<b>Laos</b>	1459.2	878.2	2337.4
<b>Malaysia</b>	29.6	107.3	136.9
<b>Philippines</b>	707.1	1917.6	2624.7
<b>Singapore</b>	20.9	34.7	55.6
<b>Thailand</b>	1147.5	702.3	1849.8
<b>Vietnam</b>	15219.9	6537.9	21757.8
<b>Total</b>	20309.4	13530.8	33840.2

Source: compiled from Bellows, Thomas J. "The United States and Southeast Asia", *World Affairs* 137, no. 2 (1974), pp. 99-100, Table 1 & Table 2.

### 2.3.6 Vietnam War boom for Japan and Southeast Asia

In 1965, the Vietnam War brought another economic boom to Japan when it was used as a supply base for the US, earning \$7b in war-related sales of goods and services.<sup>100</sup> Procurements stimulated Japan's exports to the US, growing at an average annual rate of 21% between 1965 and 1972.<sup>101</sup> By opening its market, East Asian exports to the US increased dramatically. Taiwan's share of exports increased by 16%, while South Korea's accounted for 50% of its total.<sup>102</sup> In addition, the region benefited from the injection of US

<sup>99</sup> Stubbs, Richard. "War and Economic Development: Export-Oriented Industrialisation in East and Southeast Asia." *Comparative Politics* 31, no. 3 (1999), pp. 337-55; Rowen, Henry S., ed. *Behind East Asian Growth: The Political and Social Foundations of Prosperity*. London: Routledge, 1998; Stubbs, Richard. *Rethinking Asia's Economic Miracle: The Political Economy of War, Prosperity, and Crisis, Rethinking World Politics*. New York: Palgrave Macmillan, 2005.

<sup>100</sup> Schaller, Michael. *Altered states: the United States and Japan since the occupation*, p. 198.

<sup>101</sup> Havens, Thomas R. H. *Fire across the Sea: The Vietnam War and Japan, 1965-1975*. Princeton, N.J.: Princeton University Press, 1987, p. 95.

<sup>102</sup> Stubbs, Richard. *Rethinking Asia's economic miracle: the political economy of war, prosperity, and crisis*, pp. 132-35.

dollars in the form of economic and military aid. Richard Stubbs noted that Singapore, Taiwan and South Korea grew at double-digit rates annually between 1965 and 1973. Unlimited access to the US market for exports also brought economic benefit to Thailand, Malaysia, Indonesia, and the Philippines.<sup>103</sup>

In 1967, in the midst of the Vietnam War, five Southeast Asian states - Indonesia, Malaysia, the Philippines, Singapore, and Thailand - announced the Bangkok Declaration on 8 August 1967, marking the formation of the Association of Southeast Asian Nations (ASEAN). There are different interpretations of the role of ASEAN. Some scholars think that it formed the basis of a regional community of Southeast Asian states,<sup>104</sup> while others see it as the political instrument of member states.<sup>105</sup> Shaun Narine argued that ASEAN was neither a full-fledged economic institution nor clearly a security alliance.<sup>106</sup> Given the regional security environment at the time, ASEAN was a product of the Cold War, with the purpose of ensuring the survival of its member states and managing the influence of the great powers on regional security.<sup>107</sup>

### 2.3.7 The Nixon Shock and the decline of American economic hegemony

The Vietnam War stimulated the economic growth of US allies in East Asia but accelerated its hegemonic decline. The US faced a dollar/gold crisis, triggered by long-term balance-of-

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<sup>103</sup> *Ibid.*, pp. 131-48.

<sup>104</sup> According to this argument, ASEAN embodies fundamental norms, values, and practices that have, over time, socialised the ASEAN states into adopting a shared regional identity. This position analyses ASEAN from a sociological perspective and argues that ASEAN's operations have created a "regional community." Busse, Nikolas. "Constructivism and Southeast Asian Security." *The Pacific Review* 12, no. 2 (1999), pp. 39-60; Chin, Kin Wah. "ASEAN: The Long Road to 'One Southeast Asia'." *Asian Journal of Political Science* 5, no. 1 (1993), pp. 1-19; Acharya, Amitav. *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*. London: Routledge, 2001; Jorgensen-Dahl, Arnfinn. "ASEAN 1967-76: Development or Stagnation?" *Pacific Community* 17 (1976), pp. 519-35.

<sup>105</sup> This interpretation holds that ASEAN is designed to pursue the narrow self-interests of its member states. From this perspective, any sense of community within Southeast Asia is illusory, at best. It has become far more pronounced in the wake of the Asian economic crisis and ASEAN's inability to respond effectively to those events. ASEAN, is, and always has been, a weak institution. See for example, Leifer, Michael. *ASEAN and the Security of South-East Asia*. London: Routledge, 1989; Henderson, Jeannie. "Reassessing ASEAN." *Adelphi Paper*, no. 328 (1999). Rüländ, Jürgen. "ASEAN and the Asian Crisis: Theoretical Implications and Practical Consequences for Southeast Asian Regionalism." *The Pacific Review* 13, no. 3 (2001), pp. 421-51.

<sup>106</sup> Narine, Shaun. *Explaining ASEAN: Regionalism in Southeast Asia*. Boulder, Colo.: Lynne Rienner Publishers, 2002.

<sup>107</sup> On the formation of ASEAN and its early years, see Broinowski, Alison. *Understanding ASEAN*. New York: St. Martin's Press, 1982; Sandhu, Kernial Singh. *The ASEAN Reader*. Singapore: Institute of Southeast Asian Studies, 1992; Acharya, Amitav. *Constructing a security community in Southeast Asia: ASEAN and the problem of regional order*. London: Routledge, 2001; Narine, Shaun. *Explaining ASEAN: regionalism in Southeast Asia*. Boulder, Colo.: Lynne Rienner Publishers, 2002.



payments deficits, which culminated in a record run on its gold reserves in 1968.<sup>108</sup> To finance the costly Vietnam War, the Johnson government printed dollars instead of increasing taxes, resulting in spiralling inflation. Investors at home and abroad were rapidly losing confidence in an overvalued dollar, redeeming them for gold. Even the governments of Europe joined in because they were reluctant to subsidise war-induced inflation. The international monetary system, the pillar of the US-dominated economic order and US hegemony after World War II, was in a precarious situation.<sup>109</sup> The quagmire of Vietnam buried Johnson's career, and Nixon took power in 1969. He decided to scale down US involvement, known as the "Nixon Doctrine".<sup>110</sup> The President decided to withdraw troops from Vietnam gradually to attain "peace with honour", and pursue a policy of détente, the relaxation of tensions with the Soviet Union, and normalisation of relations with China.<sup>111</sup>

On the economic front, the Nixon administration was haunted by deteriorating balance-of-payments deficits, and simultaneous inflation and unemployment, or stagflation.<sup>112</sup> US gold reserves were drained because of a decline in faith in the dollar as the world's reserve currency. By July 1971, the US Treasury could only cover less than half of the requests to exchange dollars for gold. Under these circumstances, Nixon decided to "close the gold window" and levy a 10% surcharge on most imports.<sup>113</sup> This "Nixon shock" signalled the

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<sup>108</sup> For an excellent discussion on American economic crisis in 1968, see Collins, Robert M. "The economic crisis of 1968 and the waning of the "American Century"." *The American Historical Review* 101, no. 2 (1996), pp. 396-422.

<sup>109</sup> *ibid.*

<sup>110</sup> The Nixon Doctrine contained three propositions:

"First, the United States will keep all of its treaty commitments; second, we shall provide a shield if a nuclear power threatens the freedom of a nation allied with us or a nation whose survival we consider vital to our security; third, in cases involving other types of aggression, we shall furnish military and economic assistance when requested in accordance with our treaty commitments. But we shall look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defence." See Gaddis, John Lewis. *Strategies of containment: a critical appraisal of American national security policy during the Cold War*. Rev. and expanded ed. New York: Oxford University Press, 2005, p. 296. For Nixon's direction of the Vietnam War, see Kimball, Jeffrey. *Nixon's Vietnam War*. Lawrence, Kan.: University Press of Kansas, 1998; Schulzinger, Robert D. *A Time for War: The United States and Vietnam, 1941-1975*. New York: Oxford University Press, 1997.

<sup>111</sup> Through pressure on North Vietnam from Moscow and Beijing, the peace settlement would be hastened. Nixon's visit to China in February 1972 marked the normalisation of relations between the US and China.

<sup>112</sup> Bordo, Michael D. "The Bretton Woods International Monetary System: An Historical Review." *NBER Working Paper*, no. 4033 (1992), pp. 18-20.

<sup>113</sup> Gowa, Joanne S. *Closing the Gold Window: Domestic Politics and the End of Bretton Woods*. Ithaca: Cornell University Press, 1983; Gavin, Francis J. *Gold, Dollars, and Power: The Politics of International Monetary Relations, 1958-1971*. Chapel Hill: The University of North Carolina Press, 2003.

demise of the Bretton Woods system,<sup>114</sup> and marked the decline of US hegemony in East Asia.

In 1968, the same year that the US suffered an economic crisis, Japan emerged as the second largest economy, and was on the verge of achieving what it had failed to do through military expansionism.<sup>115</sup> Japan was on the path to “embrace East Asia” with its economic strength and distinctive “Asian model” of capitalist industrialisation.

The first phase in the evolution of East Asia’s political economy was characterised by US hegemony during the Cold War. The triangular strategy helped consolidate containment of China. But the very success of this strategy laid the foundations for the later relative decline of the US as a result of the rise of the Japanese economy; the second phase in the evolution of the political economy of East Asia.

## 2.4 East Asia in “Japan’s embrace” 1970s-1990s

### 2.4.1 The post-war return to East Asia: Japan-Southeast Asian economic cooperation in the 1950s and 1960s

The memory of Japanese wartime atrocities, cruelty and oppression lingered long, even though it was integrated by the US into the political economy of East Asia. Japan’s involvement was constantly viewed with suspicion and distrust.<sup>116</sup> Its post-war engagement

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<sup>114</sup> To prepare to rebuild the international economic system in the post-WWII era, 730 delegates from all 44 Allied nations gathered at the Mount Washington Hotel in Bretton Woods, New Hampshire, United States, for the United Nations Monetary and Financial Conference. The delegates deliberated upon and signed the Bretton Woods Agreements during the first three weeks of July 1944. The International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), (today part of the World Bank Group) were established to regulate the international monetary system. The U.S. dollar took over from gold as the reserve currency, and the US government linked the dollar to gold at the rate of \$35 per ounce of gold. At this rate, foreign governments and central banks were able to exchange dollars for gold. Bretton Woods established a system of payments based on the dollar, in which all currencies were defined in relation to the dollar, itself convertible into gold, and above all, “as good as gold”. For a discussion of the Bretton Woods System, see Eckes, Alfred E. *A search for solvency: Bretton Woods and the international monetary system, 1941-1971*. Austin: University of Texas Press, 1975; Bordo, Michael D. “The Bretton Woods International Monetary System: An Historical Review.” *NBER Working Paper*, no. 4033 (1992), pp. 18-20; also see Cohen, Benjamin J. *Organizing the world's money: the political economy of international monetary relations*. New York: Basic Books, 1977.

<sup>115</sup> Halliday, Jon, and Gavan McCormack. *Japanese Imperialism Today: Co-Prosperity in Greater East Asia*. New York Monthly Review Press, 1973.

<sup>116</sup> Singh, Bhubhindar. “ASEAN’s Perceptions of Japan: Change and Continuity.” *Asian Survey* 42, no. 2 (2002), pp. 276-96; Atarashi, Kinju. “Japan’s Economic Cooperation Policy towards the ASEAN Countries.” *International Affairs* 61, no. 1 (1984), pp. 109-27.

was confined to aid, bilateral trade with and later investment in individual Southeast Asian economies.

Japan's re-engagement with the region restored economic ties as both a source for raw materials and market for manufactured goods, while the US provided security protection under the US-Japan alliance. Prime Minister Shigeru Yoshida<sup>117</sup> advocated economic diplomacy, which came to be known as the Yoshida Doctrine. Mark Beeson explains that the Doctrine "placed economic development at all costs, while simultaneously keeping a low diplomatic profile".<sup>118</sup> The key points were: first, economic rehabilitation must be the prime national goal, thus, political-economic cooperation with the US was essential; second, Japan would remain restricted in its rearmament and avoid involvement in international security; third, under US security protection, Japan would provide military bases for the US.<sup>119</sup>

In the 1950s, Japan embarked on post-war economic cooperation with Southeast Asia through war reparations and economic aid, aimed at promoting trade and procuring resources.<sup>120</sup> It settled \$800m in reparations to the Philippines in 1956, concluded an agreement to provide \$200m to Burma in 1954 and signed another agreement to provide Indonesia with \$400m in loans in 1957. At the same time, Japan cancelled Indonesia's \$170m debt and paid \$223m in war reparations.<sup>121</sup> Anny Wong noted that even though the Philippines received the lion's share of Japan's payments, only \$30m was paid out as cash for war widows and orphans, while \$500m was in the form of grants and the rest as low-interest commercial loans repayable over 20 years.<sup>122</sup> As a large part of the reparations was dominated by commodity and service grants, Japan was developing markets for its exports,

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<sup>117</sup> Shigeru, Yoshida, and edited by Hiroshi Nara. *Yoshida Shigeru: Last Meiji Man*. Lanham: Rowman & Littlefield, 2007.

<sup>118</sup> Beeson, Mark. "Japan and Southeast Asia: The Lineaments of Quasi-Hegemony." (2001), [http://espace.library.uq.edu.au/eserv.php?pid=UQ:10797&dsID=mb\\_quasi.pdf](http://espace.library.uq.edu.au/eserv.php?pid=UQ:10797&dsID=mb_quasi.pdf). Accessed 20/05/2009.

<sup>119</sup> Singh, Bhubhindar. "ASEAN's Perceptions of Japan: Change and Continuity." *Asian Survey* 42, no. 2 (2002), p. 280.

<sup>120</sup> Shiraishi, Takashi. "Japan and Southeast Asia." In *Network Power: Japan and Asia*, edited by Peter J. Katzenstein and Takashi Shiraishi, p. 179.

<sup>121</sup> Borden, William S. *The Pacific alliance: United States foreign economic policy and Japanese trade recovery, 1947-1955*, p. 204; Schaller, Michael. *Altered states: the United States and Japan since the occupation*, p. 101.

<sup>122</sup> Wong, Anny. *Japan's Comprehensive National Security Strategy and Its Economic Cooperation with the ASEAN Countries*. Hong Kong: Chinese University of Hong Kong, 1991, p. 40.

while investments in the region were mainly in resource development, such as mining in Indonesia and the Philippines.<sup>123</sup>

Re-entry to the region was made possible through Japan's political and personal connections dating from well before the War, which gave its businesses an edge over competitors which were also keen to establish a presence in Southeast Asia's emerging markets.<sup>124</sup> Takashi Shiraishi observes that Japan's economic activities were in the form of "export credits, tie commodity loans, plant exports, and long-term investment credits [that] were of direct and immediate benefit to Japanese business", which also "benefited a variety of individual politicians and businessmen on both sides of the reparations and aid negotiations".<sup>125</sup> It moved to "an informal and soft form of economic regionalisation with other Asian countries".<sup>126</sup> Anny Wong argued that Japan's economic policies tended to improve its image in Southeast Asia and increase diplomatic visibility.<sup>127</sup>

During the 1960s, Japan asserted economic influence through trade, aid and investment. From 1960 to 1968, aid to Southeast Asia was largely commercially motivated as a means to promote exports, accounting for 28% and 56% of its total aid and aid to Asia respectively.<sup>128</sup> Investments were biased strongly towards developing strategic resources and infrastructure.<sup>129</sup> Technical assistance was assigned a low priority.<sup>130</sup>

During the 1960s, Japan began to raise its profile by involving itself in international and regional organisations. It joined the Development Assistance Committee in 1960 and became the first non-Western member of the Organisation of Economic Cooperation and

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<sup>123</sup> Sandhu, Kernial Singh, and Eileen P.T. Tang, eds. *Japan as an Economic Power and Its Implications for Southeast Asia: Papers Presented at a Conference*. Singapore: Singapore University Press for the Institute of Southeast Asian Studies, 1974, p. 1.

<sup>124</sup> Katzenstein, Peter J. "Asian Regionalism in Comparative Perspective." In *Network Power: Japan and Asia*, edited by Peter J. Katzenstein and Takashi Shiraishi, Ithaca Cornell University Press, 1997, pp. 1-4.

<sup>125</sup> Shiraishi, Takashi. "Japan and Southeast Asia," In *Network Power: Japan and Asia*, edited by Peter J. Katzenstein and Takashi Shiraishi, p. 178.

<sup>126</sup> Lincoln, Edward J. "Japan's Rapidly Emerging Strategy toward Asia." *OECD Working Paper*, no. 58 (1992), p. 13.

<sup>127</sup> Wong, Anny. *Japan's Comprehensive National Security Strategy and Its Economic Cooperation with the ASEAN Countries*, p. 41.

<sup>128</sup> *Ibid.*, p. 43, Table 2-1.

<sup>129</sup> Brooks, William L., and Robert M. Orr, Jr. "Japan's Foreign Economic Assistance." *Asian Survey* 25, no. 3 (1985), p. 323.

<sup>130</sup> *Ibid.*, pp. 323-24.

Development (OECD) in 1964.<sup>131</sup> In 1966, the Asian Development Bank (ADB) was established to facilitate regional development, with Japan as the largest contributor.<sup>132</sup> Wan Ming argued that support for the ADB was consistent with Japan's foreign policy which concentrated on economic growth, while relying on the US for military protection and political leadership.<sup>133</sup> During 1966-1972, Japan contributed 22.6% of the ADB's total ordinary capital resources and 59.6% of its total special fund, dwarfing US contributions of only \$1.25m towards the special fund.<sup>134</sup> A large share of ADB loans went to states with crucial trading ties with Japan, such as Indonesia, Malaysia, the Philippines, Thailand and South Korea. Moreover, Japan tied contributions to preferred sectors and regions, and procurement of Japanese goods and services.<sup>135</sup> Its ADB policy not only showed increasing economic strength but also served as a sign that the Japanese government was expanding its role in Asian affairs through active economic diplomacy.<sup>136</sup> However, control of the ADB also marred its image because Tokyo was viewed as an economic animal - pursuing benefits while neglecting the voices of Southeast Asian states.<sup>137</sup> This sowed the seeds of resentment and, in combination with other factors, led to a shift in Japan's policy towards Southeast Asia.

Japan's post-war re-engagement with East Asia took place mainly through economic diplomacy, while firmly under the US security umbrella. Relations with Southeast Asia were characterised by suspicion and distrust. In the 1950s and 1960s, Japan advanced its economic interests and quietly established a foothold via war reparations, aid and investment in form, but trade promotion and resource procurement in substance.

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<sup>131</sup> Sandhu, Kernial Singh, and Eileen P.T. Tang, eds. *Japan as an Economic Power and Its Implications for Southeast Asia*, p. 60.

<sup>132</sup> Wan, Ming. "Japan and the Asian Development Bank." *Pacific Affairs* 68, no. 4 (1995), pp. 510-12.

<sup>133</sup> *Ibid.*, p. 514.

<sup>134</sup> *Ibid.*, p. 512.

<sup>135</sup> *Ibid.*, p. 514.

<sup>136</sup> Sudo, Suelo. *The Fukuda Doctrine and ASEAN: new dimensions in Japanese foreign policy*. Singapore: Institute of Southeast Asian Studies, 1992, p. 60.

<sup>137</sup> Sudo, Suelo. "Nanshin, Superdomino, and the Fukuda Doctrine: Stages in Japan-Southeast Asian Relations." *East Asia* 5, no. 3 (1986), p. 38.

## 2.4.2 East Asia in “Japan’s embrace” (1970s-1990s)<sup>138</sup>

Japan’s economic influence grew as it became the second largest economy in 1968. The late 1960s and 1970s witnessed a number of changes in the regional and international environment, which had a significant impact on its economic development relations with East Asia. It readjusted itself to the new environment and moved towards comprehensive engagement, seeking to play a larger political role from the late 1970s.

### 2.4.2.1 Japan as an economic model

As discussed in section 2.3, Japan took advantage of its position as the most important US Cold War ally in East Asia to reconstruct through economic cooperation. After nearly two decades of high growth, Japan emerged as “Asia’s new giant”.<sup>139</sup> In addition to US support, Japan’s success was attributed to good leadership by the government and bureaucracy, and a strong state incorporating the big conglomerates, the *Keiretsu*. Bridging state and business was a mechanism of “administrative guidance” in the form of industry policy and capital control via key “pilot agencies” such as the Ministry of International Trade and Industry and Ministry of Finance.<sup>140</sup> Chalmers Johnson called this the “developmental state” and the linchpin of the post-war economic miracle.

The Japanese model was emulated first by the three NIEs of South Korea, Singapore and Taiwan in the 1970s and then by the Southeast Asian Tigers, Indonesia, Malaysia and Thailand, during their 1980s catch-up industrialisation.<sup>141</sup> Though adapted in different ways, its essential feature was the leading role of the state in setting and implementing national

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<sup>138</sup> The subtitle partly borrows Walter Hatch and Kozo Yamamura’s 1996 book title. Hatch, Walter, and Kozo Yamamura. *Asia in Japan’s Embrace: Building a Regional Production Alliance*. Cambridge: Cambridge University Press, 1996.

<sup>139</sup> Patrick, Hugh, and Henry Rosovsky. *Asia’s new giant: how the Japanese economy works*. Washington: Brookings Institution, 1976.

<sup>140</sup> Johnson, Chalmers A. *MITI and the Japanese miracle: the growth of industrial policy, 1925-1975*. Stanford, Calif.: Stanford University Press, 1982.

<sup>141</sup> There is an extensive literature on this. See for example, Haggard, Stephan. "Review: The Newly Industrializing Countries in the International System." *World Politics* 38, no. 2 (1986), pp. 343-70; Haggard, Stephan. Haggard, Stephan. *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*. Ithaca: Cornell University Press, 1990; Hughes, Helen. *Achieving Industrialisation in East Asia*. New York: Cambridge University Press, 1988; Arrighi, Giovanni. "The Rise of East Asia: World Systemic and Regional Aspects." *The International Journal of Sociology and Social Policy* 16, no. 7/8 (1996), pp. 6-44; Woo-Cumings, Meredith, ed. *The Developmental State*. Ithaca: Cornell University Press, 1999; Rowen, Henry S. *Behind East Asian Growth: The Political and Social Foundations of Prosperity*. New York: Routledge, 1998; Vogel, Ezra F. *Japan as Number One: Lessons for America*. Cambridge, Mass.: Harvard University Press, 1979; Deyo, Frederic C., ed. *The Political Economy of the New Asian Industrialism*. Ithaca: Cornell University Press, 1987.

goals for economic growth. Robert Wade argued that the “governed market”, as opposed to the free market, was decisive in the industrialisation in Taiwan.<sup>142</sup> Alice Amsden argued that the late industrialisation of South Korea should be attributed to the government’s decision to intervene strongly rather than letting the economy follow the market.<sup>143</sup>

For Southeast Asian governments, Japan’s model was a combination of “sensitive state planning with an insistence on at least limited market competition”, which fitted “democratic in form but oligarchic in substance” political systems.<sup>144</sup> In 1974, the proposed formation of “Indonesia Incorporated”, in which close cooperation among politicians, bureaucrats and entrepreneurs would determine its economic future, was inspired by Japan.<sup>145</sup> Malaysia’s “Look East Policy”, initiated by Mahathir Muhammad, learnt from Japan’s labour ethics, morale, and management capability, which he considered to be the secret of its success.<sup>146</sup> Laos and Singapore’s respective “learn from Japan” campaigns reflected a desire to follow its development path.<sup>147</sup>

#### 2.4.2.2 Trade, investment and the Flying Geese model

Japan’s economic impact on East Asia was manifested in regional production networks established by FDI, in which connected systems were based on a division of labour among firms across national borders with Japanese multinational corporations (MNCs) at the core.<sup>148</sup> The *Keiretsu*-centred regional division of labour was described as the “Flying Geese Model”.<sup>149</sup> T.J. Pempel argued that Japan was the “lead goose” in the model, followed by

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<sup>142</sup> Wade, Robert. *Governing the market : economic theory and the role of government in East Asian industrialization*. Princeton, N.J.: Princeton University Press, 1990.

<sup>143</sup> Amsden, Alice H. *Asia's next giant: South Korea and late industrialization*. New York: Oxford University Press, 1989.

<sup>144</sup> Owen, Norman G. *The emergence of modern Southeast Asia: a new history*. Honolulu: University of Hawaii Press, 2005, p. 387.

<sup>145</sup> *Ibid.*

<sup>146</sup> Hoong, Khong Kim. "Malaysia-Japan Relations in the 1980s." *Asian Survey* 27, no. 10 (1987), pp. 1095-108; "Look East Policy."

<http://www.mtholyoke.edu/~teh20y/classweb/worldpolitics/LookEast.html#policy>. Accessed 06/10/2009.

<sup>147</sup> Singh, Bhubhindar. "ASEAN's Perceptions of Japan: Change and Continuity." *Asian Survey* 42, no. 2 (2002), pp. 281-82.

<sup>148</sup> Dajin, Peng. "The changing nature of East Asia as an economic region." *Pacific Affairs* 73, no. 2 (2000), pp. 171-91.

<sup>149</sup> The concept of the ‘Flying Geese’ was first proposed by Japanese economist Kaname Akamatsu. He found that the process of industrialisation in the then Japanese Empire followed three stages: import of new products, import substitution, and export. This process appeared on the graph in an inverse ‘V’ shape, resembling a flock of flying wild geese. The original focus of the model was on Japan only. Kiyoshi Kojima extended the research on the flying geese pattern and used it to explain Japanese post-war foreign direct

other Asian geese “to replicate Japan’s development experiences and those of the other ‘geese’ ahead of them in formation, moving steadily forward in their levels of manufacturing sophistication”.<sup>150</sup> Trade-oriented FDI enabled textile and other labour-intensive industries to be transplanted first to the NIEs, then from the NIEs to the ASEAN economies when they matured and no longer possessed any competitive advantage.<sup>151</sup> According to Kojima Kyoshi, the logic was that Japan would undertake FDI in any domestic industry that was becoming comparatively disadvantageous while having the potential of becoming comparatively advantageous in the host country. This “Japanese-type, trade-oriented FDI” was more complementary and profitable.<sup>152</sup> Japanese firms retained technological dominance through the networks.<sup>153</sup>

The power of the networks, as Peter Katzenstein argued, was the dominant force in the emerging Japan-centred East Asian political economy.<sup>154</sup> Its economic ascendancy during the 1960s, shown in 2.3, was guaranteed by the security alliance in the so-called “American imperium”,<sup>155</sup> significantly helped along by serving as the Asian bulwark in the struggle against Communism. Japan kept its military spending as low as 1% of GDP, while having privileged access to the US market.

A hierarchical division of labour in East Asia had been established previously by Japan in the pre-war era, in the form of the colonial production networks of the Greater East Asian Co-prosperity Sphere centred in Japan, Korea and Taiwan, and later Manchuria, where cheap labour and natural resources were exploited for imperial expansion.<sup>156</sup> The Flying Geese

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investment (FDI) in Asia. Kaname, Akamatsu. “A Theory of Unbalanced Growth in the World Economy.” *Weltwirtschaftliches Archiv* Bd. 86, (1961), pp. 196-217. For the development of the theory, see Korhonen, Pekka. “The Theory of the Flying Geese Pattern of Development and Its Interpretations.” *Journal of Peace Research* 31, no. 1 (1994), pp. 93-108.

<sup>150</sup> Pempel, T. J. “Transpacific Torii: Japan and the Emerging Asian Regionalism.” In *Network Power: Japan and Asia*, edited by Peter J. Katzenstein and Takashi Shiraishi, Ithaca: Cornell University Press, 1996, p. 52.

<sup>151</sup> Kojima, Kiyoshi. *Direct Foreign Investment: A Japanese Model of Multinational Business Operations*. London: Croom Helm, 1978, p. 15.

<sup>152</sup> *Ibid.*

<sup>153</sup> Tokunaga, Shojiro. “Japan’s FDI-Promoting Systems and Intra-Asia Networks: New Investment and Trade Systems Created by the Borderless Economy.” In *Japan’s foreign investment and Asian economic interdependence: production, trade and financial systems*, edited by Shojiro Tokunaga, Tokyo: University of Tokyo Press, 1992, pp. 5-47.

<sup>154</sup> Katzenstein, Peter J., “Asian Regionalism in Comparative Perspective.” In *Network Power: Japan and Asia*, edited by Peter J. Katzenstein and Takashi Shiraishi, Ithaca: Cornell University Press, 1996, pp. 1-44.

<sup>155</sup> Katzenstein, Peter J. “Japan in the American Imperium: Rethinking Security.” (2008), [http://japanfocus.org/-Peter\\_J\\_-Katzenstein/2921](http://japanfocus.org/-Peter_J_-Katzenstein/2921). Accessed 08/02/2011.

<sup>156</sup> Cumings, Bruce. “The Origins and Development of the Northeast Asian Political Economy:



Model may be viewed as a continuation after the war of a Japanese-imposed labour hierarchy on East Asia. Japan's post-war re-entry into East Asia took the form of wartime reparations in which the bulk of payments was tied to the purchase of Japanese goods and services for the purpose of opening these markets and building bilateral economic links. East Asia was principally a source of raw materials as well as a market for manufactured goods.

**Table 2-2. Japanese Manufacturing FDI in Asia by Major Host Country in \$ millions (1981-1990)**

	1981-82	1983-84	1985-86	1987	1988	1989	1990
<b>Hong Kong</b>	30	19	66	108	85	116	114
<b>Singapore</b>	323	342	198	268	179	678	270
<b>Korea</b>	59	69	178	247	254	257	147
<b>Taiwan</b>	96	130	385	339	303	360	513
<b>China</b>	8	22	46	30	203	206	161
<b>Thailand</b>	99	118	112	210	625	784	714
<b>Malaysia</b>	77	227	97	148	346	471	592
<b>Indonesia</b>	476	268	93	295	298	167	536
<b>Philippines</b>	55	20	57	--	--	--	--
<b>Asia Total</b>	1230	1258	1265	2370	2370	3220	3053

Source: Pempel, T. J. "Transpacific Torii: Japan and the Emerging Asian Regionalism." In *Network Power: Japan and Asia*, edited by Peter J. Katzenstein and Takashi Shiraiishi, Ithaca: Cornell University Press, 1996, p. 60, Table 1-1.

Japan's manufacturing industry migrated to Southeast Asia, building production networks.<sup>157</sup> It is estimated that 64% of Japanese FDI and about 40% of overseas investment in manufacturing, which surged during the second half of the 1960, went to Indonesia, Malaysia, the Philippines, Singapore and Thailand between 1951 and 1969.<sup>158</sup> FDI in East Asia expanded dramatically again in the 1980s, in particular after the 1985 Plaza Accord which led to a sharp appreciation in the value of the yen.<sup>159</sup> Japanese investment increased

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Industrial Sectors, Product Cycles, and Political Consequences." *International Organization* 38, no. 1 (1984), pp. 1-40.

<sup>157</sup> Chew, Soon-Beng, Rosalind Chew, and Francis K. Chan. "Technology Transfer from Japan to ASEAN: Trends and Prospects." In *Japan's Foreign Investment and Asian Economic Interdependence: Production, Trade and Financial Systems*, edited by Shojiro Tokunaga, Tokyo: University of Tokyo Press, 1992, pp. 111-34.

<sup>158</sup> Ozawa, Terutomo. *Multinationalism, Japanese style: the political economy of outward dependency*. Princeton, N.J.: Princeton University Press, 1979, p. 23, Table 1.3.

<sup>159</sup> On 22 September 1985, US Treasury Secretary James Baker met with the finance ministers of Japan, West Germany, Great Britain, and France at the Plaza Hotel in New York City to sign a pact aimed at relieving

nearly sevenfold from \$1.19b in 1980 to \$8.24b in 1989,<sup>160</sup> (see Table 2-2) and establishing what Kozo Yamamura and Walter Hatch described as “Asia in Japan’s embrace”.<sup>161</sup> Integrated Asia was highly dependent on Japan as the economic powerhouse at its centre, making complete the transition from the era of US hegemony to the second phase in the history of the post-war East Asian political economy.

#### 2.4.2.3 Japan’s pursuit of a greater political role in East Asia: the Fukuda Doctrine

Japan faced a series of political and economic challenges in the early 1970s in the wake of a changing regional and international environment. Post-war economic development was largely guaranteed by an uninterrupted supply of resources and energy, mostly from Southeast Asia, and an undervalued yen which increased the competitiveness of Japanese exports.<sup>162</sup> Economic development was also facilitated by an open international economic system and US nuclear protection.<sup>163</sup> But this favourable international environment was shaken by “three shocks”: the two “Nixon shocks” of 1971 and the oil shock of 1973.

First, as mentioned in section 2.3.7, confronted with economic problems and the quagmire of Vietnam, the US decided to disengage by enunciating the Nixon Doctrine in 1969, as a result of realising, in Kissinger’s words, “the limits of vast US power”.<sup>164</sup> The implications of the doctrine, as Nakanishi Hiroshi pointed out, were that Japan needed to take primary responsibility for its own defence, and that it was expected by the US to make greater contributions to regional security in terms of sharing the defence burden with the US.<sup>165</sup> In 1971, Nixon declared the end of the convertibility of the dollar to gold, resulting in an

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America’s nagging trade deficit via an “orderly appreciation of the main non-dollar currencies against the dollar”. Japan’s currency responded, jumping in value from 250 yen to the dollar in the summer of 1985 to 150 by the summer of 1986. See Funabashi, Yoichi. *Managing the dollar: from the plaza to the Louvre*. 2nd ed. Washington: Institute for International Economics, 1989; also see Ito, Takatoshi. *The Japanese economy*. Cambridge, Mass.: MIT Press, 1992.

<sup>160</sup> Dajin, Peng. “The changing nature of East Asia as an economic region.” *Pacific Affairs* 73, no. 2 (2000), p. 184.

<sup>161</sup> Hatch, Walter, and Kozo Yamamura. *Asia in Japan’s Embrace: Building a Regional Production Alliance*. Cambridge: Cambridge University Press, 1996.

<sup>162</sup> In 1949, a devalued exchange rate of 360 yen was set to encourage exports under the Dodge Plan, this rate remained stable until August of 1971. See Rotter, Andrew Jon. *The path to Vietnam: origins of the American commitment to Southeast Asia*, pp. 38-48.

<sup>163</sup> Hiroshi, Nakanishi. “Japanese Relations with the United States.” In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F Vogel, Ming Yuan and Akihiko Tanaka, Cambridge, Mass.: Harvard University Press, 2002, pp. 165-88.

<sup>164</sup> Kissinger, Henry. *White House Years*. Boston: Little, Brown, 1979.

<sup>165</sup> Hiroshi, Nakanishi. “Japanese Relations with the United States.” In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F Vogel, Ming Yuan and Akihiko Tanaka, p. 172.

appreciation in the value of the yen against the US dollar which reduced Japanese competitiveness in international markets.<sup>166</sup>

Second, Japan was shocked by the unexpected US-China rapprochement following Kissinger's visit to China in 1971, which paved the way for Nixon's normalisation of Sino-US relations in 1972.<sup>167</sup> Though Japan viewed normalisation as a necessary step in working out the so-called "China problem", which had been left unresolved since 1945, Nixon's decision to act without giving Japan more than a few hours notice was greeted with dismay.<sup>168</sup> It responded by normalising relations with China in 1972.<sup>169</sup>

Third, the oil crisis in 1973 greatly affected Japan's highly oil-import-dependent economy and raised awareness of its vulnerability to external shocks. Japan's economic and national security interests could not be guaranteed solely by the US, but rather by regional cooperation, in which Japan played a more active role via economic means.<sup>170</sup> The US withdrawal from Vietnam and communist victory in 1975 left a power vacuum. Japan was expected to play a more active role in East Asia.<sup>171</sup>

Japan was shocked by anti-Japanese sentiments among ASEAN members. As Sueo Sudo pointed out, a growing fear of and resistance to Japan's economic dominance resulted in a boycott of Japanese goods in Thailand in 1972, and in Malaysia's criticism of Japanese production and export of synthetic rubber.<sup>172</sup> Anti-Japanese demonstrations took place through much of the region when Prime Minister Tanaka visited Southeast Asia in 1974,

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<sup>166</sup> McKinnon, Ronald I., and Kenichi Ohno. *Dollar and Yen: Resolving Economic Conflict between the United States and Japan*. Cambridge, Mass: MIT Press, 1997; Haruhiko, Kuroda. "The 'Nixon Shock' And The 'Plaza Agreement': Lessons from Two Seemingly Failed Cases of Japan's Exchange Rate Policy." *China & World Economy*, no. 1 (2004), [http://en.iwep.org.cn/download/upload\\_files/qhlv5i45am1dlk5504kvtyqp20070504152952.pdf](http://en.iwep.org.cn/download/upload_files/qhlv5i45am1dlk5504kvtyqp20070504152952.pdf). Accessed 08/01/2010.

<sup>167</sup> Hiroshi, Nakanishi. "Japanese Relations with the United States" In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F Vogel, Ming Yuan and Akihiko Tanaka, p. 175.

<sup>168</sup> *Ibid.*, pp. 165-67.

<sup>169</sup> Curtis, Gerald L. "US Relations with Japan." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F Vogel, Ming Yuan and Akihiko Tanaka, Cambridge, Mass.: Harvard University Press, 2002, pp. 135-63; Hiroshi, Nakanishi. "Japanese Relations with the United States." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F Vogel, Ming Yuan and Akihiko Tanaka, pp. 165-88.

<sup>170</sup> Wong, Anny. *Japan's Comprehensive National Security Strategy and Its Economic Cooperation with the ASEAN Countries*, pp. 45-53.

<sup>171</sup> Sudo, Sueo. *The Fukuda Doctrine and ASEAN: new dimensions in Japanese foreign policy*, pp. 77-88.

<sup>172</sup> Sudo, Sueo. *Evolution of ASEAN-Japan Relations*. Singapore: Institute of Southeast Asian Studies, 2005.

escalating into violence known as the “Tanaka riots” in Bangkok and Jakarta.<sup>173</sup> According to Kinju Atarashi, anti-Japanese sentiment was awakened by its tendency to pursue economic interests while neglecting to cultivate mutual trust and understanding.<sup>174</sup>

ASEAN was becoming a fully-fledged regional actor, exemplified by the first Leaders’ Summit in 1976.<sup>175</sup> Two important agreements, the Treaty of Amity and Cooperation in Southeast Asia (TAC)<sup>176</sup> and the Declaration of ASEAN Concord (Bali Concord I),<sup>177</sup> emphasised the fundamental goal of enhancing solidarity by strengthening political and economic cooperation. ASEAN turned to Japan, which had been a prominent economic presence in the region.<sup>178</sup> Suetō Sudo argued that “Japan was the country of last resort, as neither the United States nor China was ready, or willing, to keep Southeast Asia in order”.<sup>179</sup> Confronted by the changing international and regional environment, Japan embarked on a new Asian policy, the so-called “Fukuda Doctrine”.

It was a departure from Japan’s traditional economic diplomacy, aiming at a larger political role in the region. Prime Minister Fukuda, articulating its main points in a speech during his trip to Southeast Asia in 1977, reassured ASEAN leaders that Japan had no intention of becoming a military power, only of playing the role of an economic power. He stressed that Japan would establish “heart-to-heart relations” with ASEAN to increase mutual confidence and trust and would be an equal partner and close social, political and economic friend.<sup>180</sup>

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<sup>173</sup> Sudo, Suetō. *The Fukuda Doctrine and ASEAN: new dimensions in Japanese foreign policy*, pp. 71-72; Singh, Bhubhindar. "ASEAN's Perceptions of Japan: Change and Continuity." *Asian Survey* 42, no. 2 (2002), p. 282; Atarashi, Kinju. "Japan's Economic Cooperation Policy towards the ASEAN Countries." *International Affairs* 61, no. 1 (1984), pp. 109-27.

<sup>174</sup> Atarashi, Kinju. "Japan's Economic Cooperation Policy towards the ASEAN Countries." *International Affairs* 61, no. 1 (1984), p. 112.

<sup>175</sup> Sudo, Suetō. *Evolution of ASEAN-Japan Relations*. Singapore: Institute of Southeast Asian Studies, 2005, p. 12.

<sup>176</sup> "Treaty of Amity and Cooperation in Southeast Asia." (24 February 1976), <http://www.asean.org/1217.htm>. Accessed 23/05/2007.

<sup>177</sup> "Declaration of ASEAN Concord." (24 February 1976), <http://www.aseansec.org/1216.htm>. Accessed 23/05/2007.

<sup>178</sup> The summit also established the dialogue process. The first 3 dialogue partners were Japan, and Australia and New Zealand. By 1976, Japan’s share of private investment accounted for 27 percent of ASEAN total FDI, while its share of foreign trade was 25 percent. Sudo, Suetō. *The Fukuda Doctrine and ASEAN: new dimensions in Japanese foreign policy*, p. 103, Table 2.

<sup>179</sup> Sudo, Suetō. *The Fukuda Doctrine and ASEAN: new dimensions in Japanese foreign policy*, p. 102.

<sup>180</sup> Sudo, Suetō. *The Fukuda Doctrine and ASEAN: new dimensions in Japanese foreign policy*, pp. 77-109; Khamchoo, Chaiwat. "Japan's Role in Southeast Asian Security: "Plus Ça Change ...". " *Pacific Affairs* 64, no. 1 (1991), pp. 7-22; Yano, Toru. "The "Fukuda Doctrine" and Its Implications for Southeast Asia: A Japanese Perspective. " *Southeast Asian Affairs* (1978), pp. 60-64.

These principles were aimed at reducing anti-Japanese sentiment at a time when it had lost the previously strong support of the US.

By more active cooperation with ASEAN, Japan hoped to reverse its post-war image of being an “economic animal” interested solely in markets and profits.<sup>181</sup> Furthermore, it sought to exert political influence more commensurate with its economic status. Thus, Japan-ASEAN relations entered a new stage. A Japan-ASEAN Forum was established in 1977 before the announcement of the Fukuda Doctrine, formalising the Japan-ASEAN dialogue partnership.<sup>182</sup> Later that year, in his trip to Southeast Asia, Fukuda agreed to provide \$1b in loans for ASEAN industrial projects<sup>183</sup> and promised to double Japan’s ODA within five fiscal years (1977-1982).<sup>184</sup> After the Fukuda assistance packages, a succession of larger and impressive aid packages followed, as shown in Table 2-3.

**Table 2-3. Japan’s Bilateral ODA to ASEAN in \$ millions.**

	1980	1983	1985	1986	1988	1989
<b>ASEAN Total Amount</b>	703	725.8	800	914	1920	2132
<b>ASEAN’s share of Japan’s ODA</b>	35.9	30	31.3	23.8	29.9	31.5
<b>Asia’s share of Japan’s ODA</b>	70.5	66.5	67.7	64.8	62.8	62.5

Source: compiled from different sources. See Sudo, Suelo. "Japan's role in the context of the emerging Asia-Pacific world." *Southeast Asian Affairs* (1989), p. 55, Table 1; Cronin, Richard P. "Changing dynamics of Japan’s interaction with Southeast Asia." *Southeast Asian Affairs* (1991), p. 53, Table 2; Alagappa, Muthiah. "Japan's Political and Security Role in the Asia-Pacific Region." *Contemporary Southeast Asia* 10, no. 1 (1988), p. 47, Table 6.

The changing situation in Southeast Asia in the 1970s and 1980s saw Japan play a more active role in ASEAN’s political affairs, which was underscored by involvement in the Cambodian conflict.<sup>185</sup> As a new policy initiative, the main contribution of the Fukuda

<sup>181</sup> Wong, Anny. *Japan's Comprehensive National Security Strategy and Its Economic Cooperation with the ASEAN Countries*, pp. 51-52.

<sup>182</sup> ASEAN-Japan Dialogue Relations, <http://www.aseansec.org/5740.htm>. Accessed 15/08/2009.

<sup>183</sup> There are five ASEAN Industrial Projects, namely Nitrogenous Fertiliser projects in Indonesia and Malaysia, Phosphatic Fertiliser project in Philippines, Rock Salt-Soda Ash in Thailand, Diesel Engines in Singapore. Alagappa, Muthiah. "Japan's Political and Security Role in the Asia-Pacific Region." *Contemporary Southeast Asia* 10, no. 1 (1988), p. 46.

<sup>184</sup> By 1976, Japan’s share accounted for 52.6 percent of ASEAN total ODA. See Sudo, Suelo. *The Fukuda Doctrine and ASEAN: new dimensions in Japanese foreign policy*, p. 103, Table 2.

<sup>185</sup> Chongkittavorn, Kavi. "Japan and Southeast Asia: Searching for Acceptable Roles." In *Japan, ASEAN, and the United States*, edited by Harry H. Kendall and Clara Joewono. Berkeley: University of California, 1991, p. 178.

Doctrine was to further Japan's status as a mediator between ASEAN and Indochina by seeking to stabilise regional order. Though this initiative did not proceed further, due to Vietnam's invasion of Cambodia in 1978, Japan continued strong support for resolving the Crisis by aligning itself with ASEAN's Cambodian policy. Japan suspended an economic assistance program to Hanoi, and voted for annual ASEAN-sponsored resolutions presented to the United Nations calling on Vietnam to withdraw from Cambodia after 1979.<sup>186</sup>

While attending the Third ASEAN Summit in 1987, Prime Minister Takeshita underscored three areas for establishing a new partnership, which became an integral part of its global diplomacy under the slogan "Japan contributing to the world".<sup>187</sup> As the only ASEAN dialogue partner to be invited to the ASEAN Summit, Takeshita's attendance highlighted the growing importance of ASEAN-Japan relations.<sup>188</sup> A \$2b ASEAN-Japan Development Fund was created to promote the establishment of joint business ventures.<sup>189</sup> Resolving the Cambodian conflict was enunciated by Takeshita as one of the three most important policy challenges.<sup>190</sup>

## 2.5 Conclusion

Whereas China was, for many centuries, the dominant state in East Asia, both economically and politically, it lost its central position due to Western imperialism in the 19<sup>th</sup> century, and was later humiliated further when occupied by Japan. The "century of humiliation" saw China cede territoriality to Western powers. The effects of this loss, as I show in later chapters, are discerned in the views and pronouncements of China's political leaders and academics. Relations with Japan, in particular, were linked inextricably to war-time experiences. In addition, Chinese efforts to reclaim territories lost during the "century of humiliation" were a means to restore national integrity.

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<sup>186</sup> *Ibid.*, p. 176.

<sup>187</sup> Ministry of Foreign Affairs of Japan. "Diplomatic Bluebook 1988: Japan's Diplomatic Activities." (1988), <http://www.mofa.go.jp/policy/other/bluebook/1988/1988-contents.htm>. Accessed 08/06/2009; Akaha, Tsuneo. "Japan's Comprehensive Security Policy: A New East Asian Environment." *Asian Survey* 31, no. 4 (1991), pp. 324-40.

<sup>188</sup> Wong, Anny. *Japan's Comprehensive National Security Strategy and Its Economic Cooperation with the ASEAN Countries*, p. 58.

<sup>189</sup> Alagappa, Muthiah. "Japan's Political and Security Role in the Asia-Pacific Region." *Contemporary Southeast Asia* 10, no. 1 (1988), p. 46.

<sup>190</sup> Sudo, Sueo. "Japan's role in the context of the emerging Asia-Pacific world." *Southeast Asian Affairs* (1989), p. 53.

After the Second World War, the US became the hegemonic power in East Asia by forming anti-Communist bilateral security alliances and a triangular strategy involving Japan and Southeast Asia. Japan's economic reconstruction as a bulwark against China was eventually so successful that in the 1970s it took over from the US as the dominant regional economic power.

During the period of US hegemony and later Japanese economic dominance, China's links with East Asia were relatively limited, especially when compared with its heyday as the centre of gravity during the Ming and Qing dynasties. Economic development had also stagnated. In the 1980s, however, the Chinese government led by Deng Xiaoping unveiled a far-ranging set of reforms that would put into motion China's return to East Asia. These reforms are the subject of the next chapter.

### 3 The path to resurgence: China's economic reforms since 1978

This chapter outlines the key reforms that resulted in China becoming a major economic force in East Asia by 2011. In contrast to the grand yet doomed Maoist plans for China's development in the 1950s and 1960s, Deng Xiaoping embarked on a strategy of incremental rural, urban and financial reform, which over the course of some 20 years allowed China to rejoin the world and regional economies. Section 3.1 sketches the state of China's economy before reform, and the course of China's modernisation under Deng. A review of China's actions during the Asian Financial Crisis of 1997/8 in Section 3.2 is important in setting up the discussion in Chapter 4 that focuses on how China was able to forge closer political links with its neighbours in Southeast Asia, as it will be my contention that China's seizure of the opportunity provided by the Crisis to demonstrate goodwill and provide assistance was pivotal in the eventual reshaping of East Asian regionalism. China's further development after the Asian Financial Crisis (AFC) was marked by continued reforms, and importantly by accession to the World Trade Organisation in 2001. These events are discussed in Section 3.3.

#### 3.1 "Crossing the river by feeling the stones" – China from the Mao era to twenty years of economic reform

##### 3.1.1 Background: China's economic development 1949-1978

After the Communist Party came to power in 1949, Mao's revolutionary ideology took China on a misguided path to modernity, socialising the means of production and pursuing economic autarky through self-reliance.<sup>1</sup> In the late 1950s the Great Leap Forward was aimed at overtaking advanced western economies and the Soviet Union, but plunged China into a deep economic depression and widespread famine.<sup>2</sup>

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<sup>1</sup> Riskin, Carl. *China's Political Economy: The Quest for Development since 1949*. New York: Oxford University Press, 1987, pp. 114-47.

<sup>2</sup> Harding, Harry. *China's Second Revolution: Reform after Mao*. Washington: Brookings Institution, 1987; Yang, Dali. *Calamity and Reform in China: State, Rural Society, and Institutional Change since the Great Leap Famine*. Stanford, Calif.: Stanford University Press, 1996; Becker, Jasper. *Hungry Ghosts: Mao's Secret Famine*. New York: Henry Holt, 1998. Dikötter, Frank. *Mao's Great Famine: The History of China's Most Devastating Catastrophe, 1958-1962*. London: Bloomsbury, 2010; Kung, James Kai-sing, and Justin Yifu Lin. "The Causes of China's Great Leap Famine, 1959-1961." *Economic Development and Cultural Change* (2003),



In 1964, Mao introduced the Four Modernisations, referring to industry (*gongye xiandaihua*), agriculture (*nongye xiandaihua*), national defence (*guofang xiandaihua*) and science and technology (*kexue jishu xiandaihua*). The aim was to make China a strong country in a “not too long period of time”,<sup>3</sup> but Mao proceeded to launch the decade-long Cultural Revolution from the mid-1960s, which was a catastrophe for Chinese society<sup>4</sup> that tarnished his image as a “great leader”. The Chinese refer to 1966-76 as the “decade of chaos” (*shinian dongluan*).<sup>5</sup> The “Four Modernisations” were going nowhere when Mao died and the Cultural Revolution was brought to an end in 1976.<sup>6</sup> At the time of his death, China faced chronic economic problems resulting from inefficiencies inherent in a Soviet-style centrally planned economy, and an acute political crisis that threatened the stability of the regime itself due to the appalling political purges of the Cultural Revolution.<sup>7</sup> These internal problems were powerful forces for change as the country entered the post-Mao era at the end of 1976.

The pressure for change was also intensified by unfavourable comparisons between China’s economic performance and that of the rest of East Asia. Japan, reconstructing its economy from the ruins of World War II, became the second-largest economy in 1968 after the United States.<sup>8</sup> The East Asian NIEs of Taiwan, Hong Kong, Singapore and South Korea kicked

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[http://sosc.ust.hk/faculty/detail/jk/2003\\_The\\_Causes\\_of\\_China's\\_Great\\_Leap\\_Famine\\_1959-1961.pdf](http://sosc.ust.hk/faculty/detail/jk/2003_The_Causes_of_China's_Great_Leap_Famine_1959-1961.pdf).

Accessed 30/05/2010; Johnson, D. Gale. "China's Great Famine: Introductory Remarks." *China Economic Review*, no. 9 (1998), pp. 103–09; Chang, Gene H., and G. James Wen. "Communal Dining and the Chinese Famine of 1958-1961." *Economic Development and Cultural Change*, no. 46 (1997), pp. 1–34; Lin, Justin Y., and Dennis T. Yang. "Food Availability, Entitlements and the Chinese Famine of 1959-61." *Economic Journal*, no. 110 (2000), pp. 136–58.

<sup>3</sup> "Report on the Work of the Government by Premier Zhou Enlai at the First Session of the 3rd National People's Congress." (December 1964),

<http://www.people.com.cn/item/lianghui/zlhb/rd/3jie/newfiles/a1030.html>. Accessed 29/11/2010.

<sup>4</sup> Riskin, Carl. *China's Political Economy: The Quest for Development since 1949*. New York: Oxford University Press, 1987, pp. 114-45, pp. 184-200.

<sup>5</sup> Harry Harding wrote that, “a few years after Mao’s death, Chen Yun, one of China’s leading economic planners, allegedly told a national party work conference: ‘Had Chairman Mao died in 1956, there would have been no doubt that he was a great leader of the Chinese people....Had he died in 1966, his meritorious achievements would have been somewhat tarnished. However, his achievements were still good. Since he actually died in 1976, there is nothing we can do about it.’” See Harding, Harry. *China's Second Revolution: Reform after Mao*, pp. 29-30.

<sup>6</sup> Riskin, Carl. *China's Political Economy: The Quest for Development since 1949*. New York: Oxford University Press, 1987, pp. 185-200.

<sup>7</sup> Lin, Yi-min. "Economic Institutional Change in Post-Mao China: Reflections on the Triggering, Orienting, and Sustaining Mechanism." In *China's Developmental Miracle: Origins, Transformations, and Challenges*, edited by Alvin Y. So, London: M.E. Sharpe, 2003, pp. 29-57.

<sup>8</sup> For Japan’s post-war economic expansion, see Allen, G. C. *A Short Economic History of Modern Japan, 1867-1937: With a Supplementary Chapter on Economic Recovery and Expansion, 1945-1970*. 3rd revised ed.

off their catch-up development through export-oriented industrialisation (EOI) under Japan's economic leadership.<sup>9</sup> While China's rate of economic growth from 1965 to 1973 averaged 7.4% per annum, the economies of Japan (9.8%), Hong Kong (7.9%), Taiwan (10.3%), Singapore (13%) and South Korea (10%) experienced higher growth rates.<sup>10</sup>

China's internal problems and external conditions combined to generate a "perception of crisis" within the ruling Communist Party which forced change.<sup>11</sup> China commenced what Harry Harding described as its "second revolution", beginning with agricultural reform and reform of the foreign trade system.<sup>12</sup>

At the Third Plenum of the Eleventh Central Committee of the Communist Party in December 1978, Deng Xiaoping introduced a new "gradualist" approach to economic reform. It was without any clear blueprint and guided instead by the principle of improving productivity and efficiency.<sup>13</sup> Deng argued that efficiency would improve only if workers had incentives related to profit. High productivity stimulated by higher returns for workers would eventually increase efficiency. The reforms were incremental, starting on a small then

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London: Allen and Unwin, 1972; Allen, G. C. *The Japanese Economy*. London: Weidenfeld and Nicolson, 1981; Patrick, Hugh, and Henry Rosovsky. *Asia's New Giant: How the Japanese Economy Works*. Washington: Brookings Institution, 1976; Ito, Takatoshi. *The Japanese Economy*. Cambridge, Mass.: MIT Press, 1992.

<sup>9</sup> Hatch, Walter, and Kozo Yamamura. *Asia in Japan's Embrace: Building a Regional Production Alliance*. Cambridge: Cambridge University Press, 1996.

<sup>10</sup> Harding, Harry. *China's second revolution: reform after Mao*, p. 38.

<sup>11</sup> Nee, Victor, and Peng Lian. "Sleeping with the Enemy: A Dynamic Model of Declining Political Commitment in State Socialism." *Theory and Society* 23, no. 2 (1994), pp. 253-96.

<sup>12</sup> *Ibid.*; Perkins, Dwight H. "Reforming China's Economic System." *Journal of Economic Literature* 26, no. 2 (1988), pp. 601-45; Oksenberg, Michel, and Bruce Dickson. "The Origins, Processes, and Outcomes of Great Political Reform: A Framework of Analysis." In *Comparative Political Dynamics: Global Research Perspectives*, edited by Dankwart A. Rustow and Kenneth Paul Erickson, New York: HarperCollins, 1991, pp. 235-61; Lardy, Nicholas R. *Foreign Trade and Economic Reform in China, 1978-1990*. New York: Cambridge University Press, 1993; Lardy, Nicholas R. "The Role of Foreign Trade and Investment in China's Economic Transformation." *The China Quarterly* 144 (1995), pp. 1065-82. For account of major central leaders' perceptions about the problems facing China after Mao, see Xiong, Zhiyong. *The New Life of China: Before and after Third Plenum*. Beijing: Central Party History Press, 1998; Yu, Guangyuan. *The Historic Turning Point I Personally Experienced: The Front and Back Stages of the Third Plenum*. Beijing: Central Compilation and Translation Press, 1998.

<sup>13</sup> Perkins, Dwight H. "Reforming China's Economic System." *Journal of Economic Literature* 26, no. 2 (1988), pp. 601-45.

moving to a much larger scale.<sup>14</sup> It was, as Naughton described it, “growing out of the plan”.<sup>15</sup>

Deng Xiaoping described this approach as “crossing the river by feeling the stones”. The transition from a centrally planned, state-owned economy to a market economy “with Chinese characteristics” was a turning point in China’s “long march” to modernity.<sup>16</sup>

### 3.1.2 China’s economic reform

The first twenty years of reform after 1978 transformed China from a Soviet-style, highly centralised planned economy into a “socialist market economy”.<sup>17</sup> Another metaphor used by Deng Xiaoping compared the path of reform with the mission of Guan Yu, a fictional figure from the Chinese classics. He had to cross five passes and cut down six generals (*guowuguan zhanliujiang*) to achieve his noble objective.<sup>18</sup> Deng Xiaoping’s objective was comprehensive reform in agriculture, state-owned enterprises (SOEs), banking and finance, the foreign trade system, as will be discussed below, and integrating the economy into the world economy,<sup>19</sup> which paved the way for what Jiang Zemin called China’s third “great

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<sup>14</sup> Hope, Nicolas C., Dennis Tao Yang, and Yangli Mu. "Economic Policy Reform in China." In *How Far Across the River?: Chinese Policy Reform at the Millennium*, edited by Nicolas C. Hope, Dennis Tao Yang and Yangli Mu, Stanford Calif.: Stanford University Press 2003, pp. 1-27.

<sup>15</sup> Naughton, Barry. *Growing out of the Plan: Chinese Economic Reform, 1978-1993*. New York: Cambridge University Press, 1996.

<sup>16</sup> See for example, Lin, Justin Yifu, Fang Cai, and Zhi Li. *The China Miracle: Development Strategy and Economic Reform*. Hong Kong: Chinese University Press, 2003; McMillan, John, and Barry Naughton. "How to Reform a Planned Economy: Lessons from China." *Oxford Review of Economic Policy* 8, no. 1 (1992), pp. 130-43; Fewsmith, Joseph. *Dilemmas of Reform in China: Political Conflict and Economic Debate*. Armonk, N.Y.: M.E. Sharpe, 1994; Harding, Harry. *China's second revolution: reform after Mao*. Washington: Brookings Institution, 1987; Perry, Elizabeth J., and Christine Wong, eds. *The Political Economy of Reform in Post-Mao China*. Cambridge, Mass.: Council on East Asian Studies/Harvard University: Distributed by Harvard University Press, 1985; Riskin, Carl. *China's Political Economy: The Quest for Development since 1949*. New York: Oxford University Press, 1987.

<sup>17</sup> Gao, Shangquan. *Two Decades of Reform in China*. Singapore: World Scientific, 1999.

<sup>18</sup> Quoted in Garnaut, Ross. "Twenty Years of Economic Reform and Structural Change in the Chinese Economy." In *China: Twenty Years of Economic Reform*, edited by Ross Garnaut and Ligang Song, Canberra: Asia Pacific Press, 1999, p. 5. Guanyu was a well-known heroic general in the Chinese classic novel *The Romance of the Three Kingdoms*. To reunite with his master, Liu Bei, who had been defeated in battle, General Guan had to ride alone for thousands of miles, passing five cities where the governors of each place tried to block Guan but were killed by him. Eventually Guan was reunited with his master. He is respected as hero for his loyalty and courage.

<sup>19</sup> Jiang, Zemin. "Hold High the Great Banner of Deng Xiaoping Theory for an All-Round Advancement of the Cause of Building Socialism with Chinese Characteristics into the 21st Century." *The Report Delivered at 15th Party Congress* (September 12, 1997), <http://cpc.people.com.cn/GB/64162/64168/64568/65445/4526285.html>. Accessed 16/07/2009.

transformation".<sup>20</sup> Remarkable success was achieved in terms of high economic growth, liberalisation and expansion of foreign trade, and acquisition of capital for economic development.

### 3.1.2.1 Rural reform

With lessons learnt from earlier false starts, China's march along the path to modernisation, from a position as a predominantly agricultural economy after the Cultural Revolution, was guided by the policy of opening-up (*gaige kaifang*)<sup>21</sup> and reforms which began in agriculture, where more than 80% of China's population lived and worked. People's communes were replaced gradually with various forms of household responsibility systems in 1979, signifying a fundamental change from collective to family-based operations on "contracted" land, which remained under state ownership.<sup>22</sup> The new system "cast off the shackles" of the planned economy, promoting significant agricultural development and an unprecedented consumer boom on the back of increases in cash incomes during the first years of reform. According to Justin Y. Lin, the total contribution of various reform measures to the growth of rural output (1978-1984) was 48.64%, of which the household responsibility system contributed 46.89%.<sup>23</sup> Between 1978 and 1984, grain output increased 5% annually. In 1996, grain production was 65% higher than 1978.<sup>24</sup> Peasant incomes witnessed a twelve-fold increase over the decade after 1978 as a result of a combination of increased grain output and price increases instituted by the state.<sup>25</sup>

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<sup>20</sup> In Jiang's report, he listed three transformations that had taken place in China in the 20<sup>th</sup> century: the first is the establishment of the Republic of China led by Sun Zhongshan (Sun Ya-sen) in 1911, the second is the establishment of the People's Republic of China led by Mao Zedong, and the third refers to Deng Xiaoping's economic reform and opening-up policy adopted in 1978, building socialism with Chinese characteristics. See Jiang, Zemin. "Hold High the Great Banner of Deng Xiaoping Theory for an All-Round Advancement of the Cause of Building Socialism with Chinese Characteristics into the 21st Century." *The Report Delivered at 15th Party Congress* (September 12, 1997),

<http://cpc.people.com.cn/GB/64162/64168/64568/65445/4526285.html>.

<sup>21</sup> Xiong, Zhiyong. *The New Life of China: Before and after Third Plenum*. Beijing: Central Party History Press, 1998; Yu, Guangyuan. *The Historic Turning Point I Personally Experienced: The Front and Back Stages of the Third Plenum*. Beijing: Central Compilation and Translation Press, 1998.

<sup>22</sup> Wu, Jinglian. *Understanding and Interpreting Chinese Economic Reform*. Mason, Ohio: Thomson/South-Western, 2005.

<sup>23</sup> Cited in Wu, Jinglian. *Understanding and interpreting Chinese economic reform*, p. 115.

<sup>24</sup> Lu, Xueyi. "The Origin and Prospect of China's San Nong Wen Ti." (2005), <http://www.sociology.cass.cn/shxw/xstl/xstl3/P020040311556013434338.pdf>. Accessed 09/08/2010

<sup>25</sup> According to the National Bureau of Statistics, Chinese farmers' annual income increased from 134 yuan in 1978 to 1578 yuan in 1995. Quoted in Wu, Jinglian. *Understanding and interpreting Chinese economic reform*. Mason, Ohio: Thomson/South-Western, 2005, p. 117, Table 3.2.

A spill-over effect from rural reforms was the emergence of town and village enterprises (TVEs), which absorbed surplus rural labour in non-agricultural industries. By 1995 more than 20 million TVEs provided jobs for about 128 million rural employees.<sup>26</sup> Rural reforms also brought millions of people out of poverty, and released an abundant supply of rural labour which later flooded into the labour pool for China's competitive export industries along the eastern seaboard. Production from rural industries contributed a considerable share of national industrial production, accounting for 37% of total industrial output in 1998.<sup>27</sup> TVEs gradually became one of the major players in the Chinese economy.

### 3.1.2.2 Urban reform

The focus of economic reform shifted from rural to urban areas in 1984 with restructuring and later reform of SOEs.<sup>28</sup> The rationale behind this was that the state sector dominated the Chinese economy in terms of production and urban employment, so that the smooth transformation of SOEs would be crucial for the success of reform. SOE reform in the following two decades proved to be far more complicated and politically divisive than agricultural reform.<sup>29</sup>

In the pre-reform planned economy, both state and collective enterprises were owned and controlled by the central and provincial levels of government through the planning system, which determined quantitative outputs, subsidies and prices. SOEs were "workshops of the state economy" rather than independent enterprises.<sup>30</sup> During the 15 years after 1979, the theme of SOE reform was power-delegation and profit-sharing (*fangquan rangli*).<sup>31</sup> Neither the household responsibility system nor the land contract system, the use of which was encouraged by the success of rural reforms, achieved the objective of expanding enterprise autonomy and turning SOEs into efficient enterprises.<sup>32</sup> According to Wu Jinglian, a well-known Chinese economist, SOE reform at this stage made little progress mainly because

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<sup>26</sup> *Ibid.*, p. 120, Table 3.3.

<sup>27</sup> Huang, Yiping. *China's Last Steps Across The River: Enterprise And Banking Reforms*. Canberra: Asia Pacific Press, 2001, p. 46.

<sup>28</sup> "The Decisions on Economic System Reform." (1984), <http://cpc.people.com.cn/GB/64162/64168/64565/65378/4429522.html>. Accessed 16/07/2009.

<sup>29</sup> Wu, Jinglian. *Understanding and Interpreting Chinese Economic Reform*, pp. 139-176.

<sup>30</sup> Huang, Yiping. *China's Last Steps Across The River: Enterprise And Banking Reforms*, pp. 25-28; and Wu, Jinglian. *Understanding and Interpreting Chinese Economic Reform*, p. 258.

<sup>31</sup> Wu, Jinglian. *Understanding and Interpreting Chinese Economic Reform*. pp. 139-76.

<sup>32</sup> Huang, Yiping. "State-owned Enterprise Reform." in *China: Twenty Years of Economic Reform*, edited by Ross Garnaut, and Ligang Song, Canberra: Asia Pacific Press, 1999, pp. 95-116.

their basic institutional framework remained unchanged. Wu concluded that a corporate governance mechanism should have been in place, instead of the contract responsibility system.<sup>33</sup>

During the first 15 years of reform, the official ideology was one of “combining plan and market together (*jihua yu shichang bingcun*)”.<sup>34</sup> In the early 1990s, the mind-set of the leadership began to change. After Deng Xiaoping’s famous “Southern tour” (*nanxun*) to mobilise support for further and more radical reform in 1992,<sup>35</sup> the major task was “to establish a socialist market economy” (*jianli shehuizhuyi shichang jingji*), which was promulgated by the 3<sup>rd</sup> Plenum of the 14<sup>th</sup> Party Congress in 1993.<sup>36</sup> The 3<sup>rd</sup> Plenum contended that the public-ownership-dominated, modern enterprise institution, characterised by “clearly defined property rights, clear division of autonomy and responsibility, separation of administrative function from enterprise decision, and scientific management”, constituted the foundation of the socialist market.<sup>37</sup> This decision marked a shift in the strategy of SOE reform from power-delegating and profit-sharing to institutional innovation, allowing diverse forms of ownership to develop.<sup>38</sup> However, as Perkins argued, at no time did the leadership think of introducing a full-fledged market system.<sup>39</sup>

A new SOE reform strategy, characterised as “emphasising the big and liberalising the small” (*zhuada fangxiao*), was implemented after its confirmation at the 15<sup>th</sup> Party Congress in 1997.<sup>40</sup> Government policy attempted to restructure large SOEs through adopting principles from modern Western enterprises, with a shareholding system as the dominant form, and privatising small and medium-sized SOEs through merging, selling, auctioning and

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<sup>33</sup> Wu, Jinglian. *Understanding and Interpreting Chinese Economic Reform*, pp. 151-152.

<sup>34</sup> Qian, Yingyi, and Jinglian Wu. "China's Transition to Market Economy: How Far across the River?" In *How Far across the River?: Chinese Policy Reform at the Millennium*, edited by Nicholas C. Hope, Dennis Tao Yang and Mu Yangli. Stanford, Calif.: Stanford University Press, 2003, p. 32.

<sup>35</sup> "Deng Xiaoping's Southern Tour Speech." (1992), <http://news.sina.com.cn/c/2007-01-24/150312127429.shtml>. Accessed 27/03/2009.

<sup>36</sup> "The Decisions on Issues Regarding the Establishment of the Socialist Market Economic System." (1993), <http://cpc.people.com.cn/GB/64162/134902/8092314.html>. Accessed 26/03/2009.

<sup>37</sup> *Ibid.*

<sup>38</sup> Huang, Yiping. *China's last steps across the river: enterprise and banking reforms*, pp. 33-52.

<sup>39</sup> Perkins, Dwight H. "Reforming China's Economic System." *Journal of Economic Literature* 26, no. 2 (1988), pp. 601-45.

<sup>40</sup> Zhu, Rongji. "Government Work Report Delivered by at 1st Session of 10th National People's Congress." (March 5, 1998), [http://news.xinhuanet.com/ziliao/2003-03/20/content\\_788431.htm](http://news.xinhuanet.com/ziliao/2003-03/20/content_788431.htm). Accessed 01/11/2010.

bankruptcy.<sup>41</sup> The major ideological breakthrough at the 15<sup>th</sup> Party Congress was the principle that “non-public ownership is an important component of the socialist market economy”, thereby paving the way for non-state SOE reform.<sup>42</sup>

According to Wu, the development of the non-state sector from “supplementary component” to “major contributor” (*zhuti*) is the “greatest success of China’s economic reform”, in terms of stability and sources of technological innovation.<sup>43</sup> The main non-state sector players were TVEs and rural private enterprises, and foreign invested companies.<sup>44</sup> The emergence of a non-state sector can be attributed to China’s opening up to foreign investment, trade and technology. This policy, which was designed in parallel with economic reform, will be discussed in Section 3.1.3.

Fiscal reforms began in 1980 with what was called the “fiscal responsibility system”. It allowed local governments to share revenues with the central government.<sup>45</sup> In addition, as mentioned above, rural reform released surplus labour from the agricultural sector, guaranteeing a sufficient labour force for the expansion of the non-state sector.

Spurred by a flexible environment and preferential policies designed for opening-up, TVEs in coastal regions centred on Guangdong, Fujian, Zhejiang and Jiangsu Provinces developed rapidly.<sup>46</sup> This trend accelerated after 1998 with “liberalising the small”, where the state no longer propped up failing small enterprises. This was designed to diversify the enterprise ownership structure. In 1998, the non-state sector comprised 31% of total investment and

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<sup>41</sup> *Ibid.*

<sup>42</sup> Jiang Zemin. "Hold High the Great Banner of Deng Xiaoping Theory for an All-Round Advancement of the Cause of Building Socialism with Chinese Characteristics into the 21st Century." *The Report Delivered at 15th Party Congress* (September 12, 1997), <http://cpc.people.com.cn/GB/64162/64168/64568/65445/4526285.html>.

<sup>43</sup> Wu, Jinglian. *Understanding and Interpreting Chinese Economic Reform*, p. 199.

<sup>44</sup> Hofman, Bert, and Jinglian Wu. "Explaining China's Development and Reforms." *Commission on Growth and Development Working Paper*, no. 50 (2009), <http://www.growthcommission.org/storage/cgdev/documents/gcwp050web.pdf>. Accessed 01/05/2010.

<sup>45</sup> For more about China’s fiscal and taxation reform, see Wu, Jinglian. *Understanding and Interpreting Chinese Economic Reform*, pp. 255-90.

<sup>46</sup> Enterprises in these areas enjoyed tax exemptions and reductions as well as usually better infrastructure and often better government services. Hofman, Bert, and Jinglian Wu. "Explaining China's Development and Reforms." *Commission on Growth and Development Working Paper*, no. 50 (2009), <http://www.growthcommission.org/storage/cgdev/documents/gcwp050web.pdf>.

49% of employment, increasing to 42.8% and 66.6% respectively by 2002. The non-state sector was driving economic growth.<sup>47</sup>

### 3.1.2.3 Financial reform

Reconstructing the financial system was a key component of China's transition from a planned to market economy. It was understood that a well-functioning financial sector contributed to capital accumulation and technological innovation, and thus the rate of economic growth.<sup>48</sup> As pre-reform SOEs were just "working teams of the State Sector", which were financed by appropriations and bank loans, SOE reform was linked significantly to the reform of the financial sector,<sup>49</sup> which was small and primitive because funds were distributed mainly via state plans, largely as allocations or subsidies, rather than commercial loans. Household savings held by banks were limited, making financial mediation unnecessary.<sup>50</sup>

The People's Bank of China (PBC) was the only state bank before reform to exercise the functions of both a central and commercial bank, creating a so-called Soviet-style "mono-bank system".<sup>51</sup> Other banks such as the Agricultural Bank of China (ABC), Bank of China (BOC) and The Construction Bank of China (CBC) operated either as part of the PBC<sup>52</sup> or the Ministry of Finance. Even Rural Credit Cooperatives were branches of the PBC.<sup>53</sup>

Finance sector reforms initially focused on the breakup of the mono-bank system by creating four specialised banks out of the PBC.<sup>54</sup> The ABC was restored in 1979 to specialise in rural banking, reflecting, as Lardy argued, the priority which was assigned to agriculture in the initial stage of economic reform.<sup>55</sup> The BOC was separated from the PBC in the same

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<sup>47</sup> The statistics are from the National Bureau of Statistics, quoted by Wu Jinglian. *Understanding and Interpreting Chinese Economic Reform* p. 199, Table 5.1.

<sup>48</sup> Laurenceson, James, and Joseph C. H. Chai. *Financial Reform and Economic Development in China*. Northampton, MA: Edward Elgar, 2003, p. 1.

<sup>49</sup> Wu, Jinglian. *Understanding and Interpreting Chinese Economic Reform*, pp. 217-26.

<sup>50</sup> Huang, Yiping. *China's Last Steps Across The River: Enterprise And Banking Reforms*, pp. 28-29.

<sup>51</sup> For a detailed analysis, see Byrd, William A. *China's Financial System: The Changing Role of Banks*. Boulder, Colo.: Westview Press, 1983.

<sup>52</sup> PBC was merged with the Ministry of Finance in 1969 and its function became auxiliary to the budget system in terms of funds allocation.

<sup>53</sup> Hofman, Bert, and Jinglian Wu. "Explaining China's Development and Reforms." *Commission on Growth and Development Working Paper*, no. 50 (2009), <http://www.growthcommission.org/storage/cgdev/documents/gcwp050web.pdf>.

<sup>54</sup> *Ibid.*

<sup>55</sup> Lardy, Nicholas R. *China's Unfinished Economic Revolution*. Washington: Brookings Institution, 1998, p. 62.



year to take charge of foreign exchange business. The restored CBC specialised in financing investment in fixed assets. The PBC's savings and loans business was transferred to the Industrial and Commercial Bank of China (ICBC), established in 1983, after which the PBC functioned mainly as the central bank.<sup>56</sup>

After a decade of financial reform, the banking system fell far short of the requirements of a market economy. The problems were that the PBC, which was still heavily influenced by the state, was ill-functioning as a central bank, and specialised bank lending was subjected to the requirements of government policy loans. Finance was directed to the stated-owned sector instead of on a commercial basis, resulting in huge non-performing loans (NPLs).<sup>57</sup> After 1994, the move to deepen banking reform to make it more compatible with the needs of a market economy included the establishment of a central bank and financial supervision system,<sup>58</sup> reform of commercial banks and other financial institutions, and foreign exchange control.<sup>59</sup>

Although some progress was made in banking reform over two decades, the financial sector was far from sophisticated compared with the western financial system. In Lardy's view, reform was only half-complete.<sup>60</sup> The currency was not convertible, and the capital account remained closed. It was, paradoxically, the underdeveloped nature of China's banking system that helped China during the AFC.<sup>61</sup> In its wake, more comprehensive financial reform was undertaken, which is discussed in the next section.

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<sup>56</sup> White, Gordon. *Riding the Tiger: The Politics of Economic Reform in Post-Mao China*. Stanford, Calif.: Stanford University Press, 1993, p. 151; Tan, Shizhong. *Strategic Decision Making of China's Financial Opening-Up*. Beijing: China Social Sciences Press, 2002; Wang, Tingke. *Modern Financial System and China's Financial Sector's Development*. Beijing: China economic Publishing House, 1995.

<sup>57</sup> Wu, Jinglian. *Understanding and Interpreting Chinese Economic Reform*, pp. 222-23; Hasenstab, Michael. "Financial System Reform and Implications." In *China: Twenty Years of Economic Reform*, edited by Ross Garnaut and Ligang Song. Canberra: Asia Pacific Press 1999, p. 123.

<sup>58</sup> The China Securities Regulatory Commission (CSRC), in charge of supervision securities, was established in 1993, the China Insurance Regulatory Commission (CIRC), supervising over insurance services, in 1998, and the China Banking Regulatory Commission (CBRC) in 2003.

<sup>59</sup> For more details about the reform, see "The Decisions on Issues Regarding the Establishment of the Socialist Market Economic System." (1993), <http://cpc.people.com.cn/GB/64162/134902/8092314.html>. Also Wu, Jinglian. *Understanding and Interpreting Chinese Economic Reform*, pp. 224-29.

<sup>60</sup> Lardy, Nicholas R. *China's Unfinished Economic Revolution*, 1998, p. 17.

<sup>61</sup> Zhang, Xueqin. "A Dialogue with Fan Gang: Asian Financial Crisis and Its Lessons." (March 2007), <http://business.sohu.com/20070513/n249986220.shtml>. Accessed 19/08/2009; Wei, Zhe. "A Dialogue with He Liping: Asian Financial Crisis and the Lessons for China." (May 2007), <http://business.sohu.com/20070511/n249969998.shtml>. Accessed 19/08/2009.

### 3.1.3 China's opening up to the world

Economic reform was accompanied by greater openness to, and a wider range of linkages with, the global economy. The aim of opening to the outside world, as Deng Xiaoping said, was to attract foreign investment, capital and technology, because "China cannot rebuild itself behind closed doors and develop in isolation from the rest of the world".<sup>62</sup> He pointed out that its backwardness since the Western industrial revolution contributed to Mao's closed-door policy and impeded economic development.<sup>63</sup> Deng argued that, "if we isolate ourselves and close our doors again, it will be absolutely impossible for us to approach the level of the developed countries in 50 years".<sup>64</sup>

#### 3.1.3.1 The role of Japan during China's early economic development

Following Liberation in 1949, Japan was prohibited by the US from trading with China.<sup>65</sup> While Japan enjoyed high economic growth in the 1960s, China was "trapped" in the Great Leap Forward and the decade-long Cultural Revolution, though some limited and unofficial trade took place with private Japanese enterprises. Official Sino-Japanese economic relations resumed only during the late 1970s after which Japan became a significant source of trade, loans, investment and technology.

During the mid-1980s China incorporated itself into the Japanese regional economic network.<sup>66</sup> Exports to Japan were mainly raw materials such as crude oil and coal. Subsequently, the principal exports were labour-intensive manufactured goods such as textiles, apparel and growing quantities of low value-added manufactured goods, in parallel

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<sup>62</sup> Deng, Xiaoping. *Selected Works of Deng Xiaoping*. Vol. 3. Beijing: People's Publishing House, 1993, p. 64.

<sup>63</sup> Howell, Jude. *China Opens Its Doors: The Politics of Economic Transition*. Boulder, Colo.: Lynne Rienner, 1993; Shirk, Susan L. *How China Opened Its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms*. Washington: Brookings Institution, 1994.

<sup>64</sup> Deng, Xiaoping. *Selected Works of Deng Xiaoping*. Vol. 3, p. 64, p. 90.

<sup>65</sup> Selden, Mark. "China, Japan and the Regional Political Economy of East Asia, 1945-1995." In *Network Power: Japan and Asia*, edited by Peter J. Katzenstein and Takashi Shiraishi, Ithaca: Cornell University Press, 1996, pp. 306-40.

<sup>66</sup> Borrus, Michael, Dieter Ernst, and Stephan Haggard. "Cross-Border Production Networks and the Industrial Integration of the Asia-Pacific Region." In *International Production Networks in Asia: Rivalry or Riches?*, edited by Michael Borrus, Dieter Ernst and Stephan Haggard, London: Routledge 2000, pp. 12-13.

with an increasing share of manufactured products in total exports, which jumped from 49% in 1980 to 82% in 1993.<sup>67</sup> Table 3-1 shows the dramatic increase in bilateral trade.

**Table 3-1. Japan-China Foreign Trade in \$ millions (1950-1993)**

Years	Chinese Imports	Chinese Exports	Total trade
1950-52	8.7	25.3	34
1953-57	36.0	63.1	99.1
1958-60	19.0	31.3	50.4
1961-64	67.6	77.2	144.9
1965-69	312.5	250.9	564.7
1970-74	956.0	669.4	1625.4
1975-79	2521.4	1886.8	4408.2
1980-84	5162.7	5214.6	10365.2
1985-89	9715.1	8108.2	17823.3
1990-93	10986.2	15946.7	26932.9

Sources: Chae-Jin Lee, *China and Japan, New Economic Diplomacy*, p. 4, p. 8; JETRO China Newsletter, November-December, 1988, p. 8, p. 106; JETRO China Newsletter, September-October, 1993, p. 21. Cited in Selden, Mark. "China, Japan and the Regional Political Economy of East Asia, 1945-1995." In *Network Power: Japan and Asia*, edited by Peter J. Katzenstein and Takashi Shiraishi, Ithaca: Cornell University Press, 1996, p. 316.

Japan's ODA to China was more than \$9b between 1979 and 1995 (see Table 3-2), while FDI inflows witnessed a twenty-fold increase within a decade, increasing from \$8m in the early 1980s to \$161m in 1990. Japanese FDI was one of the major sources of non-overseas Chinese foreign investment, accounting for 8% of the total during 1979-90.<sup>68</sup>

Economic links are explored further in Chapter 6. Suffice it to say here that while Japan's trade, aid, investment played an important role during the early stages of economic reform, the Overseas Chinese Business Sphere centred on "Greater China" quickly became a major

<sup>67</sup> Lardy, Nicholas R. *China in the world economy*. Washington: Institute for International Economics, 1994, p. 31.

<sup>68</sup> Yun- Sung, Yun-wing. "The Implications of China's Admission to the WTO for Greater China." In *The Political Economy of Sino-American Relations: A Greater China Perspective*, edited by Y. Y. Kueh, Hong Kong: Hong Kong University Press, 1997, p. 183; according to Hiromi Yamamoto, there is a big gap between Japan's statistics of its investments in China (data based on statistics of the Ministry of Finance) and that of China's statistics (based on statistics of the Ministry of Foreign Trade). During 1979-1994, Japan's quoted figure was \$9.4billion, while China's figure was about \$12.4 billion. See Yamamoto, Hiromi. "Sino-Japanese Economic Relations and Their Implications for Sino-American Relations." In *The Political Economy of Sino-American Relations: A Greater China Perspective*, edited by Y. Y. Kueh, Hong Kong: Hong Kong University Press, 1997, p. 211, Table 10-4.

player in regional economic integration from the early 1990s. The “Greater China network” replaced Japan as the regional economy’s main driving force after the AFC. The origins and impact of this network are discussed in the following two sections.

Table 3-2. Japan’s ODA to China in \$ millions (1979-1995)

Year	1979	1980	1981	1982	1983	1984	1985	1986
<b>Total ODA</b>	2.6	4.3	27.7	368.8	350.2	389.4	387.9	497.0
Year	1987	1988	1989	1990	1991	1992	1993	1995
<b>Total ODA</b>	553.1	673.7	832.2	723.0	585.3	1050.6	1350.7	1380.2

Note: Total ODA includes total bilateral grants, grant assistance, technical assistance and bilateral ODA loans. Sources: Ministry of Foreign Affairs, Japan’s ODA, various issues. Quoted in Yamamoto, Hiromi. "Sino-Japanese Economic Relations and Their Implications for Sino-American Relations." In *The Political Economy of Sino-American Relations: A Greater China Perspective*, edited by Y. Y. Kueh, Hong Kong: Hong Kong University Press, 1997, p. 214; 1995 figure is from Ministry of Foreign Affairs of Japan. "Economic Cooperation Program for China." (October 2001), [http://www.mofa.go.jp/policy/oda/region/e\\_asia/china-2.html](http://www.mofa.go.jp/policy/oda/region/e_asia/china-2.html). Accessed 28/02/2008.

### 3.1.3.2 The coastal development strategy

The opening-up strategy centred on China’s coastal regions. Four experimental Special Economic Zones (SEZs) in 1980<sup>69</sup> were a testing ground during its early stages. By offering preferential policies to foreign-invested companies,<sup>70</sup> the SEZs attracted foreign capital, technology and management, creating a micro-climate for a market economy. Equally importantly, southern coastal provinces were the ancestral homes of the overseas Chinese scattered across Southeast Asia and beyond. Geographic proximity and cultural linkages conferred great advantages attracting overseas investment especially from and through Hong Kong.<sup>71</sup> A further 14 coastal cities and 5 regions were opened from 1984 to 1988,<sup>72</sup>

<sup>69</sup> Four SEZs are Shenzhen, Zhuhai, Shantou in Guangdong province, and Xiamen in Fujian province.

<sup>70</sup> China passed the *Law on Joint Venture Companies* in 1979 to protect the property rights of foreign investment companies.

<sup>71</sup> Howell, Jude. *China Opens Its Doors: The Politics of Economic Transition*, pp. 44-63; Chan, Ming K. "All in the Family: The Hong Kong-Guangdong Link in Historical Perspective." In *The Hong Kong-Guangdong Link: Partnership in Flux*, edited by Alvin Y So and Reginald Yin-Wang Kwok, Armonk, N.Y.: M.E. Sharpe 1995, pp. 31-63; Ip, David, Constance Lever-Tracy, and Noel Tracy, eds. *Chinese Business and the Asian Crisis*. Aldershot: Gower, 2000.

<sup>72</sup> Fourteen coastal cities were open in 1984, the Yangtze River Delta, the Pearl River Delta, the Xiamen-Zhangzhou-Quanzhou Triangle in Fujian, Jiaodong Peninsula, Liaodong Peninsula were open in 1985, and Hainan Special Economic Zone was established in 1988. These coastal cities are: Dailian, Qinhuangdao, Tianjin, Yantai, Qingdao, Liangyungang, Nantong, Shanghai, Ningbo, Fuzhou, Guangzhou, Zhangjiang, and Beihai.

forming a cluster of coastal industrial cities with external linkages to the Overseas Chinese Business Sphere.<sup>73</sup>

The coastal development strategy was successful in terms of attracting FDI and promoting the development of export-oriented industries. By 1990, China's real FDI was \$3.5b compared with \$900m in 1983. The volume of exports surged to \$62b from \$9.8b in 1978.<sup>74</sup> After 1992, a comprehensive opening-up "four-along strategy" (*siyang zhanlue*) covered inland regions where vast territories and abundant natural resources could be exploited.<sup>75</sup> During this period, trade increased threefold, from \$115b in 1990 to \$324b in 1998 (see Table 3-4).

The coastal development and "four-along" strategies had a positive impact, on advancing the market economy<sup>76</sup> and as the engine of high growth. The population of the 14 coastal cities in 1984 was 7.7% of the population, yet their industrial output was 23.1% of national production.<sup>77</sup> Moreover, rapid development of the coastal areas generated a "spill-over" effect, helping development of the central and western areas. The annual increase in per capita income of China's eastern, central and western areas from 1952 to 1978 was 4.63%, 2.92% and 3.53% respectively; in the period 1978-1992 it was 8.28%, 6.73% and 7.1%.<sup>78</sup>

### 3.1.3.3 Foreign direct investment and the emergence of "Southern China"

The national economy was integrated into the regional economy through the "invisible linkage" between ethnic Chinese throughout Southeast Asia and Southern China, which consists of the Pearl River Delta, Hong Kong and Taiwan. It is also referred to as "Greater

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Coastal areas are: Pearl River Delta, Yangzi River Delta, Southern Fujian (Zhangzhou, Quanzhou, Xiamen) Triangle, Shangdong Peninsula, and Liaodong Peninsula.

<sup>73</sup> Duan, Juan. "Examining the Change of China's Regional Development Strategy from Initial Stage of Reform to Mid-1990s." *Literature on the history of Chinese Communist Party*, no. 6 (2009), [http://www.hprc.org.cn/gsyj/jjs/qvjis/201009/t20100917\\_107953.html](http://www.hprc.org.cn/gsyj/jjs/qvjis/201009/t20100917_107953.html). Accessed 30/11/2010.

<sup>74</sup> The statistics are from China's Ministry of Commerce, <http://www.mofcom.gov.cn>.

<sup>75</sup> Four-along strategy refers to development along the coast, along the border, along the river, along the railway. For details of this stage, see Wu, Jinglian. *Understanding and Interpreting Chinese Economic Reform*, pp. 297-98.

<sup>76</sup> Duan, Juan. "Examining the Change of China's Regional Development Strategy from Initial Stage of Reform to Mid-1990s." *Literature on the history of Chinese Communist Party*, no. 6 (2009), [http://www.hprc.org.cn/gsyj/jjs/qvjis/201009/t20100917\\_107953.html](http://www.hprc.org.cn/gsyj/jjs/qvjis/201009/t20100917_107953.html).

<sup>77</sup> Lu, Dadao. *1997 China Regional Development Report*. Beijing: China Commerce Press, 1997, p. 34.

<sup>78</sup> Lin, Shanwei. *The Strategy of China's Economic Restructuring*. Beijing: China Social Sciences Press, 2003, p. 158.

China<sup>79</sup> and played a leading role in East Asian regionalisation after the end of Cold War,<sup>80</sup> weaving Chinese and Southeast Asian societies and economies together through trade and investment.<sup>81</sup> In the initial stages, foreign investment in the form of contractual joint ventures was confined to designated SEZs then later extended to the Pearl River Delta, where cheap land and labour were abundant, and preferential policies were applied to joint enterprises. After 1993, China was the largest recipient of FDI among developing economies (see Table 3-3).

Wang Hongying noted that informal personal relationships based on *guanxi* (personal connections) greatly facilitated FDI.<sup>82</sup> The transnational Chinese economy, based on the trade-investment nexus, expanded to border regions, forging wider regional economic linkages<sup>83</sup> and paving the way for its involvement in East Asian regionalism.

FDI during the early years of reform came mainly from or via Hong Kong and Taiwan,<sup>84</sup> which had begun a process of “catch-up industrialisation” during the early 1970s. By the mid-1980s they lost their major competitive advantages, such as cheap land and labour, reducing the profitability of labour-intensive industries. New outlets were sought for manufacturing production and relocated to lower-cost bases. The “opening-up” policy and SEZs came at an appropriate time, providing investors from Hong Kong and Taiwan with a convenient and cost-effective location for diversification and rationalisation of their manufacturing production.<sup>85</sup>

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<sup>79</sup> Peng, Dajin. "Invisible Linkages: A Regional Perspective of East Asian Political Economy." *International Studies Quarterly* 46, no. 3 (2002), pp. 423-47; Peng, Dajin. "Subregional economic zones and integration in East Asia," *Political Science Quarterly* 117, no. 4 (2002), pp. 613-30.

<sup>80</sup> For a good account of the emergence of Greater China, see Shambaugh, David ed. *Greater China: The Next Superpower?* New York: Oxford University Press, 1995.

<sup>81</sup> Harding, Harry. "The Concept of “Greater China”: Themes, Variations and Reservations." *The China Quarterly* 136 (1993), pp. 660-86; Ash, Robert F., and Y.Y. Kueh. "Economic Integration within Greater China: Trade and Investment Flows between China, Hong Kong and Taiwan." *The China Quarterly* 136 (1993), pp. 711-45.

<sup>82</sup> Wang, Hongying. *Weak State, Strong Networks: The Institutional Dynamics of Foreign Direct Investment in China*. New York: Oxford University Press, 2001.

<sup>83</sup> Ash, Robert F. "China's Regional Economies and the Asian Region: Building Interdependent Linkages." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley: University of California Press, 2005, pp. 96-134.

<sup>84</sup> Van Kemenade, Willem, and Diane Webb. *China, Hong Kong, Taiwan, Inc.* London Little, Brown, 1997; Vogel, Ezra F. *One Step Ahead In China: Guangdong Under Reform*. Cambridge, Mass.: Harvard University Press, 1989.

<sup>85</sup> Xu, Xueqiang, Reginald Yin-Wang Kwok, Lixun Li, and Xiaopei Yan. "Production Change in Guangdong." In *The Hong Kong-Guangdong Link: Partnership in Flux*, edited by Alvin Y. So and Reginald Yin-Wang Kwok, Armonk, N.Y.: M.E. Sharpe 1995, pp. 135-62; Sit, Victor F. S. "Industrial Transformation of Hong Kong." In *The Hong*

Table 3-3. Foreign Direct Investment in China in \$ billions (1979-2002)

Year	Real FDI	% increase from previous year
<b>1979-1982</b>	1.77	--
<b>1983</b>	0.92	--
<b>1984</b>	1.42	54.9
<b>1985</b>	1.96	37.8
<b>1986</b>	2.24	14.7
<b>1987</b>	2.31	3.1
<b>1988</b>	3.19	38.0
<b>1989</b>	3.39	6.2
<b>1990</b>	3.49	2.8
<b>1991</b>	4.37	25.2
<b>1992</b>	11.01	152.1
<b>1993</b>	27.52	150.0
<b>1994</b>	33.77	22.7
<b>1995</b>	37.52	11.1
<b>1996</b>	41.73	11.2
<b>1997</b>	45.26	8.5
<b>1998</b>	45.46	0.5
<b>1999</b>	40.32	-11.3
<b>2000</b>	40.72	1.0
<b>2001</b>	46.88	15.1
<b>2002</b>	52.74	12.5

Source: the statistics of China's Customs, available at China's Ministry of Commerce website, <http://www.mofcom.gov.cn>.

This "China circle", as Peng Dajin described it, was a sub-regional economic zone linking manufacturing production bases in the Pearl River Delta with overseas investors, largely

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*Kong-Guangdong Link: Partnership in Flux*, edited by Alvin Y So and Reginald Yin-Wang Kwok, Armonk, N.Y.: M.E. Sharpe, 1995, pp. 163-188; Lever-Tracy, Constance, David Ip, and Noel Tracy. *The Chinese Diaspora and Mainland China: An Emerging Economic Synergy*. New York: St. Martins Press, 1996; Hsiao, Hsin-Huang Michael. "Social Transformations, Civil Society, and Taiwanese Business in Fujian." In *China's Developmental Miracle: Origins, Transformations, and Challenges*, edited by Alvin Y. So, Armonk, N.Y.: M.E. Sharpe, 2003, pp. 136-160.

Chinese business networks, and providing support services such as product design, marketing promotion and distribution channels.<sup>86</sup> In the second half of the 1980s, Southern China accounted for 49% of inward FDI, reaching 53% in 1990. FDI remained around 40% during the first half of 1990s,<sup>87</sup> while Southern China's average share was one-third of the national total. The average share of trade was more than 45% of total trade between 1992 and 1999.<sup>88</sup>

The regional dynamics of the "Southern China" business networks was noted by Suet-Kit Kojima in 1994. He pointed out that "...the 'Chinese' economy of China, Hong Kong and Taiwan has made tremendous strides in recent years and has replaced Japan as the major player in the Asian economy".<sup>89</sup> According to the GATT Secretariat, the combined exports and imports of China, Hong Kong, and Taiwan surpassed the total trade of Japan for the first time in 1993.<sup>90</sup> Japanese production networks led by business conglomerates were relatively production-driven, closed and rigid,<sup>91</sup> compared with Chinese business networks dominated by small and medium enterprises, and consumption-driven, open and flexible.<sup>92</sup> Chinese networks not only outperformed Japan in the 1990s but, more significantly, they helped China, Hong Kong, Taiwan and Singapore survive the 1997/8 AFC.<sup>93</sup>

With the relative decline of the flying geese model and a Japan-centred regional political economy, the Greater China networks became a driving force for East Asian economic

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<sup>86</sup> Naughton, Barry, ed. *The China Circle: Economics and Technology in the PRC, Taiwan and Hong Kong*. Washington: Brookings Institution Press, 1997; Peng, Dajin. "Subregional Economic Zones and Integration In East Asia." *Political Science Quarterly* 117, no. 4 (2002), pp. 613-30.

<sup>87</sup> The statistics are from China Statistical Bureau, China Statistical Yearbooks (various years), quoted in Peng, Dajin. "Subregional Economic Zones and Integration in East Asia." *Political Science Quarterly* 117, no. 4 (2002), p. 620.

<sup>88</sup> *Ibid.*, p. 621.

<sup>89</sup> Kojima, Suet-Kit. "Greater China." *JETRO China Newsletter*, no. 113 (1994), pp. 18-19.

<sup>90</sup> *Ibid.*

<sup>91</sup> Borrus, Michael. "Left for Dead: Asian Production Networks and the Revival of US Electronics" *In The China Circle: Economics and Technology in the PRC, Taiwan and Hong Kong*, edited by Barry Naughton, Washington: Brookings Institution Press, 1997, pp. 139-63; Ernst, Dieter. "Partners for the China Circle? The East Asian Production Networks of Japanese Electronics Firms." *In The China Circle: Economics and Technology in the PRC, Taiwan and Hong Kong*, edited by Barry Naughton, Washington: Brookings Institution Press, 1997, pp. 210-53.

<sup>92</sup> Peng, Dajin. "Invisible Linkages: A Regional Perspective of East Asian Political Economy." *International Studies Quarterly* 46, no. 3 (2002), pp. 423-47. Peng, Dajin. "Ethnic Chinese Business Networks and the Asia-Pacific Economic Integration." *Journal of Asian and African Studies* 35, no. 2 (2000), pp. 229-50.

<sup>93</sup> Peng, Dajin. "Invisible Linkages: A Regional Perspective of East Asian Political Economy." *International Studies Quarterly* 46, no. 3 (2002), pp. 438-41.



integration.<sup>94</sup> The hierarchical regional division of labour during the era of Japan's economic dominance was transformed, becoming more complex. As Macintyre and Naughton pointed out, Greater China not only served as a labour-intensive production base but also gained technological competitiveness. A case in point is the electronics industry, where the combination of US research and Chinese production networks eroded the predominance of Japanese corporations.<sup>95</sup>

### 3.1.3.4 *The development of foreign trade*

The development of foreign trade was the driving force of China's economic growth after 1978. Over two decades, reform of the highly centralised pre-1978 trade system into a market-oriented system,<sup>96</sup> including incremental reforms in trading rights, tariff and non-tariff reductions<sup>97</sup> and adoption of a series of export-inducing policies,<sup>98</sup> laid the foundations for liberalisation and trade expansion. It increased from \$20.6b in 1978 to \$509.7b in 2001, or twenty-five-fold, with an average growth rate of 14.8% per annum, far higher than world trade (see Table 3-4).

Along with the expansion of trade, the composition of exports was transformed from primary-product dominance in the early stages of opening-up to mainly finished goods. By 1995, the share of the former declined from 50.2% in 1980 to 14.4%, while that of finished

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<sup>94</sup> Macintyre, Andrew J., and Barry Naughton. "The Decline of a Japanese-Led Model of East Asian Economy." In *Remapping East Asia: The Construction of a Region*, edited by T.J. Pempel, Ithaca: Cornell University Press, 2005, pp. 77-100; Ohashi, Hideo. "China's Regional Trade and Investment Profile." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley: University of California Press 2005, pp. 71-95

<sup>95</sup> Macintyre, Andrew J., and Barry Naughton. "The Decline of a Japanese-Led Model of East Asian Economy." In *Remapping East Asia: The Construction of a Region*, edited by T.J. Pempel, pp. 88-91; Peng, Dajin. "Invisible Linkages: A Regional Perspective of East Asian Political Economy." *International Studies Quarterly* 46, no. 3 (2002), p. 442.

<sup>96</sup> Lardy, Nicholas R. *Foreign Trade and Economic Reform in China, 1978-1990*. New York: Cambridge University Press, 1993; Lardy, Nicholas R. "The Role of Foreign Trade and Investment in China's Economic Transformation." *The China Quarterly* 144 (1995), pp. 1065-82; Hsu, John C. *China's Foreign Trade Reforms: Impact on Growth and Stability*. New York: Cambridge University Press, 1989.

<sup>97</sup> In 1982, the average statutory tariff rate was 56 percent; the figure was cut to 43.2 percent in 1992, and further cut to 11 percent in 2003 after China entered into WTO.

<sup>98</sup> These policies include export incentive funds to reward foreign trade enterprises and export production enterprises, several adjustments in foreign exchange rate based on the development of foreign trade and price variation of domestic merchandise, product tax/value-added tax rebates for export merchandise, preferential export credit for foreign trade enterprises and export production enterprises, and a system of foreign exchange retention from export proceeds. see Wu, Jinglian. *Understanding and Interpreting Chinese Economic Reform*, pp. 314-15.

Table 3-4. China's Foreign Trade in \$ billions (1978-2001)

Year	Total Trade	Exports	Imports
1978	20.64	9.75	10.89
1979	29.33	13.66	15.68
1980	37.82	18.27	19.55
1981	44.02	22.01	22.02
1982	41.61	22.32	19.29
1983	43.62	22.23	21.39
1984	53.55	26.14	27.41
1985	69.60	27.35	42.25
1986	73.85	30.94	42.90
1987	82.65	39.44	43.22
1988	102.78	47.52	55.27
1989	111.68	52.54	59.14
1990	115.44	62.09	53.35
1991	135.70	71.91	63.79
1992	165.53	84.94	80.59
1993	195.70	91.74	103.96
1994	236.62	121.01	115.62
1995	280.86	148.78	132.08
1996	289.88	151.05	138.83
1997	325.16	182.79	142.37
1998	323.95	183.71	140.24
1999	360.63	194.93	165.70
2000	474.30	249.20	225.09
2001	509.65	266.10	243.55

Source: statistics available at China's Ministry of Commerce website, <http://www.mofcom.gov.cn>.

goods was 85.6%.<sup>99</sup> Trade accounted for 36.1% of GDP in 1997 compared with 9.7% in 1978, demonstrating that the economy was far more open. China was the major exporter of labour-intensive products, and came to be known as the “world’s factory”.<sup>100</sup> A study by Ng and Yeats for the World Bank in 2003 showed that it surpassed Japan as the most important market for Asian exports from South Korea, Taiwan and Hong Kong, and was a major market for a number of other countries.<sup>101</sup>

In 1997/8 the East Asian regional economy was hit hard by the AFC. It was also a crisis of regional leadership. China learned from the crisis the importance of continuing reforms, in the process accelerating and consolidating its growing influence and emerging regional leadership role. It would not have been able to assume such a role so quickly without the economic clout gained over the previous two decades, as well as decisions made during the crisis itself. This is discussed in the next section.

### **3.2 Rising to the opportunity: China during the Asian Financial Crisis and beyond**

The word “crisis” in Chinese is *weiji*. It has two meanings: danger and opportunity. The AFC saw the Asian Tigers descend into economic and political crisis on the one hand, while, on the other, China was provided with an opportunity for more rapid economic growth and ascendancy in East Asia. In this sense, the AFC was a turning point which reshaped the political economy of East Asia as a region, characterised by China’s rising economic and political influence.

The AFC not only caused political and social turmoil in several countries, but also shattered faith in the World Bank’s much-vaunted “East Asian miracle”.<sup>102</sup> The “miracle” was characterised by a decade of high economic growth and substantial improvement in

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<sup>99</sup> The statistics are from China Statistical Bureau, China Statistical Yearbooks (various years), quoted in Wu, Jinglian. *Understanding And Interpreting Chinese Economic Reform*, p. 317, Table 8.6.

<sup>100</sup> Zakaria, Fareed. "Does the Future Belong to China?" *Newsweek* (May 8, 2005), <http://www.thedailybeast.com/newsweek/2005/05/08/does-the-future-belong-to-china.html>. Accessed 05/09/2009; Shenkar, Oded. *The Chinese Century: The Rising Chinese Economy and Its Impact on the Global Economy, the Balance of Power, and Your Job*. Upper Saddle River, N.J.: Wharton School, 2006; Zhang, Kevin Honglin, ed. *China as the World Factory*. New York: Routledge, 2006.

<sup>101</sup> Ng, Francis, and Alexander Yeats. "Major Trade Trends in East Asia: What Are Their Implications for Regional Cooperation and Growth?" *World Bank Policy Research Working Paper*, no. 3084 (2003).

<sup>102</sup> World Bank. *The East Asian Miracle: Economic Growth and Public Policy*. New York: Oxford University Press, 1993.

people's standard of living.<sup>103</sup> State-led capitalism was seen as the key to the remarkable success of the East Asian model before the economic meltdown.<sup>104</sup>

The 1997 Crisis started in Thailand when the Thai baht was floated on 2 July 1997 after the monetary authorities decided to free up its fixed exchange rate regime and stop defending the currency. The currency lost 16% of its value against the US dollar in one day. This triggered a domino effect of currency devaluations in Indonesia, Philippines, Malaysia and South Korea, caused by panic among investors and speculative attacks by Western hedge funds. The currency crisis<sup>105</sup> turned into a macro-economic and then socio-political crisis.<sup>106</sup>

Even though the causes of the AFC remain a topic of debate,<sup>107</sup> the absence of prudent regulation of liberalised financial markets is cited often as a key domestic cause.<sup>108</sup> For the

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<sup>103</sup> The proportion of people living in absolute poverty dropped from 58 percent in 1960 to 17 percent in 1990 in Indonesia, and from 37 percent to less than 5 percent in Malaysia during the same period. See *Ibid.*, p. 2.

<sup>104</sup> There is a rich body of literature about East Asia developmental model, For example, see Johnson, Chalmers A. *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*. Stanford, Calif.: Stanford University Press, 1982; Yoshihara, Kunio. *The Rise of Ersatz Capitalism in South-East Asia*. New York: Oxford University Press, 1988; Berger, Mark T., and Douglas A. Borer, eds. *The Rise of East Asia: Critical Visions of the Pacific Century*. New York: Routledge, 1997; Wade, Robert. *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton, N.J.: Princeton University Press, 1990; Amsden, Alice H. *Asia's Next Giant: South Korea and Late Industrialization*. New York: Oxford University Press, 1992; Evans, Peter B. *Embedded Autonomy: States and Industrial Transformation*. Princeton, N.J.: Princeton University Press, 1995; Woo-Cumings, Meredith, ed. *The Developmental State*. Ithaca: Cornell University Press, 1999; Gomez, Edmund Terence, ed. *Political Business in East Asia*. New York: Routledge, 2002; Peebles, Gavin, and Peter Wilson. *Economic Growth and Development in Singapore: Past and Future*. Cheltenham: Edward Elgar, 2002; Fallows, James. *Looking at the Sun: The Rise of the New East Asian Economic and Political System*. New York: Pantheon Books, 1994.

<sup>105</sup> The exchange rates of the currencies of Thailand, Indonesia, Philippines, and Malaysia to US dollars were respectively 24.5 baht, 2380 rupiah, 26.3 peso and 2.5 ringgit to the dollar in June 1997, and 41 baht, 14150 rupiah, 42 peso, and 4.1 ringgit in July 1998 respectively. Tongzon, Jose L. *The Economies of Southeast Asia: Before and after the Crisis*. 2nd ed. Cheltenham: Edward Elgar, 2002, p. 156, Table 10.1.

<sup>106</sup> For the details of economic and social-political costs of AFC see also Tongzon, Jose L. *The Economies of Southeast Asia: Before and after the Crisis*. 2nd ed. Cheltenham: Edward Elgar, 2002.

<sup>107</sup> The causes of Asian Financial Crisis fall into two camps: the fundamentalist view and the panic view, the fundamentalist view focuses on how borrowing countries' policies and practices fed the crisis, while the panic view focuses on the role that lenders played. See Higgott, Richard. "The Asian Economic Crisis: A Study in the Politics of Resentment." *New Political Economy* 3, no. 3 (1998), pp. 333-56; Rivera-Batiz, Francisco L., and Arvid John Lukauskas, eds. *The Political Economy of the East Asian Crisis and Its Aftermath: Tigers in Distress*. Cheltenham: Edward Elgar, 2001; Krugman, Paul. "What's Happened to Asia?" (1998), <http://web.mit.edu/krugman/www/DISINTER.html>. Accessed 03/10/2007; Suk, H. Kim, and Haque Mahfuzul. "The Asian financial crisis of 1997: Causes and policy responses." *Multinational Business Review* 10, no. 1 (2002), pp. 37-44; Noble, Gregory W., and John Ravenhill, eds. *The Asian financial crisis and the architecture of global finance*. New York: Cambridge University Press, 2000; Haggard, Stephan. *The Political Economy of the Asian Financial Crisis*. Washington: Institute for International Economics, 2000; Pempel, T.J., ed. *The Politics of the Asian Economic Crisis*. Ithaca: Cornell University Press, 1999; Hunter, William C., George G. Kaufman, and Thomas H. Krueger, eds. *The Asian Financial Crisis: Origins, Implications, and Solutions*. London: Kluwer Academic, 1999; Wade, Robert, and Frank Veneroso. "The High Debt Model Versus the Wall Street-Treasury-IMF Complex." *New Left Review*, no. 228 (1998), pp. 3-24.

Asian Tigers, dramatic increases in capital inflows after financial sector liberalisation resulted in the rapid accumulation of enormous levels of short-term debt, accounting for a substantial part of total debt.<sup>109</sup> However, excessive borrowings were far beyond what foreign reserves could support, rendering the economies particularly vulnerable to speculative attack,<sup>110</sup> which did indeed happen.<sup>111</sup>

The regional economic landscape ended up presenting a position-reversed picture compared with that of the preceding decade, in which the Asian tiger economies experienced negative growth<sup>112</sup> while, by way of contrast, the Chinese economy emerged basically unscathed. China managed to avoid the crisis as a result of a number of economic characteristics, as discussed in Section 3.2.1, combined with measures taken by the government during the Crisis, as discussed in Section 3.2.2.

### 3.2.1 Characteristics of the Chinese financial system at the time of the Asian Financial Crisis

The Chinese financial system in 1997 exhibited an interesting mix of strength and weakness, of which at least three features were conducive to economic survival during the AFC. First, a successful macro-stabilisation programme through tight fiscal and monetary policies cooled the economy before the Crisis, which had grown at an annual rate of 9.8% after 1978. It was in recession after the Tiananmen Incident of June 1989, but recovered in 1991.<sup>113</sup> Subsequently, the economy began to overheat, with high GDP growth and inflation going

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<sup>108</sup> Noble, Gregory W., and John Ravenhill, eds. *The Asian financial crisis and the architecture of global finance*. New York: Cambridge University Press, 2000; Goldstein, Morris. *The Asian Financial Crisis: Causes, Cures, and Systemic Implications*. Washington: Institute for International Economics, 1998.

<sup>109</sup> The proportion ranged from 19 percent for the Philippines to 24 percent for Indonesia, 39 percent for Malaysia, 46 percent for Thailand and 67 percent for Korea. Noble, Gregory W., and John Ravenhill, "Causes and Consequences of the Asian Financial Crisis", in Noble, Gregory W., and John Ravenhill, eds. *The Asian financial crisis and the architecture of global finance*. New York: Cambridge University Press, 2000, p. 5.

<sup>110</sup> The ratio of short-term debt to reserves in three countries, Korea, Indonesia and Thailand, was in excess of 300 percent, 160 percent and 110 percent respectively. Goldstein, Morris. *The Asian Financial Crisis: Causes, Cures, and Systemic Implications*. Washington: Institute for International Economics, 1998, p. 11, Table 6.

<sup>111</sup> Makin, Tony. "The Great East Asian Capital Flow Reversal: Reasons, Responses and Ramifications." *The World Economy* 22, no. 3 (1999), pp. 407-19; Wade, Robert, and Frank Veneroso. "The High Debt Model Versus the Wall Street-Treasury-IMF Complex." *New Left Review*, no. 228 (1998), pp. 3-24.

<sup>112</sup> GDP growth rate during 1998 in Indonesia, Malaysia, Thailand, and Singapore were -13.1 percent, -7.4 percent, -10.5 percent, and -1.4 percent respectively. Statistics are from International Monetary Fund. "IMF World Economic Outlook Database." (April 2007),

<http://www.imf.org/external/pubs/ft/weo/2007/01/data/download.aspx>. Accessed 06/05/2008.

<sup>113</sup> Dai, Xianyuan. "The Comparative Study of the Soft Landing of the Chinese Economy and the Asian Financial Crisis." *Journal of Beijing Normal University (Social Sciences Edition)*, no. 5 (1995), pp. 65-70.

hand in hand. In 1994 GDP grew at 12.6% while the inflation rate was 21.7%.<sup>114</sup> In order to cool the economy, the government adopted tight fiscal and monetary policies in 1993 by controlling bank lending and restructuring bad loans. It increased the capital debt ratio of major state banks to 8%, set up a special fund for domestic bad loans worth 30b yuan in 1994, with 10b added annually, and closed some non-performing banks and credit unions.<sup>115</sup>

By the end of 1996, on the eve of the AFC, a “soft landing” was accomplished, with GDP growth slowing to 8.8%, and the inflation rate reduced. Pieter Bottelier, then the senior advisor to World Bank, commented that “if China had not made the difficult internal policy and institutional adjustments that permitted a ‘soft landing’ in 1996, the Asian Financial Crisis would probably have dragged the economy down in a much more serious way”.<sup>116</sup>

Secondly, unlike crisis-hit economies, China was not vulnerable to external debt. Its foreign capital inflow was dominated by long-term FDI, which accounted for about 80% of external debt. While short term debt was 20%, total external debt was relatively modest and its maturity composition sound.<sup>117</sup> China ran a trade surplus after 1994, which allowed it to steadily accumulate foreign reserves. By the end of 1997, it held \$145b in foreign reserves, which was enough if China was caught up in the crisis.

Thirdly, China’s financial system was primitive compared with Western banking standards and practices. Although finance sector reform had been underway since the 1980s, the capital market in particular was not open to international financial markets.<sup>118</sup> The currency was fixed to the US dollar and not convertible after being devalued dramatically in 1994.<sup>119</sup>

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<sup>114</sup> Li, Jianxing. "Xiang Huaicheng: Why Did Chinese Government Implement Expansionary Fiscal Policy in 1998." (September 5, 2001), <http://www.people.com.cn/GB/jinji/31/179/20010905/552492.html>. Accessed 09/01/2010.

<sup>115</sup> Zhang, Yunling. "Asian Financial Crisis and Chinese Economy." (2000), <http://iaps.cass.cn/xueshuwz/showcontent.asp?id=379>. Accessed 01/06/2009.

<sup>116</sup> Bottelier, Pieter "How Stable Is China? An Economic Perspective." In *Is China Unstable?: Assessing the Factors*, edited by David Shambaugh, Armonk, N.Y.: M.E. Sharpe, 2000, p. 67.

<sup>117</sup> National Bureau of Statistics of China. *International Statistics Yearbook*. Beijing: China Statistics Press, 1997, p. 257.

<sup>118</sup> Qi, Bin, and Ming Huang. "Institutional Change of China’s Capital Market since Asian Financial Crisis." In *China after Asian Financial Crisis*, edited by Mengkui Wang, Beijing: China Development Press, 2007, pp. 103-36.

<sup>119</sup> The foreign exchange rate between Chinese Yuan and American dollar was \$1= RMB 8.7; Yi, Gang. "Reasons for the Change of Chinese Currency Exchange Rate and Its Institutional Factors." In *China after Asian Financial Crisis*, edited by Mengkui Wang, Beijing: China Development Press, 2007, pp. 53-69.

It was not open to speculative attack. According to Yi Gang, then Assistant to the Governor of the People's Bank of China, it was not so much the banking system working effectively, as its unsophisticated nature and foreign reserve controls, that "quarantined" the economy during the crisis.<sup>120</sup>

### 3.2.2 Effective measures to respond to the crisis

The Chinese government responded to the AFC with measures which not only stimulated the economy and increased growth, but also had positive effects on East Asia, as discussed in Chapter 4. The measures, such as non-devaluation of the yuan, and an expansionary fiscal policy, ultimately enhanced Chinese trade with the region, as well as its political standing.

Beijing's response to the AFC was to pledge a non-devaluation policy.<sup>121</sup> When East Asian currencies depreciated one after another, it was expected that China would follow suit to increase competitiveness in world markets. By 1997, export growth accounted for a third of GDP growth.<sup>122</sup> Furthermore, the government set itself the goal of securing 8% growth in 1998, which was seen as critical to keeping unemployment under control and maintaining social stability.<sup>123</sup> SOE restructuring and government downsizing topped the reform agenda in 1997.<sup>124</sup> An economic slowdown of any magnitude carried the threat of financial crisis due to the fragility of the banking system, as Nicholas Lardy warned.<sup>125</sup>

In spite of its potential to stimulate the economy, any depreciation of the yuan came with significant domestic risks. A glance at China's financial condition in 1997 helps us understand why depreciation was not a viable policy option. Economic fundamentals were

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<sup>120</sup> A metaphor describes this situation: China does not lose because China does not play the game. See Yi, Gang. *The Monetization Process in China*. Beijing: The Commercial Press, 2003.

<sup>121</sup> Wang, Mengkui. "Asian Financial Crisis and China." *Qiushi*, no. 21 (1998), pp. 18-22.

<sup>122</sup> Yu, Yongding. "China Should Learn Lessons from Asian Financial Crisis." *Journal of Financial Research*, no. 1 (2000), pp. 1-17.

<sup>123</sup> Lin, Yinfu. "The Prospect of China's Economy in the New Millennium." *Working Paper Series (China Centre for Economic Research of Beijing University)*, no. C1998019 (1998), <http://jpk.ccer.edu.cn/ce/%E5%B1%95%E6%9C%9B%E6%96%B0%E5%8D%83%E5%B9%B4%E7%9A%84%E4%B8%AD%E5%9B%BD%E7%BB%8F%E6%B5%8E.doc>. Accessed 15/01/2009.

<sup>124</sup> Jiang, Zemin. "Hold High the Great Banner of Deng Xiaoping Theory for an All-Round Advancement of the Cause of Building Socialism with Chinese Characteristics into the 21st Century." *The Report Delivered at 15th Party Congress* (September 12, 1997), <http://cpc.people.com.cn/GB/64162/64168/64568/65445/4526285.html>; Zhu, Rongji. "Government Work Report Delivered by at 1st Session of 10th National People's Congress." (March 5, 1998), [http://news.xinhuanet.com/ziliao/2003-03/20/content\\_788431.htm](http://news.xinhuanet.com/ziliao/2003-03/20/content_788431.htm).

<sup>125</sup> Lardy, Nicholas R. "Sources of Macroeconomic Instability in China." In *Is China Unstable?: Assessing the Factors*, edited by David Shambaugh, Armonk, N.Y.: M.E. Sharpe, 2000, pp. 57-62.

sound because of its external strength. China's foreign reserves were high, short-term external debt was moderate and the trade surplus guaranteed the current account surplus. These factors allowed the currency to remain stable, as Wang Mengkui, then Director of the Development Research Centre of the State Council, pointed out.<sup>126</sup> Devaluation was not necessary financially.

The question was whether currency devaluation would improve the competitiveness of Chinese exports in world markets. There was no definite answer for two reasons. First, devaluation was a zero-sum game, leading to a destabilising round of competitive devaluations, or "beggar thy neighbour" policies, wiping out the benefits that it was supposed to bring,<sup>127</sup> and likely plunging East Asia into deeper recession. Thus, it was a "do-more-harm-than-good" policy option for both China's and the regional economy.

Secondly, even if devaluation did not trigger a round of destructive devaluations, it is doubtful there would have been a positive impact on exports. Moore and Yang point out that, in East Asia, given substantial reductions in demand for imports among crisis-hit economies, the loss of purchasing power would not make Chinese exports more competitive.<sup>128</sup> Its trade surplus in 1997 and 1998 remained stable at \$40b and \$43b respectively, largely attributable to growing demand from US and European markets even without devaluation.

Besides the competitiveness issue, the negative impact on import costs had to be considered. Devaluation would make the cost of crucial imports such as oil more expensive. Moreover, as a considerable part of exports depended on processing imported raw materials, devaluation would raise production costs and probably weaken China's export competitiveness.<sup>129</sup>

Political considerations behind non-devaluation were equally salient. Sticking to currency policy was seen as "killing two birds with one stone": demonstrating that China was a

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<sup>126</sup> Wang, Mengkui. "Asian Financial Crisis and China." *Qiushi*, no. 21 (1998), pp. 18-22.

<sup>127</sup> Wang, Yizhou. "Globalization and China's Opportunity: Some Reflections of Asian Financial Crisis." *Contemporary World and China*, no. 3 (1998), pp. 17-20.

<sup>128</sup> Moore, Thomas G., and Dixia Yang. "Empowered and Restrained: Chinese Foreign Policy in the Age of Economic Interdependence." In *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*, edited by David M. Lampton, Stanford, Calif.: Stanford University Press, 2001, p. 216.

<sup>129</sup> *Ibid.*



responsible regional partner<sup>130</sup> by drawing closer to crisis-affected ASEAN economies and consolidating political influence vis-a-vis Japan and the US.<sup>131</sup> Its contribution to IMF bail-outs, in combination with currency policy, and moves to open its domestic market to “distressed goods”, worked in China’s favour.<sup>132</sup> The comparison was with Japan’s resistance to open its domestic market and assume a leadership role. The failure of Japan’s Asian Monetary Fund (AMF) initiative, due to US opposition, further weakened ASEAN’s expectation that Japan could lead the region out of crisis.<sup>133</sup> Indeed, China’s currency policy won East Asia’s gratitude. The “China threat” sentiment was to a large extent mitigated, as discussed in Chapter 4.

Another political consideration was to demonstrate the worthiness of accession to the WTO, which was under consideration from 1986, when China applied to rejoin the GATT, having been a founding member in 1947.<sup>134</sup> The main impediment to WTO entry was US opposition. Negotiations on a bilateral trade treaty were a 15-year bargaining marathon.<sup>135</sup> Beijing’s response to the AFC was viewed as a means to improve relations in the hope that its “responsible behaviour” would be rewarded with favourable accession terms. During his

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<sup>130</sup> Wang, Yizhou. "Globalization and China's Opportunity: Some Reflections of Asian Financial Crisis." *Contemporary World and China*, no. 3 (1998), pp. 17-20; Wang, Mengkui. "Asian Financial Crisis and China." *Qiushi*, no. 21 (1998), pp. 18-22.

<sup>131</sup> Yang, Hongfei. "The Political and Economic Relations between China and Southeast Asian Countries after Asian Financial Crisis." *Journal of Nanjing University*, no. 3 (1998), pp. 63-67; Ba, Alice D. "China and ASEAN: Renavigating Relations for a 21st-Century Asia." *Asian Survey* 43, no. 4 (2003), pp. 622-47.

<sup>132</sup> For instance, China’s import from Indonesia and Thailand dramatically increased in 1998. See statistics provided in Table 4-1 of chapter 4. Richardson, Michael. "Japan's Lack of Leadership Pushes ASEAN toward Cooperation with China." *International Herald Tribune* (April 17, 1998), <http://search.proquest.com/docview/317000256?accountid=10910>.

<sup>133</sup> For more details about AMF, see Amyx, Jennifer. "Moving Beyond Bilateralism?: Japan and the Asian Monetary Fund." *Pacific Economic Papers*, no. 331 (2002), pp. 1-22; Lipsy, Philips. "Japan's Asian Monetary Fund Proposal." *Stanford Journal of East Asian Affairs* 3, no. 1 (2003), pp. 93-104. Rapkin, David P. "The United States, Japan, and the Power to Block: The APEC and AMF Cases." *The Pacific Review* 14, no. 3 (2001), pp. 373-410.

<sup>134</sup> Moore, Thomas G., and Dixia Yang. "Empowered and Restrained: Chinese Foreign Policy in the Age of Economic Interdependence." In *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*, edited by David M. Lampton, Stanford, Calif.: Stanford University Press, 2001, p. 221.

<sup>135</sup> The bilateral agreement between the US and China was acknowledged by all to be the main step for China’s admission. The United States was seen by WTO members as most likely to be able to negotiate a favourable deal with China. Negotiations with other countries and with GATT/WTO itself proceeded simultaneously with Sino-U.S. negotiations, but took a back seat. The Sino-U.S. bilateral agreement took thirteen years to negotiate, starting with China’s efforts in 1986 to accede to the GATT, and then, beginning in 1995, efforts to join GATT’s successor, the WTO. Gong, Wen. "China Enters into WTO Eventually." (2001), <http://www.people.com.cn/GB/paper83/5092/539452.html>. Accessed 02/11/2010. See also "WTO Accession: China's Next Steps." *The China Business Review* 27, no. 1 (2000), p. 34; "WTO Basics." *The China Business Review* 27, no. 1 (2000), pp. 36-38; Wang, Yong. "China's Domestic WTO Debate." *The China Business Review* 27, no. 1 (2000), pp. 54-58.

visit in 1998, President Clinton praised China for maintaining the value of yuan while Japan let the yen fall.<sup>136</sup> The non-devaluation policy, if nothing else, consoled the US at a time when its trade deficit with China was ballooning.<sup>137</sup> The political message was that the trade imbalance would not deteriorate because of decisions made about the yuan.

One of the key arguments of this thesis is that the AFC was a pivotal event in East Asian regionalism and China's rise. It refrained from devaluing the yuan, as a result of calculations showing clear economic reasons not to do so and ambitions to regional leadership, though it was presented as an apparently magnanimous step aimed at sparing the region from the full brunt of the AFC. ASEAN's response and China's role in East Asian regionalism are discussed in full in Chapter 4.

### 3.2.2.1 Expansionary fiscal policy

Instead of devaluation, China adopted expansionary domestic policies to promote GDP growth. Notwithstanding the conclusion drawn by most observers that its economy was the least affected by the AFC,<sup>138</sup> a decline in exports and FDI inflows in 1998 had a negative impact because Asian markets absorbed 60% of Chinese exports, while 70% of FDI came from the region.<sup>139</sup> Growth slowed, accompanied by shrinking domestic demand and deflationary pressures. To secure the objective of 8% GDP growth, the government undertook an expansionary fiscal policy mainly through large-scale government spending.<sup>140</sup>

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<sup>136</sup> Akio, Takahara. "Japan's Policy toward China in the 1990s." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, Cambridge, Mass.: Harvard University Asia Center, 2004, pp. 254-63.

<sup>137</sup> Moore, Thomas G., and Dixia Yang. "Empowered and Restrained: Chinese Foreign Policy in the Age of Economic Interdependence." In *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*, edited by David M. Lampton, pp. 223-25.

<sup>138</sup> See for example, Lardy, Nicholas R. "China and the Asian Contagion." *Foreign Affairs* 77, no. 4 (1998), pp. 78-88; Prasad, Eswar, Thomas Rumbaugh, and Qing Wang. "Putting the Cart before the Horse? Capital Account Liberalization and Exchange Rate Flexibility in China." *IMF Policy Discussion Paper* (January 2005), [http://dyson.cornell.edu/faculty\\_sites/prasad/doc/book\\_chapters/PuttingTheCartBeforeTheHorse-CapitalAccountLiberalizationandExchangeRateFlexibilityInChina.pdf](http://dyson.cornell.edu/faculty_sites/prasad/doc/book_chapters/PuttingTheCartBeforeTheHorse-CapitalAccountLiberalizationandExchangeRateFlexibilityInChina.pdf). Accessed 08/06/2009;

Sharma, Shalendra D. "Why China Survived the Asian Financial Crisis?" *Brazilian Journal of Political Economy* 22, no. 2 (2002), pp. 32-58; Chen, Hong. "The Road toward the Internationalization of the Japanese Yen." *World Economics and Politics*, no. 5 (2004), pp. 65-70.

<sup>139</sup> Liu, He. "From Overcoming Deflation to Preventing Inflation." In *China after Asian Financial Crisis*, edited by Mengkui Wang, Beijing: China Development Press, 2007, p. 7.

<sup>140</sup> Wu, Jinglian. "Interpreting China's Economy." (December 19, 2005), [www.macroeconomy.com.cn/zhtg/20051219075856.shtml](http://www.macroeconomy.com.cn/zhtg/20051219075856.shtml). Accessed 04/06/2010.

In 1998 the Ministry of Finance issued long-term treasury bonds of RMB100b through the state-owned “big four” banks to invest in national infrastructure projects, and special treasury bonds of RMB270b to enhance the capital adequacy of state-owned commercial banks.<sup>141</sup> It continued expanding government investment by issuing long-term treasury bonds, with RMB110b in 1999 and RMB150b in 2000.

The Ministry of Finance also adjusted income distribution policies to stimulate domestic consumption, focussing on enhancing the social security system, increasing the income of lower income groups and public servants and raising the pension for retirees so that consumers had more disposable income to spend on goods and services.<sup>142</sup> In the absence of devaluation, the government subsidised exports by readjusting the tax policy, with increased rebates of up to 15.5%, greater access to export credits and preferential policies for foreign investment.<sup>143</sup>

The expansionary fiscal policy had a positive impact on growth in investment, consumption and exports during 1997-2000, counteracting the negative impact of the AFC. Government spending through issuing long-term treasury bonds played a major role in sustaining GDP growth. According to the National Bureau of Statistics, government investment contributed 1.5%, 2%, and 1.7% to GDP growth in 1998, 1999 and 2000 respectively.<sup>144</sup> GDP growth was 8.4% in 2000 after it dropped below 8% during the previous two years. It was estimated that the increase in domestic consumption contributed 57%.<sup>145</sup> In terms of trade, tax rebates for exports effectively mitigated the slowdown caused by the AFC. Exports were \$249b in 2000 increasing by 27.8% compared with the previous year.<sup>146</sup> In short, the government’s ability to use macro-policy adjustments to offset the negative impact of the crisis allowed it to play a more positive role in East Asia.

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<sup>141</sup> Jia, Kang. "China's Fiscal Policy and Public Fiscal System Building." In *China after Asian Financial Crisis*, edited by Mengkui Wang, Beijing: China Development Press, 2007, pp. 22-24.

<sup>142</sup> *Ibid.*

<sup>143</sup> Wu, Jinglian. "Interpreting China's Economy." (December 19, 2005), [www.macrochina.com.cn/zhtg/20051219075856.shtml](http://www.macrochina.com.cn/zhtg/20051219075856.shtml).

<sup>144</sup> Li, Jianxing. "Xiang Huaicheng: Why Did Chinese Government Implement Expansionary Fiscal Policy in 1998." (September 5, 2001), <http://www.people.com.cn/GB/jinji/31/179/20010905/552492.html>.

<sup>145</sup> *Ibid.*

<sup>146</sup> China's Ministry of Commerce, <http://www.mofcom.gov.cn>.

### 3.3 Continuation of economic reform and development after the Asian Financial Crisis

After the AFC, the main lesson for China was that, if even the Tiger economies were vulnerable to financial collapse, the best remedy to inoculate itself against future crises was the path of reform, modernising the banking system and improving economic conditions in rural areas to increase the domestic market. These measures were required by WTO membership. This section discusses these post-1997 reforms then considers the consequences of WTO accession in 2001.

#### 3.3.1 Promoting financial reform

As mentioned above, China's banking system was primitive by comparison with the west, although, as I just argued, this lack of sophistication, and the inconvertibility of the currency under the capital account, helped its immunity from currency speculation in 1997. Financial reforms lagged behind other sectors during the 1980s, so more comprehensive reforms were prioritised in 1993 to make the sector more compatible with a "socialist market economy".<sup>147</sup> According to *The Commercial Bank Law of the People's Republic of China*, enacted in 1994, the "Big Four" specialised state banks were to be transformed into wholly state-owned commercial banks.<sup>148</sup> Meanwhile, to separate policy-related from commercial business, three policy banks, the China Development Bank, Export-Import Bank of China and Agricultural Development Bank of China were established to undertake policy-related business conducted previously by the "Big Four".<sup>149</sup>

While these transformations were being effected, NPLs carried by the "Big Four" placed the banking system at serious risk. After 1995 they accumulated very quickly, with the NPL to

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<sup>147</sup> "The Decisions on Issues Regarding the Establishment of the Socialist Market Economic System." (1993), <http://cpc.people.com.cn/GB/64162/134902/8092314.html>.

<sup>148</sup> The Development Research Centre of State Council. "Risk Control of State-Owned Banks and Its Reform Direction." *Research Report on Improving China's Market Economy System*, no. 12 (July 29, 2003), <http://www.china.com.cn/chinese/OP-c/374715.htm>. Accessed 01/06/2010.

<sup>149</sup> Zheng, Wei, Hui Peng, and Rong Zhao. *Overall Trends in the Financial Sector in the 21st Century: The Developing Direction of China's Financial Sector*. Beijing: China Financial Publishing House, 1999. Huang, Yiping. *China's Last Steps across the River: Enterprise and Banking Reforms*. Canberra: Asia Pacific Press, 2001; Wu, Jinglian. *Understanding and Interpreting Chinese Economic Reform*. Mason, Ohio: Thomson/South-Western, 2005.

capital asset ratio climbing to an unsustainable 28.4% in 1997.<sup>150</sup> According to Liu Chunhang, a leading official from the China Banking Regulatory Commission, state-owned banks were technically bankrupt if not for government bail-outs and a large pool of personal savings in bank deposits.<sup>151</sup> After the AFC, the authorities took a series of measures to reduce NPLs and increase capital adequacy ratios, marking the start of a new round of financial reform,<sup>152</sup> in addition, to the pressing need created by China's WTO bid.

First, the Ministry of Finance was authorised to issue special treasury bonds, worth RMB270b in 1998, to enhance the capital of the "Big Four", improving their capital adequacy ratio to 4%. Second, four financial asset management corporations (AMCs)<sup>153</sup> were established in 1999 to take over NPLs worth RMB1400b.<sup>154</sup> Third, measures were taken to improve bank management and risk control, focused mainly on financial reorganisation, downsizing institutions and improving internal management.<sup>155</sup> Nonetheless, inefficiencies caused by poorly-defined property rights and a lack of proper governance structures were not addressed.

The number of NPLs continued to rise, however, even after old debt was taken over by the AMCs. With China's entry into the WTO in 2001, how to improve the competitiveness of China's state banks, once the sector was opened after a transition period of 5 years, became the core issue leading to the next stage in the reform process. Hence, the transformation of state-owned commercial banks into joint-stock corporations was the most important reform task after 2003.<sup>156</sup> The Central Huijin Investment Company was founded and became the sole shareholder of the Bank of China, the China Construction Bank, and the China Industrial

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<sup>150</sup> Liu, Chunhang. "From Dealing with Non-Performing Loans of China's State-Owned Commercial Banks to Reforming the System of State-Owned Commercial Banks." In *China after Asian Financial Crisis*, edited by Mengkui Wang, Beijing: China Development Press, 2007, p. 87.

<sup>151</sup> *Ibid.*

<sup>152</sup> The new round of financial reform was divided into two stages: the first stage from 1998-2003 and the second from 2003 onwards. The first summit on the financial sector (the Central Financial Works Conference), organized by the State Council, was held in October 1997 to discuss China's financial system and ways to avoid the currency crises. Central and provincial leaders attended the meeting. Since then, the summit has been held every five years. Dai, Xianglong. "The First Central Financial Works Conference in Retrospect." *China Finance*, no. 20 (2010), pp. 1-6.

<sup>153</sup> The four companies are namely Huarong, Dongfang, Xinda, and Changcheng.

<sup>154</sup> Liu, Chunhang. "From Dealing with Non-Performing Loans of China's State-Owned Commercial Banks to Reforming the System of State-Owned Commercial Banks." In *China after Asian Financial Crisis*, edited by Mengkui Wang, p. 89.

<sup>155</sup> "In Focus: The Central Financial Works Conference." (2007), [http://www.china.com.cn/economic/zhuanti/gzhy/node\\_7010698.htm](http://www.china.com.cn/economic/zhuanti/gzhy/node_7010698.htm). Accessed 11/04/2010.

<sup>156</sup> The second summit on China's financial sector was held in 2003.

and Commercial Bank.<sup>157</sup> The three state-owned banks were transformed into shareholding financial enterprises.<sup>158</sup> At the same time, the China Banking Regulatory Commission was established to assume a supervisory role over commercial banks at the macro-level. Governance structures conforming to the criteria of modern enterprise institutions were built.<sup>159</sup>

Financial reform after 1998 improved management and risk control, and enhanced the capital adequacy ratios of the “Big Four”. Given that NPLs accounted for more than one-third of their total assets, further reform of financial institutions was on the agenda.

### 3.3.2 Continuing rural reform

China’s GDP growth rate failed to achieve the objective of 8% in 1998 as a result of dwindling exports to ASEAN markets and a decrease in FDI inflows. The Chinese government, as we saw in the previous section, adopted expansionary fiscal policies aimed at stimulating domestic demand. In this respect, expanding rural demand was particularly important because of the magnitude of the rural population. As I discussed in the first section, rural reforms were characterised by the establishment of household responsibility systems that promoted rural development over the first decade of reform. Grain output increased, as did annual farmers’ income, and TVEs flourished.

However, after the early 1990s, the rate of increase in rural income declined, as did growth in domestic demand, replacing the insufficient supply of agricultural products as the main obstacle to development. Increasing agricultural output, in combination with raising the government’s purchasing price of agricultural products, which had increased income during the 1980s, was no longer effective. Therefore, agricultural reform shifted from pursuing growth in output to increasing rural income. The policy reorientation of the “three rural

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<sup>157</sup> Central Huijin Investment Ltd. was established in December 2003. It is a wholly state-owned company, authorized by the State Council to exercise rights and obligations as an investor in major state-owned financial enterprises on behalf of the State. Central Huijin has stakes in a number of financial enterprises including six large commercial banks, two securities companies, one financial holding company, one investment company and one reinsurance company.

<sup>158</sup> Liu, Chunhang. "From Dealing with Non-Performing Loans of China’s State-Owned Commercial Banks to Reforming the System of State-Owned Commercial Banks." In *China after Asian Financial Crisis*, edited by Mengkui Wang, pp. 90-91.

<sup>159</sup> The CBRC was established in April 2003, under the control of the State Council. For more about the CBRC’s main functions and supervisory objectives, see <http://www.cbrc.gov.cn>.

problems” of agricultural industry, political infrastructure and the social economic life of farmers<sup>160</sup> was manifested in a series of government measures implemented after 1998.<sup>161</sup>

First, the government resolved to reform the rural tax and fee system<sup>162</sup> to alleviate the burden on farmers. Experimental reforms were launched in Anhui Province in 2001 and extended to all rural areas in 2003,<sup>163</sup> abolishing excessive fees and gradually eliminating the agricultural tax. Professor Ma Xiaohe from the Institute of Industrial Development of the National Development and Reform Commission sees the reform as just as significant as the land reform of the 1950s and the implementation of the household responsibility system after 1978.<sup>164</sup> According to Liu, elimination of the agricultural tax in 2006 saved RMB125b annually compared with 1999,<sup>165</sup> giving more leverage to farmers in terms of disposable income to spend and expanding rural demand.

Secondly, the government launched a series of measures aimed at protecting farmers’ rights and improving the land system. The contract period of land-use was stipulated in law for the first time, thus fully guaranteeing a farmer’s land-use rights.<sup>166</sup> Furthermore, policy measures conducive to grain production were also taken to ensure farmers benefited. Reform of the grain circulation system liberalised retail markets in major consuming regions. Indirect subsidies were replaced by a direct subsidy in the form of state payments to farmers covering the price difference.<sup>167</sup> These reforms not only increased income but also

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<sup>160</sup>Lu, Xueyi. "The Origin and Prospect of China’s San Nong Wen Ti." (2005),

<http://www.sociology.cass.cn/shxw/xstl/xstl3/P020040311556013434338.pdf>.

<sup>161</sup>"The Decision on Several Major Issues Regarding the Development of Agricultural Industry and Rural Area." (1998), <http://www.people.com.cn/GB/shizheng/252/5089/5093/20010428/454981.html>.

Accessed 30/06/2009.

<sup>162</sup> Farmers have to pay three retention fees and five contribution fees: the public accumulation fund, the public welfare fund, and administrative expenses plus five fees for school establishment at the town and village levels, family planning, special care to disabled servicemen and families of martyrs and servicemen, militia training, and repair and construction of rural roadways that farmers turned into township governments.

<sup>163</sup>"Chronology of Rural Tax and Fee Reform." *Finance* (2004),

<http://finance.sina.com.cn/g/20041009/11361067127.shtml>. Accessed 30/06/2009.

<sup>164</sup>Ma, Xiaohe. "Rural Tax and Fee Reform and Its Policy Options." *People's Forum*, no. 12 (2004),

<http://theory.people.com.cn/GB/40551/3092156.html>. Accessed 01/12/2010.

<sup>165</sup>Liu, Chunhang. "From Dealing with Non-Performing Loans of China’s State-Owned Commercial Banks to Reforming the System of State-Owned Commercial Banks." In *China after Asian Financial Crisis*, edited by Mengkui Wang, p. 160.

<sup>166</sup>In August 2002, the National People’s Congress passed the Land Contract Law. It came into force on 1

March, 2003. The full text of the law is available at [http://news.xinhuanet.com/zhengfu/2002-08/30/content\\_543847.htm](http://news.xinhuanet.com/zhengfu/2002-08/30/content_543847.htm). Accessed 01/12/2010.

<sup>167</sup>Han, Jun. "The New Pattern and the New Trend of China’s Rural Reform and Development: A Review of China’s Rural Development in the Wake of Asian Financial Crisis." In *China after Asian Financial Crisis*, edited by Mengkui Wang, Beijing: China Development Press, 2007, pp. 158-73.

invigorated the grain market and greatly facilitated the structural adjustment of the agricultural sector.<sup>168</sup> This took three forms: First, agricultural regionalisation took shape, and the quality and structure of agricultural products was prioritised; second, fisheries and the cultivation of livestock accelerated, and their share of agricultural industry increased; and, third, bio-environmental protection was promoted extensively.

Finally, the government reoriented policy to facilitate the transfer of rural labour surpluses nationwide,<sup>169</sup> while increases in government spending improved infrastructural facilities, education, and health care in rural areas.<sup>170</sup>

In summary, facing the AFC, the government deepened financial sector and rural reforms through a series of measures aimed at generating domestic demand. Increasing farm income and solving the “three rural problems” became more imperative. The government regarded rural development as a crucial means to expand the domestic market and GDP growth, producing positive results which not only alleviated rural burdens but facilitated structural adjustment of agriculture.

### 3.3.3 China's accession to the WTO

After fifteen years of extensive negotiations, China entered the WTO on 11 December 2001.<sup>171</sup> It enjoyed reduced costs accessing foreign markets, a more equitable trading mechanism based on WTO rules and multilateral dispute resolution processes, more foreign investment and advanced technology, and a legitimised role in setting and enforcing international trading rules.<sup>172</sup> China committed to further open its markets and offer a more predictable environment for trade and foreign investment by implementing WTO agreements.

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<sup>168</sup> *Ibid.*

<sup>169</sup> Since 2000, the government took positive measures to transfer rural labour, such as lifting the limitation on rural labourers working in the cities, and providing equal opportunity for rural labour. By 2005, the proportion of agricultural income to non-agricultural income was 45% to 55%, and salary income increased to 36% of total income of rural labour from that of 19% in 1985. See *Ibid.*, p. 163.

<sup>170</sup> For more details, Han, Jun. "The New Pattern and the New Trend of China's Rural Reform and Development: A Review of China's Rural Development in the Wake of Asian Financial Crisis." In *China after Asian Financial Crisis*, edited by Mengkui Wang, pp. 158-73.

<sup>171</sup> Li, Jun. "China's Entry into WTO: Opportunities and Challenges." *South Asian Studies*, no. 1 (2001), pp. 66-68.

<sup>172</sup> Liu, Shijun. "A New Round of Economic Growth: Causes, Mechanisms and Characteristics." In *The Chinese Economy after WTO Accession*, edited by Shuming Bao, Shuanglin Lin and Changwen Zhao, Aldershot, Hants.: Ashgate, 2006, pp. 9-17.



After five years of WTO membership, China did not collapse as Gordon Chang predicted.<sup>173</sup> Indeed as Song Hong, from CASS, stated, "China's embrace of the WTO brings China into a phase of a more open economy - a second round of opening-up".<sup>174</sup> Annual Reviews of its transitional performance demonstrated that China was implementing its WTO commitments while benefiting from integration into the global economy. According to Professor Zhang Hanlin from the University of International Business and Economics general tariffs declined from 15.3% in 2001 to 9.9% in 2005,<sup>175</sup> quotas on most items were lifted and the service sector opened. Meanwhile, he adds, China obtained a "WTO dividend". Annual GDP growth between 2001 and 2005 was 9.5%, commodity and services imports increased by 20% and FDI was \$60b.<sup>176</sup>

The most significant impact of accession was as a catalyst for further reform. China gained enormous benefits from accessing foreign markets which would otherwise have been denied it by previous high-tariff and non-tariff barriers. Trade skyrocketed at an annual rate of 20% (see Table 3-5). Exports increased nearly fourfold in five years,<sup>177</sup> accounting for 44% of GDP in 2001 and rising to 72% in 2006, making China the world's third largest trading nation.<sup>178</sup>

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<sup>173</sup> Chang, Gordon G. *The Coming Collapse of China*. 1st ed. New York: Random House, 2001.

<sup>174</sup> Yuan, Yuan, and Junjie Miao. "Five Years of Entry into WTO: WTO Changed China, What Can China Bring to WTO?" *outlook weekly* (December 6, 2006), [http://news.xinhuanet.com/fortune/2006-12/06/content\\_5443760.htm](http://news.xinhuanet.com/fortune/2006-12/06/content_5443760.htm). Accessed 08/06/2009; Chen, Wenjing. "Research Report: Retrospect and Prospect of China's 30 Years' Opening-Up." (2008), [http://www.caitec.org.cn/c/cn/news/2008-04/02/news\\_1055.html](http://www.caitec.org.cn/c/cn/news/2008-04/02/news_1055.html). Accessed 08/06/2009.

<sup>175</sup> Yuan, Yuan, and Junjie Miao. "Five Years of Entry into WTO: WTO Changed China, What Can China Bring to WTO?" *outlook weekly* (December 6, 2006), [http://news.xinhuanet.com/fortune/2006-12/06/content\\_5443760.htm](http://news.xinhuanet.com/fortune/2006-12/06/content_5443760.htm).

<sup>176</sup> *Ibid.*

<sup>177</sup> China's exports in 2001 were \$266.1 billion, the figure in 2006 was \$969.1 billion. Statistics are available at the official website of China's Ministry of Commerce, <http://www.mofcom.gov.cn>.

<sup>178</sup> Statistics are from China's National Bureau of Statistics website, <http://www.stats.gov.cn>.

Table 3-5. Change in China's foreign trade since WTO accession (2002-2009)

Year	Annual increase in total foreign trade (%)	Annual increase in exports (%)	Annual increase in Imports (%)
2002	21.8	22.3	21.2
2003	37.1	34.6	39.9
2004	35.7	35.4	36.0
2005	23.2	28.4	17.6
2006	23.8	27.2	20.0
2007	23.5	25.7	20.8
2008	17.8	17.2	18.5
2009	-13.9	-16.0	-11.2

Source: compiled from the statistics of China's Ministry of Commerce, <http://www.mofcom.gov.cn>.

China's GDP grew at a two-digit annual rate after 2003 (see Table 3-6) and its share of global GDP climbed to approximately 8% in 2008 compared with 3.6% in 2000.<sup>179</sup>

At the same time, China opened its domestic market and implemented institutional change in compliance with WTO rules. Imports increased 22%-23% annually between 2001 and 2006, accounting for 9% of global commodity imports, while services imports were 6% in 2006.<sup>180</sup> More than 2000 incompatible laws and regulations were revised or abolished in the space of 5 years, according to Jin Bosheng from the Chinese Academy of International Trade and Economic Cooperation.<sup>181</sup>

Table 3-6. China's percentage annual GDP growth (2000-2008)

2000	2001	2002	2003	2004	2005	2006	2007	2008
8.4	7.3	9.1	10.0	10.1	10.4	11.1	13.0	9.0

Source: compiled from National Bureau of Statistics, <http://www.stats.gov.cn>.

China promised to open its banking sector to foreign operators without geographic and client restrictions within five years of joining the WTO. The pace of reform accelerated after

<sup>179</sup>"Five Years of Entry into WTO: China Shaking the World." *Global Times* (December 6, 2006), [http://news.xinhuanet.com/fortune/2006-12/06/content\\_5441230.htm](http://news.xinhuanet.com/fortune/2006-12/06/content_5441230.htm). Accessed 08/06/2009.

<sup>180</sup> Yuan, Yuan, and Junjie Miao. "Five Years of Entry into WTO: WTO Changed China, What Can China Bring to WTO?" *outlook weekly* (December 6, 2006), [http://news.xinhuanet.com/fortune/2006-12/06/content\\_5443760.htm](http://news.xinhuanet.com/fortune/2006-12/06/content_5443760.htm).

<sup>181</sup> *Ibid.*

the AFC, especially as WTO entry drew closer.<sup>182</sup> A more comprehensive reform agenda was set up by the Central Financial Work Conference in 2002, consisting of three components.<sup>183</sup> First, was resolution of NPLs. AMCAs absorbed RMB1.4tr in NPLs transferred from the “Big Four”, while state-owned commercial banks were called on to reduce their NPL ratio by 2-3% each year to reach an average of 15% in 2005.<sup>184</sup> Second, financial supervision was reformed. The China Banking Regulatory Commission (CBRC) was created as an independent body in charge of financial supervision with the PBC.<sup>185</sup> The third area was reform of state-owned commercial banks through improving internal management systems, implementing a shareholding system, introducing foreign and domestic strategic investors, and the listing of large banks within five years.<sup>186</sup>

### 3.4 Conclusion

In 1978, China emerged from its long period of international isolation under Mao by embarking on an opening-up process which linked its economy once more with East Asia. Driven by an Overseas Chinese Business Sphere and reforms carried out by the state, the domestic economy grew rapidly. In 2009 China overtook Japan as the world’s second largest economy and, in the process, usurped its position as the leading economic power in East Asia. Over the course of thirty years, China advanced from being a defeated and humiliated power to becoming once again an economic hub for East Asia. The impact of China’s rise on East Asia and the US is the subject of the rest of the thesis. In the next chapter, I consider relations between China and ASEAN.

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<sup>182</sup> Chow, Gregory C. *China's Economic Transformation*. Oxford: Blackwell, 2002; Fewsmith, Joseph. *China since Tiananmen: The Politics of Transition*. New York: Cambridge University Press, 2001; Haggard, Stephan. *The Political Economy of the Asian Financial Crisis*. Washington: Institute for International Economics, 2000.

<sup>183</sup> "Series Report on the Central Financial Works Conference." (2002), <http://www.peopledaily.com.cn/GB/jinji/222/7435/index.html>. Accessed 11/04/2010.

<sup>184</sup> "Dai Xianglong: Percentage of Non-Performing Loans by State-Owned Commercial Banks to Be Restricted to 15% by 2005." *Economic Daily* (February 21, 2002), <http://www.china.com.cn/chinese/PI-c/110001.htm>. Accessed 08/12/2010.

<sup>185</sup> "In Focus: The Central Financial Works Conference." (2007), [http://www.china.com.cn/economic/zhuanti/gzhy/node\\_7010698.htm](http://www.china.com.cn/economic/zhuanti/gzhy/node_7010698.htm).

<sup>186</sup> *Ibid.*

## 4 China and East Asian regionalism

In line with Deng Xiaoping's policy of a stable East Asian region as a prerequisite for continued growth, the fostering of amicable relations with ASEAN was an important part of China's "good-neighbour" foreign policy after the end of the Cold War. In this chapter, I argue that China came increasingly to be at the centre of the regional order, especially after the AFC. I show how its rise was characterised by increased participation in regional institutions and processes, and accelerated economic involvement with ASEAN, toppling Japan from its economic leadership in East Asia. I argue that the US and Japan lost a corresponding degree of relative influence, even though they continued to occupy important positions. I also argue that China was in a stronger position than Japan to lead in the long-term because the latter's close security alliance with the US stifled attempts at independent foreign and defence policies.

Section 4.1 sketches relations between China and ASEAN during the Cold War as context for appreciating the significance of improvements in relations during the early 1990s, which are discussed in Section 4.2. These were driven by China's initial embrace of regionalism in the form of the ARF. Section 4.3 describes in more detail how ASEAN reacted to Chinese initiatives during the AFC, fuelling a deepening engagement via the ASEAN+3 framework, which is considered in Section 4.4. I show in Section 4.5 how flourishing economic relations promoted the strategic goal of being a "good neighbour", exemplified by CAFTA in 2002. Finally, in Section 4.6 I summarise the impact of China's multilateral engagement with ASEAN on its leadership aspirations.

### 4.1 Relations between China and its East Asian neighbours during the Cold War

Post-World War II relations between China and Southeast Asia were problematic initially. In the 1950s and 1960s, Jusuf Wanandi reminds us, China intervened in the domestic affairs of the new Southeast Asian states through so-called "party-to-party relations" and support for the interests of "overseas Chinese".<sup>1</sup> Communist insurgencies were supported in Thailand,

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<sup>1</sup> Wanandi, Jusuf. "ASEAN's China Strategy: Towards Deeper Engagement." *Survival* 38, no. 3 (1996), pp. 117-28.

Malaysia, Indonesia and the Philippines which also faced “outside great power” contention in the wake of decolonisation.<sup>2</sup> Thus, alleged attempts to “export revolution” were a security threat, creating a legacy of distrust.<sup>3</sup> Relations with Indonesia, in particular, were strained by the so-called “overseas Chinese” problem in the late 1950s and alleged involvement in the abortive coup by the Indonesian Communist Party (PKI) in 1965.<sup>4</sup> No ASEAN founding members had “normal” relations with China, when it was established in 1967.<sup>5</sup> As one Chinese scholar described it:

During this period, China was perceived as the main source of instability and threat for Southeast Asian countries. Apart from ideological factors, domestic military insurgence and racial issues had a negative impact on the young countries’ perceptions about China. The anti-Communism stance taken by America intensified fears of a “communist threat” in these countries and, combined with China’s revolutionary morale, laid the foundation for the “isolating China” policy adopted by ASEAN governments.<sup>6</sup>

With Sino-American rapprochement in the early 1970s, ASEAN members began to establish diplomatic relations with China, commencing with Malaysia in 1974, and Thailand and the Philippines in 1975.<sup>7</sup> In 1978, after support for Thailand against Vietnam’s invasion of Cambodia,<sup>8</sup> China was transformed, as Nayan Chanda put it, from a primary Cold War

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<sup>2</sup> *Ibid.*, see also Stuart-Fox, Martin. "Southeast Asia and China: The Role of History and Culture in Shaping Future Relations." *Contemporary Southeast Asia* 26, no. 1 (2004), pp. 116-40.

<sup>3</sup> Leifer, Michael. "Indonesia's Encounters with China and the Dilemmas of Engagement." In *Engaging China: The Management of an Emerging Power*, edited by Alastair Iain Johnston and Robert S. Ross, New York: Routledge, 1999, pp. 87-108; Khong, Yuen Foong. "Singapore: A Time for Economic and Political Engagement." In *Engaging China: The Management of an Emerging Power*, edited by Alastair Iain Johnston and Robert S. Ross, New York: Routledge, 1999, pp. 109-28; Acharya, Amitav. "Containment, Engagement, or Counter-Dominance? Malaysia's Response to the Rise of China." In *Engaging China: The Management of an Emerging Power*, edited by Alastair Iain Johnston and Robert S. Ross, New York: Routledge 1999, pp. 129-51.

<sup>4</sup> Ba, Alice D. "China and ASEAN: Renavigating Relations for a 21st-Century Asia." *Asian Survey* 43, no. 4 (2003), pp. 623-24; Wanandi, Jusuf. "ASEAN's China Strategy: Towards Deeper Engagement." *Survival* 38, no. 3 (1996), pp. 118-19.

<sup>5</sup> Indonesia suspended its diplomatic relations with China in 30 October 1967. For more about China-Indonesia relations, see Sukma, Rizal. *Indonesia and China: The Politics of a Troubled Relationship*. New York: Routledge, 2004.

<sup>6</sup> Cited in Cao, Yunhua, and Chong Tang. *New China-ASEAN Relations*. Beijing: world affairs Press, 2005, p. 36.

<sup>7</sup> *Ibid.*, p. 206; Stuart-Fox, Martin. "Southeast Asia and China: The Role of History and Culture in Shaping Future Relations." *Contemporary Southeast Asia* 26, no. 1 (2004), pp. 116-40;

<sup>8</sup> For the elaboration of the Cambodia conflict and ASEAN’s response, see Acharya, Amitav. *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*. New York: Routledge, 2001.

antagonist into Thailand's main protector<sup>9</sup> during 1978-1989, providing a basis for cooperation with ASEAN.<sup>10</sup> However, ASEAN was divided over China and how to respond to the Vietnamese invasion.<sup>11</sup> As Alice Ba pointed out, Malaysia and Indonesia remained cautious and sensitive about Chinese influence, while Thailand and Singapore were more concerned about Vietnam.<sup>12</sup>

## 4.2 The beginning of China's multilateral engagement with ASEAN (1991-1996)

One of the consequences of the end of Cold War bipolarity and demise of the Soviet Union in 1991 was the strengthening of regionalisation, which some authors called the "new regionalism".<sup>13</sup> They pointed to the EU which was entering a "mature stage" of political integration, and the North American Free Trade Area (NAFTA) which grouped together the US, Canada and Mexico. In East Asia, too, debate raged over how to refashion the region in the wake of the dramatic strategic and economic changes underway at a global level.<sup>14</sup> ASEAN's endeavour to promote economic cooperation, articulated as one of the main goals in its founding declaration of 1967, remained unfulfilled while preoccupied with collective survival during the Cold War. ASEAN's response to the perceived "new regionalism" elsewhere was to "kick start" and accelerate greater economic integration by forming the ASEAN Free Trade Area (AFTA) in 1992.<sup>15</sup> This critical step is regarded by Beeson as a

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<sup>9</sup> Chanda, Nayan. "The External Environment for Southeast Asian Foreign Policy." In *The Political Economy of Foreign Policy in Southeast Asia*, edited by David Wurfel and Bruce Burton, Basingstoke: Macmillan, 1990, p. 66.

<sup>10</sup> Womack, Brantly. "China and Southeast Asia: Asymmetry, Leadership and Normalcy." *Pacific Affairs* 76, no. 4 (2003), pp. 529-48.

<sup>11</sup> Ba, Alice D. "China and ASEAN: Renavigating Relations for a 21st-Century Asia." *Asian Survey* 43, no. 4 (2003), p. 625.

<sup>12</sup> *Ibid.*

<sup>13</sup> Ravenhill, John. "Regionalism." In *Global Political Economy*, edited by John Ravenhill, New York: Oxford University Press, 2005, pp. 116-47.

<sup>14</sup> Mansfield, Edward D., and Helen V. Milner. "The New Wave of Regionalism." *International Organization* 53, no. 03 (1999), pp. 589-627; Bowles, Paul. "ASEAN, AFTA and The "New Regionalism"." *Pacific Affairs* 70, no. 2 (1997), pp. 219-33.

<sup>15</sup> "Singapore Declaration of 1992." (January 28, 1992), <http://www.aseansec.org/1396.htm>. Accessed 02/10/2007; "Framework Agreement on Enhancing ASEAN Economic Cooperation." (January 28, 1992), <http://www.aseansec.org/12474.htm>. Accessed 02/10/2007.

“defensive” action by ASEAN,<sup>16</sup> which feared being marginalised in an increasingly regionalised world economy.<sup>17</sup>

In the same year, Deng Xiaoping’s “Southern tour” reinforced the priority of “building socialism with Chinese characteristics”, the main elements of which were establishing a free-market economy while maintaining social planning.<sup>18</sup> This process required a peaceful international environment, especially “neighbourly relations”. In his speech to the 14<sup>th</sup> National Congress in 1992, President Jiang Zemin stated that “...the current stage is the best time we have ever had in terms of good neighbour relations with surrounding countries... we will endeavour to create an international environment conducive to China’s reform and opening-up and modernisation...”<sup>19</sup> He was alluding to a “good-neighbour policy” (*mulin zhengce*), also referred to as the “periphery policy” (*zhoubian zhengce*). Section 4.2.1 reviews its origins and implementation, and Section 4.2.2 discusses the beginnings of China’s engagement with ASEAN during the 1990s.

#### 4.2.1 The “good neighbour policy”

China devised its “good neighbour policy” in the wake of economic reform and opening-up in the early 1980s. As tension with the Soviet Union faded, Deng Xiaoping envisaged an independent foreign policy consisting of non-alignment, no confrontation and no alliances to take advantage of a less threatening international environment.<sup>20</sup> Economic modernisation required investment, trade and technology from the US, Japan and the East

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<sup>16</sup> For questions and answers on the CEPT, see <http://www.aseansec.org/10282.htm>, where it is stated that “The ultimate objective of AFTA is to increase ASEAN’s competitive edge as a production base geared for the world market. A critical step in this direction is the liberalization of trade in the region through the elimination of intra-regional tariffs and the elimination of non-tariff barriers... As the cost competitiveness of manufacturing industries in ASEAN is enhanced and with the larger size of the market, investors can enjoy economies of scale in production; in this manner, ASEAN hopes to attract more foreign direct investments into the region.” Beeson, Mark. “ASEAN Plus Three and the Rise of Reactionary Regionalism.” *Contemporary Southeast Asia* 25, no. 2 (2003), pp. 251-67.

<sup>17</sup> Ravenhill, John. “Economic Cooperation in Southeast Asia: Changing Incentives.” *Asian Survey* 35, no. 9 (1995): pp. 851-55.

<sup>18</sup> “Deng Xiaoping’s Southern Tour Speech.” (1992), <http://news.sina.com.cn/c/2007-01-24/150312127429.shtml>.

<sup>19</sup> Jiang, Zemin. “Accelerating the Reform, the Opening to the Outside World and the Drive for Modernisation, So as to Achieve Greater Successes in Building Socialism with Chinese Characteristics.” *The Report Delivered at 14th Party Congress* (October 12, 1992),

<http://cpc.people.com.cn/GB/64162/64168/64567/65446/4526308.html>. Accessed 27/03/2009.

<sup>20</sup> Deng, Xiaoping. *Selected Works of Deng Xiaoping*. Vol. 3, pp. 3-4.

Asian NIEs<sup>21</sup> which relied, in turn, on friendly relations regardless of ideological orientation.<sup>22</sup> The new diplomatic approach helped re-establish relations after the 1989 Tiananmen Square Incident, and reduced the likelihood of the US organising alliance partners to limit China's ascendancy.<sup>23</sup>

Avery Goldstein attributes China's new approach to three reasons.<sup>24</sup> First, it was more important than ever for Beijing to ensure economic development because it was one of the foundations for Communist Party rule, the legitimacy of which had eroded in the wake of the Tiananmen incident and collapse of Communism in Eastern Europe. Secondly, Beijing needed to reduce growing anxiety over the perceived "China threat" in ASEAN because of a series of territorial disputes. Thirdly, the end of the bipolar system seemed to give rise to an era of US unipolarity, which reinforced its "primacy" in the Asia Pacific. In the face of US military and economic supremacy, Beijing sought to avoid confrontation.

Zhang Yunling from CASS agreed, stressing that in East Asia, stable great power relations, relations with China's periphery, and stable domestic development were the three pillars of its political and security environment.<sup>25</sup> China has the world's longest land border and largest number of neighbours. This geopolitical reality ensured that diplomacy was always challenging.

In 1997, Jiang Zemin reaffirmed the Party's commitment to a good-neighbour policy, implemented through

China's advocating dialogues and negotiations with other neighbouring countries in dealing with all existing disputes. Disputes that cannot be settled immediately may be set aside

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<sup>21</sup> Zhao, Suisheng. "The Making China's Periphery Policy." In *Chinese Foreign Policy: Pragmatism and Strategic Behavior*, edited by Suisheng Zhao, Armonk, N.Y.: M.E. Sharpe 2004, p. 260.

<sup>22</sup> Zhao, Suisheng. "China's Periphery Policy and Its Asian Neighbours." *Security Dialogue* 30, no. 3 (1999), pp. 337-38.

<sup>23</sup> Chen, Qimao. "New Approaches in China's Foreign Policy: The Post-Cold War Era." *Asian Survey* 33, no. 3 (1993): pp. 244-45.

<sup>24</sup> Goldstein, Avery. "The Diplomatic Face of China's Grand Strategy: A Rising Power's Emerging Choice." *The China Quarterly* 168 (2001), pp. 837-38.

<sup>25</sup> Zhang, Yunling. "To Acknowledge China's International Environment in Asia-Pacific Region." In *China's International Environment in Asia-Pacific Region within 10-15 Years*, edited by Yunling Zhang, Beijing: China Social Sciences Press, 2003, p. 15.



temporarily as the parties seek common ground while reserving differences with a view of maintaining regional peace and stability.<sup>26</sup>

The main objectives, according to Liu Huaqiu, China's Deputy Foreign Minister in 1999, were to "actively develop friendly relations with the surrounding countries, preserve regional peace and stability, and promote regional economic cooperation".<sup>27</sup> In 2003, Premier Wen Jiabao elaborated further on the policy as "establishing good neighbourliness, making neighbours prosperous, and making them feel secure" (*mulin, fulin, anlin*).<sup>28</sup>

One of the main manifestations of the new peripheral policy, as I will discuss in the following section, was embracing multilateralism to reassure ASEAN of China's peaceful intentions and willingness to act as a responsible regional partner.

#### 4.2.2 China as ASEAN dialogue partner and member of ASEAN Regional Forum

China's East Asian diplomacy after the end of the Cold War set out to create a peaceful regional environment through normalisation of relations with ASEAN.<sup>29</sup> Politically its stated principles were to "strengthen mutual trust based on frank dialogue" and on regional issues to work through regional frameworks to manage problems and deal with tensions.<sup>30</sup> The reason for this was to better manage a perception, fuelled by the "China threat" literature, that it was a threat to regional stability. A significant level of tension in relations existed as a result of territorial disputes over a number of islands in the South China Sea. These disputes are discussed extensively in Chapter 9.

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<sup>26</sup> Jiang, Zemin. "Hold High The Great Banner of Deng Xiaoping Theory for an All-Round Advancement of the Cause of Building Socialism with Chinese Characteristics into the 21st Century." *The report delivered at 15th Party Congress* (September 12, 1997),

<http://cpc.people.com.cn/GB/64162/64168/64568/65445/4526285.html>.

<sup>27</sup> Liu Huaqiu, "China Will Always Pursue Peaceful Foreign Policy of Independence and Self-determination," cited in Zhao, Suisheng. "China's Periphery Policy and Its Asian Neighbours." *Security Dialogue* 30, no. 3 (1999), p. 336.

<sup>28</sup> Wang, Xiaoguang. "Wen Jiabao Attends and Addresses at the First ASEAN Summit of Business and Investment." (October 8, 2003),

[http://news.xinhuanet.com/world/2003-10/08/content\\_1112364.htm](http://news.xinhuanet.com/world/2003-10/08/content_1112364.htm). Accessed 30/03/2009.

<sup>29</sup> Roy, Denny. "China and Southeast Asia: ASEAN Makes the Best of the Inevitable." *Asia Pacific Security Studies* 1, no. 4 (2002), pp. 1-5.

<sup>30</sup> Deng, Yong. "Managing China's Hegemonic Ascension: Engagement from Southeast Asia." *Journal of Strategic Studies* 21, no. 1 (1998), pp. 21-43; Antolik, Michael. "The ASEAN Regional Forum: The Spirit of Constructive Engagement." *Contemporary Southeast Asia* 16, no. 2 (1994), pp. 117-36.

Relations with ASEAN were normalised when Foreign Minister Qian Qichen was invited to attend the opening ceremony of the 24<sup>th</sup> ASEAN Foreign Ministers' Meeting in 1991, marking the start of a formal China-ASEAN dialogue.<sup>31</sup>

ASEAN faced a significant challenge over how to handle a rising China in the changing strategic circumstances of the post-Cold War era.<sup>32</sup> For some analysts, its assertiveness was on display prior to the end of the Cold War in the dispute with Vietnam over the South China Sea in 1988.<sup>33</sup> In February 1992, China passed a law reaffirming its claim to all the islands and adjacent waters in the South China Sea, adding to ASEAN's concerns.<sup>34</sup> The withdrawal of the US military from naval and air bases in the Philippines in 1992 removed an important security prop for ASEAN, which viewed the US presence as a stabilising influence.<sup>35</sup>

The ARF began in 1994 as a regional dialogue process in response to the changing security environment.<sup>36</sup> As Michael Leifer pointed out the intention was to keep the US active in the region, maintain ASEAN's leading role and incorporate China into regional arrangements,<sup>37</sup> in an attempt to "socialise" it into East Asian ways,<sup>38</sup> so as to reduce the element of threat while accentuating its positive elements.<sup>39</sup> A deep-rooted regional distrust of Japan,

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<sup>31</sup> "China-ASEAN Relations: A Chronology of Events." (2001), [http://news.xinhuanet.com/world/2001-11/01/content\\_94082.htm](http://news.xinhuanet.com/world/2001-11/01/content_94082.htm). Accessed 06/02/2011.

<sup>32</sup> Buszynski, Leszek. "Southeast Asia in the Post-Cold War Era: Regionalism and Security." *Asian Survey* 32, no. 9 (1992), pp. 830-47; Lee, Lai To. "ASEAN-PRC Political and Security Cooperation: Problems, Proposals, and Prospects." *Asian Survey* 33, no. 11 (1993), pp. 1095-104; Denoon, David B. H., and Wendy Frieman. "China's Security Strategy: The View from Beijing, ASEAN, and Washington." *Asian Survey* 36, no. 4 (1996), pp. 422-39; Ganesan, N. "ASEAN's Relations with Major External Powers." *Contemporary Southeast Asia* 22, no. 2 (2000), pp. 258-78.

<sup>33</sup> Segal, Gerald, and Richard H. Yang, eds. *Chinese Economic Reform: The Impact on Security*. New York: Routledge, 1996; Shambaugh, David. "Growing Strong: China's Challenge to Asian Security." *Survival* 36, no. 2 (1994), pp. 43-59.

<sup>34</sup> Leifer, Michael. "The ASEAN Regional Forum." *Adelphi paper*, no. 302 (1996), pp. 8-9.

<sup>35</sup> *Ibid.*, p. 7.

<sup>36</sup> Almonte, Jose T. "Ensuring Security the 'ASEAN Way'." *Survival* 39, no. 4 (1997), pp. 80-92; Foot, Rosemary. "China in the ASEAN Regional Forum: Organizational Processes and Domestic Modes of Thought." *Asian Survey* 38, no. 5 (1998), pp. 425-40; Wanandi, Jusuf. "ASEAN's China Strategy: Towards Deeper Engagement." *Survival* 38, no. 3 (1996), pp. 117-28.

<sup>37</sup> Leifer, Michael. "The ASEAN Regional Forum." *Adelphi paper*, no. 302 (1996), pp. 10-12.

<sup>38</sup> Almonte, Jose T. "Ensuring Security the 'ASEAN Way'." *Survival* 39, no. 4 (1997): pp. 83-85; Foot, Rosemary. "China in the ASEAN Regional Forum: Organizational Processes and Domestic Modes of Thought." *Asian Survey* 38, no. 5 (1998), pp. 426-28; Wanandi, Jusuf. "ASEAN's China Strategy: Towards Deeper Engagement." *Survival* 38, no. 3 (1996), pp. 121-22.

<sup>39</sup> Almonte, Jose T. "Ensuring Security the 'ASEAN Way'." *Survival* 39, no. 4 (1997), pp. 83-84.

lingering from World War II (see Chapter 2), meant that ASEAN was not looking to it to play a strong security role.<sup>40</sup>

For ASEAN, reaching out to China by inviting it to join the ARF was done to handle a difficult situation. On the one hand, ASEAN was concerned about the implications of China's rising military power for national security.<sup>41</sup> After the formation of the ARF, events seemed to vindicate ASEAN's concerns, following China's military clash with the Philippines over Mischief Reef in 1995, and the Taiwan Crisis of the same year.<sup>42</sup> On the other hand, engaging China offered the possibility of keeping it in check through regional norms and processes.<sup>43</sup> Furthermore, economic engagement offered an opportunity for growth which ASEAN could ill afford to let pass.<sup>44</sup>

For China, the decision to engage more closely with ASEAN and take part in the emerging regional security architecture was not taken lightly because of deep misgivings about multilateralism and the potential to compromise its national interests.<sup>45</sup> China's fear was that smaller nations might "bandwagon" against it, with "many voices" combined to criticise its "single voice".<sup>46</sup> It was also concerned that the ARF might consider Taiwan, or territorial

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<sup>40</sup> Leifer, Michael. "The ASEAN Regional Forum." *Adelphi paper*, no. 302 (1996), p. 7.

<sup>41</sup> Buszynski, Leszek. "Southeast Asia in the Post-Cold War Era: Regionalism and Security." *Asian Survey* 32, no. 9 (1992), p. 834; Leifer, Michael. "The ASEAN Regional Forum." *Adelphi paper*, no. 302 (1996), pp. 19-20.

<sup>42</sup> Ba, Alice D. "China and ASEAN: Renavigating Relations for a 21st-Century Asia." *Asian Survey* 43, no. 4 (2003), p. 627.

<sup>43</sup> Wanandi, Jusuf. "ASEAN's China Strategy: Towards Deeper Engagement." *Survival* 38, no. 3 (1996) pp. 121-22; Almonte, Jose T. "Ensuring Security the 'ASEAN Way'." *Survival* 39, no. 4 (1997), p. 83.

<sup>44</sup> Leifer, Michael. "The ASEAN Regional Forum." *Adelphi paper*, no. 302 (1996), p. 18; Ba, Alice D. "China and ASEAN: Renavigating Relations for a 21st-Century Asia." *Asian Survey* 43, no. 4 (2003), p. 628.

<sup>45</sup> Swaine, Michael D., and Ashley J. Tellis. *Interpreting China's Grand Strategy: Past, Present, and Future*. Santa Monica, Calif.: RAND, 2000, pp. 133-40; Acharya, Amitav. *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*. London: Routledge, 2001, pp. 192-241; Ba, Alice D. "China and ASEAN: Renavigating Relations for a 21st-Century Asia." *Asian Survey* 43, no. 4 (2003), pp. 632-33; Yuan, Jingdong. "Regional Institutions and Cooperative Security: Chinese Approaches and Policies." *Korean Journal of Defense Analysis* 13, no. 1 (2001), pp. 263-94; Johnston, Alastair Iain, and Paul Evans. "China's Engagement with Multilateral Security Institutions." In *Engaging China: The Management of an Emerging Power*, edited by Alastair Iain Johnston and Robert S. Ross, New York: Routledge, 1999, pp. 235-72.

<sup>46</sup> Leifer, Michael. "The ASEAN Regional Forum." *Adelphi paper*, no. 302 (1996), p. 29. There is a literature on bandwagoning, balancing, hedging and buck-passing, for example, Goh, Evelyn. "Singapore's Reaction to Rising China: Deep Engagement and Strategic Adjustment." *Institute of Defense and Strategic Studies (Singapore) Working Paper*, no. 67 (2004),

[http://dr.ntu.edu.sg/bitstream/handle/10220/4467/RSIS-WORKPAPER\\_71.pdf?sequence=1](http://dr.ntu.edu.sg/bitstream/handle/10220/4467/RSIS-WORKPAPER_71.pdf?sequence=1). Accessed 15/06/2010;

Goh, Evelyn. "Meeting the China Challenge: The U.S. in Southeast Asian Regional Security Strategies." *Policy Study* 16 (2005),

disputes in the South China Sea,<sup>47</sup> which was justified when the South China Sea was indeed raised once China joined.<sup>48</sup>

Participation in the ARF marked a change in China's perception of multilateral institutions. A crucial reason for this was that it came to feel at ease with ASEAN's style, known as the "Asian", or "ASEAN", "Way", which was characterised by four principles: (i) settling disputes through consultation and consensus, (ii) non-interference in the internal affairs of other states, (iii) abstention from the use of force, and (iv) quiet diplomacy, i.e., handling disagreements discreetly rather than publicly.<sup>49</sup> The informal, consultative, consensual and incremental approach of the "Asian Way", Rosemary Foot observes, enabled China to participate comfortably and, later, as part of ASEAN+3.<sup>50</sup> As David Shambaugh pointed out, the ARF's cooperative security approach was also compatible with China's New Security Concept, formulated in the late 1990s, which stressed mutual trust (*huxin*), mutual benefit (*huli*), equality (*pingdeng*) and coordination (*xiezu*), which merged with the doctrine of China's peaceful rise/development in 2004.<sup>51</sup> Reassessment of regional multilateral organisations was one of the foundations for China's engagement with Asia.<sup>52</sup>

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<http://scholarspace.manoa.hawaii.edu/bitstream/handle/10125/3509/PS016.pdf?sequence=1>. Accessed 15/06/2010; Storey, Ian. "Living with the Colossus: How Southeast Asian Countries Cope with China." *Parameters* 29, no. 4 (1999), pp. 111-25; Khong, Yuen Foong. "Coping with Strategic Uncertainty: The Role of Institutions and Soft Balancing in Southeast Asia's Post-Cold War Strategy." In *Rethinking Security in East Asia: Identity, Power, and Efficiency*, edited by J. J. Suh, Peter J. Katzenstein and Allen Carlson, Stanford, Calif.: Stanford University Press, 2004, pp. 172-208; Chung, Chien-peng. "Southeast Asia-China Relations: Dialectics Of "Hedging" And "Counter-Hedging"." *Southeast Asian Affairs* 2004 (2004), pp. 35-53; Acharya, Amitav. "Will Asia's Past Be Its Future?" *International Security* 28, no. 3 (2003/2004), pp. 149-64; Kang, David C. "Getting Asia Wrong: The Need for New Analytical Frameworks." *International Security* 27, no. 4 (2003), pp. 57-85; Roy, Denny. "Southeast Asia and China: Balancing or Bandwagoning?" *Contemporary Southeast Asia* 27, no. 2 (2005), pp. 305-22; Kuik, Cheng-Chwee. "The Essence of Hedging: Malaysia and Singapore's Response to a Rising China." *Contemporary Southeast Asia: A Journal of International and Strategic Affairs* 30, no. 2 (2008), pp. 159-85.

<sup>47</sup> Foot, Rosemary. "China in the ASEAN Regional Forum: Organizational Processes and Domestic Modes of Thought." *Asian Survey* 38, no. 5 (1998), p. 426.

<sup>48</sup> Khong, Yuen Foong. "Making Bricks without Straw in the Asia Pacific?" *The Pacific Review* 10, no. 2 (1997), pp. 289-300.

<sup>49</sup> For a discussion about the "ASEAN Way", see Acharya, Amitav. *Constructing a Security Community In Southeast Asia: ASEAN and the Problem of Regional Order*, pp. 54-98; Narine, Shaun. *Explaining ASEAN: Regionalism in Southeast Asia*. Boulder, CO: Lynne Rienner Publishers, 2002, pp. 31-33.

<sup>50</sup> Foot, Rosemary. "China in the ASEAN Regional Forum: Organizational Processes and Domestic Modes of Thought." *Asian Survey* 38, no. 5 (1998), pp. 425-40.

<sup>51</sup> Shambaugh, David. "China Engages Asia: Reshaping the Regional Order." *International Security* 29, no. 3 (2005), pp. 64-99. With regard to China's new security concept, see Ministry of Foreign Affairs of people's Republic of China. "China's Position Paper on the New Security Concept." (July 2002),

<http://www.mfa.gov.cn/eng/wjw/zjig/gjs/gizyhy/2612/2614/t15319.htm>. Accessed 23/09/2009.

<sup>52</sup> *Ibid.*

Political and economic relations developed quickly during 1991-1996<sup>53</sup> and were increasingly formalised. The “rules of the game” for regional cooperation in various fields were divided into four levels: a Heads of Government Informal Summit (ASEAN+1), ministerial meetings, a dialogue mechanism,<sup>54</sup> and a series of agreements, protocols and joint declarations.<sup>55</sup>

During 1991-1996, bilateral trade and investment between China and ASEAN members increased rapidly, increasing with Indonesia from \$1.89b in 1991 to \$3.7b in 1996; Malaysia from \$1.33b to \$3.61b; the Philippines from \$38.4m to \$1.39b; Thailand from \$1.27b to \$3.15b; and Singapore from \$3.07b to \$7.35b.<sup>56</sup> At the same time ASEAN FDI to China grew during 1991-96: from Indonesia it increased from \$2.18m to \$93.5m; Malaysia from \$1.96m to \$46m; Singapore from \$5.82m to \$2.24b; and Thailand from \$19.6m to \$323.3m.<sup>57</sup>

As high-ranking officials paid more frequent visits bilateral relations were consolidated and developed further. In 1996, China became a full ASEAN dialogue partner,<sup>58</sup> which, importantly, deepened bilateral relations on the eve of the AFC in 1997. However, ASEAN was still predisposed politically to the US largely because of lingering suspicions over China’s ambitions. This was to change with the AFC, which is the subject of the next section.

### 4.3 The Asian Financial Crisis

While China made significant progress in improving relations with ASEAN during the early 1990s, the AFC handed China the ideal opportunity to demonstrate that it could act responsibly and contribute to regional stability. In this Section, I build upon the discussion in

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<sup>53</sup> Lu, Jianren. "Dynamic Cooperation." *Beijing Review* 43 (October 26, 2006); Lu, Jianren. *ASEAN: Past and Present*. Beijing: Economic Management Press, 1999; Cao, Yunhua, and Chong Tang. *New China-ASEAN Relations*. Beijing: world affairs Press, 2005.

<sup>54</sup> Five dialogue agencies were established, including Senior Official Meetings (SOM) in 1995, China-ASEAN Economic and Trade Committee in 1994, China-ASEAN Technology Committee (JSTC) in 1994, China-ASEAN Joint Cooperation Committee (ACJCC) in 1997 and China-ASEAN Business Council (CABC) in 2001.

<sup>55</sup> All documents signed between China and ASEAN can be found at <http://www.aseansec.org/4979.htm>.

<sup>56</sup> The statistics are from China’s foreign trade statistics yearbooks, and China’s Customs Statistics (various years) quoted in Wang, Qin. *The New Pattern of China-ASEAN Economic Relations*. Xiamen: Xianmen University Press, 2003, Appendix table, pp. 311-20.

<sup>57</sup> *Ibid.*, Appendix table 4, pp. 323-25.

<sup>58</sup> China was accepted as a full dialogue partner at the 29<sup>th</sup> ASEAN Ministerial Meeting Jakarta, July 1996, see "Joint Communiqué of the 29th ASEAN Ministerial Meeting (AMM)." (July 21, 1996), <http://www.aseansec.org/1824.htm>. Accessed 25/07/2007.

Chapter 3 and assess ASEAN's reception of China's actions in contrast to that of the international community and Japan in particular.

#### 4.3.1 The Asian Financial Crisis and international responses

As we saw in Chapter 3, the AFC of 1997/98 not only led to the collapse of the "tiger economies", whose rise had been described as miraculous just a few years before,<sup>59</sup> but also provoked severe social and political crises among the hardest-hit economies.<sup>60</sup> In hindsight, the AFC changed the regional political and economic landscape. First, it provided China with an opportunity, as Alice Ba noted, "to demonstrate its political and economic value as a partner, even a regional leader".<sup>61</sup> Second, the AFC was a catalyst for strengthening regional cooperation, with ASEAN+3 emerging to engage China, Japan and South Korea more directly.<sup>62</sup>

Regional and international responses to the AFC were disappointing.<sup>63</sup> ASEAN was gearing up for its thirtieth anniversary to celebrate what had been achieved. Peace and cooperation, a sense of regional identity in a highly diverse region, the "ASEAN Way", outstanding economic performances and successful enlargement gave ASEAN international recognition.<sup>64</sup> But it contributed little during the crisis, leaving affected economies to turn to

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<sup>59</sup> Tongzong, Jose L. *The Economies of Southeast Asia: Before and after the Crisis*. 2nd ed. Cheltenham: Edward Elgar, 2002.

<sup>60</sup> Hill, Hal, and Yunpeng Zhu, eds. *The Social Impact of the Asian Financial Crisis*. Cheltenham: Edward Elgar, 2001.

<sup>61</sup> Ba, Alice D. "China and ASEAN: Renavigating Relations for a 21st-Century Asia." *Asian Survey* 43, no. 4 (2003), p. 635.

<sup>62</sup> Quilop, Raymund Jose G. "China-ASEAN Political and Strategic Relations: Prospects and Perspectives." In *China and ASEAN: Changing Political and Strategic Ties*, edited by James K. Chin and Nicholas Thomas, Hong Kong: Centre of Asian Studies, University of Hong Kong, 2005, pp. 47-72.

<sup>63</sup> The literature on the Asian Financial Crisis is enormous. See for example, Johnstone, Christopher B. "Strained Alliance: US-Japan Diplomacy in the Asian Financial Crisis." *Survival* 41, no. 2 (1999), pp. 121-38; Higgott, Richard. "The Asian Economic Crisis: A Study in the Politics of Resentment." *New Political Economy* 3, no. 3 (1998), pp. 333-56; Suk, H. Kim, and Haque Mahfuzul. "The Asian Financial Crisis of 1997: Causes and Policy Responses." *Multinational Business Review* 10, no. 1 (2002), pp. 37-44; Webber, Douglas. "Two funerals and a Wedding? The Ups and Downs of Regionalism in East Asia and Asia-Pacific after the Asian Crisis." *The Pacific Review* 14, no. 3 (2001), pp. 339-72; Pempel, T.J., ed. *The Politics of the Asian Economic Crisis*. Ithaca: Cornell University Press, 1999; Sachs, Jeffrey D. "Wrong Medicine for Asia." (1997), <http://www.freeessays.cc/db/15/euz191.shtml>. Accessed 20/09/2007; Rapkin, David P. "The United States, Japan, and the Power to Block: The APEC and AMF Cases." *The Pacific Review* 14, no. 3 (2001), pp. 373-410; Rivera-Batiz, Francisco L., and Arvid John Lukauskas, eds. *The Political Economy of the East Asian Crisis and Its Aftermath: Tigers in Distress*. Cheltenham: Edward Elgar, 2001; Godement, Francois. *The Downsizing of Asia*. London: Routledge, 1999.

<sup>64</sup> Funston, John. "Challenges Facing ASEAN in a More Complex Age." *Contemporary Southeast Asia* 21, no. 2 (1999), pp. 205-19.

the IMF for assistance.<sup>65</sup> With the 1998 fall of Indonesia's Suharto regime, which had played a major role since ASEAN's inception, Douglas Webber argued that it suffered a leadership crisis, and was in no position to provide economic aid to member economies.<sup>66</sup> Thus, ASEAN's ineffectiveness at "weathering the storm" in a time of crisis<sup>67</sup> undermined its capacity and cohesion as a regional grouping.<sup>68</sup>

Rescue packages offered by the IMF imposed strict conditions on the crisis-afflicted economies that proved to be the "wrong medicine for Asia", as Jeffrey Sachs pointed out.<sup>69</sup> Martin Feldstein argued that the IMF dispensed "one-size-fits-all" austerity medicine inappropriately to the hardest-hit economies which were suffering from a different malady.<sup>70</sup> Nobel Laureate Joseph Stiglitz argued that fiscal and monetary prescriptions appropriate for the Latin American debt crisis of the 1980s were mistakes.<sup>71</sup> The same criticisms of IMF policies were echoed by Japan's Vice-Minister of Finance in 1999<sup>72</sup> and by the outspoken Prime Minister of Malaysia, Dr. Mahathir Mohamad, a year later.<sup>73</sup>

Perhaps the source of ASEAN's greatest unhappiness was US indifference to the AFC and its inadequate response, which was not only associated with IMF conditions but also viewed as taking advantage of the crisis for its own benefit.<sup>74</sup> Having been loyal to the US as Cold War allies, ASEAN member states expected the US to provide assistance similar to what was provided during the Mexico crisis in 1994, when it not only set up a \$20b rescue fund, but

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<sup>65</sup> Rüländ, Jürgen. "ASEAN and the Asian Crisis: Theoretical Implications and Practical Consequences for Southeast Asian Regionalism." *The Pacific Review* 13, no. 3 (2001), pp. 421-51; Harris, Stuart. "Asian Multilateral Institutions and Their Response to the Asian Economic Crisis: The Regional and Global Implications." *The Pacific Review* 13, no. 3 (2000), pp. 495-516.

<sup>66</sup> Webber, Douglas. "Two funerals and a Wedding? The Ups and Downs of Regionalism in East Asia and Asia-Pacific after the Asian Crisis." *The Pacific Review* 14, no. 3 (2001), pp. 339 -72.

<sup>67</sup> "The Limits of Politeness." *The Economist* 346, no. 8057 (1998), pp. 43-44; Hiebert, Murray, Ben Dolven, Michael Vatikiotis, and Salil Tripathi. "Out of Its Depth." *Far Eastern Economic Review* 161, no. 8 (1998), p. 25.

<sup>68</sup> Funston, John. "ASEAN: Out of Its Depth?" *Contemporary Southeast Asia* 20, no. 1 (1998), pp. 22-37.

<sup>69</sup> Sachs, Jeffrey D. "Wrong Medicine for Asia." (1997), <http://www.freeessays.cc/db/15/euz191.shtml>.

<sup>70</sup> Feldstein, Martin. "Refocusing the IMF." *Foreign Affairs* 77, no. 2 (1998), pp. 20-33.

<sup>71</sup> Stiglitz, Joseph E. *Globalization and Its Discontents*. New York: W. W. Norton, 2002.

<sup>72</sup> "Reform of the International Financial System." *Speech by Dr. Eisuke Sakakibara At the Manila Framework Meeting in Melbourne* (March 26, 1999),

[http://www.mof.go.jp/english/international\\_policy/convention/manila\\_framework/e1e070.htm](http://www.mof.go.jp/english/international_policy/convention/manila_framework/e1e070.htm). Accessed 22/09/2007.

<sup>73</sup> "Agenda for a New Asia." *Address by the Honourable Dato' Seri Dr. Mahathir bin Mohamad Prime Minister of Malaysia Society Hong Kong Center Fall Gala Dinner* (October 28, 2000), <http://www.aseansec.org/2917.htm>. Accessed 22/09/2007.

<sup>74</sup> Higgott, Richard. "The Asian Economic Crisis: A Study in the Politics of Resentment." *New Political Economy* 3, no. 3 (1998), p. 346.

also orchestrated, along with international organisations, an additional \$50b fund which restored investor confidence.<sup>75</sup> By contrast, the US contributed only \$8b to the IMF rescue packages for Indonesia and South Korea, and nothing for Thailand.<sup>76</sup> The willingness of the US to help Russia and Brazil when they were in crisis in 1998 fomented bitter feelings of betrayal by a loyal friend.<sup>77</sup> During the decades of US economic engagement in East Asia, the “Wall Street-Treasury Complex”, to use Jagdish Bhagwati’s term,<sup>78</sup> pushed financial liberalisation for the benefit of the US economy, as Robert Wade argued.<sup>79</sup> Richard Higgott pointed out that the conditionality attached to US-backed IMF packages allowed international banks to step into East Asia’s financial sector, which paved the way for greater and easier market access for US firms.<sup>80</sup> Not surprisingly, cries of “robbery”, “new US imperialism”, and “second opium war” echoed across the states affected most by the AFC.<sup>81</sup>

ASEAN economies were also disappointed with Japan’s failure to fulfil the leadership role it was expected to play<sup>82</sup> as the second largest and regional economic leader, not only by ASEAN but also by the US. Japan made significant efforts to stave off the effects of the crisis, in the form of multilateral and bilateral financial assistance to crisis-affected economies.<sup>83</sup> Its most prominent response, the short-lived initiative to create an Asian Monetary Fund (AMF), with a pool of up to \$100b through contributions by Japan and other East Asian economies to address balance-of-payments emergencies,<sup>84</sup> was aborted due to strong US

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<sup>75</sup> Chang Li, Lin, and S. Rajan Ramkishan. "Regional Responses to the Southeast Asian Financial Crisis: A Case of Self-Help or No Help?" *Australian Journal of International Affairs* 53, no. 3 (1999), p. 270.

<sup>76</sup> Johnstone, Christopher B. "Strained Alliance: US-Japan Diplomacy in the Asian Financial Crisis." *Survival* 41, no. 2 (1999), pp. 125-26.

<sup>77</sup> Webber, Douglas. "Two funerals and a Wedding? The Ups and Downs of Regionalism in East Asia and Asia-Pacific after the Asian Crisis." *The Pacific Review* 14, no. 3 (2001), p. 355.

<sup>78</sup> Jagdish, Bhagwati. "The Capital Myth: The Difference Between Trade In Widgets And Dollars." *Foreign Affairs* 77, no. 3 (1998), pp. 7-12.

<sup>79</sup> Wade, Robert. "The US Role in the Long Asian Crisis of 1990-2000." In *The Political Economy of the East Asian Crisis and Its Aftermath: Tigers in Distress*, edited by Francisco L. Rivera-Batiz and Arvid John Lukauskas, Cheltenham: Edward Elgar 2001, pp. 195-226.

<sup>80</sup> For instance, US firms took a dominant role in the 479 mergers and acquisitions which took place in Asia in the first four months of 1998. Higgott, Richard. "The Asian Economic Crisis: A Study in the Politics of Resentment." *New Political Economy* 3, no. 3 (1998), p. 346.

<sup>81</sup> Johnson, Chalmers. "Cold War Economics Melt Asia: Events Have Reinforced the Need for an Asian Model, Not Repudiated It." *The Nation* 266, no. 6 (1998), pp. 16-19.

<sup>82</sup> Richardson, Michael. "Asian Nations Warn Japan Its Influence Is on the Wane." *The New York Times* (February 6, 1998), <http://www.nytimes.com/1998/02/06/news/06iht-asean.t.html>. Accessed 22/08/2009.

<sup>83</sup> Nanto, Dick K. "The 1997-98 Asian Financial Crisis." *CRS Report for Congress* (February 6, 1998), <http://www.fas.org/man/crs/crs-asia2.htm>. Accessed 25/08/2009.

<sup>84</sup> Johnstone, Christopher B. "Strained Alliance: US-Japan Diplomacy in the Asian Financial Crisis." *Survival* 41, no. 2 (1999), p. 125.



opposition on the grounds that it would undermine the authority of the IMF and reduce US influence in the international financial system,<sup>85</sup> thus damaging US interests. As Fred Bergsten put it:

Japan's proposal for an Asian-only "Asian Monetary Fund"...would exclude us from the most crucial area of cooperation with the world's most dynamic economies (as well as the largest potential source of security problems). The costs of any such outcome to the broad national security as well as economic interests of the United States, would play out over many years and could be huge.<sup>86</sup>

Though an agreement for regional financial surveillance, called the *Manila Framework*, was reached by the eighteen economies of Asia-Pacific Economic Cooperation (APEC) soon after the failure of the AMF initiative,<sup>87</sup> as Philips Lipsky pointed out, the core prescriptions<sup>88</sup> of the framework were designed to enhance rather than weaken the role of the IMF.<sup>89</sup>

The US used its "blocking power" to veto Japan's attempt, during a time of crisis, at a leadership role commensurate with its economic importance.<sup>90</sup> According to Higgott, this confirmed that Japan's Asian policy, historically consistent with US Asian policy since 1945, remained so.<sup>91</sup>

During the AFC, Japan contributed one-third of the IMF bail-out packages, a total of \$19b, double the US contribution of \$8b, making it the largest of the donor economies. After the aborted AMF proposal, a new "Miyazawa Initiative" was launched which promised bilateral

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<sup>85</sup> More about AMF, see Amyx, Jennifer. "Moving beyond bilateralism? Japan and the Asian Monetary Fund." *Pacific economic papers*, no. 331 (2002), pp. 1-22.

<sup>86</sup> Bergsten, C. Fred. "The Asian Monetary Crisis: Proposed Remedies." *Statement to the Committee on Banking and Financial Services, US House of Representatives* (November 13, 1997), <http://financialservices.house.gov/banking/111397fb.htm>. Accessed 01/02/2008.

<sup>87</sup> Nanto, Dick K. "The 1997-98 Asian Financial Crisis." *CRS Report for Congress* (February 6, 1998), <http://www.fas.org/man/crs/crs-asia2.htm>.

<sup>88</sup> "The core prescriptions fall under four broad headings: 1. A mechanism for regional economic surveillance to complement the IMF's global surveillance; 2. Enhanced economic and technical cooperation in strengthening domestic financial systems and regulatory mechanisms; 3. Measures to strengthen the IMF's capacity to respond to financial crises; 4. A cooperative financing arrangement that would supplement IMF resources." Lipsky, Philips. "Japan's Asian Monetary Fund Proposal." *Stanford Journal of East Asian Affairs* 3, no. 1 (2003), p. 96.

<sup>89</sup> *Ibid.*

<sup>90</sup> Rapkin, David P. "The United States, Japan, and the power to block: the APEC and AMF cases." *The Pacific Review* 14, no. 3 (2001), pp. 373-410.

<sup>91</sup> Higgott, Richard. "The Asian Economic Crisis: A Study in the Politics of Resentment." *New Political Economy* 3, no. 3 (1998), p. 341.

assistance to affected economies.<sup>92</sup> These two examples were instances of Japan's regional leadership, but nonetheless did not win many hearts and minds within ASEAN. As Naoko Munakata commented, ASEAN members shared the view that Japan could have better facilitated regional recovery by expanding imports from East Asia,<sup>93</sup> and were deeply disappointed by its policy alignment with the US at the expense of the region's urgent needs.<sup>94</sup>

Beyond that, Japan's inability to fix decade-long domestic economic problems damaged its credentials as the model of East Asian development. Krugman described it as "perspiration rather than inspiration".<sup>95</sup> The economy was mired in recession since the "bubble burst" during the early 1990s, which is regarded by some scholars as one of the precipitating causes of the AFC.<sup>96</sup> Nevertheless, Japanese economic weaknesses were largely drowned out before the crisis by applause surrounding the "East Asian Miracle". Scepticism about the model surfaced only after "tigers in distress" became a common catchphrase in 1998.<sup>97</sup>

In addition to the desire to be seen to be exercising regional leadership, Lipsky argued that Japan's AMF proposal arose out of national interest considerations.<sup>98</sup> According to Morris Goldstein and John Hawkins, as of June 1997 more than one-third of bank loans to crisis-hit Indonesia, Thailand, Malaysia and the Philippines were from Japanese rather than US banks.<sup>99</sup> Japan was in the same vulnerable situation in which the US found itself during the Mexico Crisis, where nearly one-third of bank loans to Mexico were from the US.<sup>100</sup>

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<sup>92</sup> For details about the role of Japan during the Crisis, see Chang Li, Lin, and S. Rajan Ramkishan. "Regional Responses to the Southeast Asian Financial Crisis: A Case of Self-Help or No Help?" *Australian Journal of International Affairs* 53, no. 3 (1999), pp. 271-76.

<sup>93</sup> Munakata, Naoko. "Evolution of Japan's Policy toward Economic Integration." *RIETI Discussion Paper Series* 02-E-006 (2001), pp. 1-33.

<sup>94</sup> Hughes, Christopher W. "Japanese Policy and the East Asian Currency Crisis: Abject Defeat or Quiet Victory?" *Review of International Political Economy* 7, no. 2 (2000), pp. 219-53; Witjaksono, Sigit. "Japan's Role in Responding to the Crisis in Southeast Asia and the East Asian Regionalism." *Forum of International Development Studies, Graduate School of International Development, Nagoya University* (2004), <http://www.gsid.nagoya-u.ac.jp/bpub/research/public/forum/27/13.pdf>. Accessed 20/06/2009.

<sup>95</sup> Krugman, Paul R. "The Myth of Asia's Miracle." *Foreign Affairs* 73, no. 6 (1994), pp. 62-78.

<sup>96</sup> Higgott, Richard. "The Asian Economic Crisis: A Study in the Politics of Resentment." *New Political Economy* 3, no. 3 (1998), p. 336.

<sup>97</sup> Pang, Eul-Soo. "The Financial Crisis of 1997-1998 and the End of the Asian Developmental State." *Contemporary Southeast Asia* 22, no. 3 (2000), pp. 570-90.

<sup>98</sup> Lipsky, Philips. "Japan's Asian Monetary Fund Proposal." *Stanford Journal of East Asian Affairs* 3, no. 1 (2003), pp. 93-104.

<sup>99</sup> Goldstein, Morris, and John Hawkins. "The Origin of the Asian Financial Turmoil." *Research Discussion Paper*, (May 1998), p. 17, Table 4,

The US was dissatisfied with Japan's response to the AFC even after it scuttled plans for an AMF. The US government cited its stagnant domestic economy and weak financial system as key obstacles to the region's recovery.<sup>101</sup> Japanese officials and media denounced these criticisms as US interference in its domestic affairs.<sup>102</sup>

When we compare Japan's response with that of the US, it is clear that Japan made far greater efforts, yet its actions were appreciated neither by ASEAN nor the US. From ASEAN's perspective, as we have seen, Japan should have opened its market to absorb exports from crisis-affected economies; from the US's perspective, Japan was expected to take the leadership role not only in bail-out packages, which it actually did, but also in leading the region out of crisis, as long as it was consistent with US interests in the region.

From the Japanese perspective, the stated US opinion that the AFC was a consequence of inherent "crony capitalism" in the East Asian economic model was unconvincing. Instead, the view of Japanese officials was that it was a consequence of so-called "hot money" crossing borders for speculative purposes.<sup>103</sup> In the words of a senior Japanese official, "the learning cost has been very expensive for Asian countries".<sup>104</sup> This may also be the cost Japan has had to pay for being a US ally.

China, by way of contrast, won the gratitude of ASEAN for its commitment not to devalue the yuan, preventing the contagion of reciprocal currency devaluations as the crisis rumbled on. Long Yongtu, China's Vice Minister of Foreign Trade and Economic Cooperation, argued: "If China devalues, that would set off a new cycle of devaluations, and that would be disastrous. Therefore China will not devalue. This might affect China's competitive position

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<http://www.rba.gov.au/publications/rdp/1998/pdf/rdp9805.pdf>. Accessed 26/03/2008.

<sup>100</sup> Chang Li, Lin, and S. Rajan Ramkishan. "Regional Responses to the Southeast Asian Financial Crisis: A Case of Self-Help or No Help?" *Australian Journal of International Affairs* 53, no. 3 (1999), p. 272.

<sup>101</sup> Johnstone, Christopher B. "Strained Alliance: US-Japan Diplomacy in the Asian Financial Crisis." *Survival* 41, no. 2 (1999), pp. 126-28.

<sup>102</sup> *Ibid.*, p. 129.

<sup>103</sup> *Ibid.*, pp. 130-31.

<sup>104</sup> Quoted in Kristof, Nicholas D., and David E. Sanger. "How U.S. Wooed Asia to Let Cash Flow In." *The New York Times* (February 16, 1999), <http://www.nytimes.com/1999/02/16/world/how-us-wooded-asia-to-let-cash-flow-in.html?pagewanted=all&src=pm>. Accessed 21/02/2008.

but we have more important things to do".<sup>105</sup> China joined the IMF rescue packages, contributing \$1b each to Thailand and Indonesia.<sup>106</sup>

China also opened its market to absorb distress goods from crisis-hit economies. Imports from Indonesia and Thailand increased dramatically in 1998 compared with 1995 (see Table 4-1), in contrast to Japan's unwillingness to provide greater access, and even though Beijing's assistance was dwarfed by the Japanese rescue package.<sup>107</sup>

In sum, through these actions, China was able to consolidate its political standing in East Asia, confirming the positive regional impacts of its rise and enabling it to increasingly shape East Asian regionalism at the expense of the US and Japan. China's material contributions were smaller than Japan's, yet in ASEAN's perception, China's contribution was weighted more positively.

Japan's leadership aspirations were scuttled despite its efforts, whereas China's aspirations were enhanced by its perceived better performance. Rodolfo Severino Jr, the then secretary-general of ASEAN, stated that: "It shows the importance Beijing is giving to good neighbourly relations and its desire to cooperate with other countries in the region in these difficult times". He continued: "[W]e still have a territorial problem with China, but otherwise things are going well between ASEAN and Beijing".<sup>108</sup> Prime Minister Mahathir of Malaysia expressed his appreciation of China's performance as follows:

China's performance in the Asian financial crisis has been laudable, and the countries in this region...greatly appreciated China's decision not to devalue the yuan. China's cooperation and high sense of responsibility has spared the region a much worse consequence. The price China has to pay to help East Asia is high, and the Malaysian people truly appreciate China's stand.<sup>109</sup>

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<sup>105</sup> Cited by Halloran, Richard. "China's Decisive Role in the Asian Financial Crisis." *Global Beat Issue Brief*, no. 24 (January 27, 1998), <http://www.bu.edu/globalbeat/pubs/ib24.html>. Accessed 12/03/2008.

<sup>106</sup> Goldstein, Morris, and John Hawkins. "The Origin of the Asian Financial Turmoil." *Research Discussion Paper*, (May 1998), p. 16, Table 3. <http://www.rba.gov.au/publications/rdp/1998/pdf/rdp9805.pdf>.

<sup>107</sup> Richardson, Michael. "Japan's Lack of Leadership Pushes ASEAN toward Cooperation with China." *International Herald Tribune* (April 17, 1998), <http://search.proquest.com/docview/317000256?accountid=10910>.

<sup>108</sup> *Ibid.*

<sup>109</sup> Quoted by Ba, Alice D. "China and ASEAN: Renavigating Relations for a 21st-Century Asia." *Asian Survey* 43, no. 4 (2003), p. 637.

Gratitude was also expressed in the Chairman of ASEAN's Statement in 2001 that "we are deeply grateful for China's support in efforts to recover from the recent economic crisis".<sup>110</sup>

Table 4-1. China's foreign trade with selected ASEAN countries in \$ million (1995-1998)

Country	Indonesia	Malaysia	Thailand	Philippines
<b>1995</b>				
Exports	1438	1281	1752	1030
Imports	2052	2071	1611	276
Surplus/Deficits	-614	-790	141	754
<b>1996</b>				
Exports	1052	1118	1159	476
Imports	1589	1622	864	272
Surplus/Deficits	-537	-504	295	204
<b>1997</b>				
Exports	1841	1922	1501	1340
Imports	2674	2495	2014	327
Surplus/Deficits	-833	-573	-513	1013
<b>1998</b>				
Exports	1170	1596	1258	1512
Imports	2461	2674	2414	514
Surplus/Deficits	-1291	-1078	-1156	998

Source: General Administration of Customs of People's Republic of China. *China's Customs Statistics Yearbook 2005*. Beijing: China Customs Press, 2006, p. 2.

Note: for analytic purposes, only crisis-afflicted countries are shown, and other ASEAN countries are not included.

Peter Katzenstein argued that Japan, as a state supporting the "American *imperium*", was in a unique position of strength, securing economic dominance in East Asia despite the rise of China, because China did not possess a comparable security relationship with the US, which

<sup>110</sup> "Press Statement by the Chairman of the 7th ASEAN Summit and the Three ASEAN + 1 Summits." (November 6, 2001), <http://www.aseansec.org/2756.htm>. Accessed 23/05/2007.

remained the dominant military power and source of regional stability.<sup>111</sup> However, the outcome of the AFC seemed to weigh strongly against Katzenstein's argument. It was exactly the US alliance that destroyed the AMF proposal and rendered it unable to enact an independent foreign policy. The comparative ineffectiveness of Japan as a result of its fealty to the US contrasted sharply with the leadership shown by China, which was not similarly encumbered. The result for Japan was a loss of influence in the region, and a corresponding increase in China's stature as an emerging power at the centre of the East Asian political economy. This went some way to obviating ASEAN's desire to maintain the US security presence, which was part of the reason for the ARF.

The AFC was a turning point in China-ASEAN relations. I described in chapter 2 how East Asian regionalism during the Cold War was for the most part a story of US hegemony, marked by bilateral security treaties and US economic and military aid to East Asia, followed by the era "in Japan's embrace" as it took over the US's dominant economic role during the 1970s and 1980s, allowing East Asia to accelerate growth in accordance with the "Flying Geese" model. Following the dramatic events of the AFC, however, ASEAN's relationship with the US, Japan and China changed. In the place of ASEAN's traditional stance of "leaning to one side" towards the US-Japan alliance, ASEAN began to draw closer to China,<sup>112</sup> and China began rapidly to supplant Japan as the region's economic powerhouse.

The AFC left the regional economy in chaos and created what Richard Higgott called "political resentment" among ASEAN states, at the same time as it strengthened regional cooperation.<sup>113</sup> As I show in the next section, the process of regional integration soon accelerated under ASEAN+3, formed in response to the AFC. In the five years after 1997, China consolidated its political gains via ASEAN+3,<sup>114</sup> which is discussed in Section 4.4.1; by

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<sup>111</sup> Katzenstein, Peter J. *A World of Regions: Asia and Europe in the American Imperium*. Ithaca: Cornell University Press, 2005.

<sup>112</sup> Vatikiotis, Michael R.J. "Catching the Dragon's Tail: China and Southeast Asia in the 21st Century." *Contemporary Southeast Asia* 25, no. 1 (2003), pp. 65-79; Higgott, Richard. "The Asian Economic Crisis: A Study in the Politics of Resentment" *New Political Economy* 3, no. 3 (1998), pp. 333-56; Ganesan, N. "ASEAN's Relations with Major External Powers." *Contemporary Southeast Asia* 22, no. 2 (2000): pp. 258-78; Acharya, Amitav. "Seeking Security in the Dragon's Shadow: China and Southeast Asia in the Emerging Asian Order." *Institute of Defence and Strategic Studies (IDSS) Working Paper*, no. 44 (2003).

<sup>113</sup> Higgott, Richard. "The Asian Economic Crisis: A Study in the Politics of Resentment", *New Political Economy* 3, no. 3 (1998), pp. 333-56.

<sup>114</sup> Stubbs, Richard. "ASEAN Plus Three: Emerging East Asian Regionalism?" *Asian Survey* 42 no. 3 (2002), pp. 440-55.

playing a significant role in the Chiang Mai Initiative (CMI), discussed in Section 4.4.2; and by acceding to the Treaty of Amity and Cooperation. This is discussed in Section 4.4.3. However, the most significant manifestation of the leading position China began to take in East Asia was CAFTA. I argue that CAFTA served China's political and strategic, even more than its immediate economic, objectives. Section 4.5 describes how economic links flourished after 1997.

## 4.4 Consolidation of China's engagement with regional institutions and processes (1997-2003)

### 4.4.1 The ASEAN+3 framework

A number of lessons from the AFC were learnt by ASEAN, especially that each economy by itself was too small to address a region-wide let alone global crisis. The "contagion effect" showed that ASEAN economies were more closely linked than thought previously, as Suthad Setboonsarng, Deputy Secretary-General of ASEAN at the time, pointed out.<sup>115</sup> No economy was immune. Another lesson was that "national resilience" could be strengthened only through consolidating "regional resilience" in a coordinated manner, which meant regional frameworks to facilitate policy cooperation. The crisis also exposed ASEAN's inability to provide tangible assistance for affected members, whose economies were highly dependent on the major powers, in particular the US and Japan, for markets, capital and technology,<sup>116</sup> making them more vulnerable to the vagaries of the external powers. Furthermore, ASEAN's vulnerability lay in internal political and economic disparities in existence since its formation, which intensified as a result of enlargement during the 1990s.<sup>117</sup> ASEAN members, with the exception of Singapore, were basically competing with, rather than complementing, one another.

Under the circumstances of what Richard Higgott called East Asia's "resentment", the only effective way to reinvigorate regional resilience was to seek a political framework for closer

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<sup>115</sup> Setboonsarng, Suthad. "ASEAN Economic Cooperation: Adjusting to the Crisis." (1998), <http://www.aseansec.org/2837.htm>. Accessed 27/03/2008.

<sup>116</sup> Cai, Kevin G. "The ASEAN-China Free Trade Agreement and East Asian Regional Grouping." *Contemporary Southeast Asia* 25, no. 3 (2003), pp. 622-47; Beeson, Mark. "Southeast Asia and the politics of vulnerability." *Third World Quarterly* 23, no. 3 (2002), pp. 549-64; Beeson, Mark. "ASEAN Plus Three and the rise of reactionary regionalism." *Contemporary Southeast Asia* 25, no. 2 (2003), pp. 251-67.

<sup>117</sup> Narine, Shaun. *Explaining ASEAN: Regionalism in Southeast Asia*, pp. 101-38.

regional cooperation with Northeast Asia. This desire was expressed by Goh Chok Tong, Singapore's Prime Minister at the time, when he stated, "you cannot talk about Northeast Asia and Southeast Asia. What happens in Southeast Asia will have an impact on Northeast Asia.... So now we are thinking in terms of evolving an East Asian community...".<sup>118</sup> As Toyo Gyohten observed, East Asia's large pool of foreign reserves would have been sufficient to deal with the AFC if a framework for cooperation had been in place.<sup>119</sup>

The idea of East Asian cooperation was not new. Such a proposal was first put by Dr. Mahathir in 1990, when he called for the establishment of an East Asian Economic Grouping, renamed the East Asian Economic Caucus (EAEC) "in response", according to Richard Stubbs, "to concerns that the original name made it sound too much like an attempt to form a regional trade bloc".<sup>120</sup> The proposal was strongly opposed by the US, for fear that it would be excluded, and by Japan under US pressure to do so.<sup>121</sup> Japan supported instead the idea of a broader Asia Pacific grouping such as APEC.<sup>122</sup> Richard Higgott and Richard Stubbs gave two additional reasons for Japan's rejection. First, other East Asian governments were less keen than Malaysia about the prospect of Japanese leadership; and secondly, and more importantly, EAEC would send a signal that East Asia intended to form a "closed" regional grouping. Japan did not want to lose global markets, especially the US, as the regional economy was highly reliant on inter- rather than intra-regional trade.<sup>123</sup> David Rapkin argued that security concerns also played their part in Japan's rejection of Mahathir's idea. It did not wish to endanger the US security commitment to the region.<sup>124</sup>

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<sup>118</sup> Webber, Douglas. "Two funerals and a Wedding? The Ups and Downs of Regionalism in East Asia and Asia-Pacific after the Asian Crisis." *The Pacific Review* 14, no. 3 (2001), p. 358.

<sup>119</sup> Gyoten, T. 'East Asian Initiative needed in crises', IIMA Newsletter, 6:7, 1999, cited in Amyx, Jennifer. "Moving beyond bilateralism? Japan and the Asian Monetary Fund." *Pacific economic papers*, no. 331 (2002), p. 9; Fred Bergsten provides a piece of precise data: in 1997, the official monetary reserves of East Asia (ASEAN10 plus China, Japan and South Korea) stood at \$ 668 billion, whereas that of the European Union was \$380 billion. See Bergsten, C. Fred. "The New Asian Challenge." (March 2000), p. 20, table 1, <http://www.iie.com/publications/wp/00-4.pdf>. Accessed 12/01/2008.

<sup>120</sup> Stubbs, Richard. "ASEAN Plus Three: Emerging East Asian Regionalism?" *Asian Survey* 42 no. 3 (2002), p. 441.

<sup>121</sup> *Ibid.*; see also Cai, Kevin G. "The ASEAN-China Free Trade Agreement and East Asian Regional Grouping." *Contemporary Southeast Asia* 25, no. 3 (2003), p. 392.

<sup>122</sup> Higgott, Richard, and Richard Stubbs. "Competing Conceptions of Economic Regionalism: APEC Versus EAEC in the Asia Pacific." *Review of International Political Economy* 2, no. 3 (1995), pp. 516-35.

<sup>123</sup> *Ibid.*, pp. 526-27.

<sup>124</sup> Rapkin, David. "Economic and Security Regimes in the Asia-Pacific: Prospects for Progress." In *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region*, edited by Andrew Mack and John Ravenhill. St. Leonards, NSW: Allen & Unwin, 1994, pp. 120-21; Hook, Glenn. "The East Asian Economic



As a result, EAEC was formally accepted only as a caucus within the APEC framework at the 1993 ASEAN Foreign Ministers' Meeting.<sup>125</sup>

The idea of an East Asian grouping re-emerged with preparations for the ASEAN-initiated Asia-Europe Meeting in 1996, in which Japan, China and South Korea were invited to participate,<sup>126</sup> and was formalised with ASEAN+3<sup>127</sup> in a Joint Statement on East Asian Cooperation. The leaders "expressed greater resolve and confidence in further deepening and broadening East Asia cooperation in various levels and in various areas, in particular economic and social, political and other fields".<sup>128</sup> ASEAN+3 was significant because it allowed a distinctive East Asian regionalism to emerge, while adhering to the "ASEAN Way" with strengthened governmental cooperation. Participation in ASEAN+3 enhanced China's role in East Asian regionalisation, committing it to the "ASEAN Way".

For some scholars, the emergence of ASEAN+3 was a significant manifestation of the evolutionary development of East Asian regional cooperation. Stubbs and Higgott, who were persistent adherents to the thesis of growing pan-East Asian regionalism during the mid-1990s,<sup>129</sup> identified it as the materialisation and formalisation of EAEC. Stubbs argued that ASEAN+3 provided a potential basis for regional identity and consolidation as its member states shared a number of commonalities, despite regional diversity: historical experiences of war, Asian values, deeper economic integration and a distinctive form of state-led capitalism.<sup>130</sup> Dieter and Higgott contended that financial cooperation under ASEAN+3, in the form of the CMI, was a sign of deepening regional consciousness standing in opposition to the "Anglo-American view on global economic organisation" exemplified by

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Caucus: A Case of Reactive Subregionalism?" In *Subregionalism and World Order*, edited by Glenn Hook and Ian Kearns, New York: St. Martin's Press, 1999, pp. 223-45.

<sup>125</sup> Higgott, Richard, and Richard Stubbs. "Competing Conceptions of Economic Regionalism: APEC Versus EAEC in the Asia Pacific." *Review of International Political Economy* 2, no. 3 (1995), pp. 522-23.

<sup>126</sup> For more about the Asia-Europe Meeting see Dent, Christopher M. "The Asia-Europe Meeting and Inter-Regionalism." *Asian Survey* 44, no. 2 (2004), pp. 213-36; Yeo Lay, Hwee. "ASEM: Looking back, looking forward." *Contemporary Southeast Asia* 22, no. 1 (2000), pp. 113-44.

<sup>127</sup> "ASEAN Plus Three Cooperation." <http://www.aseansec.org/16580.htm>. Accessed 22/08/2009.

<sup>128</sup> "Joint Statement on East Asian Cooperation." (November 28, 1999), <http://www.aseansec.org/2051.htm>. Accessed 22/08/2009.

<sup>129</sup> Higgott, Richard, and Richard Stubbs. "Competing Conception of Economic Regionalism: APEC versus EAEC in the Asia Pacific." *Review of International Political Economy* 2, no. 3 (1995), pp. 516-35.

<sup>130</sup> Stubbs, Richard. "ASEAN Plus Three: Emerging East Asian Regionalism?" *Asian Survey* 42 no. 3 (2002), pp. 440-55.

the IMF.<sup>131</sup> Other observers, however, were sceptical of ASEAN+3. They argued that East Asian regional diversity, such as different levels of development and modes of governance, was too great, while Sino-Japanese rivalry and the continuing influence of the US divided the region.<sup>132</sup>

One of the first ASEAN+3 initiatives was to implement measures to prevent a repetition of the AFC. This goal found concrete realisation in 2000 in the CMI regional financing arrangement,<sup>133</sup> which is the subject of the following section.

#### 4.4.2 Regional financial cooperation: the Chiang Mai Initiative

The CMI is a regional currency swap arrangement under which bilateral currency swap and repurchase mechanisms were created on the basis of pre-existing ASEAN swap arrangements to include China, Japan and South Korea. Under the enhanced arrangements, each economy was required to commit a certain amount of currency to be used whenever a partner economy experienced a currency crisis and needed to borrow foreign exchange to ease short term liquidity problems.<sup>134</sup> The aim was to prevent the “contagion effect” of one economic problem spreading to other parts of the region. But equally importantly, it reduced the need to rely on external sources, such as the IMF. The CMI also put in place greater surveillance mechanisms which required improvements in national economic transparency, and a better “early warning system”. East Asian governments resolved to strengthen policy dialogue and regional cooperation.<sup>135</sup>

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<sup>131</sup> Dieter, Heribert, and Richard Higgott. "Exploring Alternative Theories of Economic Regionalism: From Trade to Finance in Asian Co-Operation?" *CSGR Working Paper*, no. 89/02 (2002), <http://warwick.ac.uk/fac/soc/CSGR/wpapers/wp8092.pdf>. Accessed 05/10/2009.

<sup>132</sup> Hund, Markus. "ASEAN Plus Three: Towards a New Age of Pan-East Asian Regionalism? A Skeptic's Appraisal." *The Pacific Review* 16, no. 3 (2003), pp. 383-417; Beeson, Mark. "ASEAN Plus Three and the Rise of Reactionary Regionalism." *Contemporary Southeast Asia* 25, no. 2 (2003), pp. 251-67.

<sup>133</sup> "The Joint Ministerial Statement of the ASEAN + 3 Finance Ministers Meeting." (May 6, 2000), <http://www.aseansec.org/1026.htm>. Accessed 24/08/2009.

<sup>134</sup> Henning, C. Randall. *East Asian Financial Cooperation*. Washington: Institute for International Economics, 2002; Rana, Pradumna B. "Monetary and Financial Cooperation in East Asia: The Chiang Mai Initiative and Beyond." *Economic Research Department (ERD) Working Paper Series*, no. 6 (2002), [http://www.adb.org/Documents/ERD/Working\\_Papers/wp006.pdf](http://www.adb.org/Documents/ERD/Working_Papers/wp006.pdf). Accessed 28/09/2009; Park, Yung Chul, and Yunjong Wang. "The Chiang Mai Initiative and Beyond." *World Economy* 28, no. 1 (2005), pp. 91-101.

<sup>135</sup> "The Joint Ministerial Statement of the 8th ASEAN+3 Finance Ministers' Meeting." (May 4, 2005), <http://www.aseansec.org/17449.htm>. Accessed 24/08/2009.

By 2006, sixteen Bilateral Swap Agreements (BSAs) were concluded totalling \$75b.<sup>136</sup> However, as the Chinese scholar Zhang Ming from CASS pointed out, the CMI had two shortcomings.<sup>137</sup> First, the size of the BSAs was relatively large, but the total fund could not be used as a package to rescue an afflicted economy because the Initiative remained a series of bilateral agreements. A crisis-hit economy was entitled only to use the currency from the state which had entered into a BSA.<sup>138</sup> Moreover, Jennifer Amyx noted that bilateral negotiations were usually time-consuming.<sup>139</sup> Second, an independent regional surveillance unit to take charge of economic monitoring was lacking.<sup>140</sup> Instead, surveillance was undertaken by the IMF, under which 80% of funds were subject to IMF conditionality involving macroeconomic adjustment and structural reforms, leaving the Initiative with little leverage.<sup>141</sup> Zhang concluded that linkage to the IMF greatly reduced the effectiveness and flexibility of the CMI as a regional financial facility.<sup>142</sup>

In order to strengthen the capacity for regional surveillance and improve the effectiveness of the CMI, ASEAN+3 explored "various options towards an advanced regional liquidity support mechanism", or a "multilateralised CMI".<sup>143</sup> In 2007, it established a self-managed regional reserve pool with a total size of \$80b as a significant move towards multilateralisation.<sup>144</sup> The fund was increased to \$120b in early 2009 in response to the Global Financial Crisis (GFC),<sup>145</sup> marking a new stage in closer regional cooperation. CASS scholar Zheng Liansheng argued that the significance of the reserve pool lies in providing

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<sup>136</sup> *Ibid.*

<sup>137</sup> Zhang, Ming. "The Emerging Asian Monetary Fund." (2009), <http://student.nbu.edu.cn/ycPress/showNews.aspx?columnID=1049&newsID=23669>. Accessed 06/08/2009.

<sup>138</sup> *Ibid.*

<sup>139</sup> Amyx, Jennifer A. "A Regional Bond Market for East Asia? The Evolving Political Dynamics of Regional Financial Cooperation." *Pacific Economic Papers*, no. 342 (2004), p. 5, <https://digitalcollections.anu.edu.au/bitstream/1885/43011/2/pep-342.pdf>. Accessed 28/09/2009.

<sup>140</sup> He, Fan, Bin Zhang, and Ming Zhang. "After the CMI: The Future of Asian Monetary Cooperation and China's Role." In *Globalisation and Economic Growth in China*, edited by Yang Yao and Linda Yueh, Hackensack, N.J.: World Scientific, 2006, pp. 235-65.

<sup>141</sup> *Ibid.*, see also Zhang, Ming. "The Emerging Asian Monetary Fund." (2009), <http://student.nbu.edu.cn/ycPress/showNews.aspx?columnID=1049&newsID=23669>.

<sup>142</sup> *Ibid.*

<sup>143</sup> The Joint Ministerial Statement of the 8th ASEAN+3 Finance Ministers' Meeting." (May 4, 2005), <http://www.aseansec.org/17449.htm>.

<sup>144</sup> "The Joint Ministerial Statement of the 10th ASEAN+3 Finance Ministers' Meeting ". ( May 5, 2007), [http://www.mof.gov.cn/mof/zhuantihuigu/12jiecaizhenghui/lijieshengming/200904/t20090429\\_138284.html](http://www.mof.gov.cn/mof/zhuantihuigu/12jiecaizhenghui/lijieshengming/200904/t20090429_138284.html). Accessed 24/08/2009.

<sup>145</sup> "Joint Media Statement Action Plan to Restore Economic and Financial Stability of the Asian Region." (February 22, 2009), <http://www.aseansec.org/22159.htm>. Accessed 24/08/2009.

economies in trouble with another channel, apart from the IMF and bilateral currency swap arrangements, for funding.<sup>146</sup>

It should be noted that no BSAs were used by any ASEAN+3 economy after the CMI was launched in 2000, not even during the GFC of 2008/09, and neither did they have to call on the IMF as Europe had to.<sup>147</sup> This may be because, as Randall Henning pointed out, most of the period after 2000 was relatively benign in East Asia.<sup>148</sup> Other scholars, however, questioned the effectiveness of the Initiative. Gao Haihong, another scholar from CASS, argued that a quasi-institutionalised mechanism such as the CMI was more a political symbol of regional cooperation than an economic reality for members.<sup>149</sup> She agreed with Zhang Ming's view that one of the problems is that a large portion of the fund was still under IMF tutelage. The harsh conditionality attached to IMF rescue packages during the AFC lingered in the minds of crisis-affected governments. They were more likely to pursue other alternatives which might be more efficient and less problematic.<sup>150</sup> South Korea is a case in point in this regard. When hit by the GFC in 2008, it sought China's assistance by signing a new currency swap arrangement outside the CMI's ambit totalling RMB1800b.<sup>151</sup> The new local-currency swap, Randall Henning wrote, had a large face value, which helped to underpin confidence, but it "should not be considered a substantial expansion of the Chiang Mai Initiative per se".<sup>152</sup>

Nevertheless, despite its shortcomings and being far from independent of IMF surveillance, the CMI was an important step towards closer regional cooperation.

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<sup>146</sup> Zheng, Liansheng. "Reserve Pool, Chiang Mai Initiative, and East Asian Financial Cooperation: Progress, Prospect and China's Policy Option." *Policy Brief* (Research Center for International Finance (RCIF), Institute of World Economies and Politics of Chinese Academy of Social Sciences), no. 32 (2009), p. 3.

<sup>147</sup> Henning, C. Randall. "The Future of the Chiang Mai Initiative: An Asian Monetary Fund?" *Policy Brief* (*Peterson Institute for International Economics*), no. 5 (2009), <http://www.iie.com/publications/pb/pb09-5.pdf>. Accessed 23/02/2010.

<sup>148</sup> *Ibid.*, p. 4.

<sup>149</sup> Gao, Haihong. "New Initiative under CMI: Multilateral Cooperation Will Ensure Financial Stability in East Asia." (2009), <http://www.iwep.org.cn/info/content.asp?infolid=3707>. Accessed 24/08/2009.

<sup>150</sup> *Ibid.*

<sup>151</sup> Shen, Hongbo. "China-South Korea Currency Swap Agreement Promoting Renminbi Regionalization." (2008), [http://www.china.com.cn/review/txt/2008-12/15/content\\_16948379.htm](http://www.china.com.cn/review/txt/2008-12/15/content_16948379.htm). Accessed 24/08/2009.

<sup>152</sup> Henning, C. Randall. "The Future of the Chiang Mai Initiative: An Asian Monetary Fund?" *Policy Brief* (*Peterson Institute for International Economics*), no. 5 (2009), p. 3. <http://www.iie.com/publications/pb/pb09-5.pdf>.

#### 4.4.3 China's accession to the Treaty of Amity and Cooperation (2003)

In October 2003, China acceded to the *Treaty of Amity and Cooperation in Southeast Asia*,<sup>153</sup> ostensibly demonstrating an enhanced level of political trust. It was the first non-ASEAN signatory, followed by India, Japan South Korea and Russia. China affirmed that the TAC established the “basic norms governing their relations” in joint declarations in 1997 and 2003,<sup>154</sup> demonstrating a desire to be “permanent good neighbours, good partners and good friends of ASEAN”.<sup>155</sup> China's political commitment was aimed at three strategic objectives.

First, it was intended to reassure ASEAN that China's rise would not be hegemonic because this path led other great powers such as the US, Germany and Japan to fight major wars.<sup>156</sup> In the western realist view on the rise of great powers, as outlined in Chapter 1, it is regarded as inevitable that a rising power will challenge the dominant power militarily, so that, for these theorists, China's rise necessarily brings with it the threat of a looming war with the US. Leading Chinese Southeast Asia specialists identified three sources of China's threat to regional order: the South China Sea disputes, the economic challenge and the potential threat of dominance based on the re-emergence of China's traditional “world view”.<sup>157</sup> Professor Chen Qiaozhi pointed out candidly that, sharing borders with a dragon, ASEAN's smaller economies felt uneasy and worried due to China's pre-19<sup>th</sup> century tributary relations with Asia and Cold War attempts as the “red threat” to export revolution

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<sup>153</sup> The treaty was signed by ASEAN's founding members in 1976. “The purpose of this Treaty is to promote perpetual peace, everlasting amity and cooperation among their peoples which would contribute to their strength, solidarity and closer relationship.” See “Treaty of Amity and Cooperation in Southeast Asia.” (February 24, 1976), <http://www.aseansec.org/1217.htm>. Accessed 23/05/2007.

<sup>154</sup> “Joint Statement of the Meeting of Heads of State/Government of the Member States of ASEAN and the President of the People's Republic of China.” (December 16, 1997), <http://www.aseansec.org/5225.htm>. Accessed 23/05/2007. Article 2 of the statement articulates, “They affirmed that the Charter of the United Nations, the Treaty of Amity and Cooperation in Southeast Asia, the Five principles of Peaceful Coexistence and universally recognized international law should serve as basic norms governing their relations.”

“Joint Declaration of the Head of State/Government of the Association of Southeast Asian Nations and the People's Republic of China on Strategic Partnership for Peace and Prosperity.” (October 8, 2003), Article 5, <http://www.aseansec.org/15265.htm>. Accessed 23/05/2007.

<sup>155</sup> Jiang, Zemin. “To Build up the Partnership of Good-Neighborliness and Mutual Trust for the 21st Century.” *A speech delivered at the first China-ASEAN Informal Summit in 1997* (December 16, 1997), [http://news.xinhuanet.com/ziliao/2002-10/28/content\\_610547.htm](http://news.xinhuanet.com/ziliao/2002-10/28/content_610547.htm). Accessed 07/02/2011.

<sup>156</sup> Cao, Yunhua, and Shanbao Xu. “Good-Neighborliness Policy and China-ASEAN Relations.” *Contemporary Asia-Pacific*, no. 2 (2004), pp. 25-33.

<sup>157</sup> Cao, Yunhua, and Chong Tang. *New China-ASEAN Relations*, pp. 215-19.

and support for communist insurgencies.<sup>158</sup> The leading Chinese economist Justin Yifu Lin observed that ASEAN members felt threatened by China's rapid economic growth because it competed for markets and foreign investment while they were similar export-oriented economies.<sup>159</sup>

Second, signing the Treaty of Amity and Cooperation signalled that China wanted to be seen and accepted as a responsible power. A rising China invited a vigorous debate in the United States in particular about whether China would be a "status quo" or "revisionist" power whose rise challenged the international system.<sup>160</sup> By signing the treaty, China indicated a desire to engage with the international system in a way that was compatible with its national interests.

Third, it was intended to signal that China was willing to promote peace and stability through deepening regional cooperation. As the first non-ASEAN TAC signatory, China made a statement of respect for the right of small nations to involve themselves equally in regional affairs. As an East Asian power, China set a good example for other powers to follow.<sup>161</sup> The Indonesian Foreign Minister remarked, following India's signing, that "we have had more than 3 billion people embrace the treaty, which will greatly promote peace, prosperity and stability of the region".<sup>162</sup>

From the Chinese perspective, the Treaty committed Beijing to the "ASEAN way", while trying to build an image of a peaceful, cooperative and responsible power.<sup>163</sup> This view was echoed by David Shambaugh, who argued that it "formally commits China to enforcing the principles of nonaggression and non-interference", and "a variety of other conflict resolution mechanisms". He pointed out also that drawing China into regional arrangements was the best strategy for ASEAN to hem in a rising China.<sup>164</sup> Analysing from two perspectives, Denny Roy agreed that signing the Treaty was a way for China to earn goodwill

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<sup>158</sup> Chen, Qiaozhi. *The Study on ASEAN's China Policy in Post-Cold War Era*. Beijing: China Social Sciences Press, 2001, pp. 44-9.

<sup>159</sup> Lin, Justin Yifu "Future Role of China in Asia." *Paper prepared for "Asia 2015 Seminar" at Asian Development Bank Annual Meeting in Shanghai* (May 10, 2002), <http://www.adb.org>. Accessed 07/02/2011.

<sup>160</sup> Johnston, Alastair Iain. "Is China a Status Quo Power?" *International Security* 27, no. 4 (2003), pp. 5-56.

<sup>161</sup> India, Japan, South Korea, Russia and Australia, in that order, signed the treaty with ASEAN after China did.

<sup>162</sup> Cited in Cao, Yunhua, and Shanbao Xu. "Good-Neighborliness Policy and China-ASEAN Relations." *Contemporary Asia-Pacific*, no. 2 (2004), p. 85.

<sup>163</sup> *Ibid.*

<sup>164</sup> Shambaugh, David. "China Engages Asia: Reshaping the Regional Order." *International Security* 29, no. 3 (2005), p. 75.

from ASEAN in order to reduce the latter's fears of China's dominance. At the same time, to avoid possible Chinese domination, he argued that ASEAN's strategy was to socialise China into the "ASEAN Way" and enmesh it into regional institutions.<sup>165</sup>

With greater depth and scope in mutually beneficial cooperation between China and ASEAN, the two sides agreed to establish "a strategic partnership for peace and prosperity" in 2003.<sup>166</sup> China was ASEAN's first strategic partner, and ASEAN the first regional grouping to forge a strategic partnership with China. At the Fifteenth Anniversary of China-ASEAN dialogue relations in Nanning in 2006, Professor Zhai Kun put it this way:

The strategic partnership relation is regarded as the most advanced level at which China engages with other countries or regions. Forging a strategic partnership with ASEAN demonstrates the significance of ASEAN in China's foreign strategy and shows the sophistication of China's foreign policy towards ASEAN.<sup>167</sup>

The Commemorative Summit's Joint Statement stated that the China-ASEAN strategic partnership would be strengthened further and enhanced after 15 years of cooperation.<sup>168</sup>

Deepening relations with ASEAN, as formalised in ASEAN+3, was an important and lasting outcome of the AFC. Even more significant was the creation of an agreement that directly indicated ASEAN's relative preference for more trade with China rather than Japan, namely CAFTA. The following section describes the rapid growth of economic links after the AFC and the formation of CAFTA, before contrasting it with economic relations between ASEAN and Japan during the same period.

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<sup>165</sup> Roy, Denny. "Southeast Asia and China: Balancing or Bandwagoning?" *Contemporary Southeast Asia* 27, no. 2 (2005), pp. 305-22.

<sup>166</sup> "Joint Declaration of the Head of State/Government of the Association of Southeast Asian Nations and the People's Republic of China on Strategic Partnership for Peace and Prosperity." (October 8, 2003), <http://www.aseansec.org/15265.htm>.

<sup>167</sup> Zhai Kun is a professor at China Institutes of Contemporary International Relations (CICIR). Chang, Lu, Yingcheng Wang, and Zhoulai Zhang. "Interpreting the ASEAN's Position in China's Foreign Strategy." (October 30, 2006), <http://news.sina.com.cn/c/2006-10-30/092711368901.shtml>. Accessed 10/04/2009.

<sup>168</sup> "Joint Statement of ASEAN-China Commemorative Summit: towards an Enhanced ASEAN-China Strategic Partnership." (October 30, 2006), <http://www.aseansec.org/4979.html>. Accessed 10/04/2009.

## 4.5 Economic cooperation between China and ASEAN

Joshua Kurlantzick argued that China used soft power, a “charm offensive” or “smile diplomacy”, to consolidate its political influence in Southeast Asia.<sup>169</sup> His use of the term “soft power” went beyond the concept originally formulated by Joseph Nye, which referred to an ability to shape the behaviour of other states by attracting and persuading them to adopt one’s own goals.<sup>170</sup> For Kurlantzick soft power meant anything outside of the realm of military might, in particular China’s ability to advance its influence through trade, investment and aid.<sup>171</sup>

### 4.5.1 Trade

Economic cooperation developed rapidly from the early 1990s. According to China’s Customs’ statistics, the annual increase in the value of trade was a 22% between 1990 and 2005, 4% higher than the annual increase in China’s global trade. ASEAN’s statistics show that the value of trade increased by 23% annually on average, which was 17% higher than the increase in ASEAN’s total trade between 1993 and 2001.<sup>172</sup>

Trade relations grew especially rapidly after the AFC. ASEAN’s share of China’s trade was 7.5% in 1999, increasing to 9.1% in 2003. It remained at 9% until 2008, as seen in Table 4-3. By 2008, ASEAN was China’s fourth largest trade partner after the EU, US and Japan.<sup>173</sup> China was ASEAN’s fourth-largest trade partner after intra-ASEAN trade, Japan and the EU, and ahead of the US.<sup>174</sup> China’s imports from ASEAN doubled over four years, from \$14.9b in 1999 to \$31.2b in 2003.<sup>175</sup>

Not only did China-ASEAN trade expand after 2000, China’s trade deficit with ASEAN also grew. It was, on average, about \$17b annually between 2003-2007, falling to \$2.8 billion in

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<sup>169</sup> Kurlantzick, Joshua. *Charm Offensive: How China's Soft Power Is Transforming the World*. New Haven: Yale University Press, 2007, pp. 5-8.

<sup>170</sup> The concept of soft power first appeared in Joseph Nye’s 1990 book, see Nye, Joseph S. *Bound to Lead: The Changing Nature of American Power*. New York: Basic Books, 1990. The concept was further developed by Nye in his 2004 book, Nye, Joseph S. *Soft Power: The Means to Success in World Politics*. New York: Public Affairs, 2004.

<sup>171</sup> Kurlantzick, Joshua. *Charm Offensive: How China's Soft Power Is Transforming the World*, p. 6.

<sup>172</sup> *The value of China-ASEAN bilateral trade*, <http://www.chinaaseantrade.com>. Accessed 20/08/2009.

<sup>173</sup> Xinhua News Agency. "China-ASEAN Free Trade Area to Be Completed on Schedule." (August 7, 2009), [http://www.chinadaily.com.cn/bizchina/2009-08/07/content\\_8541098.htm](http://www.chinadaily.com.cn/bizchina/2009-08/07/content_8541098.htm). Accessed 27/08/2009.

<sup>174</sup> *ASEAN External Trade Statistics*, <http://www.aseansec.org/18137.htm>. Accessed 25/08/2009.

<sup>175</sup> *Ibid.*



2008 because of the global financial crisis (see Table 4-2). According to ASEAN statistics, the ASEAN-China trade accounted for 11.3% of total trade, with the share of ASEAN's exports to China at 12.2%,<sup>176</sup> up from 7.4% in 2004.<sup>177</sup> These statistics illustrate that China became an important export market for ASEAN after the AFC, while there was also a dramatic increase in China's exports to ASEAN during the same period. Furthermore, the start of CAFTA from January 2010, considered in more detail in Section 4.5.3, was anticipated to result in a further acceleration of trade liberalisation.

**Table 4-2. China's foreign trade with ASEAN in \$ millions (2000-2008)**

Year	Exports	Annual % increase	Imports	Annual % increase	Total Bilateral Trade	Annual % increase	Surplus
2000	17341	42.4	22181	48.6	39522	45.3	- 4840
2001	18376	6.0	23215	4.7	41691	5.3	- 4939
2002	23584	28.3	31197	34.4	54781	31.6	- 7613
2003	30927	31.1	47328	51.7	78255	42.0	- 16401
2004	42899	38.7	62967	33.1	105866	35.3	- 20068
2005	55367	29.1	74994	19.1	130361	23.1	- 19627
2006	71311	28.8	89527	19.4	160838	23.4	- 18216
2007	94139	32.0	108369	21.0	199808	25.9	- 14230
2008	114142	20.9	116974	7.9	231116	14.0	- 2832

Sources: compiled from China Customs Statistics Yearbook, various issues. Statistics from China's Ministry of Commerce, <http://www.mofcom.gov.cn>.

**Table 4-3. The percentage share of bilateral trade in China's total global trade**

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
7.5	8.3	7.8	8.8	9.1	9.2	9.2	9.1	9.3	9.0

Sources: compiled from China Customs Statistics Yearbook, various issues. Statistics from China's Ministry of Commerce, <http://www.mofcom.gov.cn>.

China's economic boom provided a huge market for ASEAN. After a field trip to Southeast Asia, Peter Goodman, an American journalist, concluded that ASEAN's perceptions of China

<sup>176</sup> ASEAN External Trade Statistics, <http://www.aseansec.org/18137.htm>. Accessed 25/08/2009.

<sup>177</sup> ASEAN Statistical Yearbook, 2005, <http://www.aseansec.org/13100.htm>. Accessed 25/08/2009.

had changed from “potential threat” to “land of opportunity”.<sup>178</sup> He described a prosperous Southeast Asia, producing goods for exports to meet different demands from the Chinese market:

As China’s economy rapidly adds mass, it strengthens its pulls on the rest of Asia. Rubber plantations in Southern Thailand are filling demand for tires as China’s auto industry accelerates by 75 percent a year. Rice farmers in northern Thailand now ship half their premium jasmine rice to exports to China and Hong Kong. Steelmakers in Japan and Korea, supplying the spines of the skyscrapers filling China’s cities, now call China their largest customer. Computer chip plants in Taiwan, Korea and Malaysia press to satisfy the demand from the factories of coastal China, which now assemble vast quantities of electronics. And as China seeks to diversify its sources of energy while struggling to meet demands for power, it is tapping oil and gas fields in Indonesia and Australia.<sup>179</sup>

#### 4.5.2 Investment and aid

Compared with the rapid expansion in trade, growth in investment was comparatively modest. China was the largest FDI recipient among developing economies from 1993,<sup>180</sup> though inflows from ASEAN dwindled after the AFC, from \$42.2b in 1998 to \$29.8b in 2001, or from 9.3% to 6.4% of China’s total.<sup>181</sup>

China’s FDI to ASEAN was far from significant compared with that of the US and Japan, the two largest single investors, accounting for 17.5% and 13.7% respectively, while China’s share was just 0.4% between 1995 and 2004.<sup>182</sup> However, China’s investment increased gradually, climbing to \$1.44b in 2008, or 2.4% of total ASEAN FDI inflows, becoming the second largest source.<sup>183</sup> In particular, the ASEAN-China Investment Agreement under

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<sup>178</sup> Goodman, Peter. "Made in China -- with Neighbors' Imports: Region Growing Dependent on Giant Market." *The Washington Post* (February 5, 2004),

<http://search.proquest.com/docview/409716602?accountid=10910>. Accessed 19/05/2009.

<sup>179</sup> *Ibid.*

<sup>180</sup> Zhang, Kevin Honglin. "Why Does So Much FDI from Hong Kong and Taiwan Go to Mainland China?" *China Economic Review* 16, no. 3 (2005), pp. 293-307; Huang, Yasheng. *Selling China: Foreign Direct Investment During the Reform Era*. New York: Cambridge University Press, 2003.

<sup>181</sup> Wang, Xincheng, and Changsen Yu, eds. *China-ASEAN Regional Cooperation and Public Governance*. Beijing: China Social Sciences Press 2005, p. 10.

<sup>182</sup> *ASEAN Statistical Pocketbook, 2006, Table 53*, <http://www.aseansec.org/ASY2006.exe>. Accessed 25/08/2009. Note: EU has the largest share (33.5%) of FDI inflow into ASEAN.

<sup>183</sup> *ASEAN External Trade Statistics, "Top ten sources of foreign direct investment inflow to ASEAN."* <http://www.aseansec.org/18137.htm>. Accessed 25/08/2010.

CAFTA paved the way for enhanced flows. As Dr. Surin Pitsuwan, Secretary-General of ASEAN, stated, “the investment agreement will catalyse more investment flows into ASEAN at a time when the global FDI flows from traditional sources are on the decline”, and “send positive signals that ASEAN and China are forging economic cooperation ahead in building a stronger economic partnership...”<sup>184</sup>

China was willing to expend economic resources on relations with ASEAN. In parallel with the investment agreement, the Chinese government launched a \$10b investment fund for infrastructure network development and extending loans to ASEAN economies.<sup>185</sup> Zeng Peiyan, Deputy Director of the Bo’ao Forum and former Vice Premier, argued in a speech to the Bo’ao Forum in 2009 that “these focused measures embody China’s sincerity in strengthening collaboration with partners to weather the tough times and I believe they will help Southeast Asian countries come out of the crisis sooner”.<sup>186</sup>

The Chinese government also increased foreign aid to ASEAN. Unlike official development assistance offered by the US, Japan and EU, Beijing’s took the form of economic assistance, such as non-development aid and low-interest loans, and trade and investment agreements.<sup>187</sup> According to one study quoted by Joshua Kurlantzick, by 2004, China’s aid to the Philippines, Indonesia, Laos, Burma and Cambodia exceeded US aid. China provided four times as much foreign aid to the Philippines, and twice as much as to Indonesia.<sup>188</sup> It was also the primary supplier of economic and military assistance to Burma, Cambodia and Laos, according to a American Congressional Research Service (CRS) report in 2009.<sup>189</sup> In particular, unlike US aid to ASEAN which imposed restrictions related to human rights and

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<sup>184</sup> "Press Release--ASEAN and China Ink Investment Agreement." (August 15, 2009), <http://www.aseansec.org/4919.htm>. Accessed 26/08/2010.

<sup>185</sup> "Strengthen Confidence, Deepen Cooperation, Achieve a Win-Win Situation." *A Speech delivered by Premier Wen Jiabao at the opening ceremony of the Bo’ao Forum 2009* (April 18, 2009), <http://www.boaoforum.org/mtzxxwzx/1967.jhtml>. Accessed 24/04/2009.

<sup>186</sup> "Join Hands to Contribute to Asia’s Economic Rise." *A speech by Mr. Zeng Peiyan at the luncheon of the Boao Forum for Asia Annual Conference 2009* (April 18, 2009), <http://www.boaoforum.org/mtzxxwzx/1963.jhtml>. Accessed 24/04/2009.

<sup>187</sup> Lum, Thomas, Wayne M Morrison, and Bruce Vaughn. "China's "Soft Power" In Southeast Asia." *CRS Report for Congress*, RL34310 (2008), p. 4.

<sup>188</sup> Kurlantzick, Joshua. *Charm Offensive: How China's Soft Power Is Transforming the World*. New Haven: Yale University Press 2007, p. 98.

<sup>189</sup> Lum, Thomas, Hannah Fischer, Julissa Gomez-Granger, and Anne Leland. "China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia." *CRS Report for Congress*, R40361 (February 25, 2009), p. 16.

democracy, Beijing did not attach any political conditions.<sup>190</sup> Its approach, which was consistent with ASEAN's non-interference principle, was seen as "respectful of their countries' sovereignty".<sup>191</sup>

#### 4.5.3 China-ASEAN Free Trade Area (CAFTA)

Closer cooperation between China and ASEAN was manifested in the establishment of CAFTA within ten years under the *Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China* signed in 2002. CAFTA came into effect for Indonesia, Malaysia, Singapore, Philippines, Thailand and Brunei in January 2010, and was planned to do so for the CLBV (Cambodia, Laos, Burma and Vietnam) in 2015.<sup>192</sup> An integral part of CAFTA was an Early Harvest Programme which provided tariff cuts on 600 agricultural products immediately after the agreement commenced in 2003.<sup>193</sup> It was anticipated that CAFTA would "create an economic region with 1.7 billion consumers, a regional GDP of about \$2b and total trade estimated at \$1.23tr",<sup>194</sup> and be the biggest FTA in the world in terms of population, GDP and trade.<sup>195</sup>

China's support for CAFTA, which had been thought to be generally suspicious of multilateral cooperation,<sup>196</sup> generated substantial debate over the motivations of the signatories, which is summarised below.

Some accounts offered economic explanations for the formation of CAFTA. Based on simulations conducted by the ASEAN-China expert group, the report entitled *Forging Closer ASEAN-China Economic Relations in the Twenty-First Century* suggested that CAFTA will expand ASEAN exports to China by 48% and Chinese exports to ASEAN by 55.1%. ASEAN's

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<sup>190</sup> Lum, Thomas, eds. "Comparing Global Influence: China's and U.S. Diplomacy, Foreign Aid, Trade, and Investment in the Developing World." *CRS Report for Congress, RL34620* (August 15, 2008), p. 2.

<sup>191</sup> Lum, Thomas, Wayne M Morrison, and Bruce Vaughn. "China's "Soft Power" In Southeast Asia." *CRS Report for Congress, RL34310* (January 4, 2008), p. 5.

<sup>192</sup> "Framework Agreement on Comprehensive Economic Co-Operation between ASEAN and the People's Republic of China." (November 5, 2002), <http://www.aseansec.org/13197.htm>. Accessed 23/05/2007.

<sup>193</sup> *Ibid.*, article 6. The products covered under the early harvest programme include live animals, meat, fish, dairy produce, other animal products, live trees, vegetables, fruit and nuts.

<sup>194</sup> "Forging Closer ASEAN-China Economic Relations in the 21st Century." *A report submitted by the ASEAN-China Expert Group on Economic Cooperation (EGEC)* (October 2001), <http://www.aseansec.org/4979.htm>. Accessed 23/05/2007.

<sup>195</sup> *Ibid.*, p. 30.

<sup>196</sup> Cai, Kevin G. "The ASEAN-China Free Trade Agreement and East Asian Regional Grouping." *Contemporary Southeast Asia* 25, no. 3 (2003), p. 397.

GDP will increase by 0.9%, or \$5.4b, and China's by 0.3%, or \$2.2b.<sup>197</sup> CAFTA's projected economic benefits were supported by research conducted by Zhang Yunling, a well-known Chinese scholar and one of the experts of the ASEAN-China Expert Group on Economic Cooperation. In his study, the simulated effects<sup>198</sup> showed that CAFTA will expand GDP by 5.89% for Malaysia, 5.31% for Vietnam, 2.32% for Singapore and 1.96% for Thailand, although GDP increases were relatively modest for Indonesia, at 0.58%, and 0.87% for the Philippines.<sup>199</sup>

Other studies presented different arguments on the impact of CAFTA. James Laurenceson argued that financial markets benefited more from liberalisation than relatively advanced integrated markets in goods and services between China and the Philippines, Indonesia, Malaysia, Singapore and Thailand.<sup>200</sup> John Wong and Sarah Chan also found that CAFTA will foster closer economic relations though China and ASEAN would be more competitive than complementary in the short term, given the similarity in their trade and industrial structures.<sup>201</sup> Thitapha Wattanapruttipaisan, whose study focused on the CLBV economies, contended that CAFTA will generate a larger market share for resources and agricultural products and some manufactured goods, but would intensify competition with China in domestic and third-country markets.<sup>202</sup>

Other research explored both economic and political rationales for CAFTA. Kevin Cai argued that the free trade area not only helped cement growing economic ties, but also necessitated the coordination of government policies, the need for which was highlighted by the AFC.<sup>203</sup> A study conducted by two Chinese scholars argued that CAFTA was driven by a combination of economic considerations and political motivations, and will create a "win-

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<sup>197</sup> "Forging Closer ASEAN-China Economic Relations in the 21st Century." *A report submitted by the ASEAN-China Expert Group on Economic Cooperation (EGEC)* (October 2001), Annex 2 for details.

<http://www.aseansec.org/4979.htm>.

<sup>198</sup> It Employs a computable general equilibrium (CGE) model.

<sup>199</sup> Zhang, Yunling. "China and East Asian Economic Integration." (2002), Table 2.

<http://iaps.cass.cn/Bak/ddyt/0601-1.mht>. Accessed 06/04/2007.

<sup>200</sup> Laurenceson, James. "Economic Integration between China and the ASEAN-5." *ASEAN Economic Bulletin* 20, no. 2 (2003), pp. 103-11.

<sup>201</sup> Wong, John, and Sarah Chan. "China-ASEAN Free Trade Agreement: Shaping Future Economic Relations." *Asian Survey* 43, no. 3 (2003), pp. 507-26.

<sup>202</sup> Wattanapruttipaisan, Thitapha. "ASEAN-China Free Trade Area: Advantages, Challenges, and Implications for the Newer ASEAN Member Countries." *ASEAN Economic Bulletin* 20, no. 1 (2003), pp. 31-48.

<sup>203</sup> Cai, Kevin G. "The ASEAN-China Free Trade Agreement and East Asian Regional Grouping." *Contemporary Southeast Asia* 25, no. 3 (2003), pp. 387-404.

win” or “multiple-win” situation.<sup>204</sup> Other scholars argued that CAFTA was more political-strategic and China-driven. A study by Sheng Lijun concluded that it brings more benefits than losses if carried out with “careful calculation and good cooperation”.<sup>205</sup> In line with Sheng’s research, Vincent Wang argued that support for the free trade area lay in the political logic of “economic statecraft”, in which the Chinese government utilised economic tools to pursue its foreign policy goal of “peaceful development”.<sup>206</sup>

Drawing on these different views and debates, I argue that CAFTA is attributable to economic and political-strategic considerations on both sides. ASEAN was motivated by several calculations. First, as a regional grouping, it needed to rebuild credibility and economic strength, which was weakened by the AFC. Not only was ASEAN hit hard, its capacity as an organisation was called into question. Compared with the EU, backed by French-German cooperation, and the US supported NAFTA, ASEAN’s economy as a whole, whether before or after the AFC, was too weak to have its voice heard. ASEAN hoped CAFTA would strengthen its position and ability to prevent further financial crises.<sup>207</sup>

Second, it was argued that CAFTA will enhance ASEAN’s access to China’s huge domestic market. As discussed above, ASEAN’s exports were increasingly dependent on Chinese markets. Entry into the WTO further accelerated the opening-up process and made the Chinese market more attractive. ASEAN deepened trade relations with China and attracted more Chinese FDI.<sup>208</sup>

Third, strategic considerations were not unimportant. The emergence of ASEAN in 1967 was Southeast Asia’s response, in part, to Cold War tensions among the superpowers.<sup>209</sup> During the Cold War, ASEAN was allied with the US, though Indonesia remained neutral, to balance the Soviet Union and China in exchange for US military protection and access to US markets.

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<sup>204</sup> Guo, Xiaolei, and Guowei Wu. "Analysis of Drive Mechanism of China-ASEAN Free Trade Area." *World Economy Study*, no. 1 (2007): 68-73.

<sup>205</sup> Sheng, Lijun. "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations." *ISEAS Working Paper: International Politics & Security Issues Series*, no. 1 (2003), pp. 1-23.

<sup>206</sup> Wang, Vincent Wei-cheng. "The Logic of China-ASEAN FTA: Economic Statecraft of Peaceful Ascendancy." In *China and Southeast Asia: Global Changes and Regional Challenges*, edited by Khai Leong Ho and Samuel C. Y. Ku, Singapore: Institute of Southeast Asian Studies 2005, pp. 17-41.

<sup>207</sup> Cai, Kevin G. "The ASEAN-China Free Trade Agreement and East Asian Regional Grouping." *Contemporary Southeast Asia* 25, no. 3 (2003), p. 398.

<sup>208</sup> Vatikiotis, Michael R.J. "Catching the Dragon's Tail: China and Southeast Asia in the 21st Century." *Contemporary Southeast Asia* 25, no. 1 (2003), pp. 65-79.

<sup>209</sup> Cao, Yunhua, and Chong Tang. *New China-ASEAN Relations*, pp. 77-84.

When the Communist threat disappeared, first with China's transition to a market economy during the 1980s, then with the demise of the Soviet Union in 1991, economic development emerged as ASEAN's main priority in the post-Cold War era. The US focussed more closely on NAFTA while maintaining a military presence in East Asia, while Japan was plagued by a sluggish economy. By the end of the Cold War neither was in a position to provide adequate attention to their Cold War allies. Facing a rising China, seen as both threat and opportunity by ASEAN, the strategy of "balancing the major powers" enabled its member states to keep Chinese power in check by strengthening economic and political cooperation through the free trade area and other treaties.

For China's part, concluding an agreement with ASEAN was probably motivated more by political-strategic than economic considerations.<sup>210</sup> First, offering a free trade area helped build its image as a benign power and the move towards CAFTA further strengthened confidence-building. In particular, China's accession to the WTO intensified competition for export markets and FDI flows in third countries.<sup>211</sup> Therefore, China initiated CAFTA in order to ease regional anxiety over the "coming economic threat" from China.<sup>212</sup>

Second, for Chinese scholars such as Zheng Yongnian,<sup>213</sup> CAFTA was a tool of economic diplomacy promoting the foreign policy objective of a "peaceful rise" or "development".<sup>214</sup> Chinese leaders in their speeches delivered to Party Congresses emphasised constantly that economic development required a peaceful international environment in general and

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<sup>210</sup> Sheng, Lijun. "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations." *ISEAS Working Paper: International Politics & Security Issues Series*, no. 1 (2003), pp. 1-23; Lu, Jianren. "On China's Regional Cooperation Policy." *Contemporary Asia-Pacific Studies*, no. 10 (2005), pp. 3-10; Liu, Shaohua. "Analysing the Effect and Impact of China-ASEAN Free Trade Area: The International Political Economy Perspective." *International Observer*, no. 1 (2008), pp. 65-71.

<sup>211</sup> "Forging Closer ASEAN-China Economic Relations in the 21st Century." *A report submitted by the ASEAN-China Expert Group on Economic Cooperation (EGEC)* (October 2001), <http://www.aseansec.org/4979.htm>.

<sup>212</sup> Lu, Jianren. "On China's Regional Cooperation Policy." *Contemporary Asia-Pacific Studies*, no. 10 (2005), p. 3.

<sup>213</sup> Zheng, Yongnian. "China's Economic Diplomacy and Peaceful Rise." (2004), <http://www.wuxitax.gov.cn/show.aspx?id=11491>.

<sup>214</sup> Qiu, Danyang. "China-ASEAN Free Trade Area: The Geo-Economic Reflection on China's Peaceful Rise." *Contemporary Asia-Pacific Studies*, no. 1 (2005), pp. 8-13; Liu, Shaohua. "Analysing the Effect and Impact of China-ASEAN Free Trade Area: The International Political Economy Perspective." *International Observer*, no. 1 (2008), pp. 65-71; Zheng, Yongnian. "China's Economic Diplomacy and Peaceful Rise." (2004), <http://www.wuxitax.gov.cn/show.aspx?id=11491>. Accessed 20/08/2009.

regional environment in particular.<sup>215</sup> Making full use of the “strategic opportunity” was crucial to augment its power.<sup>216</sup> Whether Zheng’s economic diplomacy or Vincent Wang’s “economic statecraft”,<sup>217</sup> CAFTA was to China’s strategic advantage. Lu Jianren concurred that CAFTA was more for political and diplomatic considerations than economic calculation: “From the viewpoint of economic analysis, China’s economic gain obtained from CAFTA is limited, but the strategic impact on China’s foreign policy is significant”.<sup>218</sup> Chinese scholars were more convinced that CAFTA was a breakthrough in China’s geo-economic strategy and designed to facilitate its “peaceful rise”.<sup>219</sup>

The third strategic consideration was to capitalise on China’s economic power to solve the “Taiwan issue” peacefully. Since the 1990s, the Taiwanese government actively promoted relations with ASEAN member states through the so-called “going South” policy, which strengthened economic cooperation in exchange for winning political support. By enhancing China’s economic cooperation with ASEAN, Taiwan’s political space in the region was more restrained.<sup>220</sup> Professor Shen Lijun quoted Taiwan’s Economics Minister’s response to

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<sup>215</sup>Jiang, Zemin. "Accelerating the Reform, the Opening to the Outside World and the Drive for Modernisation, So as to Achieve Greater Successes in Building Socialism with Chinese Characteristics." *The Report Delivered at 14th Party Congress* (October 12, 1992),

<http://cpc.people.com.cn/GB/64162/64168/64567/65446/4526308.html>; Jiang, Zemin. "Hold High the Great Banner of Deng Xiaoping Theory for an All-Round Advancement of the Cause of Building Socialism with Chinese Characteristics into the 21st Century." *The Report Delivered at 15th Party Congress* (September 12, 1997),

<http://cpc.people.com.cn/GB/64162/64168/64568/65445/4526285.html>;

Jiang, Zemin. "Build a Well-Off Society in an All-Round Way and Create a New Situation in Building Socialism with Chinese Characteristics." *The Report Delivered at 16th Party Congress* (November 8, 2002),

<http://cpc.people.com.cn/GB/64162/64168/64569/65444/4429125.html>; and Hu, Jintao.

"Hold High the Great Banner of Socialism with Chinese Characteristics and Strive for New Victories in Building a Moderately Prosperous Society in All Respects." *The Report Delivered at 17th Party Congress* (October 15, 2007), <http://cpc.people.com.cn/GB/104019/104099/6429414.html>. Accessed 16/07/2009.

<sup>216</sup> Jiang, Zemin. "Build a Well-Off Society in an All-Round Way and Create a New Situation in Building Socialism with Chinese Characteristics." *The Report Delivered at 16th Party Congress* (November 8, 2002),

<http://cpc.people.com.cn/GB/64162/64168/64569/65444/4429125.html>.

<sup>217</sup> For a good analysis of the theme, see Baldwin, David A. *Economic Statecraft*. Princeton, N.J.: Princeton University Press, 1985.

<sup>218</sup> Lu, Jianren. "On China’s Regional Cooperation Policy." *Contemporary Asia-Pacific Studies*, no. 10 (2005), p. 3.

<sup>219</sup> See for example, Qiu, Danyang. "China-ASEAN Free Trade Area: The Geo-Economic Reflection on China’s Peaceful Rise." *Contemporary Asia-Pacific Studies*, no. 1 (2005), pp. 8-13.

<sup>220</sup> China Institutes of Contemporary International Relations (ASEAN Project). "The Study Report on China’s ASEAN Policy." *Contemporary International Relations*, no. 10 (2002), pp. 1-10; Sheng, Lijun. "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations." *ISEAS Working Paper: International Politics & Security Issues Series*, no. 1 (2003), pp. 1-23.



CAFTA, saying that “given the current political environment, it would be difficult for us to pursue a similar agreement with ASEAN as a block”.<sup>221</sup>

#### 4.5.4 ASEAN’s economic relations with Japan in the post-Cold War era

The discussion in chapter 2 outlined how East Asia after the Second World War fell under the influence of American hegemony, which in the economic realm later came to be replaced by Japanese pre-eminence. Japan was crucial for ASEAN’s economic development from the 1970s until the beginning of Japan’s economic recession at the start of the 1990s. ASEAN economies were embraced by Japanese multinational corporation-centred production networks, through which trade was conducted and FDI flowed into ASEAN.

It was the argument of this chapter that China, not only through regional engagement, but equally importantly through trade and investment, began to shape a new East Asian regional order in which it plays an increasingly central role, while Japan’s relative influence declined. In considering how far China went in taking over parts of Japan’s economic role, it is important to consider Japan’s economic relations with ASEAN. In this section, I make use of Japan’s trade and investment figures from 1993 to 2008, as shown in Table 4-4, in order to shed light on this issue.

With the exception of 1998-1999, average annual trade between Japan and ASEAN after 1994 remained constant at around \$100b, dwarfing China-ASEAN trade, which only reached the \$100b target in 2004. However, from Table 4-3, we can see that total trade between ASEAN and China surpassed trade between ASEAN and Japan in 2007. According to ASEAN statistics, China replaced Japan as ASEAN’s largest trade partner in 2009, accounting for 11.6% of total trade, becoming ASEAN’s largest export market.<sup>222</sup> Furthermore, the statistics in Table 4-4 demonstrate that ASEAN ran a significant trade deficit with Japan after 1993. If we compare the figure with ASEAN’s trade surplus with China, the latter’s growing importance in ASEAN’s economic development stands out.

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<sup>221</sup> Sheng, Lijun. "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations." *ISEAS Working Paper: International Politics & Security Issues Series*, no. 1 (2003), p. 17.

<sup>222</sup> ASEAN External Trade Statistics, “Top ten ASEAN trade partner countries/regions, 2009.” <http://www.aseansec.org/18137.htm>,

Table 4-4. ASEAN's foreign trade with Japan in \$ millions (1993-2008)

Year	Exports	Imports	Total	Surplus
1993	30952	55703	86655	-24751
1994	34300	67303	101603	-33003
1995	42681	78535	121216	-35854
1996	43150	73310	116460	-30160
1997	42009	71264	113273	-29255
1998	34717	46694	81411	-11977
1999	37687	51466	89153	-13779
2000	50560	65631	116191	-15071
2001	48250	53259	101509	-5009
2002	44503	53084	97587	-8581
2003	53198	60203	113401	-7005
2004	67228	76035	143263	-8807
2005	72756	81078	153834	-8322
2006	81285	80496	161781	789
2007	85138	87924	173072	-2786
2008	104872	107116	211988	-2244

Source: compiled from ASEAN Statistical Yearbook, 2008, <http://www.aseansec.org/publications/aseanstats08.pdf>.

Japanese statistics show that cumulative FDI inflows to ASEAN were \$55b from 1995 to 2006, or 15.6% percent of the total.<sup>223</sup> In addition, Table 4-5 indicates that FDI increased on an annual basis from 2004 to 2007. According to ASEAN statistics, the share of cumulative Japanese FDI, 2000-2008, was 13.9%, making it the top single investor.<sup>224</sup> But China's FDI to ASEAN was also a major source during the same period, totalling \$3.4b, which ranked it fifth.<sup>225</sup> This suggests that Japanese FDI remained a very important source for ASEAN while China was catching up. In this regard, a Chinese economist observed that Japanese

<sup>223</sup> FDI Flow to ASEAN by Country/Region, Cumulative Total, [http://www.asean.or.jp/ja/asean/know/statistics/5.html/pdf/4-4-2.pdf/at\\_download/file](http://www.asean.or.jp/ja/asean/know/statistics/5.html/pdf/4-4-2.pdf/at_download/file).

<sup>224</sup> ASEAN Statistical Yearbook 2008, p. 132, Table VI.5. <http://www.aseansec.org/publications/aseanstats08.pdf>. Accessed 20/01/2010.

<sup>225</sup> *Ibid.*, p. 134, Table VI.7.

investment indeed promoted economic growth, though it was no longer the economic engine in East Asia from a regional trade perspective.<sup>226</sup>

**Table 4-5. Japan's FDI inflow to ASEAN in \$ millions (1995-2008)**

<b>Year</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>FDI</b>	3987	5238	7780	4454	1032	207	4013
<b>Year</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>FDI</b>	4256	432	2800	5002	6923	7790	6309

Source: compiled from statistics provided by Japan External Trade Organisation (JETRO), <http://www.jetro.go.jp/en/reports/statistics>; and ASEAN-Japan Centre, <http://www.asean.or.jp/ja/asean/known/statistics/4.html>. Accessed 01/09/2009.

China's economic rise changed East Asia's trade and investment profile. As Hideo Ohashi observed, China positioned itself increasingly at the centre of the economic division of labour and attracted an unprecedented level of FDI, the majority of which originated from East Asia. Meanwhile, an even thicker web of economic interdependence was created by China's outbound direct investment.<sup>227</sup> As a result, Ohashi concluded that the regional economic system was becoming Sino-centric.<sup>228</sup> With ASEAN+3 drawing China, South Korea and Japan together, and China becoming their largest trade partner, China-centred Asian economic integration emerged.<sup>229</sup>

#### 4.6 The outlook for Chinese leadership in East Asia

China's new economic strength raised the question of whether its growing influence may crowd out Japan and the US. This section considers briefly their influence in East Asia in comparison to that of China.

For a number of reasons, Japan did not take a leading political role in East Asian regionalism. First and foremost was ASEAN's ongoing "distrust" of Japan and perception that it was

<sup>226</sup> Li, Ronglin. "China-ASEAN Free Trade Area and East Asian Economic Integration." *Contemporary Asia-Pacific Studies*, no. 8 (2005), pp. 19-23.

<sup>227</sup> Cai, Kevin G. "Outward Foreign Direct Investment: A Novel Dimension of China's Integration into the Regional and Global Economy." *The China Quarterly*, no. 160 (1999), pp. 856-80.

<sup>228</sup> Ohashi, Hideo. "China's Regional Trade and Investment Profile." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, pp. 71-95.

<sup>229</sup> Cheow, Eric Teo Chu. "China as the Center of Asian Economic Integration." *China Brief*, no. 15 (2005), [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=3837](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=3837). Accessed 03/01/2011.

unable to admit guilt. Distrust was manifested in former Singapore Prime Minister Lee Kuan Yew's response to Japan's participation, for the first time, in a UN peacekeeping force in Cambodia in the early 1990s. He said that "allowing the Japanese to participate in military operations was like giving an alcoholic liqueur chocolates", adding that "the Japanese do not know when to stop".<sup>230</sup>

Added to this was a perception that Japan did not regard itself as part of Asia nearly as much as it desired to align itself with the West. As Masuru Tamamoto pointed out, for more than a century, Japan's national identity swung like a pendulum between the two poles of Asia and the West.<sup>231</sup> "To escape Asia" was a national slogan during the Meiji era. For Meiji elites, Asia represented a barbaric state of civilisation and a modernising Japan should "enter Europe" to become civilised.<sup>232</sup> In the post-World era, Japan was incorporated into what Katzenstein termed the US "imperium".<sup>233</sup> Despite its remarkable economic success, Japan's identity was as a US "client state".<sup>234</sup> Economic success was attained not just for the sake of material prosperity but also as a way of persuading the West to accept it as one of its own.<sup>235</sup> This perception was not dispelled by Japan's repeated efforts to include the US in regional groupings, as opposed to Mahathir's EAEC, which eventually came to fruition as APEC with the US as a member.

Japan was arguably further constrained in the kind of leadership it offered East Asia by having in every instance to first consider US reactions, as shown in the forced withdrawal of the AMF proposal in 1997. This reflected the reactive nature of Japanese foreign policy, in which, according to Kent Calder, "the impetus to policy change is typically supplied by outside pressure, and reaction prevails over strategy in the relatively narrow range of cases where two come into conflict".<sup>236</sup> Inoguchi Takashi and Purnendra Jain characterised this as "Karaoke diplomacy", in which "Japan's choice of foreign policy directions was circumscribed in a 'set menu' of alternatives provided by the US". Japan was left with very

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<sup>230</sup> Quoted in Tamamoto, Masaru. "Japan's Uncertain Role." *World Policy Journal* 8, no. 4 (1991), p. 584.

<sup>231</sup> *Ibid.*, p. 582.

<sup>232</sup> Rimer, J. Thomas, ed. *Culture and Identity: Japanese Intellectuals During the Interwar Years*. Princeton, N.J.: Princeton University Press, 1990.

<sup>233</sup> Katzenstein, Peter J. *A World of Regions: Asia and Europe in the American Imperium*. Ithaca: Cornell University Press, 2005.

<sup>234</sup> McCormack, Gavan. *Client State: Japan in the American Embrace*. London: Verso, 2007.

<sup>235</sup> Tamamoto, Masaru. "Japan's Uncertain Role." *World Policy Journal* 8, no. 4 (1991), p. 588.

<sup>236</sup> Calder, Kent E. "Review: Japanese Foreign Economic Policy Formation: Explaining the Reactive State." *World Politics* 40, no. 4 (1988), p. 518.

little room to choose from options other than those offered by Washington.<sup>237</sup> Similarly, Selden pointed to Japan's preference to "prioritise its relationship with the United States" and that it "has been slow to exercise leadership in a resurgent East Asia".<sup>238</sup> This stifling of Japan's ability to devise an independent foreign policy was, as argued, a major stumbling block.

On the economic front, too, Japan lost influence when it was hit by recession and its economic model, once heralded as an example for the region, collapsed while, simultaneously, China's economic fortunes rose.<sup>239</sup>

A final factor militating against a leading role for Japan was its lack of interest in a free trade agreement with ASEAN, which China readily embraced, in large measure because of the potential to demonstrate goodwill, as was discussed in Section 4.5.

In all of these factors China was in a far better position than Japan to take on a leadership role in East Asia and, indeed, expand its influence. But, this did not mean that China dominated the region in the way the US did in the 1950s and 1960s, or Japan in the 1970s and 1980s. China certainly took on an economic leadership role, given that it became Japan, South Korea, Taiwan and ASEAN's largest trade partner, though Japan remained the largest investor. The AFC went a long way towards changing ASEAN's "leaning to one side". Yet, China was still not trusted completely due to the historical legacies of its ancient tributary system and the Cold War.<sup>240</sup> While ASEAN actively engaged China economically, its maritime member states in particular preferred a continuation of the US military presence to protect them from any possible expansionary Chinese ambitions. The US was viewed as the "least

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<sup>237</sup> Inoguchi, Takashi, and Purnendra Jain, eds. *Japanese Foreign Policy Today*. New York: Palgrave, 2000, p. xv.

<sup>238</sup> Selden, Mark. "East Asian Regionalism and Its Enemies in Three Epochs: Political Economy and Geopolitics, 16th to 21st Centuries." *The Asia-Pacific Journal* 9, no. 4 (2009), <http://japanfocus.org/-Mark-Selden/3061>. Accessed 11/02/2011.

<sup>239</sup> Wood, Christopher. *The Bubble Economy: Japan's Extraordinary Speculative Boom of The 80's and the Dramatic Bust of The 90's*. New York: Atlantic Monthly Press, 1992; Wood, Christopher. *The End of Japan Inc: And How the New Japan Will Look*. New York: Simon & Schuster 1994; Mulgan, Aurelia George. "Japan: A Setting Sun?" *Foreign Affairs* 79, no. 4 (2000), pp. 40-52.

<sup>240</sup> Zhang, Yunling, and Shiping Tang. "China's Regional Security." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley, Calif.: University of California Press, 2005, pp. 48-70; Gill, Bates. "China's Evolving Regional Security Strategy." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley, Calif.: University of California Press, 2005, pp 247-65; Sutter, Robert. "China's Regional Strategy and Why It May Not Be Good for America." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley, Calif.: University of California Press, 2005, pp. 289-305.

distrusted power".<sup>241</sup> Thus, the US hub-and-spokes alliance system was destined to remain in place, though it was not uncontested.<sup>242</sup> The extent of Chinese political power in East Asia was dampened by ASEAN's greater affinity for the "external balance"<sup>243</sup> provided by a US-underwritten security safety net.

#### 4.7 Conclusion

The formation of ASEAN in 1967 marked the beginning of Southeast Asian regionalism, from which China was long excluded. Once economic reforms were underway, "regional stability" in East Asia by easing international tensions with neighbouring states became an important strategic goal. When the Cold War drew to a close, it was of strategic importance for China to prevent ASEAN from slipping further into US dominion through strengthening pre-existing security agreements. Hence, China was eager to join in the processes of East Asian regionalism as a means of demonstrating its ability to be ASEAN's "good neighbour".

During the two decades after the Cold War, China entrenched itself more deeply in East Asia through engagement with ASEAN, thereby positioning itself increasingly at the centre of East Asian regionalism, to the relative cost of US and Japanese influence. It was necessary for China to overcome initial distrust of multilateral engagements, even as ASEAN member states overcame their distrust of China, forged during the 1950s and 1960s when the threat of revolution loomed large.

China's first steps were taken when it became an ASEAN dialogue partner and later joined the ARF. However, the 1997/8 AFC provided China with a political opportunity to demonstrate that it could act responsibly by refusing to devalue the yuan. While China's action was hardly altruistic, based instead on an astute calculation of strategic interest,

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<sup>241</sup> Wang, Gungwu. "China and Southeast Asia: The Context of a New Beginning." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley, Calif.: University of California Press, 2005, pp. 187-204; Sutter, Robert. "The United States in Asia: Challenged but Durable Leadership." In *International Relations of Asia*, edited by David L. Shambaugh and Michael B. Yahuda, Lanham, Md.: Rowman & Littlefield Publishers, 2008, pp. 85-103; Goh, Evelyn. "Great Powers and Hierarchical Order in Southeast Asia: Analyzing Regional Security Strategies." *International Security* 32, no. 3 (2008), pp. 113-57.

<sup>242</sup> Fukuyama, Francis. "The Security Architecture in Asia and American Foreign Policy." In *East Asian Multilateralism: Prospects for Regional Stability*, edited by Kent E. Calder and Francis Fukuyama, Baltimore: Johns Hopkins University Press, 2008, pp. 234-54; Sutter, Robert. "The United States in Asia: Challenged but Durable Leadership." In *International Relations of Asia*, edited by David L. Shambaugh and Michael B. Yahuda, Lanham, pp. 85-103.

<sup>243</sup> See, for example, chapters by Sutter, Cossa and Yahuda in Shambaugh, David L., and Michael B. Yahuda, eds. *International Relations of Asia*. Lanham, Md: Rowman & Littlefield Publishers, 2008.

ASEAN perceived it as a manifestation of goodwill and regional responsibility. China's behaviour went a considerable way towards dispelling ASEAN's lingering distrust of its power ambitions and was pivotal in the restoration of relations.

China's actions during the AFC paved the way for deeper political relations with ASEAN through ASEAN+3, and most significantly, a free trade agreement with ASEAN, confirming the attractiveness for ASEAN of greater trade with China rather than Japan, which had no comparable arrangement. China seemed better able than Japan to take on a leading political role in East Asia, as Japan's ability to craft a foreign policy was to a large extent limited by the need to take the wishes of the US into account. Added to this was distrust of Japan, and the perception that it identified more closely with the West than Asia. Nevertheless, the US continued to play the role of security provider to ASEAN, blunting the prospects of a dominant Chinese security role in the region.

While China greatly improved its political standing in East Asia, and appropriated a leading role in the region as a result of its remarkable economic growth, relations with the US and Japan became significantly more problematic. In the next two chapters I turn to a discussion of how these two relationships changed in the context of China's economic rise.

## **5 The relationship between the US and China from the Cold War to the era of China's rise**

This chapter explores the evolution of Sino-US relations from outright hostility during the early years of the Cold War, to a period of cooperation against a common threat posed by the Soviet Union, followed by a redefinition of relations as the Cold War came to an end. This historical treatment provides essential context for understanding contemporary relations. The chapter relies on extensive references to the Chinese literature, aiming to introduce a Western audience to Chinese debates.

Consideration of the US response to China's rise and impact on East Asia is of particular significance, because China is challenging US primacy economically, having become Japan, South Korea, Taiwan and ASEAN's main trading partner, and increasingly in the political sphere, where closer links with strategic allies of the US threaten to diminish US regional influence. This is notwithstanding ASEAN's preference for a strong US security presence, as described in the previous chapter. I argue that Sino-US relations were characterised by a pattern of oscillation between conflict and cooperation, reflecting attempts by the US to balance often conflicting strategic interests. The US faced a dilemma regarding China's growing regional power. It could not dictate terms because its economy was entwined deeply with China's, but had to reach an accommodation or at least a stalemate on several key regional issues. China's defence modernisation "complicated" if not challenged US primacy.

Section 5.1 describes Sino-US relations during the 1950s and 1960s, and how shared animosity towards the Soviet Union impelled them towards the historic 1972 agreement to begin normalisation of relations. Section 5.2 outlines developments between rapprochement and the eventual establishment of full diplomatic relations. Subsequent Sino-US relations exhibited the oscillating tendency described above, even during periods of relatively close relations, as discussed in Section 5.3, especially when the end of the Cold War forced a redefinition of relations. This is discussed in Section 5.4. US perceptions of China evolved as it became more powerful militarily and economically interdependent.



Initial US views of China as a competitor were forced to yield to the need to cooperate on several issues. Section 5.5 discusses this phase in the oscillating relationship, and how the US acknowledged China's resurgence in East Asia by demanding it make stronger international contributions. Section 5.6 discusses China's role in the six-party talks over the North Korean nuclear crisis as a case study, demonstrating that China and the US cooperated because of shared interests despite disparate objectives. Section 5.7 outlines US moves towards a comprehensive relationship marked by cooperation in all political and economic spheres, though this redefined relationship was marred by tension over a perceived gradual decline in US primacy in East Asia after 2001.

## 5.1 China-US relations: from confrontation to rapprochement (1950-1972)

For the first two decades after the People's Republic of China (PRC) was founded in 1949, Sino-US relations were characterised by conflict and tension.<sup>1</sup> Between 1949 and 1958, the Chinese Communist Party was preoccupied with territorial security, consolidation of the new regime, rebuilding the shattered economy along socialist lines and national ideological unification.<sup>2</sup>

China "chose" a strategy of "leaning to one side" by aligning with the Soviet Union and signing the *Sino-Soviet Treaty of Friendship, Alliance and Mutual Assistance* in February 1950, its first bilateral treaty with a foreign state.<sup>3</sup> China sent troops to Korea in October

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<sup>1</sup> Jiang, Changbin. "Preface." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, Cambridge, Mass.: Harvard University Press, 2001, p. x.

<sup>2</sup> For the history of Mao's China, see Chen, Jian. *Mao's China and the Cold War*. Chapel Hill: The University of North Carolina Press, 2001. Wu, Baiyi. "The Chinese Security Concept and Its Historical Evolution." *Journal of Contemporary China* 10, no. 27 (2001), pp. 275-83; Niu, Jun. *From Yan'an to the World: The Origins of Chinese Communist Party's Foreign Relations*. Beijing: Communist Party History Press, 2008.

<sup>3</sup> For the origins and evolution of China's foreign policy towards US since 1949, see Niu, Jun. "The Formation of China's US Policy." *American Studies Quarterly*, no. 4 (1996), pp. 94-110; Tao, Wenzhao. "US's Policy Towards China and China's 'Leaning-to-One-Side' Policy." *Communist Party Literature*, no. 5 (1991), [http://www.china.com.cn/aboutchina/txt/2009-08/22/content\\_18381484.htm](http://www.china.com.cn/aboutchina/txt/2009-08/22/content_18381484.htm). Accessed 06/05/2011; Xu, Xiaoming. "China's 'Leaning-to-One-Side' Policy and US's Policy towards China." *Journal of Zhejiang University*, no. 4 (1998), pp. 46-54; Wang, Shanzhong. "The Formation of China's 'Leaning-to-One-Side' Policy." *Studies on Communist Party History*, no. 8 (2000), pp. 1-12; Tao, Wenzhao. *The History of Sino-US Relations (1949-1972)*. Shanghai: Shanghai People's Publishing House, 1999; Harding, Harry, and Ming Yuan, eds. *Sino-American Relations, 1945-1955: A Joint Reassessment of a Critical Decade*. Wilmington, Del.: Scholarly Resources Books, 1989.

1950, marking the beginning of the Cold War in Asia.<sup>4</sup> According to Zhang Baijia, Deputy Chief of the Party History Research Institute of the Central Committee of the Chinese Communist Party (CCP), and largely in line with standard western assessments, US imperialism was China's primary external enemy, after the US sided with the Nationalist Government led by Jiang Jieshi during the Chinese civil war (1945-1949), and Washington refused to recognise the PRC after 1949, adopting a policy of containment and isolation instead.<sup>5</sup>

In the second half of the 1950s, China moved tentatively to a more active foreign policy based on the Five Principles of Peaceful Coexistence, proclaimed by Premier Zhou Enlai in 1954.<sup>6</sup> The policy change reflected a desire to promote a peaceful external environment for domestic economic development. The US was viewed as the greatest security threat, but it was assessed as gradually diminishing. Mao observed that the US was quite isolated, facing conflict at home and abroad, offering China diplomatic opportunities, including improving relations with many states.<sup>7</sup>

The first official contact between China and the US began at the Geneva Conference in 1954, when the two sides held talks on removing restrictions on Chinese and American nationals returning to their respective countries.<sup>8</sup> Steven Goldstein pointed out that the

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<sup>4</sup> For the discussion of China and the Korean War, see Chen, Jian. *China's Road to the Korean War: The Making of the Sino-American Confrontation*. New York: Columbia University Press, 1994; Zhang, Shuguang. *Mao's Military Romanticism: China and the Korean War, 1950-1953*. Lawrence: University Press of Kansas, 1995; Whiting, Allen S. *China Crosses the Yalu: The Decision to Enter the Korean War*. Stanford, Calif.: Stanford University Press, 1968; Tao, Wenzhao. *The History of Sino-US Relations (1949-1972)*. Shanghai: Shanghai People's Publishing House, 1999; Hunt, Michael H. "Beijing and the Korean Crisis, June 1950-June 1951." *Political Science Quarterly* 107, no. 3 (1992), pp. 453-78.

<sup>5</sup> Zhang, Baijia. "The Changing International Scene and Chinese Policy toward the United States." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, Cambridge, Mass.: Harvard University Press, 2001, p. 47.

<sup>6</sup> *Ibid.*, p. 48. The five principles were: mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence. "Five Principles of Peaceful Coexistence."

[http://news.xinhuanet.com/ziliao/2004-06/09/content\\_1515866.htm](http://news.xinhuanet.com/ziliao/2004-06/09/content_1515866.htm). Accessed 17/03/2010.

<sup>7</sup> CCCPC Party Literature Research Office. *Collected Works of Mao Zedong*. Vol. 6. Beijing: People's Publishing House, 1999, p. 333.

<sup>8</sup> For details about Sino-American ambassadorial-level talks, see Zhang, Baijia, and Qingguo Jia. "Steering Wheel, Shock Absorber, and Diplomatic Probe in Confrontation: Sino-American Ambassadorial Talks Seen from Chinese Perspective." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, Cambridge, Mass.: Harvard University Press, 2001, pp. 173-99; Goldstein, Steven M. "Dialogue of the Deaf? The Sino-American Ambassadorial-Level Talks, 1955-1970." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, Cambridge, Mass.: Harvard University Press, 2001, pp. 200-37.

stimulus for the talks came from the First Taiwan Strait Crisis of 1954-1955, when the PLA shelled Jinmen Island, in an attempt to dissuade the US and Taiwan from signing a mutual defence treaty. China's military action was not successful and the Treaty was signed in December 1954.<sup>9</sup> At the Asian-African Conference in Bandung in April 1955, Zhou Enlai's proposal for negotiations led to the start of Sino-American ambassadorial-level talks in August of that year.<sup>10</sup> They did not yield any substantive progress because differences were large. China was keen to focus on relaxation of tensions over Taiwan while the US focused mainly on the return of US civilians and prisoners of war.<sup>11</sup>

The signs of improvement in relations did not last long. At the end of 1957, ambassadorial-level talks were interrupted by US attempts to lower their level to "junior status". US Secretary of State John Foster Dulles restated that Washington's policy was non-recognition, opposition to admission to the UN and imposition of a trade embargo.<sup>12</sup> Beijing's efforts at improving relations were dismissed. China's US policy reemphasised the fight against US imperialism.<sup>13</sup>

In the late 1950s, differences on a range of issues saw China split with the Soviet Union.<sup>14</sup> After 1958, China's foreign policy shifted to confronting both superpowers.<sup>15</sup> To demonstrate its toughness towards the US, the PLA shelled Jinmen Island in August 1958, as it had done in 1954, to probe whether Jinmen and Mazu were included under the US-

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<sup>9</sup> Zhang, Baijia. "The Changing International Scene and Chinese Policy toward the United States." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 48

<sup>10</sup> Zhang, Baijia, and Qingguo Jia. "Steering Wheel, Shock Absorber, and Diplomatic Probe in Confrontation: Sino-American Ambassadorial Talks Seen from Chinese Perspective." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, pp. 174-76.

<sup>11</sup> *Ibid.*, pp. 179-88; Goldstein, Steven M. "Dialogue of the Deaf? The Sino-American Ambassadorial-Level Talks, 1955-1970." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, pp. 209-14.

<sup>12</sup> Zhang, Baijia. "The Changing International Scene and Chinese Policy toward the United States." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 52; Bush, Richard C. *At Cross Purposes: US-Taiwan Relations since 1942*. Armonk, N.Y.: M.E. Sharpe, 2004, pp. 103-05.

<sup>13</sup> Zhang, Baijia. "The Changing International Scene and Chinese Policy toward the United States." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, pp. 52-53.

<sup>14</sup> For the discussion of Sino-Soviet relations, see Luthi, Lorenz M. *The Sino-Soviet Split: Cold War in the Communist World*. Princeton, N.J.: Princeton University Press, 2008; Westad, Odd Arne, ed. *Brothers in Arms: The Rise and Fall of the Sino-Soviet Alliance, 1945-1963*. Washington: Woodrow Wilson Center Press, 1998; Chang, Gordon. *Friends and Enemies: The United States, China, and the Soviet Union, 1948-1972*. Stanford Calif.: Stanford University Press, 1990.

<sup>15</sup> Wu, Baiyi. "The Chinese Security Concept and Its Historical Evolution." *Journal of Contemporary China* 10, no. 27 (2001), p. 276.

Taiwan Defence Treaty and test US determination to defend Taiwan.<sup>16</sup> A few days after the shelling, President Eisenhower reaffirmed that the US would not abandon the commitment to use armed forces to protect Taiwan, and Secretary of State Dulles stated that the US would extend the scope of protection from the Taiwan Strait to include Jinmen and Mazu.<sup>17</sup> Mao's observation was that US imperialism was fashioning another "noose" with which to hang itself. It had established military bases in many countries and all were "nooses". By maintaining a global military presence, "US imperialism had been creating tension all over the world as it tried to invade and enslave the people of various countries", and "tension mobilised the people of the world to rise against the US invaders".<sup>18</sup> Nevertheless, ambassadorial talks resumed in mid-September that year. While neither side showed any sign of compromise, the talks were the only channel for maintaining contact.<sup>19</sup> Sino-American confrontation in the Taiwan Strait eventually concluded without a military clash. Robert Accinelli argued that the crisis showed Mao's caution and flexibility in dealing with the US, and Eisenhower and Dulles demonstrated similar restraint in pursuing deterrence.<sup>20</sup>

The shelling of Jinmen and Mazu had an impact on Sino-Soviet relations. Khrushchev was surprised because China had not given Moscow prior warning.<sup>21</sup> Despite this, the Soviet Union offered public support. Khrushchev sent a letter to Eisenhower in early September, declaring that it considered an attack on China to be an attack on the Soviet Union itself.<sup>22</sup> As Chinese sources show, before the shelling in the spring of 1958, Beijing and Moscow contended over the Soviet Union's proposal to construct military radio facilities on Chinese territory, to be paid for by both governments, and a proposal for a joint Sino-Soviet fleet.

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<sup>16</sup> Gong, Li. "Tension across the Taiwan Strait in the 1950s: Chinese Strategy and Tactics." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, Cambridge, Mass.: Harvard University Press, 2001, pp. 141-72.

<sup>17</sup> Accinelli, Robert. "'a Thorn in the Side of Peace': The Eisenhower Administration and the 1958 Offshore Islands Crisis." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, Cambridge, Mass.: Harvard University Press, 2001, pp. 106-40.

<sup>18</sup> CCCPC Party Literature Research Office. *Collected Diplomatic Works of Mao Zedong*. Beijing: Central Party Literature Press, 1994, pp. 341-43.

<sup>19</sup> Zhang, Baijia. "The Changing International Scene and Chinese Policy toward the United States." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, pp. 189-90.

<sup>20</sup> Accinelli, Robert. "'a Thorn in the Side of Peace': The Eisenhower Administration and the 1958 Offshore Islands Crisis." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 137.

<sup>21</sup> *Ibid.*, p. 122.

<sup>22</sup> Gong, Li. "Tension across the Taiwan Strait in the 1950s: Chinese Strategy and Tactics." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 161.

The proposals were considered by Mao as Soviet attempts to infringe on Chinese territory and rejected by Beijing.<sup>23</sup> After the shelling, although the Soviet Union supported China in rhetoric, Khrushchev no longer trusted Mao's reliability, and was concerned that Chinese policies might trigger a war between the Soviet Union and the US.<sup>24</sup>

In June 1959, the Soviet Union cancelled a 1957 agreement to transfer new technologies to China, and refused to provide a sample nuclear bomb and related materials prior to the US-Soviet Camp David Summit on negotiating a nuclear test ban treaty.<sup>25</sup> These developments prompted China to re-evaluate its security. The conclusion was that the Sino-Soviet alliance and aid no longer served as an unconditional guarantee for China's struggle against US imperialism. Mao feared that easing tensions between the Soviet Union and the US damaged China's interests. By appeasing US imperialism, "the Soviet Union had reneged on its obligation to a fraternal socialist country", and become "revisionists".<sup>26</sup> In April 1960, Chinese leaders publically questioned Soviet domestic and international policies.<sup>27</sup> In July, the Soviet Union withdrew its experts working in China and suspended economic aid.<sup>28</sup>

As the Sino-Soviet conflict escalated, the Soviet Union signed the Nuclear Test Ban Treaty with the US and Britain in 1963,<sup>29</sup> increased its military strength along the Sino-Soviet border and encouraged over 60,000 minority Uighars in Xinjiang to cross the border.<sup>30</sup> China's leaders saw Moscow as a growing threat from the northeast,<sup>31</sup> while US intervention in Vietnam was seen as a threat to security in the southwest.<sup>32</sup> China confronted two superpowers simultaneously.

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<sup>23</sup> Zhang, Baijia. "The Changing International Scene and Chinese Policy toward the United States." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 58.

<sup>24</sup> *Ibid.*

<sup>25</sup> Li, Jie. "Changes in China's Domestic Situation in the 1960s and Sino-US Relations." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, Cambridge, Mass.: Harvard University Press, 2001, p. 292.

<sup>26</sup> *Ibid.*, pp. 292-93.

<sup>27</sup> Two critical editorials in *Ibid.*, p. 293.

<sup>28</sup> Zhang, Baijia. "The Changing International Scene and Chinese Policy toward the United States." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 59.

<sup>29</sup> Li, Jie. "Changes in China's Domestic Situation in the 1960s and Sino-US Relations." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 293.

<sup>30</sup> *Ibid.*, p. 301.

<sup>31</sup> *Ibid.*, p. 293.

<sup>32</sup> Zhang, Baijia. "The Changing International Scene and Chinese Policy toward the United States." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 60.

During the first half of the 1960s, China strengthened diplomatic relations with the Third World, guided by Mao's theory of an "intermediate zone" to offset the strategic threat from two superpowers. Mao divided the intermediate zone into two parts, one consisting of Asia, Africa, and Latin America, the other Western and Eastern Europe.<sup>33</sup> Both parts "are against control by the US, and Eastern European countries fight against control by the Soviet Union".<sup>34</sup> The struggle between control and resistance, he argued, weakened the strength of the two superpowers and diverted their attentions, creating "contradictions" between the superpowers and Third World.<sup>35</sup>

US intervention in Vietnam in 1964 exacerbated tensions in Sino-US relations. Li Jie noted that Mao had two primary concerns: war along China's border and expansion of Soviet influence in Indochina by provision of aid to Hanoi.<sup>36</sup> In April 1965, China and Vietnam signed an agreement on the deployment of 320,000 Chinese troops to Vietnam.<sup>37</sup> Some Chinese scholars point out that, although China gave full support to Vietnam, it also tried to contain the conflict.<sup>38</sup> In a conversation with Pakistan President Mohammad Aybu Khan on April 2 1965, Premier Zhou Enlai asked him to convey three points to the US: first, China would not take the initiative to provoke a war; second, it would carry out its international obligations; and third, China had made preparations for war.<sup>39</sup>

The escalation of the Vietnam War in the mid-1960s also exacerbated strains in Sino-Soviet relations, leading to a final split. In 1964, China became aware of a Soviet military build-up along the Sino-Soviet border, identifying "three Norths" - the northern, north-eastern and north-western regions - plus the south-eastern regions as China's strategic areas of national defence.<sup>40</sup> In February 1965, the Soviet Union proposed a conference, co-sponsored by

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<sup>33</sup> CCCPC Party Literature Research Office. *Collected Diplomatic Works of Mao Zedong*, p. 508.

<sup>34</sup> *Ibid.*, p. 507.

<sup>35</sup> Li, Jie. "Changes in China's Domestic Situation in the 1960s and Sino-US Relations." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 296.

<sup>36</sup> *Ibid.*, p. 294.

<sup>37</sup> Zhang, Baijia. "The Changing International Scene and Chinese Policy toward the United States." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 63.

<sup>38</sup> *Ibid.*, pp. 62-63; Li, Jie. "Changes in China's Domestic Situation in the 1960s and Sino-US Relations." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 295.

<sup>39</sup> CCCPC Party Literature Research Office. *Collected Diplomatic Works of Zhou Enlai*. Beijing: Central Party Literature Press, 1990, p. 440.

<sup>40</sup> Wang, Zhongchun. "The Soviet Factor in Sino-American Normalization, 1969-1979." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, Cambridge Mass.: Harvard University Press, 2005, p. 149.

North Vietnam, with China on a peaceful resolution of the Indochina issue. It was rejected as a gesture by the Soviet Union to pursue détente with the US.

In March 1966, the CCP declined an invitation to attend the 23<sup>rd</sup> National Congress of the Soviet Communist Party,<sup>41</sup> and in 1968, Sino-Soviet tensions increased over Qilixin Island, on the Chinese side of the main Channel of the Ussuri, or Wusuli, River.<sup>42</sup> After the Soviet invasion of Czechoslovakia in August that year, Chinese apprehension increased, accusing the Soviet Union of “socialist imperialism”.<sup>43</sup> In March 1969, Chinese and Soviet patrol forces engaged in an armed confrontation along the Sino-Soviet border,<sup>44</sup> while Western media reported that the Soviet Union planned to strike China’s nuclear facilities.<sup>45</sup> China’s leaders concluded that the Soviet Union posed the greatest threat to its security.<sup>46</sup>

From the Second Taiwan Crisis until the end of the Kennedy administration (1961-1963), ambassadorial talks made little progress, and Sino-US relations remained frozen. Chinese and American scholars note, however, that President Kennedy brought the Taiwan issue under control, averting another crisis in early 1962.<sup>47</sup> Jiang Jieshi was preparing to attack the mainland, but Washington pressured him to desist, advising that “American support would be restricted to economic aid and a firm commitment to the defence of the island”.<sup>48</sup> Even though the Sino-Soviet dispute was escalating, China regarded the US as a significant threat. From the US perspective, as Steven Goldstein pointed out, lingering elements of

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<sup>41</sup> Zhang, Baijia. “The Changing International Scene and Chinese Policy toward the United States.” In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 64.

<sup>42</sup> *Ibid.*, p. 67.

<sup>43</sup> Wang, Zhongchun. “The Soviet Factor in Sino-American Normalization, 1969-1979.” In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, pp. 151-52; Yang, Kuisong. “The Sino-Soviet Border Clash of 1969: From Zhenbao Island to Sino-American Rapprochement.” *Cold War History* 1, no. 1 (2000), pp. 21-52.

<sup>44</sup> Wang, Zhongchun. “The Soviet Factor in Sino-American Normalization, 1969-1979.” In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, pp. 151-52

<sup>45</sup> Zhang, Baijia. “The Changing International Scene and Chinese Policy toward the United States.” In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 68.

<sup>46</sup> Wang, Taiping, ed. *China's 50 Years' Diplomacy*. Beijing: Beijing Publishing House, 1999, p. 936

<sup>47</sup> Zhang, Baijia, and Qingguo Jia. “Steering Wheel, Shock Absorber, and Diplomatic Probe in Confrontation: Sino-American Ambassadorial Talks Seen from Chinese Perspective.” In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, pp. 190-91; Goldstein, Steven M.

“Dialogue of the Deaf? The Sino-American Ambassadorial-Level Talks, 1955-1970.” In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, pp. 226-27.

<sup>48</sup> Goldstein, Steven M. “Dialogue of the Deaf? The Sino-American Ambassadorial-Level Talks, 1955-1970.” In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 226.

McCarthyism, instability in Vietnam, and China's detonation of a nuclear device in October 1964,<sup>49</sup> steered America away from moving closer to China.<sup>50</sup>

During the Johnson Presidency (1963-1969), 15 ambassadorial talks were held, though there was little progress in improving bilateral relations because of the escalating war in Vietnam.<sup>51</sup> With the onset of the Cultural Revolution in 1966, China's leaders were preoccupied with domestic affairs and foreign policy initially became extremely radical,<sup>52</sup> promoting "world revolution". In Mao's words, "a world without imperialism, modern revisionism, and exploitation must be established".<sup>53</sup> In early 1966, Washington intended to take a new initiative, via trade and cultural exchanges, to develop relations with Beijing, but this did not gain any momentum.<sup>54</sup> As Chinese ambassador Wang Guoquan recalled in his memoirs, China lost a favourable opportunity to give Sino-American relations a timely push, which was "a regretful thing in the history of diplomacy".<sup>55</sup> Although China rebuffed Washington's overtures to improve bilateral relations, Robert Schulzinger argued that it laid the groundwork for later China-US détente.<sup>56</sup>

Relations between China, the Soviet Union and the US experienced fundamental changes in the late 1960s, which created an environment for Sino-US rapprochement. The US was on

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<sup>49</sup> Zhang, Baijia, and Qingguo Jia. "Steering Wheel, Shock Absorber, and Diplomatic Probe in Confrontation: Sino-American Ambassadorial Talks Seen from Chinese Perspective." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, pp. 190-91; Goldstein, Steven M.

"Dialogue of the Deaf? The Sino-American Ambassadorial-Level Talks, 1955-1970." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 239.

<sup>50</sup> Goldstein, Steven M. "Dialogue of the Deaf? The Sino-American Ambassadorial-Level Talks, 1955-1970." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, pp. 227-28.

<sup>51</sup> *Ibid.*

<sup>52</sup> Li, Jie. "Changes in China's Domestic Situation in the 1960s and Sino-US Relations." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, pp. 306-09.

<sup>53</sup> Zhang, Baijia. "The Changing International Scene and Chinese Policy toward the United States." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 65.

<sup>54</sup> Zhang, Baijia, and Qingguo Jia. "Steering Wheel, Shock Absorber, and Diplomatic Probe in Confrontation: Sino-American Ambassadorial Talks Seen from Chinese Perspective." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 193; Goldstein, Steven M. "Dialogue of the Deaf? The Sino-American Ambassadorial-Level Talks, 1955-1970." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, pp. 230-32; Schulzinger, Robert D. "The Johnson Administration, China, and the Vietnam War." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, Cambridge, Mass.: Harvard University Press, 2001, pp. 258-59.

<sup>55</sup> Ministry of Foreign Affairs of People's Republic of China, ed. *Experience of Contemporary Chinese Ambassadors*. Vol. 2. Beijing: World Affairs Press, 1995, pp. 154-55.

<sup>56</sup> Schulzinger, Robert D. "The Johnson Administration, China, and the Vietnam War." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 258.



the defensive against the Soviet Union. By 1969, President Nixon and his National Security Advisor Henry Kissinger believed that the Soviet Union had achieved rough strategic nuclear parity with the US,<sup>57</sup> and Nixon announced his intention to withdraw from Vietnam and scale down the US presence in East Asia in a speech in Guam in July 1969, which became known as the *Nixon Doctrine*.<sup>58</sup> Strategic overextension and Vietnam compelled the US to re-evaluate its China policy.

By the end of the 1960s, China faced trouble both at home and abroad. Its radical foreign policy, and domestic disorder associated with the Cultural Revolution, disrupted relations with many states. The Sino-Soviet conflict intensified, and the Soviet Union replaced the US as the primary threat to China's national security after the border conflict in 1969. Professor Gongli from the Institute of International Strategic Studies of Central Party School pointed out that China "could no longer endure hostility from both superpowers simultaneously". He observes that it was necessary to make use of the rivalry between the two superpowers<sup>59</sup> to counter the Soviet threat, and make progress on Taiwan and Vietnam.<sup>60</sup> As Mao Zedong put it "we have to win over one of the two superpowers, we cannot wage a war on two fronts".<sup>61</sup> These factors prompted China to adjust its US policy.

In January 1970, China and the US resumed ambassadorial talks stalled since 1968. Both sides expressed a desire to improve relations and raised the possibility of a higher-level meeting.<sup>62</sup> On 10 July 1970, Nixon endorsed diplomatic recognition of China.<sup>63</sup> Mao responded that he was ready to talk with Nixon if he would come to Beijing, saying that "it's

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<sup>57</sup> Schaller, Michael. "Detente and the Strategic Triangle, or, " Drinking Your Mao Tai and Having Your Vodka, Too"." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, Cambridge, Mass.: Harvard University Press, 2001, p. 363.

<sup>58</sup> *Ibid.*, p. 384.

<sup>59</sup> Gong, Li. "Chinese Decision Making and the Thawing of US-China Relations." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, Cambridge, Mass.: Harvard University Press, 2001, p. 328.

<sup>60</sup> *Ibid.*, p. 329; Wang, Zhongchun. "The Soviet Factor in Sino-American Normalization, 1969-1979." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, p. 156.

<sup>61</sup> Quoted in *Ibid.*

<sup>62</sup> Zhang, Baijia, and Qingguo Jia. "Steering Wheel, Shock Absorber, and Diplomatic Probe in Confrontation: Sino-American Ambassadorial Talks Seen from Chinese Perspective." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 196; Goldstein, Steven M. "Dialogue of the Deaf? The Sino-American Ambassadorial-Level Talks, 1955-1970." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 233.

<sup>63</sup> Zhang, Baijia. "The Changing International Scene and Chinese Policy toward the United States." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 73.

all right if the talks succeed, and if they fail, it's all right, too".<sup>64</sup> In July 1971, Kissinger made a secret visit to make preparatory arrangements for Nixon's visit in February 1972.<sup>65</sup> A new chapter in relations opened with the Joint China-US, or Shanghai, Communiqué.<sup>66</sup>

## 5.2 The path toward China-US normalisation (1972-1979)

In the Joint Communiqué signed on 28 February 1972, the US said that the "ultimate objective" was to withdraw "all US forces and military installations from Taiwan", and that "it would progressively reduce its forces and military installations on Taiwan as the tension in the area diminishes". Neither side would "seek hegemony in the Asia-Pacific region", and "each is opposed to efforts by any other country or group of countries to establish such hegemony".<sup>67</sup>

In preparation for his meetings with Mao and Zhou, Nixon wrote down the essentials of what Washington and Beijing were trying to obtain from one another. US goals were to find a way out of the Vietnam War, restrain Chinese communist expansion in Asia, and reduce the threat of confrontation with China in the future. China's objectives were to build its international credentials, find a solution to the Taiwan issue, and to get the US out of Asia.<sup>68</sup> The overlapping goals were to reduce the danger of confrontation and conflict, restrain Soviet power and stabilise Asia.<sup>69</sup> The driving force was the Soviet threat. Washington expected to gain leverage over Moscow. Kissinger asserted that "we want our China policy to show Moscow that it cannot speak for all communist countries, that it is to their advantage to make agreements with us".<sup>70</sup> China sought to defend itself against the Soviet threat without simultaneously fighting the US. In a private meeting with Zhou, Nixon promised that the US would keep Beijing informed about any deals with the Soviet Union

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<sup>64</sup> CCCPC Party Literature Research Office. *Collected Diplomatic Works of Mao Zedong*, p. 593.

<sup>65</sup> Zhang, Baijia. "The Changing International Scene and Chinese Policy toward the United States." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 73.

<sup>66</sup> For a comprehensive treatment of Sino-American rapprochement, see MacMillan, Margaret. *Nixon and Mao: The Week That Changed the World*. New York: Random House, 2008. Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*. New York: Alfred A. Knopf, 1999.

<sup>67</sup> "Joint Communiqué of the United States of America and the People's Republic of China (Shanghai Communiqué)." (February 28, 1972), <http://www.china.org.cn/english/china-us/26012.htm>. Accessed 22/05/2010.

<sup>68</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 13.

<sup>69</sup> *Ibid.*, p. 14.

<sup>70</sup> Kissinger, Henry. *White House Years*. Boston: Little, Brown, 1979, p. 765.

and seek to restrain Soviet expansion in Asia,<sup>71</sup> while in a meeting with the Chinese Vice-Foreign Minister Kissinger offered intelligence information about Soviet military deployments.<sup>72</sup>

Taiwan and Vietnam were Beijing and Washington's respective major concerns. Nixon referred to them as "irritants" between the US and China that could be solved gradually through a trade-off.<sup>73</sup> He suggested that Washington was willing to make concessions on Taiwan in exchange for China's help in obtaining a peace settlement with Vietnam.<sup>74</sup> On Taiwan, Nixon gave private assurances that it was part of China, that there was only one China, and that Washington would not support Taiwanese independence. He would not make "secret deals" because of the US commitment to Taiwan, but concluded that "our interests require normalisation" of US-China relations.<sup>75</sup> Nixon promised secretly to normalise relations in his second term, which was conveyed by Kissinger during his secret trip to Beijing the year before.<sup>76</sup> The Chinese also hoped that the US would withdraw its troops from Taiwan within a fixed time period, while the US sought a promise of a peaceful settlement of the Taiwan conflict. In the end, a compromise was reached in the language of the Communiqué. The US stated that it would withdraw all forces from Taiwan when tensions diminished and "reaffirms its interests in a peaceful settlement of the Taiwan question by the Chinese themselves".<sup>77</sup>

Nixon and Kissinger wanted China's assistance to bring an end to the Vietnam War. In the meeting with Zhou in July 1971, Kissinger indicated that the withdrawal of US troops from

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<sup>71</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 42; Schaller, Michael. "Detente and the Strategic Triangle, or, " Drinking Your Mao Tai and Having Your Vodka, Too"." *In Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 384.

<sup>72</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 42.

<sup>73</sup> Schaller, Michael. "Detente and the Strategic Triangle, or, " Drinking Your Mao Tai and Having Your Vodka, Too"." *In Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 384.

<sup>74</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 15.

<sup>75</sup> Schaller, Michael. "Detente and the Strategic Triangle, or, " Drinking Your Mao Tai and Having Your Vodka, Too"." *In Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 384.

<sup>76</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 33, p. 46.

<sup>77</sup> "Joint Communiqué of the United States of America and the People's Republic of China (Shanghai Communiqué)." (February 28, 1972), <http://www.china.org.cn/english/china-us/26012.htm>.

Taiwan was linked to the end of the Vietnam War.<sup>78</sup> The US was afraid that China would enter the conflict which would lead to a military confrontation, as had happened in Korea.<sup>79</sup> Robert Schulzinger argued that the Johnson Administration had a clear view of the extent and limits of the fighting in Vietnam.<sup>80</sup> Nonetheless, Nixon and Kissinger did not gain Beijing's support, on the grounds that Vietnam was not an issue for discussion.<sup>81</sup> Nevertheless, Zhou gave Nixon a sort of an assurance: China might never send its troops to fight in Vietnam as it had in the Korean War because China's policy toward Vietnam was different from Korea.<sup>82</sup> The Chinese scholar Li Danhui concluded that China began to adjust its foreign policy to reconcile the contradiction between revolution and pragmatism in response to the changing strategic environment of the late 1960s. This contradiction was reflected in China's pragmatic change in policy toward the US while maintaining a "revolutionary" commitment to Vietnam's anti-US resistance.<sup>83</sup>

Although Beijing and Washington did not reach agreement on the "two irritants", the danger of confrontation was reduced which served as a restraint on the Soviet Union.<sup>84</sup> Moreover, as Michael Schaller observes, Nixon's China initiative helped in three aspects following his visit: the conclusion of the US-Soviet Strategic Arms Limitation Treaty (SALT) in May 1972, the cease-fire agreement in Vietnam in October 1972, and his re-election in November 1972.<sup>85</sup>

The process of China-US normalisation accelerated. In February, after the signing of the Paris Peace Accords, Kissinger returned to Beijing. He proposed two steps toward

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<sup>78</sup> Schaller, Michael. "Detente and the Strategic Triangle, or, " Drinking Your Mao Tai and Having Your Vodka, Too"." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 386.

<sup>79</sup> Schulzinger, Robert D. "The Johnson Administration, China, and the Vietnam War." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, pp. 238-61.

<sup>80</sup> *Ibid.*, p. 261.

<sup>81</sup> Li, Danhui. "Vietnam and Chinese Policy toward the United States." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, Cambridge Mass.: Harvard University Press, 2005, p. 190.

<sup>82</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 45.

<sup>83</sup> Li, Danhui. "Vietnam and Chinese Policy toward the United States." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, p. 205.

<sup>84</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 88.

<sup>85</sup> Schaller, Michael. "Detente and the Strategic Triangle, or, " Drinking Your Mao Tai and Having Your Vodka, Too"." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, p. 386.

normalisation: to set up a liaison office in each other's capital as the first step, and to establish full relations before mid-1976 as the second.<sup>86</sup> Mao, out of strategic consideration for deteriorating China-Soviet relations, proposed that they "draw a horizontal line"; a strategic line of defence from Japan, Pakistan, Iran, Turkey, Europe to the US aimed at countering Soviet expansionism.<sup>87</sup> The Soviet Union had increased troop numbers along the China-Soviet border from 21 divisions in 1969 to 33 in 1971 and 45 in 1973.<sup>88</sup> By the time Kissinger left Beijing, he concluded that China and the US had become "tacit allies",<sup>89</sup> though the Chinese were more cautious.<sup>90</sup>

In May 1973, liaison offices were set up in Beijing and Washington, marking the first important step toward China-US normalisation. However, several factors hindered the process.

First, though Beijing and Washington viewed the Soviet Union as a common enemy, they pursued different approaches to checking the threat. As Kissinger put it, the US response to Soviet expansionism was not as direct and heroic as China's "horizontal line" strategy.<sup>91</sup> In Washington's view, Nixon's opening to China was "supposed to make America's ties with the Soviet Union more amicable, not more adversarial".<sup>92</sup> Kissinger wrote to Nixon in early 1973 that "with conscientious attention to both capitals, we should be able to have our *Maotai* and drink our vodka too".<sup>93</sup> In parallel with normalising China-US relations, Washington accelerated détente with the Soviet Union. In June 1973, Brezhnev visited Washington and signed the "Basic Principles of Negotiations on Strategic Arms Limitation"

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<sup>86</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, pp. 61-62; Gong, Li. "The Difficult Path to Diplomatic Relations: China's US Policy, 1972-1978." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, pp. 116-46. Cambridge, Mass.: Harvard University Press, 2005, p. 121.

<sup>87</sup> Li, Danhui. "Vietnam and Chinese Policy toward the United States." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, p. 204.

<sup>88</sup> Wang, Zhongchun. "The Soviet Factor in Sino-American Normalization, 1969-1979." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, pp. 150-57.

<sup>89</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 33, p. 63.

<sup>90</sup> Gong, Li. "The Difficult Path to Diplomatic Relations: China's US Policy, 1972-1978." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, pp. 117-19.

<sup>91</sup> Burr, William. *The Kissinger Transcripts: The Top Secret Talks with Beijing and Moscow*. New York: New Press, 1999, p. 41.

<sup>92</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 56.

<sup>93</sup> Kissinger, Henry A. *Years of Upheaval*. Boston: Little, Brown, 1982, p. 70.

with the US. A year later Nixon visited Moscow and US-Soviet negotiations commenced.<sup>94</sup> In the eyes of China's leaders, US-Soviet détente would lead to greater Soviet military pressure.<sup>95</sup> China increased criticism of US efforts to promote US-Soviet détente.<sup>96</sup>

Secondly, when Nixon resigned in August 1974 due to Watergate, it was impossible to fulfil the promise of full China-US normalisation in his second term. Thirdly, from mid-1973, as Li Jie pointed out, China's domestic politics impeded China-US negotiation. Premier Zhou encountered reverses in his effort to correct the "mistakes of the left".<sup>97</sup>

Against this background, normalisation of China-US relations did not make substantial progress during the presidency of Gerald Ford, who succeeded Nixon. Even though both Ford and Kissinger reaffirmed Nixon's discussions and commitments, they found they could not fulfil the promise of full normalisation in 1976 for several reasons. The key issue was Taiwan. In late 1974, in a meeting with Deng Xiaoping, who had taken charge of foreign affairs, Kissinger stated that, while still maintaining non-governmental exchanges, Washington could not normalise relations with Beijing according to the "Japanese formula", which referred to Japan's 1972 establishment of diplomatic relations with Beijing and termination of official relations with Taiwan.<sup>98</sup> This was because the US commitment to Taiwan was bound by the mutual defence treaty and there was a strong pro-Taiwan lobby in the US.<sup>99</sup> Kissinger stated that the US wished to set up a liaison office in Taiwan and, furthermore, China would be expected to publicly renounce the use of force against Taiwan.<sup>100</sup> Deng rejected the idea and reiterated three principles for Sino-US relations: termination of the mutual defence treaty, breaking diplomatic relations with Taiwan and withdrawal of all forces from Taiwan. He also insisted that the solution to the Taiwan issue

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<sup>94</sup>Wang, Zhongchun. "The Soviet Factor in Sino-American Normalization, 1969-1979." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, p. 163.

<sup>95</sup> *Ibid.*

<sup>96</sup> Gong, Li. "The Difficult Path to Diplomatic Relations: China's US Policy, 1972-1978." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, p. 127.

<sup>97</sup>For a comprehensive account of the situation of domestic politics at the time, see Li, Jie. "China's Domestic Politics and the Normalization of Sino-US Relations, 1969-1979." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, Cambridge Mass.: Harvard University Press, 2005, pp. 66-78.

<sup>98</sup> Gong, Li. "The Difficult Path to Diplomatic Relations: China's US Policy, 1972-1978." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, p. 128.

<sup>99</sup> *Ibid.*, p. 129.

<sup>100</sup> *Ibid.*; Foot, Rosemary. "Prize Won, Opportunities Lost: The US Normalization of Relations with China, 1972-1979." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, Cambridge, Mass.: Harvard University Press, 2005, p. 102.

was China's internal affair.<sup>101</sup> At the time, the conduct of China-US negotiations was under Mao's instructions, and Deng, who was under domestic political attack, was in no position to be conciliatory.<sup>102</sup> China's stance on Taiwan was "to await great changes with a cold attitude".<sup>103</sup>

Because of the differences over Taiwan, normalisation began to stagnate, partially due to US domestic politics. In 1975, Ford and Kissinger faced criticism in the wake of the fall of Saigon and US détente with the Soviet Union,<sup>104</sup> leaving little room, as Rosemary Foot argued, for Ford to "strike a compromise agreement".<sup>105</sup> Since he decided to contest the 1976 presidential election, it was too risky politically to normalise relations "at the expense of ties with Taiwan", as the Republican challenger Ronald Reagan was arguing.<sup>106</sup> Instead, Ford reiterated US commitments to Taiwan at a press conference in May 1975, as well as to other US allies in Asia.<sup>107</sup> Even though Ford paid a visit to Beijing in December 1975, the Sino-US summit ended without any breakthrough.

Progress toward normalisation resumed when Jimmy Carter came to power in 1977. At the same time, Deng Xiaoping took a leadership role after Mao died in 1976, thus paving the way for full China-US normalisation, though prospects did not look promising in the early stages because Carter and his Secretary of State Cyrus Vance were eager to pursue détente and arms control with the Soviet Union.<sup>108</sup> In August 1977, Vance visited Beijing and proposed that US officials remain in Taiwan after normalisation,<sup>109</sup> which was rejected by

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<sup>101</sup> Gong, Li. "The Difficult Path to Diplomatic Relations: China's US Policy, 1972-1978." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, p. 129.

<sup>102</sup> Li, Jie. "China's Domestic Politics and the Normalization of Sino-US Relations, 1969-1979." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, pp. 73-76.

<sup>103</sup> *Ibid.*, p. 75.

<sup>104</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 68.

<sup>105</sup> Foot, Rosemary. "Prize Won, Opportunities Lost: The US Normalization of Relations with China, 1972-1979." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, p. 94.

<sup>106</sup> *Ibid.*, p. 95.

<sup>107</sup> Burr, William. *The Kissinger Transcripts: The Top Secret Talks with Beijing and Moscow*, p. 372.

<sup>108</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 82.

<sup>109</sup> Gong, Li. "The Difficult Path to Diplomatic Relations: China's US Policy, 1972-1978." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, p. 134.

Deng Xiaoping as unacceptable and a “retreat” on past promises.<sup>110</sup> Normalisation of relations was delayed further.

A turning point occurred in the spring of 1978.<sup>111</sup> As Carter’s National Security Advisor Zbigniew Brzezinski suggested, China-US normalisation was useful in putting pressure on Moscow to negotiate a new arms control treaty with the Soviet Union (SALT II), which was contrary to Vance’s advice.<sup>112</sup> In May 1978, Carter decided to send Brzezinski to Beijing to convey the message that the US was willing to accept China’s three conditions and ready to normalise relations.<sup>113</sup> Several rounds of negotiations were held subsequently from July to early December. The key issue was US relations with Taiwan after the normalisation of Sino-US relations.<sup>114</sup> China reiterated its three principles, and insisted that the US should stop arms sales to Taiwan. As for the liberation of Taiwan, China regarded it as an internal affair, and other states had no right to interfere.<sup>115</sup> The US stated that it would give Taiwan one year’s notice before terminating the defence treaty, restrain the sale of selected defensive arms, and expected that the Taiwan issue would be solved peacefully.<sup>116</sup> Deng did not want to “miss the chance” and sought concessions on two points: China would reserve the right to raise the arms sales issue later,<sup>117</sup> and acquiesce to the US call for peaceful resolution of Taiwan’s future while reiterating that the “way of bringing Taiwan back to the embrace of the motherland and reunifying the country is wholly a Chinese internal affair”.<sup>118</sup> As Gong Li pointed out, two concerns at the time prompted Deng to make this decision. First, China wanted to “teach Vietnam a lesson” for its aggression against Cambodia; and second, economic modernisation embarked on in late 1978 needed foreign capital, technology and

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<sup>110</sup> Foot, Rosemary. "Prize Won, Opportunities Lost: The US Normalization of Relations with China, 1972-1979." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, p. 98.

<sup>111</sup> Mann, James. *About Face: A History of America’s Curious Relationship with China, from Nixon to Clinton*, p. 84.

<sup>112</sup> *Ibid.*, p. 85.

<sup>113</sup> *Ibid.*, p. 86.

<sup>114</sup> Gong, Li. "The Difficult Path to Diplomatic Relations: China's US Policy, 1972-1978." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, p. 138.

<sup>115</sup> *Ibid.*

<sup>116</sup> Romberg, Alan D. *Rein in at the Brink of the Precipice: American Policy toward Taiwan and US-PRC Relations*. Washington: Henry L. Stimson Center, 2003, p. 90.

<sup>117</sup> Gong, Li. "The Difficult Path to Diplomatic Relations: China's US Policy, 1972-1978." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, pp. 142-44.

<sup>118</sup> Foot, Rosemary. "Prize Won, Opportunities Lost: The US Normalization of Relations with China, 1972-1979." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, pp. 105-13.



markets. The US was a major factor in securing Deng's economic agenda.<sup>119</sup> Eight years after the Nixon-Kissinger trip, China and the US issued a Joint Communiqué on 16 December 1978, establishing diplomatic relations on 1 January 1979.

### 5.3 The years of partnership (1979-1988)

The decade following normalisation of relations proved to be highly positive, marked by cooperation on mainly military issues. This section shows how this period marked the beginning of an oscillating cycle of cooperation and conflict which subsequently characterised Sino-US relations.

The Soviet Union's invasion of Afghanistan in December 1979 had a serious effect on the decade-long policy of détente. As Anatoliy Fedorovich Dobrynin, the Soviet Ambassador to Washington, recalled in his memoir, the invasion "was the hinge that turned a decade of détente under Nixon and Ford to the years of confrontation under Reagan".<sup>120</sup> In response, Carter postponed ratification of the SALT II Treaty, blocked grain sales to Moscow and boycotted the 1980 Moscow Olympics.<sup>121</sup> Brzezinski, his National Security Adviser, stressed China's strategic importance to the US in countering Soviet expansion and called for US-China military cooperation. He argued that the Soviet invasion was "a justification for opening the doors to a US-China defence relationship".<sup>122</sup> As a result, the Carter administration began to tilt US policy in favour of China. To strengthen the anti-Soviet alliance, he authorised arms sales of nonlethal military equipment and hardware to Beijing.<sup>123</sup> Military cooperation expanded further in late 1980 when Deng agreed to the installation of US intelligence equipment in western China to enable it to monitor Soviet nuclear tests and compliance with arms control agreements.<sup>124</sup> Another policy was to grant

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<sup>119</sup> Gong, Li. "The Difficult Path to Diplomatic Relations: China's US Policy, 1972-1978." In *Normalization of US-China Relations: An International History*, edited by William C. Kirby, Robert S. Ross and Li Gong, pp. 140-41.

<sup>120</sup> Dobrynin, Anatoliy Fedorovich. *In Confidence: Moscow's Ambassador to America's Six Cold War Presidents (1962-1986)*. New York: Times Books, Random House, 1995, p. 445.

<sup>121</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 110.

<sup>122</sup> Brzezinski, Zbigniew. *Power and Principle: Memoirs of the National Security Adviser, 1977-1981*. New York: Farrar, Straus, Giroux, 1983, p. 431.

<sup>123</sup> Ross, Robert S. "US Relations with China." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka. Cambridge, Mass.: Harvard University Press, 2002, p. 93.

<sup>124</sup> Gates, Robert M. *From the Shadows: The Ultimate Insider's Story of Five Presidents and How They Won the Cold War*. New York: Simon & Schuster, 1996, pp. 122-23.

MFN status<sup>125</sup> to China in 1980, to facilitate trade with the US.<sup>126</sup> One of Deng's primary concerns was access to US capital, technology and markets.

The Sino-US security relationship was consolidated during the Reagan Presidency (1981-1988). He was a fervent supporter of Taiwan before he was sworn in on 20 January 1981.<sup>127</sup> During his unsuccessful 1976 campaign, Reagan strongly opposed normalisation of relations and criticised Ford's 1975 visit to Beijing, suggesting that he would support the reestablishment of "official relations" with Taiwan if elected.<sup>128</sup> For the first 18 months of his presidency, US policy toward China and Taiwan was one of the major issues on which Reagan disagreed with his Secretary of State Alexander Haig who advocated strong relations with China.<sup>129</sup> After 18 months, the issue of arms sales to Taiwan, left unsettled by Carter and Deng Xiaoping after normalisation of relations, was "settled" in a Joint Communiqué on 17 August 1982. Washington did not set a date, but promised to limit sales "either in qualitative or in quantitative terms".<sup>130</sup> The ambiguity was a result of political bargaining. It muted discord during the 1980s, but re-emerged as a contentious issue after the Cold War.

Between 1983 and 1988 China-US relations developed into a close strategic relationship characterised by arms sales to China and intelligence cooperation. Reagan loosened arms export controls, opening the way for China to obtain arms and technology. China opened the Karakorum Highway, the route of the old Silk Road, from Xinjiang in Western China for the transfer of Chinese mules and weapons bought by the US into the hands of Afghan rebels.<sup>131</sup> Mann estimates that China made \$100m annually through arms sales.<sup>132</sup> By 1985,

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<sup>125</sup> In 1974, the US Congress passed the Jackson-Vanik amendment, removing MFN status from any nonmarket country that did not permit freedom of emigration for its citizens. The law was originally passed in order to pressure the Soviet Union to allow Jews to emigrate from the Soviet Union, but its restrictions were applied to all communist countries.

<sup>126</sup> "Agreement on Trade Relations between the United States and the People's Republic of China." *Senate testimony by Henry M. Jackson, Adlai E. Stevenson III, Warren Christopher, Cord Hansen-Sturm, Amy Yong-Anawaty, and F. A. Meister, November 15, 1979.* In Kennedy, Scott, ed. *China Cross Talk: The American Debate over China Policy since Normalization: A Reader.* Lanham, Md.: Rowman & Littlefield Publishers, 2003, pp. 13-23.

<sup>127</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton,* p. 116.

<sup>128</sup> *Ibid.*

<sup>129</sup> Reagan, Ronald. *An American Life.* New York: Simon & Schuster, 1990, p. 361.

<sup>130</sup> "Joint Communiqué between the People's Republic of China and the United States of America (China-US August 17 Communiqué)." (August 17, 1982), <http://www.china.org.cn/english/china-us/26244.htm>. Accessed 22/05/2010.

<sup>131</sup> Gates, Robert M. *From the Shadows: The Ultimate Insider's Story of Five Presidents and How They Won the Cold War,* pp. 348-49.

US defence and high technology industries obtained export licenses to China worth \$5b.<sup>133</sup> Growing relations were boosted by high-ranking official exchanges. Premier Zhao Ziyang visited Washington in January 1984, and Reagan visited Beijing in April. In a speech at the welcoming banquet, he praised the US and China for “stand[ing] together in opposing expansionism and hegemony”, and noted “the opportunity to keep the two countries on a path of genuine goodwill”, which he hoped “will reap rewards for generations to come....there will be no memory of a time when there was anything else but friendship and good feelings”.<sup>134</sup> Trade and US investment increased, as did bilateral education and cultural contacts.<sup>135</sup>

Against this backdrop, as Professor Jia Qiangguo from Beijing University pointed out, Beijing and Washington viewed relations in largely positive terms.<sup>136</sup> In his speech at the welcoming dinner for Secretary of State George Shultz, the Chinese Foreign Minister Wu Xueqian said that the forces in favour of improving relations were strengthening.<sup>137</sup> Gaston Sigur, the Assistant Secretary of State for East Asian and Pacific Affairs, declared that Sino-US relations were “firmly on a stable and durable course”.<sup>138</sup> Nonetheless, they were not completely free of tension. A surge in cheap Chinese textile exports, the “Huguang railway bond issue” and the defection by tennis star Hu Na caused problems,<sup>139</sup> which were settled through bilateral negotiations.<sup>140</sup>

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<sup>132</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 137.

<sup>133</sup> Weinberger, Caspar W. *Fighting for Peace: Seven Critical Years in the Pentagon*. New York: Warner books, 1990, p. 255.

<sup>134</sup> Reagan, Ronald. “Toast at a Welcoming Banquet Hosted by Premier Zhao Ziyang of China in Beijing.” April 27, 1984. In Kennedy, Scott, ed. *China Cross Talk: The American Debate over China Policy since Normalization: A Reader*. Lanham, Md.: Rowman & Littlefield Publishers, 2003, pp. 60-64.

<sup>135</sup> Harding, Harry. *A Fragile Relationship: The United States and China since 1972*. Washington: The Brookings Institution, 1992, pp. 208-09.

<sup>136</sup> Jia, Qingguo. “Chinese Relations with the United States.” In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, Cambridge, Mass.: Harvard University Press, 2002, p. 125.

<sup>137</sup> Harding, Harry. *A Fragile Relationship: The United States and China since 1972*, p. 53.

<sup>138</sup> *Ibid.*, p. 209.

<sup>139</sup> Li, Hongjie, and Wangli Yu, eds. *30 Years of China's Diplomacy since the Reform and Opening-Up*. Beijing: Contemporary World Press, 2008, pp. 9-10.

<sup>140</sup> *Sino-US trade conflict*: in January 1983, Sino-US negotiations on China's exports to the US failed to reach an agreement on textile quotas, and the U.S. government unilaterally announced restrictions on China's exports. The Chinese government's response was to suspend approving new contracts for the import of cotton, soybeans, chemical fiber from the United States, and to reduce imports of wheat, soybeans and other major agricultural products from the United States. *Huguang Railway bond case*: in November 1979, a class-action suit was filed against the People's Republic of China on behalf of American holders of the bonds, which were

During the early 1980s, China's perception of the international situation began to change. Its leaders observed that the Soviet Union's expansionist thrust was losing steam. It was bogged down in Afghanistan and Reagan challenged the "evil empire" around the world.<sup>141</sup> China no longer felt the need to ally with the US to counter the perceived Soviet threat,<sup>142</sup> while Soviet leaders began to explore improving relations with China. In a speech in Tashkent in March 1982, President Brezhnev expressed a willingness to hold negotiations with China over border issues.<sup>143</sup> The changing situation and perceptions led to a fundamental shift in China's foreign policy. It would from this time on practice an "independent" policy favouring neither the Soviet Union nor the United States.<sup>144</sup>

In the years of "good feeling" between China and the US, a few commentators cautioned that a stronger China was not necessarily in US interests. Thomas Robinson from Georgetown University predicted that as China grew stronger its interests would expand beyond its boundaries, following the path of old imperial powers such as Britain, Germany, Russia and the US.<sup>145</sup> In the context of Asia's "new balance of power", he advised that the US should "assist China's entry into the modern world economically and to encourage Beijing to play a responsible role". He advocated US-China cooperation to "hem in Beijing's expansionist tendencies".<sup>146</sup> A. James Gregor from Berkeley University took a similar view. Pointing to disputes over maritime territories in the South China and East China Seas and Taiwan, he argued that China's revolutionary interests were incompatible with US national

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issued in 1911, the last year of the Qing Dynasty, to finance the construction of the Huguang railway. The suit demanded that China pay to the plaintiffs the principal and the interest on the bonds. China claimed sovereign immunity and did not appear in court. *Hu Na defection incident*: in July 1982, Chinese tennis player Hu Na suddenly disappeared while representing China in a competition in the US. A year later, she applied for asylum in the US and the US government approved her application. This led to a diplomatic conflict between China and the US. See *ibid.*

<sup>141</sup> Jia, Qingguo. "Chinese Relations with the United States." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, p. 131.

<sup>142</sup> *Ibid.*

<sup>143</sup> Li, Hongjie, and Wangli Yu, eds. *30 Years of China's Diplomacy since the Reform and Opening-Up*, p. 48.

<sup>144</sup> Zhao, Suisheng. "The Making China's Periphery Policy." In *Chinese Foreign Policy: Pragmatism and Strategic Behavior*, edited by Suisheng Zhao, Armonk, N.Y.: M.E. Sharpe 2004, p. 260.

<sup>145</sup> Robinson, Thomas W. "The United States and China in the New Balance of Power." *Current history* 84, no. 503 (1985), pp. 241-44.

<sup>146</sup> *Ibid.*

security.<sup>147</sup> American China specialist Harry Harding described China-US relations as remaining “highly fragile”.<sup>148</sup>

Normalisation of relations in 1979 opened the door for greater cooperation nonetheless. Prompted by the 1979 Soviet invasion of Afghanistan, Sino-US relations entered an era of strategic partnership during the Reagan Administration. Commercial ties and cultural exchanges expanded despite a series of incidents. Though a few voices cautioned that a stronger China might not be compatible with US interests, Beijing and Washington viewed bilateral relations positively.

#### **5.4 Redefinition of China-US relations (1989-2000)**

The fragile relationship described by Harding was shaken, if not shattered, by the Tiananmen Incident of 1989. The Bush administration imposed an embargo beginning a new stage in the evolution of Sino-American relations. Equally significantly, the basis for a strategic consensus fell away after the Soviet Union’s collapse in the early 1990s, entering a period of “redefining consensus”. As one Chinese scholar put it, this was as difficult as the normalisation of the relationship twenty years previously.<sup>149</sup> The following section outlines how the relationship was redefined under the Bush and Clinton presidencies. Clinton in particular oscillated between cooperation and conflict, intending initially to take China to task over human rights and Taiwan. However, the risk of military conflict led eventually to a more pragmatic approach.

##### **5.4.1 China-US relations in the wake of Tiananmen (1989-1992)**

A major debate on the priorities of US foreign policy started as the Cold War receded, centring on the historical tension between the dictates of geopolitics and the values of human rights and democracy.<sup>150</sup> President Jimmy Carter, whose advocacy of democracy and human rights applied mainly to the Soviet Union, reached agreement with China to

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<sup>147</sup> Gregor, A. James. *The China Connection: US Policy and the People's Republic of China*. Stanford, Calif.: Hoover Institution Press, 1986, pp. 211-14.

<sup>148</sup> Harding, Harry. *A Fragile Relationship: The United States and China since 1972*. Washington: The Brookings Institution, 1992.

<sup>149</sup> Tao, Wenzhao. *American China Policy in Post-Cold War Era*, p. 2.

<sup>150</sup> Tucker, Robert W., and David C. Hendrickson. "Thomas Jefferson and American Foreign Policy." *Foreign Affairs* 69, no. 2 (1990), pp. 135-56. For a discussion of the conflict between the realism of geopolitics and the idealism of democracy in US foreign policy, see Wang, Jisi. *Rational Reflections on International Politics*. Beijing: Beijing University Press, 2006, pp. 141-64.

prosecute a “new” Cold War, while ignoring its human rights record.<sup>151</sup> Henry Kissinger argued that “China remains too important for America’s national security” because “the US needs China as a possible counterweight to Soviet aspirations in Asia”.<sup>152</sup> In the wake of the Tiananmen Incident, as William Hyland, editor of *Foreign Affairs*, pointed out, engagement with China was “at bottom a debate over the new purposes of US post-Cold War policy”.<sup>153</sup> In contrast, New York Democratic Representative Stephen Solarz, stressing human rights and democracy, stated that “the United States cannot do business as usual with a government that relies on indiscriminate violence and sweeping repression”.<sup>154</sup>

Although the US and its G7 allies imposed economic sanctions on China, President Bush Sr did not want a total break because the US had “extensive interests” in cooperating with China.<sup>155</sup> In July and December 1989, he sent National Security Advisor Brent Scowcroft and Deputy Secretary of State Lawrence Eagleburger to Beijing twice to meet China’s leaders in secret.<sup>156</sup> The main purpose of the missions was to ensure that relations “maintain[ed] a steady course”.<sup>157</sup> In his memoir, Qian Qichen reveals how Bush explained that Washington had to impose sanctions because of domestic public pressure, although he himself wanted to preserve the relationship.<sup>158</sup> When Congress called for imposition of conditions, Bush vetoed the conditions and extended China’s MFN status in 1991 and 1992, which had been

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<sup>151</sup> For the discussion of Carter’s human rights policy and China, see Mann, James. *About Face: A History of America’s Curious Relationship with China, from Nixon to Clinton*, pp. 96-114; also see Wang, Jisi. *Rational Reflections on International Politics*, p. 168. For a discussion of US post-Cold War policy debate, see Hyland, William G. “America’s New Course.” *Foreign Affairs* 69, no. 2 (1990), pp. 1-12.

<sup>152</sup> Kissinger, Henry. “The Caricature of Deng as a Tyrant Is Unfair,” *The Washington Post*, August 1, 1989.” In *China Cross Talk: The American Debate over China Policy since Normalization: A Reader*, edited by Scott Kennedy, Lanham, Md.: Rowman & Littlefield Publishers, 2003, pp. 100-04.

<sup>153</sup> *Ibid.*, p. 101.

<sup>154</sup> Solarz, Stephen J. “Kissinger’s Kowtow,” *The Washington Post*, August 6, 1989.” In *China Cross Talk: The American Debate over China Policy since Normalization: A Reader*, edited by Scott Kennedy, Lanham, Md.: Rowman & Littlefield Publishers, 2003, pp. 105-07.

<sup>155</sup> Bush, George. “The President’s New Conference, June 5, 1989.” In *China Cross Talk: The American Debate over China Policy since Normalization: A Reader*, edited by Scott Kennedy, Lanham, Md.: Rowman & Littlefield Publishers, 2003, pp. 87-90; “Human Rights and Political Developments in China,” *101st Congress, 1st Session, July 1989. Testimony by Michel Oksenberg.*” In *China Cross Talk: The American Debate over China Policy since Normalization: A Reader*, edited by Scott Kennedy, 90-94. Lanham, Md.: Rowman & Littlefield Publishers, 2003, pp. 90-94.

<sup>156</sup> “United States Policy toward China,” *101st Congress, 2nd Session, February 8, 1990. Testimony by Lawrence S. Eagleburger.*” In *China Cross Talk: The American Debate over China Policy since Normalization: A Reader*, edited by Scott Kennedy, Lanham, Md.: Rowman & Littlefield Publishers, 2003, pp. 113-16.

<sup>157</sup> For a discussion of the first Bush Administration’s response to the Incident, see Mann, James. *About Face: A History of America’s Curious Relationship with China, from Nixon to Clinton*, pp. 194-09.

<sup>158</sup> Qian, Qichen. *Ten Stories of a Diplomat*. Beijing: World Affairs Press, 2003, p. 170.

renewed by the Congress every year without opposition since 1980.<sup>159</sup> This policy was attacked by Democrat presidential candidate Bill Clinton as “coddling dictators”.<sup>160</sup> He promised that, if elected, he would “get tough” with China.<sup>161</sup>

In the final year of his presidency, Bush did not “coddle” China by selling arms to Taiwan. In 1992, he approved the sale of 150 F-16 jet fighters, long requested and turned down repeatedly by Reagan after 1982, for an estimated \$6b.<sup>162</sup> Though Bush did the deal to win votes, it demonstrated that the end of the Cold War was altering relations. As James Mann wrote, “the US no longer cared what Beijing thought to the extent that it had before the collapse of the Soviet Union”.<sup>163</sup>

#### 5.4.2 China-US relations during the Clinton era (1993-2000)

President Clinton’s China policy was marked by increasing tension during his first term and considerable conciliation in the second. Initial confrontations were influenced by Congressional support for Taiwan and a desire to hold China to task over human rights. Both initiatives were frustrated by China’s increasing economic and military strength, and Clinton was forced to embark on closer engagement from 1997 onwards.

When the Clinton Administration took office in January 1993, it tried to fashion a foreign policy in the changing international environment.<sup>164</sup> The US faced no great powers as rivals and no immediate threats to its vital security interests.<sup>165</sup>

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<sup>159</sup> Tao, Wenzhao. *American China Policy in Post-Cold War Era*, pp. 124-30.

<sup>160</sup> Mann, James. *About Face: A History of America’s Curious Relationship with China, from Nixon to Clinton*, p. 262.

<sup>161</sup> Jia, Qingguo. “Narrowing Differences but Diverging Priorities: Sino-American Relations, 1992-2000.” In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, Cambridge, Mass.: Harvard University Asia Center, 2004, p. 159.

<sup>162</sup> Li, Hongjie, and Yu, Wanli, eds. *30 Years of China’s Diplomacy since the Reform and Opening-Up*, p. 13.

<sup>163</sup> Mann, James. *About Face: A History of America’s Curious Relationship with China, from Nixon to Clinton*, p. 269.

<sup>164</sup> Ross, Robert S. “From Denial to Leadership: The Clinton Administration and China.” In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, Cambridge, Mass.: Harvard University Asia Center, 2004, p. 125.

<sup>165</sup> Ross, Robert S. “From Denial to Leadership: The Clinton Administration and China.” In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, pp. 125-26; Jia, Qingguo. “Narrowing Differences but Diverging Priorities: Sino-American Relations, 1992-2000.” In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, pp. 158-59.

Clinton kept his promise made during the election campaign to take a tougher stance. In the view of Chinese scholars, the US no longer needed China for strategic cooperation against the Soviet threat.<sup>166</sup> Robert Ross wrote that "it was the combination of confidence in post-Cold War US power and a commitment to human rights that drove Clinton's first efforts in China policy".<sup>167</sup> His first policy decision in May was an executive order linking China's MFN status with human rights,<sup>168</sup> setting seven conditions.<sup>169</sup> In October 1993, Secretary of State Warren Christopher warned Foreign Minister Qian Qichen that China would lose MFN status if it did not improve its human rights record. A month later, Clinton had a candid discussion with Jiang Zemin at the APEC meeting in Seattle.<sup>170</sup>

Beijing protested strongly against Clinton's decision, arguing that it was serious interference in China's internal affairs and violated existing communiqués and trade agreements. Politicisation of trade, Beijing warned, damaged US interests.<sup>171</sup> Though China released a number of political dissidents, this was not enough for Washington. In March 1994, Christopher visited Beijing with a warning that Clinton would revoke China's MFN status unless its human rights satisfied the MFN executive order by 3 June.<sup>172</sup> In response, China threatened retaliation.<sup>173</sup>

Before denying MFN status, Clinton weighed the potential impact on US economic interests. The risk was not insignificant. After Deng Xiaoping's Southern tour in early 1992, China's growth rate leapt from 3.8% in 1990 to 14% in 1993.<sup>174</sup> In May 1993, the IMF released a

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<sup>166</sup> Jia, Qingguo. *Difficult Cooperation: Current Status and Future Prospects of Sino-American Relations*. Beijing: Culture & Arts Publishing House, 1998, p. 94.

<sup>167</sup> Ross, Robert S. "From Denial to Leadership: The Clinton Administration and China." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 127.

<sup>168</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 281.

<sup>169</sup> Jia, Qingguo. *Difficult Cooperation: Current Status and Future Prospects of Sino-American Relations*, p. 95.

<sup>170</sup> Ross, Robert S. "From Denial to Leadership: The Clinton Administration and China." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 128.

<sup>171</sup> Liu, Liandi, ed. *Selected Important Documents on China-US Relations*. Beijing: Shishi Publishing House, 1996, p. 121.

<sup>172</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, pp. 297-303.

<sup>173</sup> Tyler, Patrick E. "Beijing Says It Could Live Well Even If U.S. Trade Was Cut Off." *The New York Times* (March 21, 1994), <http://www.nytimes.com/1994/03/21/world/beijing-says-it-could-live-well-even-if-us-trade-was-cut-off.html?pagewanted=all&src=pm>. Accessed 29/06/2010.

<sup>174</sup> The Statistics of China's GDP (1978-2005), National Bureau of Statistics of China, <http://www.stats.gov.cn/>. Accessed 29/06/2010.



study showing that the Chinese economy was the third largest in purchasing-power parity terms.<sup>175</sup> Clinton had to take into account the interests of key sectors of industry, such as Boeing which stood to lose a big share of the Chinese market. Other industries such as telecommunications, energy, and automobiles were in competition with foreign counterparts for a share of the Chinese market. In November 1993 China signed a \$2b contract with Germany, including Airbus.<sup>176</sup> It was obvious that US allies were not going to join in efforts to link trade with human rights.

The US business community also took action against Clinton's policy, criticising the impact on competitiveness during Christopher's March visit to Beijing. Hundreds of companies wrote to Clinton to urge him to separate trade from human rights.<sup>177</sup> Senior officials and congressmen advised "a broader understanding of the national interest" and unconditional renewal of China's MFN status.<sup>178</sup> Eventually, on 26 May 1994, Clinton delinked MFN status from human rights.<sup>179</sup>

In July 1993, the Administration accused a Chinese ship, the *Yinhe*, of carrying substances that could be used to make chemical weapons to Iran.<sup>180</sup> It demanded that the ship return home, which the Chinese declined, insisting there were no chemicals on board. Washington sent ships and helicopters to trail the vessel and demanded a search by US inspectors. Finally, China compromised and directed the *Yinhe* to dock in Saudi Arabia for inspection.

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<sup>175</sup> Greenhouse, Steven. "New Tally of World's Economies Catapults China into Third Place." *The New York Times* (May 20, 1993), <http://www.nytimes.com/1993/05/20/world/new-tally-of-world-s-economies-catapults-china-into-third-place.html?scp=1&sq=new%20tally%20of%20world's%20economies%20catapults%20China%20into%20third%20place&st=cse>. Accessed 29/06/2010.

<sup>176</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 303.

<sup>177</sup> Ross, Robert S. "From Denial to Leadership: The Clinton Administration and China." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, pp. 129-30.

<sup>178</sup> *Ibid.*, p. 130.

<sup>179</sup> For a detailed analysis of the decision-making leading to delinkage, see Lampton, David M. "America's China Policy in the Age of the Finance Minister: Clinton Ends Linkage." *The China Quarterly* 139 (1994), pp. 597-621.

<sup>180</sup> Ross, Robert S. "From Denial to Leadership: The Clinton Administration and China." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 131.

No chemicals were found on board.<sup>181</sup> The Administration neither apologised nor offered compensation,<sup>182</sup> causing strong resentment.<sup>183</sup>

In July and August 1993, Congress passed resolutions calling on the International Olympic Committee not to award the 2000 Olympics to Beijing. Officially, the Clinton Administration remained neutral but after the games were awarded to Sydney, anti-US sentiment was stirred among the Chinese.<sup>184</sup>

The most serious dispute was the Third Taiwan Strait crisis in 1995-1996. In September 1994, the Administration revised its policy on government contacts with Taiwan.<sup>185</sup> In May 1995, it issued a visa to allow Taiwan leader Lee Teng-hui to visit his *alma mater*, Cornell University.<sup>186</sup> Initially, President Clinton refused to allow the visit. In February 1995, Warren Christopher stated during testimony to Congress that such a visit was inconsistent with US policy. In April, he told Qian Qichen that the Administration would deny Lee a visa,<sup>187</sup> but when, in early May, the House of Representatives voted 396-0 and the Senate 97-1 in support, Clinton decided to grant one.<sup>188</sup> From the Chinese perspective, this was tantamount to encouraging Taiwanese independence.<sup>189</sup> The Clinton Administration countered that such a visit was an individual right, and one that the rights-conscious US

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<sup>181</sup> Li, Hongjie, and Yu, Wanli, eds. *30 Years of China's Diplomacy since the Reform and Opening-Up*, p. 14; Ross, Robert S. "From Denial to Leadership: The Clinton Administration and China." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, pp. 131-32.

<sup>182</sup> Jia, Qingguo. "Narrowing Differences but Diverging Priorities: Sino-American Relations, 1992-2000." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 162.

<sup>183</sup> Li, Hongjie, and Yu, Wanli, eds. *30 Years of China's Diplomacy since the Reform and Opening-Up*, p. 15.

<sup>184</sup> *Ibid.*

<sup>185</sup> Jia, Qingguo. "Narrowing Differences but Diverging Priorities: Sino-American Relations, 1992-2000." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 163.

<sup>186</sup> Ross, Robert S. "From Denial to Leadership: The Clinton Administration and China." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 134.

<sup>187</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, pp. 321-22.

<sup>188</sup> *Ibid.*

<sup>189</sup> Liu, Liandi, ed. *Selected Important Documents on China-US Relations*, pp. 421-22.

government could not deny.<sup>190</sup> The President and his senior officials denied there had been a major change to the one-China policy.<sup>191</sup>

China retaliated diplomatically, cancelling a scheduled visit to Washington by Defence Minister Chi Haotian and upcoming visits by high-ranking US officials, cutting short State Councillor and air force commander-in-chief Li Guixian's visit,<sup>192</sup> and suspending bilateral arms control and human rights dialogue. In June, China recalled its ambassador to Washington and delayed acceptance of the appointment of a new American ambassador.<sup>193</sup> As a result, for the first time since the normalisation of relations in 1979, China and the US had no ambassador in each other's capital.<sup>194</sup>

The PLA conducted a series of missile tests and military exercises in the Taiwan Strait between July 1995 and March 1996. Their purpose was assurance from the US on the one-China policy and to deter Taiwan's independence during the 1996 presidential campaign.<sup>195</sup> Tensions caused great concern in Washington. In March, the US sent two aircraft carriers to waters near Taiwan aimed at deterring a sudden Chinese military take-over.<sup>196</sup> The US took pains to ensure that the aircraft carriers remained in the vicinity of Taiwan, rather than transiting the Taiwan Strait.<sup>197</sup> In Washington's view, military diplomacy prevented China from contemplating use of force. Even though Beijing's military manoeuvres not only failed

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<sup>190</sup> *Ibid.*

<sup>191</sup> Ross, Robert S. "From Denial to Leadership: The Clinton Administration and China." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, pp. 135-36.

<sup>192</sup> Jia, Qingguo. "Narrowing Differences but Diverging Priorities: Sino-American Relations, 1992-2000." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 169.

<sup>193</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 328.

<sup>194</sup> Jia, Qingguo. "Narrowing Differences but Diverging Priorities: Sino-American Relations, 1992-2000." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 170.

<sup>195</sup> Garver, John W. *Face Off: China, the United States, and Taiwan's Democratization*. Seattle: University of Washington Press, 1997, pp. 74-88; Waldron, Arthur. "How Not to Deal with China." *Commentary* 103, no. 3 (1997), pp. 44-49.

<sup>196</sup> Hickey, Dennis Van Vranken. "The Taiwan Strait Crisis of 1996: Implications for US Security Policy." In *Across the Taiwan Strait: Mainland China, Taiwan, and the 1995-1996 Crisis*, edited by Suisheng Zhao, New York: Routledge, 1999, p. 279.

<sup>197</sup> Tyler, Patrick. *A Great Wall: Six Presidents and China: An Investigative History*. New York: Public Affairs, 1999, p. 33; see also Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, pp. 336-37.

to prevent Lee Teng-hui from prevailing in the election,<sup>198</sup> but also alarmed Japan which strengthened military ties with the US,<sup>199</sup> from the Chinese viewpoint, the exercises were at least useful in setting limits to how far the US and Taiwan could go.<sup>200</sup> As a result, the Taiwan crisis helped both sides realise that confrontation risked a direct conflict. Bilateral relations were better managed on a cooperative footing.<sup>201</sup>

**Table 5-1. China-US bilateral Trade in \$ 100 millions (1990-2000)**

Year	Imports	Exports	Total	Surplus/deficit
1990	65.8	51.9	117.7	-13.9
1991	80.08	61.9	141.98	-18.1
1992	89	85.9	174.9	-3.1
1993	106.8	169.6	276.4	62.8
1994	139.7	214.6	354.3	74.9
1995	161.2	247.1	408.3	85.9
1996	161.5	266.8	428.3	105.3
1997	162.9	326.9	489.8	164
1998	169.6	379.9	549.5	210.3
1999	194.7	419.4	614.1	224.7
2000	223.6	521	744.6	297.4

Source: Statistics from China's Ministry of Commerce, <http://www.mofcom.gov.cn>.

During the 1990s, according to official statistics in Table 5-1, bilateral trade increased more than sixfold, from \$11.8b in 1990 to \$74.5b in 2000. China began to run a trade surplus in 1993, which was \$30b in 2000.

<sup>198</sup> Cabestan, Jean-Pierre. "The Mainland China Factor in Taiwan's 1995 and 1996 Elections: A Secondary Role." In *Missile Diplomacy and Taiwan's Future: Innovations in Politics and Military Power*, edited by Greg Austin, Canberra: Strategic and Defence Studies Centre, Research School of Pacific and Asian Studies, 1997, pp. 17-23.

<sup>199</sup> Austin, Greg. "Taiwan and PRC Military Power in Japan's Domestic Politics." In *Missile Diplomacy and Taiwan's Future: Innovations in Politics and Military Power*, edited by Greg Austin, Canberra: Strategic and Defence Studies Centre, Research School of Pacific and Asian Studies, 1997, pp. 105-08.

<sup>200</sup> Jia, Qingguo. "Narrowing Differences but Diverging Priorities: Sino-American Relations, 1992-2000." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 171.

<sup>201</sup> *Ibid.*; Ross, Robert S. "From Denial to Leadership: The Clinton Administration and China." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 144.

During the same period, US FDI also increased. Table 5-2 shows 357 companies investing in China in 1990, jumping to 2609 in 2000, worth \$4.07b and accounting for more than 10% of total FDI inflows. Between 1993 and 2001, the US was the second largest source of FDI,<sup>202</sup> suggesting growing economic interdependence. China was increasingly important to the US, and China was increasingly reliant on the US as a source of investment and a market for its goods.

**Table 5-2. US Foreign Direct Investment in China in \$ millions (1990-2000)**

Year	Amount of FDI			Contract value			Actual value		
	US	Total	%	US	Total	%	US	Total	%
1990	357	7273	4.91	357.82	6596.11	5.42	455.99	3487.11	13.08
1991	694	12978	5.35	548.08	11976.82	4.58	323.20	4366.34	7.4
1992	3265	48764	6.70	3121.25	58123.51	5.37	511.05	11007.51	4.64
1993	6750	83437	8.09	6812.75	111435.66	6.11	2063.12	27514.95	7.5
1994	4223	47549	8.88	6010.18	82679.77	7.27	2490.80	33766.50	7.38
1995	3474	37011	9.39	7471.13	91281.53	8.18	3083.01	37520.53	8.22
1996	2517	24556	10.25	6915.76	73276.42	9.44	3443.33	41725.52	8.25
1997	2188	21001	10.42	4936.55	51003.53	9.68	3239.15	45257.04	7.16
1998	2238	19799	11.3	6483.73	52102.05	12.44	3898.44	45462.75	8.58
1999	2028	16918	11.99	6016.11	41223.02	14.59	4215.86	40318.71	10.46
2000	2609	22347	11.67	8000.9	62379.5	12.83	4383.9	40714.8	10.77

Source: Tao, Wenzhao, *American China Policy in Post-Cold War Era*, p. 124.

Policy debate in the wake of the Tiananmen Square Incident continued during the Clinton years. The new post-Cold War era without Soviet power brought Washington both triumph and uncertainty.<sup>203</sup> Given the sudden collapse of the Soviet Union, American analysts such as Michel Oksenberg wondered whether it was possible that China might follow the same path.<sup>204</sup> US officials such as Ambassador Winston Lord assumed that China's regime would fall.<sup>205</sup>

<sup>202</sup> Zhang, Kevin Honglin, ed. *China as the World Factory*. Vol. 64: Routledge 2006, p. 37.

<sup>203</sup> Fukuyama, Francis. *The End of History and the Last Man*. New York: Free Press, 1992; Haass, Richard N.

"Paradigm Lost." *Foreign Affairs* 74, no. 1 (1995), pp. 43-58.

<sup>204</sup> Oksenberg, Michel. "The China Problem." *Foreign Affairs* 70, no. 3 (1991), pp. 1-16.

<sup>205</sup> Lord, Winston. "China and America: Beyond the Big Chill." *Foreign Affairs* 68, no. 4 (1989), pp. 1-26.

China did not collapse; on the contrary. As discussed above, its strong economy was welcomed by the business community, but defence modernisation caused concern over the potential threat to US primacy and regional stability in East Asia.<sup>206</sup> Some analysts argue that China harboured hegemonic ambitions to replace the US,<sup>207</sup> while others such as Denny Roy saw a new "hegemon on the horizon".<sup>208</sup> In the view of Bernstein and Munro, a state with a sense of wounded pride at the hands of Western imperial powers, as was the case of Wilhelmine Germany,<sup>209</sup> which tried to recover lost territory, such as Taiwan, was likely to use force.<sup>210</sup> Tensions with the Philippines over Mischief Reef in 1995 and the Taiwan crisis of 1995-1996 intensified the China threat thesis.<sup>211</sup> Realist commentators urged that the US should contain a threatening China.<sup>212</sup>

Other authors considered that the China Threat was exaggerated. The appearance of a strong economy was the result of either fake statistics or "showcase projects of government spending".<sup>213</sup> Segal argued that, militarily, China was a second-rate power. Far from being able to take on the US, the threat was mistakenly inflated.<sup>214</sup> China was of little real significance.

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<sup>206</sup> Kristof, Nicholas D. "The Rise of China." *Foreign Affairs* 72, no. 5 (1993), pp. 59-74; McNaugher, Thomas L. "A Strong China: Is the United States Ready?" *The Brookings Review* 12, no. 4 (1994), pp. 14-19; Timperlake, Edward, and William C Triplett. *Red Dragon Rising: Communist China's Military Threat to America*. Washington: Regnery Pub., 1999; Gertz, Bill. *The China Threat: How the People's Republic Targets America*. Washington: Regnery Pub., 2002; Swaine, Michael D. "China's Regional Military Posture." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley, Calif.: University of California Press, 2005, pp. 266-88.

<sup>207</sup> Munro, Ross H., and Richard Bernstein. *The Coming Conflict with China*. New York: Alfred A. Knopf, 1997.

<sup>208</sup> Roy, Denny. "Hegemon on the Horizon? China's Threat to East Asian Security." *International Security* 19, no. 1 (1994), pp. 149-68.

<sup>209</sup> Kennedy, Paul M. *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*. London: Unwin Hyman, 1988; Mearsheimer, John J. *The Tragedy of Great Power Politics*. New York: Norton, 2001.

<sup>210</sup> Bernstein, Richard, and Ross H. Munro. "China I: The Coming Conflict with America." *Foreign Affairs* 76, no. 2 (1997), pp. 18-32.

<sup>211</sup> Munro, Ross H., and Richard Bernstein. *The Coming Conflict with China*. New York: Alfred A. Knopf, 1997.

<sup>212</sup> Krauthammer, Charles. "Why We Must Contain China." *Time* (July 31, 1995), <http://www.time.com/time/magazine/article/0,9171,983245,00.html>. Accessed 11/11/2008.

<sup>213</sup> Rawski, Thomas G. "What Is Happening to China's GDP Statistics?" *China Economic Review* 12, no. 4 (2001), pp. 347-54; Waldron, Arthur. "China's Economic Façade." *The Washington Post* (March 21, 2002), <http://search.proquest.com/docview/409247229?accountid=10910>.

<sup>214</sup> Segal, Gerald. "Does China Matter?" *Foreign Affairs* 78, no. 5 (1999), pp. 24-36; Ross, Robert S. "Beijing as a Conservative Power." *Foreign Affairs* 76, no. 2 (1997), pp. 33-44.

The Chinese government dismissed the “China threat” thesis as a myth created by the US which needed an “enemy” to replace the Soviet Union in its quest for global supremacy.<sup>215</sup> The thesis gave rise to a strong wave of anti-US patriotism among the Chinese public, manifested in a number of “China-says-no” books published in 1996: *China Can Say No (zhongguo keyi shuobu)*, *Why China Says No (zhongguo weishenme shuobu)*, and *China Can Still Say No (zhongguo rengran keyi shuobu)*. They criticised US policy and urged Beijing to stand against hegemony.<sup>216</sup> In contrast to these nationalist responses, Chinese scholars tended to be more restrained. They argued that China was historically a peace-loving nation, which would never seek hegemony.<sup>217</sup>

In December 1993 Clinton’s National Security Advisor Anthony Lake enunciated US foreign policy as “the enlargement of the world’s free community of market democracies”.<sup>218</sup> He also called for broad engagement with China,<sup>219</sup> but given tensions, the contradiction between US China policy and practice led some Chinese authors to conclude that engagement meant containment, and that China should have no illusions in dealing with the US.<sup>220</sup> Others viewed the engagement policy as less hostile, arguing that it was a basis for an acceptable, mutually beneficial relationship.<sup>221</sup> The third view was that US policy was a mixture of engagement and containment, so that whether Washington and Beijing advanced their national interests through cooperative relations depended entirely on the US.<sup>222</sup>

The Clinton Administration took a more positive approach to engaging China during its second term, manifested in a joint statement on a “constructive strategic partnership” in

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<sup>215</sup> Yee, Herbert, and Feng Zhu. “Chinese Perspective of the China Threat: Myth or Reality?” In *The China Threat: Perceptions, Myths and Reality*, edited by Herbert Yee and Ian Storey, New York: Routledge, 2002, p. 23, p. 32.

<sup>216</sup> Song, Qiang, Zangzang Zhang, and Bian Qiao. *China Can Say No*. Beijing: China Industry and Commerce Association Press, 1996; Song, Qiang, Zangzang Zhang, Bian Qiao, Zhengyu Tang, and Qingsheng Gu. *China Can Still Say No*. Beijing: China Industry and Commerce Association Press, 1996; Peng, Qian, Mingjie Yang, and Deren Xu. *Why China Says No*. Beijing: New World Press, 1996.

<sup>217</sup> Yee, Herbert, and Feng Zhu. “Chinese Perspective of the China Threat: Myth or Reality?” In *The China Threat: Perceptions, Myths and Reality*, edited by Herbert Yee and Ian Storey, pp. 27-28

<sup>218</sup> Haass, Richard N. “Paradigm Lost.” *Foreign Affairs* 74, no. 1 (1995), pp. 43-58.

<sup>219</sup> Su, Ge. *US China Policy and the Taiwan Issue*, p. 680.

<sup>220</sup> Song, Qiang, Zangzang Zhang, and Bian Qiao. *China Can Say No*, p. 61.

<sup>221</sup> Zhang, Shiliang. “US China Policy as Viewed from US Global Strategy at the Turn of the Century.” In *China’s International Strategy in the 21 Century*, edited by Shoude Liang, Beijing: China Social Sciences Press, 1998, pp. 25-33.

<sup>222</sup> Wang, Jisi. *Rational Reflections on International Politics*, pp. 187-95.

October 1997.<sup>223</sup> On the Taiwan issue, Clinton gave a public assurance that the US did not support a two-China policy, Taiwanese independence, or Taiwanese membership in any international organisation for which statehood was required.<sup>224</sup> When Lee Teng-hui announced a “state-to-state” approach to negotiations with China in 1999, Clinton reasserted support for a one-China policy, and postponed arms sales to Taiwan.<sup>225</sup>

In 1999, Sino-American relations were embroiled in a series of disputes, such as the bombing of the Chinese embassy in Belgrade, US domestic controversy over alleged Chinese spying and illegal contributions to President Clinton’s Presidential campaign, but both governments managed tensions and ensured they did not escalate into conflict.<sup>226</sup> As Robert Ross pointed out, the Clinton Administration learned to take the initiative.<sup>227</sup> The administration made efforts to end the annual congressional review of human rights violations as a precondition for MFN status, granting permanent MFN status in May 2000.<sup>228</sup> Later that year Clinton concluded decade-long negotiations over China’s entry into WTO, paving the way for accession in November 2001.<sup>229</sup>

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<sup>223</sup> "China-US Joint Statement." (October 29, 1997),

[http://news.xinhuanet.com/ziliao/2002-01/28/content\\_257084.htm](http://news.xinhuanet.com/ziliao/2002-01/28/content_257084.htm). Accessed 05/06/2010.

<sup>224</sup> Xinhua News Agency. "President Re-States US's 'Three No's Policy on Taiwan Issue." (June 30, 1998), <http://www.people.com.cn/GB/shizheng/252/7429/7437/20020210/667811.html>. Accessed 08/08/2010.

<sup>225</sup> Shenon, Philip "U.S. Cancels Military Aides' Visit to Taiwan." *The New York Times* (July 22, 1999), <http://www.nytimes.com/1999/07/22/world/us-cancels-military-aides-visit-to-taiwan.html?scp=1&sq=US%20cancels%20military%20aides%20visit%20to%20Taiwan&st=cse>. Accessed 14/08/2009; Sanger, David E. "Clinton and Jiang Heal Rift and Set a New Trade Course." *The New York Times* (September 12, 1999), <http://www.nytimes.com/1999/09/12/world/clinton-and-jiang-heal-rift-and-set-new-trade-course.html?scp=1&sq=Clinton%20and%20Jiang%20heal%20rift%20and%20set%20new%20trade%20course&st=cse>. Accessed 21/08/2009.

<sup>226</sup> Ross, Robert S. "From Denial to Leadership: The Clinton Administration and China." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 150.

<sup>227</sup> *Ibid.*, p. 147.

<sup>228</sup> Lardy, Nicholas R. "Permanent Normal Trade Relations for China." *Brookings Policy Brief* no. 58 (2000), pp. 1-8.

<sup>229</sup> For a thorough discussion of Clinton’s efforts in support of China’s MFN status and accession to the WTO, see Ross, Robert S. "From Denial to Leadership: The Clinton Administration and China." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, pp. 147-53.



## 5.5 China-US relations during the George W. Bush era: from strategic competitor to responsible stakeholder (2001-2009)

The second Bush Presidency oscillated between taking a hard line on China and softening its stance over the perception of China's increasing strategic threat. Bush was soon compelled to seek cooperation rather than confrontation because of the "war on terror" and the nuclear crisis in North Korea, in the process having to recognise the growing stature China was assuming in East Asia.

During the Presidential campaign, Bush criticised Clinton for focusing too much on China at the expense of Japan. He argued that China "was a competitor, not a strategic partner",<sup>230</sup> as did National Security Advisor, Condoleezza Rice, who defined Sino-US relations as a strategic competition.<sup>231</sup> These remarks provoked a range of responses from Chinese commentators. Some opined that bilateral relations were likely to deteriorate if Bush came to power,<sup>232</sup> while others concluded that the tough talk was merely campaign rhetoric and Bush would adopt a China policy similar to that of Clinton, which served US interests best.<sup>233</sup> Still others argued that Bush's China policy would be different. As a Republican, he was likely to attach more importance to national security than democracy and human rights which meant more security differences and tension over Taiwan, but fewer conflicts over trade and human rights.<sup>234</sup>

The Bush Administration took a tough approach to China during its first nine months. On 1 April 2001, a US Navy surveillance plane and Chinese military jet collided over the South

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<sup>230</sup> Bush, George W. "A Distinctly American Internationalism." (November 19, 1999), <http://www.mtholyoke.edu/acad/intrel/bush/wspeech.htm>. Accessed 21/03/2010.

<sup>231</sup> Condoleezza Rice, national security advisor of Bush's first term, called China a strategic competitor, rather than a strategic partner. 'China is not a 'status quo' power but one that would like to alter Asia's balance of power in its own favour.' Rice, Condoleezza. "Promoting the National Interest." *Foreign Affairs* 79, no. 1 (2000), pp. 45-62.

<sup>232</sup> Ni, Feng. "Analysing Bush's China Policy." (July 31, 2001), [http://ias.cass.cn/show/show\\_project\\_ls.asp?id=366](http://ias.cass.cn/show/show_project_ls.asp?id=366). Accessed 19/06/2009.

<sup>233</sup> Yuan, Zheng. "Will US China Policy "Change Face"?" (2000), <http://ias.cass.cn/photo/201083134839.pdf>. Accessed 19/06/2009.

<sup>234</sup> Yuan, Zheng. "How Will Bush Adjust His China Policy after He Comes to Power?" (January 21, 2001), [http://ias.cass.cn/show/show\\_project\\_ls.asp?id=1210](http://ias.cass.cn/show/show_project_ls.asp?id=1210). Accessed 19/06/2009; Ni, Feng. "The Prospects of Bush' China Policy." (April 1, 2001), [http://ias.cass.cn/show/show\\_project\\_ls.asp?id=360](http://ias.cass.cn/show/show_project_ls.asp?id=360). Accessed 19/06/2009.

China Sea.<sup>235</sup> The Chinese aircraft crashed and the pilot was killed, while the American plane landed safely at a military airfield on Hainan Island. The crew were detained and released only after Washington issued a letter of regret over the incident.<sup>236</sup> President Bush stated clearly that the US would do “whatever it takes to defend Taiwan”,<sup>237</sup> announcing an increased sale of advanced weapons to Taiwan in April.<sup>238</sup>

Nevertheless, relations refocused on cooperation after the September 11 terrorist attacks. At the Shanghai meeting of APEC in October Presidents Bush and Jiang described a “constructive cooperative relationship”.<sup>239</sup> In the changed strategic circumstances post-September 11, Bush could not afford to abandon Clinton’s engagement policy.<sup>240</sup> During his second term, Bush took an even more positive approach by calling on China to become “a responsible stakeholder” in the international community.<sup>241</sup> Beijing and Washington expanded bilateral cooperation on a number of issues, such as anti-terrorism, the second North Korean nuclear crisis and the Taiwan issue.

China and the US became more interdependent economically. As shown in Table 5-3, 2001 to 2011 witnessed a surge in bilateral trade, increasing from \$80.5b to \$385.3b. China’s trade surplus grew rapidly, from \$28b in 2001 to \$181.2b in 2010, averaging about \$150b since 2005. According to China’s Ministry of Commerce, the US was China’s second largest trading partner after the EU from 2003.<sup>242</sup> According to US statistics, in 2007 China was the US’s second largest trade partner, its largest import market, and third largest export market.<sup>243</sup> In addition, the US was one of the major sources of FDI. By the end of 2008,

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<sup>235</sup> For an account of the crash, see the memoirs of former Chinese Foreign Minister Tang Jiaxuan. *Tang, Jiaxuan. Heavy Rain and Soft Breeze Beijing: World Affairs Press, 2009*, pp. 265-300.

<sup>236</sup> Prueher, Joseph W. "US Letter to Chinese Foreign Minister Tang Jiaxuan, April 11, 2001." *In China Cross Talk: The American Debate over China Policy since Normalization: A Reader*, edited by Scott. Kennedy, Lanham, Md.: Rowman & Littlefield Publishers, 2003, pp. 283-284.

<sup>237</sup> Wallace, Kelly. "Bush Pledges Whatever It Takes to Defend Taiwan." (April 25, 2001), <http://archives.cnn.com/2001/ALLPOLITICS/04/24/bush.taiwan.abc>. Accessed 08/08/2010.

<sup>238</sup> Kan, Shirley A. "Taiwan: Major U.S. Arms Sales since 1990." *CRS Report for Congress, RL30957* (Updated September 16, 2003), p. 5.

<sup>239</sup> Shirk, Susan L. "The Mixed Message of the Bush-Jiang Meeting, National Committee on US-China Relations, October 22, 2001." *In China Cross Talk: The American Debate over China Policy since Normalization: A Reader*, edited by Scott Kennedy, Lanham, Md: Rowman & Littlefield Publishers, 2003, pp. 280-82.

<sup>240</sup> *Ibid.*, p. 281.

<sup>241</sup> Zoellick, Robert B. "Whither China: From Membership to Responsibility?" *Remarks to the National Committee on US-China Relations* (September 21, 2005), <http://www.nbr.org/publications/analysis/pdf/vol16no4.pdf>. Accessed 21/02/2009.

<sup>242</sup> China’s Ministry of Commerce, <http://www.mofcom.gov.cn>.

<sup>243</sup> China-US economic and trade relations,

56,462 companies had invested in China with a total value of \$59.4b. Its FDI in the US was much smaller, amounting to only \$3b.<sup>244</sup>

Table 5-3. China-US bilateral Trade in \$ 100 millions (2001-2010)

Year	Imports	Exports	Total	Surplus/deficit
2001	262.02	542.83	804.85	280.80
2002*	121.0	298.7	419.7	177.7
2003	338.6	924.7	1263.3	586.1
2004	446.79	1249.48	1696.26	802.69
2005	487.26	1629.00	2116.26	1141.73
2006	592.09	2034.72	2626.81	1442.63
2007	693.79	2327.04	3020.83	1633.25
2008	814.40	2522.97	3337.38	1708.57
2009	774.43	2208.16	2982.59	1433.73
2010	1020.38	2833.04	3853.41	1812.66

Source: Statistics from China's Ministry of Commerce, <http://www.mofcom.gov.cn>.

\*Figures for 2002 are for January-June only.

China's dollar earnings from the trade surplus flowed back to the US in the form of investment in US Treasury securities, financing the skyrocketing US fiscal deficit.<sup>245</sup> In 2011 US personal saving rates remained very low, and hence the economy was highly dependent on foreign borrowings. The combined foreign holding of US treasury securities by China and Japan was 45% of the total,<sup>246</sup> with China holding more than \$800b (see Table 5-4) in 2009, or 40% of its total foreign reserves.<sup>247</sup>

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<http://mds.mofcom.gov.cn/aarticle/Nocategory/200709/20070905095755.html>.

<sup>244</sup> *Ibid.*

<sup>245</sup> "National Debt Hits Record \$11 Trillion." *CBS News* (March 17, 2009), <http://www.cbsnews.com/blogs/2009/03/17/politics/politicalhotsheet/entry4872310.shtml>. Accessed 29/07/2009. For more information see US National Debt Clock, [http://brillig.com/debt\\_clock](http://brillig.com/debt_clock).

<sup>246</sup> Morrison, Wayne M., and Marc Labonte. "China's Holdings of US Securities: Implications for the US Economy." *CRS Report for Congress, RL34314* (July 30, 2009), p. 8.

<sup>247</sup> Total foreign reserves up to US \$2.1trillion; statistics released by State Administration of Foreign Exchange (SAFE), <http://www.safe.gov.cn>.

Table 5-4. China's Year-End Holding of US Treasury Securities: 2002-May 2009

	China's Holdings (\$ billions)	Holdings as % of Total Foreign Holdings
<b>2002</b>	118.4	9.6%
<b>2003</b>	159.0	10.4%
<b>2004</b>	222.9	12.1%
<b>2005</b>	310.0	15.2%
<b>2006</b>	396.9	18.9%
<b>2007</b>	477.6	20.3%
<b>2008</b>	727.4	23.6%
<b>May 2009</b>	801.5	24.3%

Source: US Department of the Treasury, cited in Morrison, Wayne M., and Labonte, Marc, "China's Holdings of US Securities: Implications for the US Economy." *CRS Report for Congress, RL34314* (July 30, 2009), p. 8.

Tighter economic links forged during the Bush era increased the importance of bilateral relations. Initial support for Taiwan and hardline statements soon gave way to recognition of China's international and regional position and the importance of the bilateral relationship. In this regard, I would argue that the liberal view, which holds that states that become more economically interdependent will seek to avoid conflict, was supported by increased Sino-US cooperation. But the liberal view was only one part of the story. The Administration's stance was tempered by a more straightforward realist consideration that the risk of military conflict would be costly and unproductive compared with the benefits of cooperation. China had no desire for conflict and, combined with a policy of good-neighbourly relations, reversion to cooperative relations was understandable.

In 2002, the Second North Korean Nuclear Crisis was an opportunity for China to demonstrate its growing comfort with multilateral approaches to managing tension and work in concert with the US and its allies. China played a leading role in the negotiations that ensued, contrasting strongly with its aloof position during the First Crisis of 1993. The next section discusses the North Korean issue in historical context, in order to emphasise the evolution of China's role.

## 5.6 China's leadership role in the Six-Party Talks on the North Korean Nuclear Crisis

### 5.6.1 China-North Korea relations during the Cold War

The Korean peninsula is significant to China's national security from a geopolitical point of view. Sino-North Korean relations, cemented by "blood brother" ties and a shared Communist ideology during the Cold War, were formalised in the *Treaty of Friendship, Cooperation and Mutual Assistance* in 1961.<sup>248</sup> It committed one to aid the other if attacked.<sup>249</sup> In his *Ten Stories of a Diplomat*, former Chinese Foreign Minister Qian Qichen argued that the "traditional friendship" between China and North Korea was forged during the 1930s/40s when the North Korean leader Kim Il-sung joined an anti-Japanese force in Northeast China alongside the Chinese.<sup>250</sup> As Shambaugh reminds us, Kim was educated in China and was a member of the CCP during the 1930s.<sup>251</sup> North Korea established diplomatic relations on 6 October 1949, one of the first to do so, six days after the establishment of the People's Republic.<sup>252</sup> China's subsequent military assistance during the Korean War (1950-1953)<sup>253</sup> produced a "special friendship" that was described by Marshall Zhu De as close as "lips and teeth".<sup>254</sup> As Gregory Moore pointed out, China and North Korea shared many other things in common, from a long symbiotic historical relationship and Confucian Heritage, to pariah status in the international community.<sup>255</sup>

China's relations with North Korea underwent fundamental change during the 1980s, as Yan Yuetong from Qinghua University pointed out.<sup>256</sup> Ideological bonds were no longer as

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<sup>248</sup> Liu, Ming. "China and the North Korean Crisis: Facing Test and Transition." *Pacific Affairs* 76, no. 3 (2003), pp. 347-73.

<sup>249</sup> Scobell, Andrew. "China and North Korea: The Close but Uncomfortable Relationship." *Current history*, no. 656 (2002), pp. 278-83.

<sup>250</sup> Qian, Qichen. *Ten Stories of a Diplomat*, p. 149.

<sup>251</sup> Shambaugh, David. "China and the Korean Peninsula: Playing for the Long Term." *The Washington Quarterly* 26, no. 2 (2003), pp. 43-44; Chung, Chong Wook. "The Korean Peninsula in China's Grand Strategy: China's Role in Dealing with North Korea's Nuclear Quandary." *RSIS Working Paper*, no. 192 (2010), p. 6. <http://www.rsis.edu.sg/publications/WorkingPapers/WP192.pdf>. Accessed 13/05/2010.

<sup>252</sup> Ministry of foreign Affairs of people's Republic of China. "China-North Korea Relations." [http://www.fmprc.gov.cn/chn/pds/gjhdq/gj/yz/1206\\_7](http://www.fmprc.gov.cn/chn/pds/gjhdq/gj/yz/1206_7). Accessed 12/07/2009.

<sup>253</sup> Liu, Ming. "China and the North Korean Crisis: Facing Test and Transition." *Pacific Affairs* 76, no. 3 (2003), p. 348.

<sup>254</sup> Moore, Gregory J. "How North Korea Threatens China's Interests: Understanding Chinese 'Duplicity' on the North Korean Nuclear Issue." *International Relations of the Asia-Pacific* 8, no. 1 (2008), pp. 1-29.

<sup>255</sup> *Ibid.*, p. 4.

<sup>256</sup> Yan, Xuetong. *Analysis of China's National Interest*. Tianjin: Tianjin People's Press, 1996, pp. 136-38.

important as pragmatism in foreign relations.<sup>257</sup> The Cold War in Asia was over and, more importantly, China and North Korea chose different development paths.<sup>258</sup> Economic reforms and “open doors” contrasted sharply with North Korea, which moved back, as Kongdan Oh and Ralph Hassig argue, to become a military dictatorship, or “post-modern dictatorship” in Bruce Cumings’ words,<sup>259</sup> under Kim Jong-Il’s leadership.<sup>260</sup>

### 5.6.2 China-North Korea relations in the post-Cold War era

China’s decision to establish diplomatic relations with South Korea in August 1992 brought the traditional friendship between China and North Korea to the brink of collapse<sup>261</sup> and is

Figure 5-1. Map of the Korean Peninsula and surrounding areas



Source: <http://www.globalsecurity.org/wmd/world/dprk/images/dprk-location.gif>.

well described in Qian Qichen’s memoirs. He recalls that in July 1992 he flew as a special envoy of President Jiang Zemin to Pyongyang to meet Kim Il-sung, informing him of the

<sup>257</sup> Garrett, Banning, and Bonnie Glaser. "Looking across the Yalu: Chinese Assessments of North Korea." *Asian Survey* 35, no. 6 (1995), p. 539.

<sup>258</sup> Moore, Gregory J. "How North Korea Threatens China's Interests: Understanding Chinese 'Duplicity' on the North Korean Nuclear Issue." *International Relations of the Asia-Pacific* 8, no. 1 (2008), pp. 1-29; Chung, Chong Wook. "The Korean Peninsula in China's Grand Strategy: China's Role in Dealing with North Korea's Nuclear Quandary." *RSIS Working Paper*, no. 192 (2010), pp. 1-2.

<sup>259</sup> Cumings, Bruce. *North Korea: Another Country*. New York: The New Press, 2004.

<sup>260</sup> Oh, Kongdan, and Ralph C. Hassig. *North Korea through the Looking Glass*. Washington: The Brookings Institution, 2000.

<sup>261</sup> Zhao, Chuanjun. *Research on Three Major Important Relations of Northeast Asia*. Beijing: Social Sciences Academic Press, 2006, p. 149.

upcoming announcement.<sup>262</sup> According to Qian, Kim listened carefully, said a few words of appreciation, then left without the customary banquet. He recalled that the meeting was the shortest of all between any President and a Chinese delegation.<sup>263</sup> Top level exchanges ceased between 1993-99.<sup>264</sup>

North Korea faced economic hardship and a political transition in the early 1990s. During the Cold War, the Soviet Union was North Korea's major source of aid, subsidising trade in food, energy and technology, which was 50% of its total.<sup>265</sup> With the demise of the Soviet Union, Russia asked Pyongyang to start servicing its debt in hard currency,<sup>266</sup> seriously disrupting the North Korean economy. As Samuel Kim pointed out, the cumulative effect of the sudden withdrawal of Soviet aid and subsidised trade, the collapse of the socialist market, structural problems with the command economy, over-allocation of resources to heavy industry and military spending, and bad weather in 1995 and 1996 saw the North Korean economy contract by over 50% between 1991-96.<sup>267</sup>

After 1991, China became North Korea's biggest trading partner and aid provider, despite normalisation of relations with the South.<sup>268</sup> From 1991 to 2002, bilateral trade was 30% of Pyongyang's total.<sup>269</sup> By mid-1994, it accounted for 75% of North Korea's food and oil imports.<sup>270</sup> Nicholas Eberstadt argued that China's policy toward North Korea after normalisation of relations with the South was framed by the conflicting goals of minimising the financial costs of support and minimising the risk of greater instability and the worst case scenario of regime collapse.<sup>271</sup> Beijing followed Moscow's lead by demanding hard

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<sup>262</sup> Qian, Qichen. *Ten Stories of a Diplomat*, p. 158.

<sup>263</sup> *Ibid.*, p. 159.

<sup>264</sup> Kim, Samuel S., and Tai Hwan Lee. "Chinese-North Korean Relations: Managing Asymmetrical Interdependence." In *North Korea and Northeast Asia*, edited by Samuel S. Kim and Tai Hwan Lee, Lanham, Md.: Rowman and Littlefield Publishers, 2002, pp. 109-38.

<sup>265</sup> Zhao, Chuanjun. *Research on Three Major Important Relations of Northeast Asia*, p. 140.

<sup>266</sup> Kim, Samuel S., and Tai Hwan Lee. "Chinese-North Korean Relations: Managing Asymmetrical Interdependence." In *North Korea and Northeast Asia*, edited by Samuel S. Kim and Tai Hwan Lee, p. 126.

<sup>267</sup> Kim, Samuel S. "The Making of China's Korea Policy in the Era of Reform." In *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*, edited by David M. Lampton, Stanford, Calif.: Stanford University Press 2001, p. 385.

<sup>268</sup> Zhao, Chuanjun. *Research on Three Major Important Relations of Northeast Asia*, p. 152.

<sup>269</sup> *Ibid.*

<sup>270</sup> Kim, Samuel S., and Tai Hwan Lee. "Chinese-North Korean Relations: Managing Asymmetrical Interdependence." In *North Korea and Northeast Asia*, edited by Samuel S. Kim and Tai Hwan Lee, p. 126.

<sup>271</sup> Eberstadt, Nicholas. "China's Trade with the DPRK, 1990-1994: Pyongyang's Thrifty New Patron." *Korea and World Affairs* 19, no. 4 (1995), pp. 665-85.

currency payments for trade from January 1993, and pressured Kim-Jong Il to halt decline by reforming the economy.<sup>272</sup>

A reduction in Chinese aid contributed to deteriorating bilateral relations.<sup>273</sup> According to South Korea media reports, Chinese grain, petroleum, and coal aid declined 10%-15% annually between 1992 and 1994.<sup>274</sup> The Hong Kong media reported that in early 1996 Kim Jong-Il asked Beijing for 200,000 tons of grain but was offered only 20,000 tons. Kim was reportedly outraged, threatening to play the “Taiwan Card”. He listed several new demands requiring reaffirmation of responsibilities and obligations under the 1961 Treaty of Friendship, provision of Chinese weapons and exchange visits by top leaders. China responded that it could only send the State Council Secretary to Pyongyang as all other top leaders were too busy, and, regarding aid, “we shall try our best, but we are still unable to meet the DPRK’s demands”.<sup>275</sup> Beijing eventually gave North Korea \$59m in material aid and \$20m in interest-free loans for a period of ten years.<sup>276</sup>

### 5.6.3 The first North Korean nuclear crisis

In 1993, Pyongyang withdrew from the Nuclear Proliferation Treaty (NPT), triggering the first nuclear crisis on the Korean Peninsula. The core of the dispute was a request by the International Atomic Energy Agency (IAEA) for a special inspection of two sites at the Yongbyon nuclear research complex because of suspicions that the reprocessing facility was for making nuclear weapons fuel and not for scientific experiments, as claimed by North Korean reports to the agency.<sup>277</sup> Pyongyang refused and declared its intention to withdraw from the NPT in March 2003.<sup>278</sup> According to Chief US negotiator Robert Gallucci, North Korea’s goal was to bargain for more international economic assistance.<sup>279</sup> The North

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<sup>272</sup> Garrett, Banning, and Bonnie Glaser. "Looking across the Yalu: Chinese Assessments of North Korea." *Asian Survey* 35, no. 6 (1995), pp. 540-41.

<sup>273</sup> Zhao, Chuanjun. *Research on Three Major Important Relations of Northeast Asia*, p. 149.

<sup>274</sup> Quoted in Garrett, Banning, and Bonnie Glaser. "Looking across the Yalu: Chinese Assessment of North Korea." *Asian Survey* 35, no. 6 (1995), p. 540.

<sup>275</sup> Kim, Samuel S. "The Making of China's Korea Policy in the Era of Reform." In *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*, edited by David M. Lampton, p. 386.

<sup>276</sup> *Ibid.*, p. 387.

<sup>277</sup> Chung, Chong Wook. "The Korean Peninsula in China's Grand Strategy: China's Role in Dealing with North Korea's Nuclear Quandary." *RSIS Working Paper*, no. 192 (2010), pp. 6-7.

<sup>278</sup> *Ibid.*, p. 8.

<sup>279</sup> Wit, Joel S., Daniel B. Poneman, and Robert L. Gallucci. *Going Critical: The First North Korean Nuclear Crisis*. Washington: Brookings Institution Press, 2004, p. 37.



Korean media declared that the nuclear problem “should be resolved through negotiation between the DPRK and the United States”.<sup>280</sup>

After three rounds of negotiations the US-North Korea Agreed Framework was signed in October 1994 with “Washington’s quid for Pyongyang’s quos”.<sup>281</sup> It was credited to the crucial role played by former President Jimmy Carter who made a special trip to Pyongyang in mid-June 1994 to talk to the North Korean leader, warning that the US was prepared to launch aerial strikes against key nuclear installations in Yongbyon.<sup>282</sup>

China’s role in the first North Korea nuclear crisis was seen as insignificant or less proactive,<sup>283</sup> distancing itself for a number of reasons. As former South Korean National Security Advisor Chung Chong Wook argued, domestic political circumstances limited its involvement. In the wake of the Tiananmen Square Incident in June 1989, China underwent a transition from Deng Xiaoping to the “third generation” leadership under Jiang Zemin which was divided over policies towards the West<sup>284</sup> while economic sanctions imposed mainly by the US remained in effect.<sup>285</sup> China’s foreign policy in the early 1990s was largely “defensive, reactive and suspicious”<sup>286</sup> and following Deng Xiaoping’s 1989 instruction to “maintain a low profile, hide brightness, never pursue leadership”. (*taoguangyanghui juebudangtou*)<sup>287</sup> Furthermore, Beijing-Pyongyang relations were already at a low point in the wake of the normalisation of relations with Seoul.

As Chung Chong Wook noted, because Pyongyang preferred bilateral negotiations with the US, “most of the time North Korea did not inform Beijing of what was going on, much less

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<sup>280</sup> Quoted in *Ibid.*, p. 39.

<sup>281</sup> For details about the Framework, see Garrett, Banning, and Bonnie Glaser. "Looking across the Yalu: Chinese Assessments of North Korea." *Asian Survey* 35, no. 6 (1995), pp. 528-29.

<sup>282</sup> Wit, Joel S., Daniel B. Poneman, and Robert L. Gallucci. *Going Critical: The First North Korean Nuclear Crisis*, pp. 118-220; Lee, Chae-Jin. *A Troubled Peace: US Policy and the Two Koreas*. Baltimore: Johns Hopkins University Press, 2006, pp. 158-209.

<sup>283</sup> See for example, Chung, Chong Wook. "The Korean Peninsula in China's Grand Strategy: China's Role in Dealing with North Korea's Nuclear Quandary." *RSIS Working Paper*, no. 192 (2010), p. 10; Liu, Ming. "China and the North Korean Crisis: Facing Test and Transition." *Pacific Affairs* 76, no. 3 (2003), p. 362.

<sup>284</sup> Fewsmith, Joseph. *China since Tiananmen: From Deng Xiaoping to Hu Jintao*. New York: Cambridge University Press, 2008.

<sup>285</sup> For a discussion of U.S. sanctions in place against China from 1949 to 1997, see Rennack, Dianne E. "China: U.S. Economic Sanctions." *CRS Report for Congress, 96-272F* (October 1, 1997), [www.policyarchive.org/handle/10207/294](http://www.policyarchive.org/handle/10207/294). Accessed 12/05/2010.

<sup>286</sup> About China’s post-Cold War foreign relations, see Sutter, Robert G. *Chinese Foreign Relations: Power and Policy since the Cold War*. Lanham, Md.: Rowman & Littlefield Publishers, 2008; Mann, James. *About Face: A History of America’s Curious Relationship with China, from Nixon to Clinton*. New York: Alfred A. Knopf, 1999.

<sup>287</sup> Wang, Jisi. *Ration Reflections on International Politics*, p. 244.

consult it. Often Chinese officials learnt what has transpired in Geneva between the US and the DPRK from either Washington or Seoul".<sup>288</sup> The US only asked for China's cooperation when a resolution was adopted either at IAEA board meetings or during UN Security Council deliberations.<sup>289</sup> William Perry, then Deputy Secretary of Defence, recalls that the North Korea issue provided a strong incentive for the US to re-establish a reasonable relationship with China, and the Pentagon put pressure on the White House to change policy.<sup>290</sup> Nevertheless, China argued that "the issue was a direct matter between the DPRK and the three sides - the International Atomic Energy Agency (IAEA), the United States, and the Republic of Korea". Anne Wu states that Beijing adopted an "onlooker's approach".<sup>291</sup>

#### 5.6.4 Second North Korean nuclear crisis, China, the Six-Party Talks

The second North Korean nuclear crisis was sparked in October 2002 when US intelligence reports indicated that Pyongyang was attempting to develop nuclear weapons through its highly enriched uranium programme.<sup>292</sup> The US called for complete nuclear disarmament before any substantive Washington-Pyongyang negotiations. In response, on 10 January 2003, Pyongyang announced its withdrawal from the NPT and the recommencement of reprocessing at Yongbyon which was frozen under the Agreed Framework.<sup>293</sup> Adding to political tensions, President Bush's State of the Union address to Congress on 29 January 2002 listed North Korea, Iran, and Iraq as an "an axis of evil".<sup>294</sup> North Korea's Vice Minister Kang Sok-ju expressed Pyongyang's attitude towards US hostility as follows: "[W]e are part of the axis of evil and you are gentlemen... if we disarm ourselves because of US

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<sup>288</sup> Chung, Chong Wook. "The Korean Peninsula in China's Grand Strategy: China's Role in Dealing with North Korea's Nuclear Quandary." *RSIS Working Paper*, no. 192 (2010), p. 11.

<sup>289</sup> Wit, Joel S., Daniel B. Poneman, and Robert L. Gallucci. *Going Critical: The First North Korean Nuclear Crisis*, pp. 152-56.

<sup>290</sup> Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, pp. 288-89.

<sup>291</sup> "US-DPRK Meeting Welcomed." *Beijing Review*, May 17-23, 1993, p. 7, quoted in Wu, Anne. "What China Whispers to North Korea." *The Washington Quarterly* 28, no. 2 (2005), p. 36; also see Cai, Jian. "North Korean Nuclear Issue Test the Flexibility of China's Foreign Policy." (2006) <http://www.ccwe.org.cn/ccwe/upfile/file/caijian.pdf>. Accessed 12/03/2010.

<sup>292</sup> Pritchard, Charles L. *Failed Diplomacy: The Tragic Story of How North Korea Got the Bomb*. Washington: Brookings Institution Press, 2007, pp. 25-44.

<sup>293</sup> *Ibid.*, p. 43.

<sup>294</sup> "Bush's State of the Union Address." (January 29, 2002), [http://articles.cnn.com/2002-01-29/politics/bush.speech.txt\\_1\\_firefighter-returns-terrorist-training-camps-interim-leader?\\_s=PM:ALLPOLITICS](http://articles.cnn.com/2002-01-29/politics/bush.speech.txt_1_firefighter-returns-terrorist-training-camps-interim-leader?_s=PM:ALLPOLITICS). Accessed 30/05/2011.

pressure...we will be beaten to death".<sup>295</sup> The *Korean Central News Agency* reported that the US had no intention of improving bilateral relations and was following an aggressive military strategy.<sup>296</sup>

Unlike the first crisis, China was more proactive and played a key role. It brought the US, North Korea, Japan, Russia and South Korea together for what became the "Six-Party Talks".<sup>297</sup> China played multiple roles as host, mediator, broker, coordinator and facilitator.<sup>298</sup> There are several reasons for the policy change. First, North Korea's nuclear programme posed a direct security threat to the region. China supported a nuclear-free Korean Peninsula as essential to maintaining lasting peace, security, and stability in Northeast Asia,<sup>299</sup> and viewed non-proliferation as a high priority.<sup>300</sup> The majority of China's North Korea specialists declared that acquiring nuclear weapons was unacceptable,<sup>301</sup> as Japan, South Korea and Taiwan would be prompted to follow suit, thus triggering a regional arms race.<sup>302</sup>

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<sup>295</sup> Quoted in *Ibid.*, p. 25.

<sup>296</sup> Pritchard, Charles L. *Failed Diplomacy: The Tragic Story of How North Korea Got the Bomb*, p. 18.

<sup>297</sup> Lee, Chae-Jin. *A Troubled Peace: US Policy and the Two Koreas*, pp. 229-57.

<sup>298</sup> Chung, Chong Wook. "The Korean Peninsula in China's Grand Strategy: China's Role in Dealing with North Korea's Nuclear Quandary." *RSIS Working Paper*, no. 192 (2010), p. 17; Qian, Cheng, and Xiaohui Wu. "The Art of China's Mediation during the Nuclear Crisis on the Korean Peninsula." *Asian Affairs: An American Review* 36, no. 2 (2009), pp. 79-96.

<sup>299</sup> "Chinese government stance on North Korea Nuclear issue."

[http://news.xinhuanet.com/ziliao/2003-11/07/content\\_1165179.htm](http://news.xinhuanet.com/ziliao/2003-11/07/content_1165179.htm). Accessed 07/06/2010.

<sup>300</sup> Zhu, Feng. "The Changes of China's Policy and Tactics on North Korean Nuclear Issue." *China Strategy*, no. 3 (2004), <http://www.sciso.org/Article/print.asp?ArticleID=611>. Accessed 25/05/2010; Park, John S. "Inside Multilateralism: The Six-Party Talks." *The Washington Quarterly* 28, no. 4 (2005), pp. 73-91.

<sup>301</sup> See for example, Shi, Yinhong. "The North Korean Nuclear Crisis: History, the Present Situation, Possible Prospects, and the Present 'South Korea Problem'." *Teaching and Research*, no. 4 (2004), <http://www.irchina.org/news/view.asp?id=474>. Accessed 25/05/2010; Yan, Xuotong. "The Foundations of East Asia's Peace." *World Economics and Politics*, no. 3 (2004), <http://www.irchina.org/news/view.asp?id=485>. Accessed 25/05/2010; Ren, Jingjing. "East Asian Multilateral Security Mechanism: China's Difficulties and Choices." *Today's World*, no. 10 (2005), <http://www.irchina.org/news/view.asp?id=1111>. Accessed 25/05/2010; Chou, Huafei. "China's Peripheral Security Environment in the Age of Globalization." *Social Sciences*, no. 5 (2005). <http://www.irchina.org/news/view.asp?id=936>. Accessed 25/05/2010; Yu, Xintian. "New Thoughts on the Security Threats China Faces and Its Strategic Choices." *Foreign Affairs Review*, no. 5 (2005), <http://www.irchina.org/news/view.asp?id=1076>. Accessed 25/05/2010.

<sup>302</sup> Chung, Chong Wook. "The Korean Peninsula in China's Grand Strategy: China's Role in Dealing with North Korea's Nuclear Quandary." *RSIS Working Paper*, no. 192 (2010), pp. 14-16; Qian, Cheng, and Xiaohui Wu. "The Art of China's Mediation during the Nuclear Crisis on the Korean Peninsula." *Asian Affairs: An American Review* 36, no. 2 (2009), p. 81; Hughes, Christopher W. "North Korea's Nuclear Weapons: Implications for the Nuclear Ambitions of Japan, South Korea, and Taiwan." *Asia Policy* 3 (2007), pp. 75-104.

Secondly, other security concerns prompted China's involvement. It feared conflict on the Peninsula would cause the downfall of Kim's regime and re-unification of the Peninsula.<sup>303</sup> Regime collapse would have enormous human and economic consequences with an influx of refugees placing a heavy burden on China's northeast provinces.<sup>304</sup> Most western analysts conceded that reunification was not in China's interests. Banning Garrett and Bonnie Glaser quote an expert from the State Council's Institute for World Development who stated that "a unified Korea will be mostly influenced by the United States" though the future of the Korean peninsula after reunification "will be uncertain".<sup>305</sup>

Thirdly, China was concerned about potential disruption to its economy,<sup>306</sup> which was heavily dependent on trade. The US, Japan and South Korea were its top 3 trading partners, accounting for more than 30% of total trade after 2001.<sup>307</sup> As Japan and South Korea were US allies, they would likely join the US in any military confrontation. Because the 1961 Friendship Treaty remained in force China was obliged to come to North Korea's assistance<sup>308</sup> with the potential to seriously disrupt trade with its three important partners. As one Chinese scholar put it, tension on the Peninsula would wreck regional peace and stability, and no security on the Peninsula meant no realisation of China's ultimate goal of modernisation.<sup>309</sup>

Fourthly, requests from the US for participation provided an opportunity for broader Sino-US cooperation on regional security. President Bush, in private talks at his ranch in Texas with Jiang Zemin on 25 October 2002, called for China's engagement on North Korea.<sup>310</sup> The

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<sup>303</sup> Shambaugh, David. "China and the Korean Peninsula: Playing for the Long Term." *The Washington Quarterly* 26, no. 2 (2003), pp. 45-46.

<sup>304</sup> Liu, Ming. "China and the North Korean Crisis: Facing Test and Transition." *Pacific Affairs* 76, no. 3 (2003), pp. 352-57; Shambaugh, David. "China and the Korean Peninsula: Playing for the Long Term." *The Washington Quarterly* 26, no. 2 (2003), pp. 46-47.

<sup>305</sup> Quoted in Garrett, Banning, and Bonnie Glaser. "Looking across the Yalu: Chinese Assessments of North Korea." *Asian Survey* 35, no. 6 (1995), p. 539.

<sup>306</sup> Moore, Gregory J. "How North Korea Threatens China's Interests: Understanding Chinese 'Duplicity' on the North Korean Nuclear Issue." *International Relations of the Asia-Pacific* 8, no. 1 (2008), p. 17.

<sup>307</sup> According to statistics from China's Ministry of Commerce, US, Japan and South Korea have been China's top three trading partners (excluding the EU, ASEAN and Hong Kong) since 2002, see <http://yzs.mofcom.gov.cn/static/date/g/date.html/1>.

<sup>308</sup> Cai, Jian. "North Korean Nuclear Issue Test the Flexibility of China's Foreign Policy." (2006) <http://www.ccwe.org.cn/ccwe/upfile/file/caijian.pdf>.

<sup>309</sup> Chou, Huafei. "China's Peripheral Security Environment in the Age of Globalization." *Social Sciences*, no. 5 (2005), <http://www.irchina.org/news/view.asp?id=936>.

<sup>310</sup> Lee, Chae-Jin. *A Troubled Peace: US Policy and the Two Koreas*, p. 225.

talks did not map out a specific action plan,<sup>311</sup> though they pledged cautiously to continue to consult and work together to ensure a peaceful resolution of the problem.<sup>312</sup> Jiang's cautiousness suggested that Beijing was reluctant to join in multilateral efforts, which he expressed to former Secretary of Defence William Perry during his visit to Beijing in November 2002. Jiang stated that the tense relationship between the US and North Korea was caused by the US, and the crisis should be resolved by bilateral negotiations between two sides.<sup>313</sup> Chinese analysts, such as North Korean specialist Piao Jianyi from CASS, shared the same view.<sup>314</sup>

The critical change in China's stance came when US Secretary of State Colin Powell visited Beijing in February 2003. He conveyed Bush's determination to resolve the nuclear issue diplomatically but insisted that this could only be achieved multilaterally, not bilaterally as Pyongyang demanded. Powell suggested that Beijing was well positioned to organise and host multilateral talks.<sup>315</sup> After Powell's visit, Vice Premier Qian Qichen was sent to Pyongyang in an effort to persuade Kim Jong-Il to participate.<sup>316</sup> When Kim insisted on bilateral talks with the US, it was reported that China shut down its oil pipeline to Pyongyang for three days in March because of a "technical failure".<sup>317</sup>

Pyongyang agreed reluctantly to a compromise request made by Beijing, according to Charles Pritchard, to attend a "trilateral meeting" with the US and China in Beijing in April 2003.<sup>318</sup> The meeting did not produce anything substantial as Pyongyang demanded bilateral negotiations with the US delegation within the trilateral talks, while US negotiators refused to meet their North Korean counterparts.<sup>319</sup> Despite these diplomatic shenanigans, the door was opened to the Six-Party Talks in August.

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<sup>311</sup> Glaser, Bonnie S., and Liang Wang. "North Korea: The Beginning of a China-US Partnership?" *The Washington Quarterly* 31, no. 3 (2008), pp. 165-80.

<sup>312</sup> Zhu, Feng. "The Changes of China's Policy and Tactics on North Korean Nuclear Issue." *China Strategy*, no. 3 (2004), <http://www.sciso.org/Article/print.asp?ArticleID=611>.

<sup>313</sup> *Ibid.*

<sup>314</sup> Piao, Jianyi. "The North Korean Nuclear Issue and Its Future Trend." *Contemporary Asia Pacific*, no. 3 (2003), pp. 23-26.

<sup>315</sup> Pritchard, Charles L. *Failed Diplomacy: The Tragic Story of How North Korea Got the Bomb*, pp. 57-65.

<sup>316</sup> *Ibid.*, p. 62; Glaser, Bonnie S., and Liang Wang. "North Korea: The Beginning of a China-US Partnership?" *The Washington Quarterly* 31, no. 3 (2008), p. 169.

<sup>317</sup> *Ibid.*; Zhu, Feng. "The Changes of China's Policy and Tactics on North Korean Nuclear Issue." *China Strategy*, no. 3 (2004), <http://www.sciso.org/Article/print.asp?ArticleID=611>.

<sup>318</sup> Pritchard, Charles L. *Failed Diplomacy: The Tragic Story of How North Korea Got the Bomb*, p. 62.

<sup>319</sup> *Ibid.*, p. 63.

China hosted the first Six-Party Talks in August 2003, with second and third rounds in February and June 2004. Apart from providing the venue, China mediated between Washington and Pyongyang. It mapped out the framework for negotiations and shuttled between Washington and Pyongyang to get the talks back on track when they were in stalemate. Both Pyongyang and Washington adopted a hard-line stance. North Korea insisted that Washington should give up its hostile policy toward Pyongyang and issue a written security guarantee before dismantling its nuclear facilities. Washington insisted that a precondition for any substantive negotiations was North Korean “complete, verifiable, and irreversible” denuclearisation.<sup>320</sup> As a result, no “joint statement” was issued. Instead, Beijing issued a “Chairman’s statement” at the end of each round.<sup>321</sup> When Wang Yi, China’s Vice Minister of Foreign Affairs, was asked by reporters about the biggest obstacle to holding the next round of talks, he replied that US policy toward North Korea was the main problem.<sup>322</sup> Indeed, it took six months for Chinese diplomats shuttling between Washington and Pyongyang to get them back to the negotiation table for the second round in February 2004.<sup>323</sup>

Although the first three rounds of negotiations did not make substantial progress, China’s efforts were regarded as constructive. Professor Liu Jianfei, from the Institute of International Strategic Studies of the Central Party School, argued that due to half a century of antagonism and mutual distrust, direct communication between Washington and Pyongyang was not possible without China’s role as mediator.<sup>324</sup> The US Representative at the six-party talks, James Kelly, remarked that: “Achievements from the talks are in no small part due to the extensive efforts of the Chinese... and we are extremely grateful for the hard work they have been doing”.<sup>325</sup>

The fourth round of the talks in 2005 produced a joint statement in which North Korea committed to abandoning all nuclear weapons and existing nuclear programs, while the US

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<sup>320</sup> *Ibid.*

<sup>321</sup> *Ibid.*

<sup>322</sup> *Ibid.*, p. 102.

<sup>323</sup> *Ibid.*, pp. 103-04.

<sup>324</sup> Zhang, Shuo. "Expert Analyses China’s Three Roles in Six-Party Talks." (August 30, 2003), <http://www.chinanews.com/n/2003-08-30/26/340941.html>. Accessed 02/01/2010.

<sup>325</sup> Kelly, James. "Six-Party Talks." *Assistant Secretary for East Asian and Pacific Affairs Opening Remarks Before the Senate Foreign Relations Committee, Washington, DC* (March 2, 2004), <http://merln.ndu.edu/archivepdf/northkorea/state/30093.pdf>. Accessed 05/02/2010.

affirmed that it no longer had nuclear weapons on the Korean Peninsula and had no intention of attacking North Korea with nuclear or conventional weapons.<sup>326</sup> The joint statement was regarded as a major step toward the goal of denuclearisation of the Peninsula. Susan Shirk stated that it was a triumph for Chinese negotiators to gain critical compromises from the parties in drafting the agreement.<sup>327</sup>

But just a day after the fourth round concluded, Pyongyang stated that it would not dismantle its nuclear weapons programme unless a light water reactor was first supplied to meet its power needs, throwing cold water on the prospects of progress.<sup>328</sup>

A fifth round of Six-Party Talks was convened in November 2005, but negotiations stalled because the US froze \$24m of North Korean assets at Macau's Banco Delta Asia in September, accusing it of money laundering.<sup>329</sup> The talks stalled throughout most of 2006. In July, North Korea conducted missile and nuclear tests on 9 October. In response, the UN Security Council passed Resolutions 1695 and 1718, condemning the tests and calling on Pyongyang to return to the Six-Party talks.<sup>330</sup> North Korean agreed after State Counsellor Tang Jiaxuan travelled to Pyongyang and met Kim Jong-Il, but a second session of the fifth round of talks in December 2006 failed to agree to a resolution.<sup>331</sup>

On 13 February 2007, agreement was reached at the third session of the fifth round of the Six-Party Talks. Pyongyang agreed to shut down and seal the Yongbyon nuclear facilities, allow IAEA inspections as agreed, and discuss compiling a list of its nuclear programmes. In return, the US promised to release frozen funds, begin bilateral talks aimed at moving toward full diplomatic relations and to provide a million tons of heavy fuel oil.<sup>332</sup>

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<sup>326</sup> "Joint Statement of the Fourth Round of the Six-Party Talks." (September 19, 2005), <http://www.fmprc.gov.cn/eng/topics/dslbj/t212707.htm>. Accessed 11/01/2010.

<sup>327</sup> Shirk, Susan L. *China: Fragile Superpower*. New York: Oxford University Press, 2007, p. 126.

<sup>328</sup> Moore, Gregory J. "How North Korea Threatens China's Interests: Understanding Chinese 'Duplicity' on the North Korean Nuclear Issue." *International Relations of the Asia-Pacific* 8, no. 1 (2008), p. 21.

<sup>329</sup> Kahn, Joseph. "North Korea and U.S. Spar, Causing Talks to Stall." *The New York Times* (November 12, 2005), <http://query.nytimes.com/gst/fullpage.html?res=9D0CE4DE133EF931A25752C1A9639C8B63>.

Accessed 21/02/2010; Pritchard, Charles L. *Failed Diplomacy: The Tragic Story of How North Korea Got the Bomb*, pp. 155-56.

<sup>330</sup> Pritchard, Charles L. *Failed Diplomacy: The Tragic Story of How North Korea Got the Bomb*, pp. 148-53.

<sup>331</sup> *Ibid.*, p. 156.

<sup>332</sup> Xinhua News Agency. "Agreement Reached at the Third Session of the Fifth Round of the Six-Party Talks." (February 13, 2007), [http://news.xinhuanet.com/world/2007-02/13/content\\_5735895.htm](http://news.xinhuanet.com/world/2007-02/13/content_5735895.htm). Accessed 02/06/2010.

The sixth round of talks commenced in March 2007, but stalled after two sessions in March and September. In April 2009, Pyongyang conducted a series of missile tests, followed by a second nuclear test on 25 May, and another series of missile tests in July.<sup>333</sup> On 12 June, the UN Security Council passed Resolution 1874 to “strongly condemn” the second test.<sup>334</sup> The Six-Party Talks remained stalled throughout 2010 and the first half of 2011.

China worked with the international community to get tough on North Korea when Pyongyang’s behaviour was provocative, expressing its “resolute opposition” to the test in October 2006 and voting “yes” to UN Security Council Resolution 1718 imposing sanctions on North Korea.<sup>335</sup> China also voted “yes” to UN Security Council Resolution 1894 in response to the second nuclear test in June 2009,<sup>336</sup> urging moderation, balance and non-military measures.<sup>337</sup> The US, South Korea and Japan feared, however, that China’s patronage could dampen and weaken the resolve of international community, and even mislead North Korea to engage in similar acts of provocation.<sup>338</sup>

John Park pointed to a growing “perception gap” between Beijing and Washington concerning China’s leverage over the North. The US contended that China had major economic and political leverage but was unwilling to exert it.<sup>339</sup> Stephan Haggard and Marcus Noland accepted, however, that Beijing had legitimate concerns about pressuring Pyongyang, political upheaval, economic collapse and a flood of refugees.<sup>340</sup> Washington and Beijing had divergent perspectives and interests. In the eyes of the Bush administration,

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<sup>333</sup> Cha, Victor D. "What Do They Really Want?: Obama's North Korea Conundrum." *The Washington Quarterly* 32, no. 4 (2009), pp. 119–38.

<sup>334</sup> Xinhua News Agency. "UN Security Council Passed the Resolution 1894." (June 13, 2009), [http://news.xinhuanet.com/world/2009-06/13/content\\_11534821.htm](http://news.xinhuanet.com/world/2009-06/13/content_11534821.htm). Accessed 02/06/2010.

<sup>335</sup> Xinhua News Agency. "UN Passed the Resolution Concerned North Korea Nuclear Test." (October 15, 2006), [http://news.xinhuanet.com/world/2006-10/15/content\\_5203818.htm](http://news.xinhuanet.com/world/2006-10/15/content_5203818.htm). Accessed 02/06/2010.

<sup>336</sup> Ministry of Foreign Affairs of People's Republic of China. "Chinese Government Resolutely Opposite North Korea's Second Nuclear Test." (May 26, 2009), [http://www.gov.cn/xwfb/2009-05/26/content\\_1325254.htm](http://www.gov.cn/xwfb/2009-05/26/content_1325254.htm). Accessed 02/06/2010.

<sup>337</sup> Xinhua News Agency. "China Supports UN Security Council's Moderate, Balanced Response to North Korean Nuclear Issue." (June 13, 2009), [http://news.xinhuanet.com/world/2009-06/13/content\\_11534304.htm](http://news.xinhuanet.com/world/2009-06/13/content_11534304.htm). Accessed 02/06/2010.

<sup>338</sup> Chung, Chong Wook. "The Korean Peninsula in China's Grand Strategy: China's Role in Dealing with North Korea's Nuclear Quandary." *RSIS Working Paper*, no. 192 (2010), p. 23.

<sup>339</sup> Park, John S. "Inside Multilateralism: The Six-Party Talks." *The Washington Quarterly* 28, no. 4 (2005), pp. 75-91.

<sup>340</sup> For more about the theme, see Haggard, Stephan, and Marcus Noland. *Famine in North Korea: Markets, Aid, and Reform*. New York: Columbia University Press, 2007.



the Kim regime was part of the “axis of evil” and an “outpost of tyranny”<sup>341</sup> which should be removed.<sup>342</sup> Beijing sought to help Pyongyang on the path of economic reform and avoid regime collapse.<sup>343</sup> As David Shambaugh argued, China favoured neither the status quo nor regime change.<sup>344</sup> In addition, China was suspicious of Washington’s sincerity in dealing with Kim Jong-Il.

One Chinese perspective was that Washington sought to maintain “managed tension” on the Korean peninsula to justify intervention in North Asian affairs.<sup>345</sup> Another scholar argued: “Never in the diplomatic history of the PRC has the country been so deeply or extensively involved in a controversial regional issue to which it was not a direct party”.<sup>346</sup> In this respect, a Chinese expert on Korean Peninsula issues at CASS, Pao Jianyi, concluded that, “preventing the nuclear issue on the peninsula from spiralling out of control is the contribution that China made to the peace in Northeast Asia. China is playing an indispensable role”.<sup>347</sup>

A denuclearised Korean Peninsula in which Kim’s regime survived and, desirably, embraced economic reform, served China’s interests better than a reunified Korea under a Southern government influenced heavily by the US. In setting up the Six-Party Talks and mediating between the parties when they could not agree, China assumed an unprecedented leadership role in managing the nuclear crisis, departing from its onlooker approach of ten years earlier. China sought to demonstrate that it was a responsible power by committing itself to preserving regional peace and stability, and by cooperating with the US on global issues as the role of “stakeholder” demanded.

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<sup>341</sup> "Rice Names 'Outposts of Tyranny'." (January 19, 2005), <http://news.bbc.co.uk/2/hi/americas/4186241.stm>. Accessed 25/03/2010.

<sup>342</sup> Pritchard, Charles L. *Failed Diplomacy: The Tragic Story of How North Korea Got the Bomb*, p. 97.

<sup>343</sup> Shambaugh, David. "China and the Korean Peninsula: Playing for the Long Term." *The Washington Quarterly* 26, no. 2 (2003), pp. 43-56.

<sup>344</sup> *Ibid.*, pp. 44-45.

<sup>345</sup> See for example, Jin, Qiangyi. "American and Japanese Strategy in Northeast Asia and the Korean Peninsula Issue." *Contemporary Asia-Pacific*, no. 4 (2004), pp. 20-24.

<sup>346</sup> Zhu, Feng. "The Changes of China's Policy and Tactics on North Korean Nuclear Issue." *China Strategy*, no. 3 (2004), <http://www.sciso.org/Article/print.asp?ArticleID=611>.

<sup>347</sup> Piao, Jianyi. "China’s Indispensable Role in North Korean Nuclear Issue." (2008), <http://world.huangqiu.com/roll/2008-06/150098.html>. Accessed 22/04/2010.

## 5.7 Toward a comprehensive relationship or further conflict?

Barack Obama was inaugurated as President in January 2009 at a time when the US was plagued by the GFC which started in 2008.<sup>348</sup> Chinese scholars note that he did not strongly criticise Bush's China policy during the election campaign, as Bush had done to Clinton four years earlier.<sup>349</sup> Beijing believed that President Obama would likely follow a similar approach. Professor Huang Ping, Director of the Institute of American Studies at CASS argued that because China was Washington's largest creditor, the US needed its cooperation in dealing with the GFC.<sup>350</sup> Others argued, however, that even though the US needed to cooperate on common issues, the divergence of interests was likely to drive them into conflict.<sup>351</sup>

The Obama Administration adopted a positive stance towards China. Both the President and Secretary of State Hillary Clinton committed to "a positive, cooperative and comprehensive US-China relationship" through "sustained cooperation, not confrontation".<sup>352</sup> The establishment of the US-China Strategic and Economic Dialogue in July 2009 was, in the view of one scholar from Beijing University, a sign of maturing China-US relations,<sup>353</sup> and by others a positive beginning for a new era of strategic trust and cooperation.<sup>354</sup> Furthermore, in November 2009, President Obama visited Beijing and issued a joint statement with Hu

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<sup>348</sup> Wearden, Graeme, David Teather, and Jill Treanor. "Banking crisis: Lehman Brothers files for bankruptcy protection." *The Guardian* (September 15, 2008), <http://www.guardian.co.uk/business/2008/sep/15/lehmanbrothers.creditcrunch>. Accessed 25/02/2009; Nanto, Dick K. eds. "The US Financial Crisis: the Global Dimension with Implications for US Policy." *CRS Report for Congress, RL34742* (November 10, 2008); Shiller, Robert J. *The subprime solution: how today's global financial crisis happened, and what to do about it*. Princeton: Princeton University Press, 2008.

<sup>349</sup> Yuan, Zheng. "The Direction of China-US Relations in the Wake of Presidential Election." (2008), <http://ias.cass.cn/photo/2010720173044.pdf>. Accessed 17/04/2010.

<sup>350</sup> Huang, Ping. "Looking Forward China-US Relations in the Era of Obama Administration." (2008), [http://ias.cass.cn/show/show\\_project\\_ls.asp?id=1017](http://ias.cass.cn/show/show_project_ls.asp?id=1017). Accessed 17/04/2010.

<sup>351</sup> Shen, Peng. "Sino-American Dialogue Seeks a New Equilibrium." (2009), <http://ias.cass.cn/photo/2010824143710.pdf>. Accessed 17/04/2010.

<sup>352</sup> Yang, Lan. "The Interview with Hillary Clinton: On US Foreign Policy." (February 24, 2009), <http://video.sina.com.cn/news/c/v/2009-02-24/211331492.shtml>. Accessed 22/09/2009; Office of the Press Secretary, the White House. "Remarks by the President at the US-China Economic and Strategic Dialogue." (July 27, 2009), [http://www.whitehouse.gov/the\\_press\\_office/Remarks-by-the-President-at-the-US-China-Strategic-and-Economic-Dialogue](http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-at-the-US-China-Strategic-and-Economic-Dialogue). Accessed 05/08/2009.

<sup>353</sup> Yu, Wanli, and Mingxia Sun. "The Hallmark of China-US Relations Tending to Maturity." *Wenhuibao* (May 27, 2010), [http://news.xinhuanet.com/world/2010-05/27/c\\_12149472.htm](http://news.xinhuanet.com/world/2010-05/27/c_12149472.htm). Accessed 13/08/2010.

<sup>354</sup> Jin, Canrong, and Shiqiang Liu. "Sino-US Relations since Obama Came to Power." *American Studies Quarterly*, no. 4 (2009), pp. 39-50.

Jintao on advancing China-US relations.<sup>355</sup> Given these positive developments and the level of economic interdependence, Zbigniew Brzezinski advocated the establishment of a G-2, comprising China and the US, to address global issues,<sup>356</sup> though the suggestion was rejected by the Chinese government<sup>357</sup> and largely disparaged by Chinese scholars and analysts.<sup>358</sup>

In September 2009 Beijing and Washington became embroiled in a number of trade disputes, over retaliatory tariffs and anti-dumping duties.<sup>359</sup> In November, a low-ranking Chinese official was reported to have pointed his finger at Obama at the UN climate change conference in Copenhagen in an apparently demeaning way.<sup>360</sup> Diplomatic rows on both economic and political matters intensified in 2010. In January, the Obama Administration approved a US\$6b arms sales package to Taiwan.<sup>361</sup> The Chinese government lodged a strong

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<sup>355</sup> "China-US Joint Statement." (November 17, 2010), [http://www.china.com.cn/policy/txt/2009-11/17/content\\_18904837.htm](http://www.china.com.cn/policy/txt/2009-11/17/content_18904837.htm). Accessed 26/01/2011.

<sup>356</sup> Wong, Edward. "Former Carter Adviser Calls for a 'G-2' between U.S. and China." *The New York Times* (January 2, 2009), <http://www.nytimes.com/2009/01/12/world/asia/12iht-beijing.3.19283773.html>. Accessed 13/08/2010; Brzezinski, Zbigniew. "The Group of Two That Could Change the World." *Financial Times* (January 13, 2009), <http://www.ft.com/intl/cms/s/0/d99369b8-e178-11dd-afa0-0000779fd2ac.html#axzz1TCTkw42t>. Accessed 13/08/2010.

Kissinger, Henry A. "The Chance for a New World Order." *The New York Times* (January 12, 2009), <http://www.nytimes.com/2009/01/12/opinion/12iht-edkissinger.1.19281915.html>. Accessed 13/08/2010; Bergsten, C. Fred. "The United States–China Economic Relationship and the Strategic and Economic Dialogue." *Testimony before the Subcommittee on Asia, the Pacific and the Global Environment, Committee on Foreign Affairs, US House of Representatives* (September 10, 2009), <http://www.hcfa.house.gov/111/ber091009.pdf>. Accessed 13/08/2010; Bergsten, C. Fred. "Partnership of Equals-How Washington Should Respond to China's Economic Challenge." *Foreign Affairs* 87, no. 4 (2008), pp. 57-69.

<sup>357</sup> At the Sino-European Union (EU) summit in May 2009,, Chinese Prime Minister Wen Jiabao rejected the concept of a Group of Two (G-2) comprising China and the United States, saying "it is totally ungrounded and wrong to talk about the dominance of two countries in international affairs." Feng, Fandi. "Wen Jiabao Opposes 'G-2' Discourse." *Financial Daily* (May 22, 2009), <http://finance.sina.com.cn/roll/20090522/03076258771.shtml>. Accessed 13/08/2010.

<sup>358</sup> See for example, Liu, Zhongmin. "China-US Condominium Is Unrealistic." *Global Times* (April 5, 2008), <http://www.huanqiu.com/www/337/2008-04/85077.html>. Accessed 13/08/2010; Sun, Xiliang. "Infeasibility of G-2 and Possibility of China-US Confrontation." (June 5, 2009), <http://www.chinathinktank.cn/ShowArticle.asp?ArticleID=12757>. Accessed 13/08/2010.

<sup>359</sup> Bradsher, Keith. "China-U.S. Trade Dispute Has Broad Implications." *The New York Times* (September 14, 2009), <http://www.nytimes.com/2009/09/15/business/global/15trade.html>. Accessed 05/10/2010; "Ministry of Commerce Conducts Anti-Dumping and Anti-Subsidy Investigation on Automotive Products and Chicken Meat from the United States." *Southern Weekly* (September 28, 2009), <http://www.infzm.com/content/35394>. Accessed 05/10/2010.

<sup>360</sup> Pearlman, Jonathan. "China Flexes Its Muscles." *The Age* (December 23, 2009), <http://www.theage.com.au/world/china-flexes-its-muscles-20091222-lbou.html>. Accessed 29/04/2010.

<sup>361</sup> Cooper, Helene. "U.S. Approval of Taiwan Arms Sales Angers China." *The New York Times* (January 29, 2010), <http://www.nytimes.com/2010/01/30/world/asia/30arms.html>. Accessed 06/05/2010. The arms sales include 114 Patriot missiles worth \$2.82 billion, 60 Black Hawk helicopters worth \$3.1 billion and communications

protest,<sup>362</sup> suspending scheduled military exchanges<sup>363</sup> and threatening to punish US companies involved in the Taiwanese arms deal.<sup>364</sup> In addition, Beijing and Washington quarrelled over censorship of the internet search giant Google, which eventually closed its business in China in March.<sup>365</sup> This was followed by the “war” over Washington’s accusation that China deliberately undervalued its currency in order to advantage its exports.<sup>366</sup> Tensions were heightened in July when US Secretary of State Hillary Clinton said at the ARF that the US had a vital “national interest” in the South China Sea, in response to China upgrading it to a “core national interest”.<sup>367</sup> Her comments were rebuked by Chinese Foreign Minister Yang Jiechi.<sup>368</sup> The South China Sea is discussed in Chapter 8.

According to *Wikileaks*, in a meeting with Australian Prime Minister Kevin Rudd in March 2009, Hillary Clinton remarked: “how do you deal toughly with your banker?”<sup>369</sup> The question reflected deep anxiety over the so-called “China dilemma”.<sup>370</sup> On the one hand,

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equipment for Taiwan’s F-16 fleet and Harpoon missiles and mine-hunting ships, but the administration deferred a decision on selling F-16 fighter planes to Taiwan.

<sup>362</sup> Xinhua News Agency. "China Protests US Arms Sales Plan to Taiwan." (January 30, 2010), [http://news.xinhuanet.com/english2010/china/2010-01/30/c\\_13156863.htm](http://news.xinhuanet.com/english2010/china/2010-01/30/c_13156863.htm). Accessed 06/05/2010.

<sup>363</sup> Xinhua News Agency. "China Suspends Military Visits with U.S. Over Planned Arms Sales to Taiwan." (January 1, 2010), [http://news.xinhuanet.com/english2010/china/2010-01/30/c\\_13157168.htm](http://news.xinhuanet.com/english2010/china/2010-01/30/c_13157168.htm). Accessed 06/05/2010.

<sup>364</sup> "China Plans to Punish American Companies Involved in Taiwan’s Arms Sales, Causes Worries among American Giants." (February 2, 2010), <http://mil.news.sina.com.cn/2010-02-02/1359582985.html>. Accessed 06/05/2010.

<sup>365</sup> Eckert, Paul, and Chris Buckley. "U.S., Google and China Square Off over Internet " *Reuters* (January 13, 2010), <http://www.reuters.com/article/2010/01/13/us-china-usa-google-idUSTRE60C1TR20100113>. Accessed 06/05/2010;

Steele, Francesca, Mike Harvey, and Jane Macartney. "China Returns Fire against US in Google-War." *The Times* (January 23, 2010), [http://business.timesonline.co.uk/tol/business/industry\\_sectors/technology/article6998017.ece](http://business.timesonline.co.uk/tol/business/industry_sectors/technology/article6998017.ece). Accessed 06/05/2010;

Wines, Michael. "China Issues Sharp Rebuke to U.S. Calls for an Investigation on Google Attacks." *The New York Times* (January 25, 2010), <http://www.nytimes.com/2010/01/26/world/asia/26google.html>. Accessed 06/05/2010.

<sup>366</sup> Wines, Michael. "Chinese Leader Defends Currency and Policies." *The New York Times* (March 14, 2010), <http://www.nytimes.com/2010/03/15/world/asia/15china.html>. Accessed 04/05/2010.

<sup>367</sup> Lawrence, Susan V., and Thomas Lum. "US China Relations: Policy Issues." *CRS Report for Congress, R41108* (March 11, 2011), pp. 8-9.

<sup>368</sup> Ministry of Foreign Affairs of People's Republic of China. "Foreign Minister Yang Jiechi Refutes Fallacies on the South China Sea Issue." (July 26, 2010), <http://www.mfa.gov.cn/eng/zxxx/t719460.htm>. Accessed 05/09/2010.

<sup>369</sup> "US Embassy Cables: Hillary Clinton Ponders US Relationship with Its Chinese 'Banker' ". *The Guardian* (December 4, 2010), <http://www.guardian.co.uk/world/us-embassy-cables-documents/199393>. Accessed 05/05/2011.

<sup>370</sup> MacAskill, Ewen. "Wikileaks: Hillary Clinton's Question: How Can We Stand up to Beijing?" *The Guardian* (December 4, 2010), <http://www.guardian.co.uk/world/2010/dec/04/wikileaks-cables-hillary-clinton-beijing>. Accessed 05/05/2011.

economic relations with China were crucial. China was the US's largest creditor, holding \$1.16tr in treasury bonds by the end of June 2011.<sup>371</sup> In her visit to Beijing in February 2009, Hillary Clinton encouraged the Chinese to purchase more American bonds because "it is a good investment".<sup>372</sup>

Yet, the US remained deeply suspicious of China's intentions as it became more powerful and assertive. In the view of western analysts, Premier Wen's criticism of US economic mismanagement in the wake of the GFC; the Governor of China's Central Bank, Zhou Xiaochuan's, call for a new international reserve currency; and resistance to US pressure on the value of the yuan, were evidence that China was flexing its economic muscles.<sup>373</sup> Moreover, the US was anxious about losing primacy in East Asia. The Obama Administration's "return-to-Asia" strategy and support for alliance partners in disputes over the South China Sea and East China Sea since 2010, which are discussed in chapters 8 and 9, reflected these anxieties. In November 2011, Secretary of State Clinton stated explicitly that the aim of the US was to substantially increase engagement with the Asia-Pacific, declaring that the 21<sup>st</sup> century would be "America's Pacific Century".<sup>374</sup> However, she stressed the benefits to be gained from cooperation on many fronts, and rejected explicitly the premise that China's rise constituted a threat to the US.

If it is the case that the pattern of bilateral relations is to be understood in terms of an oscillating pattern of conflict and cooperation, as I have argued, then how might we best understand the pattern during the first two years of the Obama Administration until 2010? There are a variety of perspectives. Western scholars and analysts tend to argue that China became more assertive, demonstrating a forceful "triumphalism".<sup>375</sup> Some analysts believe

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<sup>371</sup> China's Foreign Reserves, [http://news.xinhuanet.com/ziliao/2009-06/09/content\\_11512684.htm](http://news.xinhuanet.com/ziliao/2009-06/09/content_11512684.htm).

<sup>372</sup> Yang, Lan. "The Interview with Hillary Clinton: On US Foreign Policy." (February 24, 2009 ), <http://video.sina.com.cn/news/c/v/2009-02-24/211331492.shtml>. Accessed 05/08/2009.

<sup>373</sup> Wines, Michael. "Chinese Leader Defends Currency and Policies." *The New York Times* (March 14, 2010), <http://www.nytimes.com/2010/03/15/world/asia/15china.html>.

<sup>374</sup> Clinton, Hillary. "America's Pacific Century." *Foreign Policy* 189, (2011), pp. 56-63.

<sup>375</sup> Pomfret, John. "Newly Powerful China Defies Western Nations with Remarks, Policies." *The Washington Post* (March 15, 2010), <http://www.washingtonpost.com/wp-dyn/content/article/2010/03/14/AR2010031400368.html>. Accessed 19/03/2011;

"Facing up to China." *The Economist* 394, no. 8668 (2010), p. 11;

Small, Andrew. "Dealing with a More Assertive China." *Forbes* (February 18, 2010), <http://www.forbes.com/2010/02/18/china-iran-google-foreign-policy-opinions-contributors-andrew-small.html>. Accessed 19/03/2011;

Wheatley, Alan. "A China That Says "No" Casts Economic Shadows." *Reuters* (January 18, 2010),

that the “China model”, or “Beijing Consensus”, constituted an ideological challenge to US values.<sup>376</sup> An assertive China, in the words of Elizabeth Economy, is a revolutionary power.<sup>377</sup> From this perspective, China’s assertiveness was attributed to a combination of i) hubris and overconfidence arising from economic success;<sup>378</sup> ii) a perceived shift in the global balance of power from the West to the East, and the decline in US power and its gradual replacement with a multi-polar system;<sup>379</sup> and iii) rising Chinese nationalism.<sup>380</sup> A more assertive China, it was concluded, would adopt a less cooperative policy towards the US.<sup>381</sup> China was likely to try and remake the rules of the international system, or free itself from their constraints.<sup>382</sup>

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<http://www.reuters.com/article/2010/01/18/us-china-economy-politics-analysis-idUSTRE60H3YS20100118>. Accessed 19/03/2011;

Foroohar, Rana. "It's China's World We're Just Living in It." *Newsweek* (March 12, 2010),

<http://www.newsweek.com/2010/03/11/it-s-china-s-world-we-re-just-living-in-it.html>. Accessed 19/03/2011;

Nye, Joseph S. "China's Bad Bet against America." (March 10, 2010),

<http://www.projectsyndicate.org/commentary/nye80/English>. Accessed 19/03/2011.

<sup>376</sup> Halper, Stefan. *The Beijing Consensus: How China's Authoritarian Model Will Dominate the Twenty-First Century*. New York: Basic Books, 2010.

<sup>377</sup> Economy, Elizabeth C. "Game Changer: Coping with China's Foreign Policy Revolution." *Foreign Affairs* 89, no. 6 (2010), pp. 142-52.

<sup>378</sup> Small, Andrew. "Dealing with a More Assertive China." *Forbes* (February 18, 2010),

<http://www.forbes.com/2010/02/18/china-iran-google-foreign-policy-opinions-contributors-andrew-small.html>;

Wheatley, Alan. "A China That Says "No" Casts Economic Shadows." *Reuters* (January 18,

2010), <http://www.reuters.com/article/2010/01/18/us-china-economy-politics-analysis-idUSTRE60H3YS20100118>;

Foroohar, Rana. "It's China's World We're Just Living in It." *Newsweek* (March 12, 2010),

<http://www.newsweek.com/2010/03/11/it-s-china-s-world-we-re-just-living-in-it.html>;

Shambaugh, David. "The Chinese Tiger Shows Its Claws." *Financial Times* (February 17, 2010),

<http://www.ft.com/intl/cms/s/0/d55d5578-1b62-11df-838f-00144feab49a.html#axzz1T5MMx24m>. Accessed

22/03/2011; Nye, Joseph S. "China's Bad Bet against America." (March 10, 2010),

<http://www.projectsyndicate.org/commentary/nye80/English>.

<sup>379</sup> Nye, Joseph S. "China's Bad Bet against America." (March 10, 2010),

<http://www.projectsyndicate.org/commentary/nye80/English>.

Shambaugh, David. "The Chinese Tiger Shows Its Claws." *Financial Times* (February 17, 2010),

<http://www.ft.com/intl/cms/s/0/d55d5578-1b62-11df-838f-00144feab49a.html#axzz1T5MMx24m>;

Mann, James. "Behold China." *The New Republic* (March 17, 2010),

<http://www.tnr.com/article/world/behold-china>. Accessed 25/03/2011.

<sup>380</sup> Nye, Joseph S. "China's Bad Bet against America." (March 10, 2010),

<http://www.projectsyndicate.org/commentary/nye80/English>;

Mann, James. "Behold China." *The New Republic* (March 17, 2010),

<http://www.tnr.com/article/world/behold-china>.

<sup>381</sup> Shambaugh, David. "Beijing: A Global Leader with 'China First' Policy." *YaleGlobal Online* (June 29,

2010), <http://yaleglobal.yale.edu/content/beijing-global-leader-china-first-policy>. Accessed 22/03/2011;

Dombey, Daniel. "Obama Faces Test of Ties with Beijing." *Financial Times* (March 15, 2010),

<http://www.ft.com/intl/cms/s/0/b116bce0-3089-11df-a24b-00144feabdc0.html#axzz1T5MMx24m>. Accessed

26/03/2011.

<sup>382</sup> Samuelson, Robert J. "China First: The Danger behind the Rising Power's 'Me First' Doctrine." *Newsweek*

(February 15, 2010), <http://www.newsweek.com/2010/02/15/china-first.html>. Accessed 26/03/2011;

Foroohar, Rana. "It's China's World We're Just Living in It." *Newsweek* (March 12, 2010),

Chinese scholars generally tended to see the relationship as maturing because the contents and scope for cooperation were much broader than 30 years ago. This was the view of a number of CASS scholars.<sup>383</sup> They believed that common interests were far more important than differences. This view was echoed by Wu Jianmin, former Chinese ambassador to France and President of the Chinese Institute of Foreign Affairs. He suggested that China pursue a cooperative, not confrontational, policy.<sup>384</sup> This contrasted with the view of Professor Yan Xuetong, a renowned realist scholar from Qinghua University, who argued that relations were unstable.<sup>385</sup> He dismissed the word “maturity” as a disguise that hid the true nature of bilateral relations.<sup>386</sup> In his eyes, China and the US were “more foes than friends”.<sup>387</sup>

If it is the case that relations were maturing, what did this mean for how we are to understand the rise of China and its impact on East Asia? There are two schools of thought. First, the pessimists believe that the oscillating pattern intensified and increased the risk of conflict because periods of tension will be more intense.<sup>388</sup> In their view, war between a rising and established power is inevitable.<sup>389</sup> As Robert Kagan put it, “rarely have rising powers risen without sparking a major war that reshaped the international system to reflect

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<http://www.newsweek.com/2010/03/11/it-s-china-s-world-we-re-just-living-in-it.html>;

Small, Andrew. "Dealing with a More Assertive China." *Forbes* (February 18, 2010),

<http://www.forbes.com/2010/02/18/china-iran-google-foreign-policy-opinions-contributors-andrew-small.html>; Economy, Elizabeth C. "Game Changer: Coping with China's Foreign Policy Revolution." *Foreign Affairs* 89, no. 6 (2010), pp. 142-52.

<sup>383</sup> Huang, Ping, Wenzhao Tao, Rongjun Wang, Zheng Yuan, and Xingshu Zhao. "China-US Relations: Tending Towards Maturity." *International Spectator*, no. 2 (2009),

[http://ias.cass.cn/show/show\\_project\\_ls.asp?id=1012](http://ias.cass.cn/show/show_project_ls.asp?id=1012). Accessed 26/09/2010.

<sup>384</sup> Wu, Jianmin. "Looking Ahead: Major Powers Relations in 2010." (January 26, 2010),

[http://news.xinhuanet.com/world/2010-01/26/content\\_12878459\\_2.htm](http://news.xinhuanet.com/world/2010-01/26/content_12878459_2.htm). Accessed 21/03/2010.

<sup>385</sup> Yan, Xuetong. "The Instability of China–US Relations." *The Chinese Journal of International Politics* 3, no. 3 (2010), pp. 263-92.

<sup>386</sup> Yan, Xuetong "China-US Relations: More Enmity than Friendship." (March 23, 2010 ),

<http://gb.chinareviewnews.com/crn-webapp/doc/docDetailCreate.jsp?coluid=7&kindid=0&docid=101266504&page=2&mdate=0323000617>.

Accessed 26/09/2010.

<sup>387</sup> Yan, Xuetong. "No More Maturity for China-US Relations." *Global Times* (July 23, 2010),

<http://world.people.com.cn/GB/12236609.html>. Accessed 26/09/2010.

<sup>388</sup> Waldron, Arthur. "Deterring China." *Commentary* 100, no. 4 (1995), pp. 17-21; Waldron, Arthur. "How Not to Deal with China." *Commentary* 103, no. 3 (1997), pp. 44-49;

Kagan, Robert. "The Illusion of 'Managing' China." *The Washington Post* (May 15, 2005),

<http://www.washingtonpost.com/wp-dyn/content/article/2005/05/13/AR2005051301405.html>. Accessed

02/07/2010; Mearsheimer, John J. *The Tragedy of Great Power Politics*. New York: Norton, 2001;

Mearsheimer, John J. "China's Unpeaceful Rise." *Current History* 105, no. 690 (2006), pp. 160-62.

<sup>389</sup> Mearsheimer, John J. *The Tragedy of Great Power Politics*; Mearsheimer, John J. "China's Unpeaceful Rise." *Current History* 105, no. 690 (2006), pp. 160-62.

new realities of power".<sup>390</sup> As we saw in the Introduction, these scholars use the historical examples of Wilhelmine Germany and imperial Japan to pigeonhole "today's" China. John Mearsheimer viewed China as more dangerous. He wrote of "a future Chinese threat so worrisome that it might be far more powerful and dangerous than any of the potential hegemony that the United States confronted in the twentieth century....Neither Wilhelmine Germany, nor imperial Japan...."<sup>391</sup> Pessimist scholars believed that China's intention was to drive the US out of East Asia.<sup>392</sup>

Optimists, on the other hand, argued that because of growing maturity in relations, the oscillating pattern was declining in intensity as economic interdependency and cooperation on global issues ensured that competing interests were accommodated.<sup>393</sup> David Lampton noted that the growing strength of China's remunerative (money), coercive (guns), and normative (ideas) power did not result in an emerging Sino-centric regional order. In fact, he saw "the principal directions in which Chinese policy has moved to be consistent with fundamental US interests". The US had to make adjustments in response to China's rise, but the tendency towards increased interdependence and integration was very much in its interests.<sup>394</sup> This view was echoed by a number of leading China specialists who argued that China and the US had strong common interests on a range of economic, political and security issues.<sup>395</sup> Scholars such as Zheng Bijian also strongly rejected the idea that China's rise was not peaceful.<sup>396</sup>

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<sup>390</sup> Kagan, Robert. "The Illusion of 'Managing' China." *The Washington Post* (May 15, 2005), <http://www.washingtonpost.com/wp-dyn/content/article/2005/05/13/AR2005051301405.html>.

<sup>391</sup> Mearsheimer, John J. *The Tragedy of Great Power Politics*, p. 401.

<sup>392</sup> Waldron, Arthur. "Deterring China." *Commentary* 100, no. 4 (1995): 17-21; Kagan, Robert. "The Illusion of 'Managing' China." *The Washington Post* (May 15, 2005), <http://www.washingtonpost.com/wp-dyn/content/article/2005/05/13/AR2005051301405.html>.

<sup>393</sup> Lampton, David M. "China's Rise in Asia Need Not Be at America's Expense." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley, Calif.: University of California Press, 2005, pp. 306-26. Yahuda, Michael. "The Evolving Asian Order: The Accommodation of Rising Chinese Power." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, Berkeley, Calif.: University of California Press, 2005, pp. 347-61; Kang, David C. *China Rising: Peace, Power, and Order in East Asia*. New York: Columbia University Press, 2007; Lieberthal, Kenneth. "Looking Ahead in US-China Relations." *American Studies Quarterly*, no. 2 (2009), pp. 7-19.

<sup>394</sup> Lampton, David M. "China's Rise in Asia Need Not Be at America's Expense." In *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh, pp. 306-26.

<sup>395</sup> Bergsten, C. Fred, Bates Gill, Nicholas R. Lardy, and Derek Mitchell. *China: The Balance Sheet-What the World Needs to Know Now About the Emerging Superpower*. New York: Public Affairs, 2006.

<sup>396</sup> Zheng, Bijian. "China's 'Peaceful Rise' To Great-Power Status." *Foreign Affairs* 84, no. 5 (2005), pp. 18-24.



At one level, the turn of events in Sino-US relations seemed to support the optimists. In contrast to pessimistic predictions, both China and the US sought cooperation when, on occasion, it appeared that conflicting objectives would drive them towards confrontation, even though their strategic objectives differed. This was the case over Taiwan, which is discussed in Chapter 7.

Sino-US cooperation seemed to vindicate the liberal thesis that economically linked states tend to find ways to cooperate politically. However, as China and the US became more economically interdependent, the implications of a powerful China for US strategic interests in East Asia once again loomed as a challenge. The fear was that the ability to defend its interests was compromised by economic dependence on China. This prompted US efforts from 2010 to reassert its primacy in East Asia, which weakened the liberal perspective and reduced grounds for optimism.

## 5.8 Conclusion

China was an important factor in US foreign policy during the Cold War. With normalisation of diplomatic relations, competing interests were reflected in an oscillating pattern of bilateral relations after 1981. Because China was linked inextricably to US interests around a potential takeover of Taiwan and growing political and economic influence in East Asia, tensions arose. Yet, the US could not afford to disregard China's increased military strength, the need for international cooperation on many issues and, most importantly, its own economic dependence on China as its main foreign creditor.

The choice between containment or engagement was a perennial debate in the US. Presidents from Reagan to George W Bush promised to assert US interests against China, particularly on Taiwan and its human rights record, but ended up invariably cooperating for the sake of more compelling "national interests". The Obama administration presented an interesting reversal of this pattern. Concerns over declining power prompted US actions that increased China's uncertainty, though some states in East Asia welcomed a US recommitment to the region.

A realist view cannot account for US efforts to avoid conflict with China for the sake of international peace and cooperation, while the liberal view around greater political

closeness between economically-linked states fails to account for the number of tensions which persist, and the growing perception of some US decision-makers that it was imperative to assert US interests when they were in conflict with those of their “banker”.

The US and China acknowledged each other’s respective political and economic power, and restrained their actions accordingly. Nevertheless, as I indicated in this chapter, the status of Taiwan cast a shadow over the relationship, with the potential to swiftly unravel the relatively stable state of affairs. Taiwan is examined in greater detail in Chapter 7.

China’s relationship with the other major power in East Asia, Japan, also underwent change. In contrast to Sino-US relations, Sino-Japanese relations were more overtly inimical, as described in the next chapter.

## 6 The changing China-Japan relationship in the wake of China's rise

Sino-Japanese relations were over-shadowed by the memory of Japanese atrocities after the invasion of China in 1937. Though bilateral relations entered a “new era” after Junichiro Koizumi’s Prime Ministership (2001-2006), history continued to cast its shadow.

Whereas conventional liberal wisdom holds that closer economic cooperation reduces conflict between states, Sino-Japanese relations in the era of China’s rise were marked by political distrust and diplomatic dispute, even though economic ties grew apace. The thesis argues that this “hot-cold” dynamic arose through a combination of internal and external factors, according a central place to a dynamic driven by mutual self-perception. In this sense I argue that a constructivist perspective is a more appropriate perspective than the liberal thesis.

Tensions became particularly acute after China began to take over from Japan as the leading economy in East Asia, and to a large extent worsening relations may be attributed to Japan’s reaction to China’s growing regional influence and concomitant decline in its own. I discuss this in the context of Sino-Japanese rivalry and national identity, as well as domestic nationalist pressures.

This chapter examines the evolution of Sino-Japanese relations from the end of the Second World War, through periods of US hegemony and Japanese economic leadership, to the rise of China in the early 21<sup>st</sup> century, providing the historical context for understand how Sino-Japanese relations impacted on the political economy of East Asia in the “new era”. The chapter discusses 4 periods; 1945-1972, 1972-1989, 1989-2001 and 2001-10. The transition from each period to the next was marked by a significant event in bilateral relations. The normalisation of diplomatic relations in 1972 ushered in a “honeymoon” period; the Tiananmen Square Incident and subsequent economic embargo of 1989 initiated a phase of growing distrust, and the coming to power of Japanese Prime Minister Junichiro Koizumi in 2001 marked the beginning of the lowest ebb in relations, with deep distrust and frequent diplomatic confrontation. The troubled relationship, as I show, is attributable to several factors, especially the strong nationalist fervour which arose in China and Japan, and rivalry for regional influence. As we will see in Chapter 9, political rivalry renewed attention on the

long-standing Diaoyu Islands dispute. I argue that, as with China's other territorial disputes, it became an important concern of East Asia's regional arrangements.

## 6.1 Economic engagement, political disconnection (1945-1972)

As Christopher Hughes noted, for most of the last 60 years Japan's relations with China emanated from defeat in the Pacific.<sup>1</sup> Japan was subjected subsequently to Allied, mainly US, occupation and obliged to undertake democratisation and demilitarisation. Article 9 of the 1946 "Peace Constitution" prohibited Japan from possessing land, sea, and air forces for the purposes of settling international disputes.<sup>2</sup> The onset of the Cold War in 1947 changed its fortunes, as the occupation policy was set on a "reverse course" for reconstruction. Japan eventually regained independence through accepting the San Francisco Peace Treaty of 1951, and aligning itself with the US by signing the US-Japan Security Treaty. Thus, the "Pacific alliance" was formed.<sup>3</sup> Japan chose Taipei over Beijing as China's legitimate government when forced by the US to sign the Japan-Taiwan Peace Treaty on 25 April 1952.<sup>4</sup> The cost was that Japan sacrificed foreign policy independence. As Yoichi Funabashi, the renowned Japanese journalist, argued, Japanese policy towards East Asia was a part of US Asian policy.<sup>5</sup> Similarly, Tsukasa Takamine argued that "the cost of Japan's dependence on the US for military security was political subordination to the US and comparative loss of autonomy in making foreign and security policy".<sup>6</sup> Prime Minister Yoshida Shigeru, who signed the San Francisco Peace Treaty, chose a road to Japan's post-war recovery and prosperity that took advantage of the dominant *Pax Americana*, focusing on economic

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<sup>1</sup> Hughes, Christopher W. "Japan's Policy towards China: Domestic Structural Changes, Globalization, History and Nationalism." In *China, Japan and Regional Leadership in East Asia*, edited by Christopher M. Dent, Cheltenham: Edward Elgar, 2008, pp. 37-51.

<sup>2</sup> Soeya, Yoshihide. *Japan's Economic Diplomacy with China, 1945-1978*. Oxford: Clarendon Press, 1998, pp. 4-5

<sup>3</sup> Borden, William S. *The Pacific Alliance: United States Foreign Economic Policy and Japanese Trade Recovery, 1947-1955*. Madison, Wis.: University of Wisconsin Press, 1984.

<sup>4</sup> Soeya, Yoshihide. *Japan's Economic Diplomacy with China, 1945-1978*, pp. 22-23.

<sup>5</sup> Funabashi, Yoichi. *Asia Pacific Fusion: Japan's Role in APEC*. Washington: Institute for International Economics, 1995.

<sup>6</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*. New York: Routledge, 2006, p. 25.

development while cutting military expenditure to a minimum.<sup>7</sup> This basic policy came to be known as the Yoshida Doctrine.

Japan's diplomatic and economic relations with China were subject to the US Cold War policy of containment in East Asia,<sup>8</sup> which imposed severe restrictions on trade.<sup>9</sup> Although Yoshida did not "care whether China is red or green", Japan had to be consistent with US foreign policy.<sup>10</sup> In December 1950, in compliance with an order of the Supreme Commander of the Allied Powers, General MacArthur, Japan, which was still under Allied occupation, imposed an embargo on exports to China.<sup>11</sup> Further constraints were imposed by the Co-ordinating Committee for Multilateral Export Controls (COCOM), which was created jointly by the US and other North Atlantic Treaty Organisation (NATO) members, except Iceland, in 1949 to regulate the export of strategic materials to the Soviet Union and other Communist countries. In 1952, a special China Committee (CHINCOM) was established as a branch of COCOM. It imposed additional restrictions on trade via 200 embargo items.<sup>12</sup> As George Jan observed, the "restrictions on exports to China were more extensive than those on exports to the Soviet Union and Eastern European countries".<sup>13</sup>

In the 1930s, China was Japan's major trading partner, with 21% of the latter's annual exports and 12.4% of imports.<sup>14</sup> The volume of Sino-Japanese trade dropped dramatically, from \$19.6m in exports and \$39m in imports in 1950 to \$0.6m and \$14.9m respectively in 1952.<sup>15</sup> Japan became highly dependent on the US as a major source of raw materials, imported at a higher price than similar imports from China. In 1951, Japan imported 97.3% of soybeans, 70.9% of coal, 33.6% of iron ore, and 10.6% of salt from the US. This stood in sharp contrast to 1934-1936, when US supplies of these four primary commodities were nil,

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<sup>7</sup> Dower, John W. *Empire and Aftermath: Yoshida Shigeru and the Japanese Experience, 1878-1954*. Cambridge, Mass.: Council on East Asian Studies, Harvard University: distributed by Harvard University Press, 1979, pp. 276-77.

<sup>8</sup> LaFeber, Walter. *The Clash: US-Japanese Relations Throughout History*. New York: Norton, 1998.

<sup>9</sup> Schaller, Michael. *The American Occupation of Japan: The Origins of the Cold War in Asia*. New York: Oxford University Press, 1985, pp. 189-90.

<sup>10</sup> Soeya, Yoshihide. *Japan's Economic Diplomacy with China, 1945-1978*, p. 21.

<sup>11</sup> Jan, George P. "Japan's Trade with Communist China." *Asian Survey* 9, no. 12 (1969), pp. 900-18.

<sup>12</sup> Jan, George P. "Japan's Trade with Communist China." *Asian Survey* 9, no. 12 (1969), p. 902; Yasuhara, Yoko. "Japan, Communist China, and Export Controls in Asia, 1948-1952." *Diplomatic History* 10, no. 1 (1986), pp. 75-91.

<sup>13</sup> Jan, George P. "Japan's Trade with Communist China." *Asian Survey* 9, no. 12 (1969), p. 903.

<sup>14</sup> *Ibid.*

<sup>15</sup> *Ibid.*, p. 902, Table 1.

while China supplied 71.3%, 68.4%, 34.0% and 38.6% respectively.<sup>16</sup> In short, Japan's pre-war trade pattern with China was disrupted severely.

### 6.1.1 The first phase of China-Japan relations (1952-1962)

Japan began to search for an autonomous policy towards China after sovereignty was restored in 1952. Yoshihide Soeya argued that Japan's pursuit of trade with China between the 1950s and 1970s highlighted three distinct forms of foreign policy orientation among Japanese elites, namely; advocating collaboration with the US, seeking autonomy under *Pax Americana*, and pursuing independence from American control.<sup>17</sup>

Yoshida's successor, Hatoyama Ichiro (1954-1956), strongly advocated an independent policy free of US control. He pursued normalisation of diplomatic relations with both the Soviet Union and China. But he succeeded only with the Soviet Union in October 1956, failing to do so with China because of US opposition.<sup>18</sup> Subsequent Japanese initiatives were undertaken by non-government actors. These "pro-China" organisations were a source of "structural pluralism" in trade with China, and even included government related institutions such as the Japan-China Importers and Exporters Association under the Ministry of Trade and Industry, and the Japan-China Trade Promotion Diet Members League in the National Diet.<sup>19</sup> Three trade agreements were signed, in June 1952, October 1953 and May 1955, between the Chinese government's International Trade Promotion Association<sup>20</sup> and Japan's pro-China organisations.<sup>21</sup> Japanese statistics show an increase in the share of trade with China from 0.5% in 1952 to 2.0% in 1957.<sup>22</sup> During the 1950s, the number of Japanese and Chinese visits also increased.<sup>23</sup>

Sino-Japanese relations deteriorated during Kishi Nobusuke's tenure (1957-1960) for two reasons. First, Nobusuke paid an official visit to Taiwan soon after he came to office in 1957,

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<sup>16</sup> *Ibid.*, p. 904, Table 2.

<sup>17</sup> Soeya, Yoshihide. *Japan's Economic Diplomacy with China, 1945-1978*, p. 6.

<sup>18</sup> *Ibid.*, p. 8; Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, pp. 30-31.

<sup>19</sup> Soeya, Yoshihide. *Japan's Economic Diplomacy with China, 1945-1978*, p. 24.

<sup>20</sup> It was formally established on 30 May 1949. For more information about the organizations, see *ibid.*, pp. 24-33.

<sup>21</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, pp. 30-31.

<sup>22</sup> Soeya, Yoshihide. *Japan's Economic Diplomacy with China, 1945-1978*, p. 43, Table 2.3.

<sup>23</sup> *Ibid.*, Table 2.4.

inviting strong Chinese protests.<sup>24</sup> The second was the “Nagasaki Flag Incident” in May 1958, when an anti-Communist youth pulled down the Chinese flag at a Chinese goods fair in a department store in Nagasaki. The incident led to a serious political confrontation and the eventual termination of China’s trade relations with Japan from 1958 to 1961.<sup>25</sup> In July 1958 Premier Zhou Enlai presented the Kishi government with three political principles, stipulating that Tokyo should: 1) immediately abandon words and actions hostile to China; 2) cease any plan to create two Chinas; and 3) cease obstruction of the normalisation of relations.<sup>26</sup>

To summarise, during the first decade of recovery after occupation, Japan’s political elites aspired to pursue diplomatic autonomy vis-à-vis the US, though normalisation of relations with China did not make any headway because of US Cold War policy. Sino-Japanese economic relations were promoted through unofficial trade agreements signed by non-governmental Japanese organisations. Politics played a determinant role in economic relations.

### 6.1.2 The second phase of China-Japan relations (1962-1972)

Economic relations resumed in 1962, encouraged, according to Tsukasa Takamine, by a number of factors.<sup>27</sup> The Sino-Soviet split of the late 1950s terminated China’s trade with, and foreign aid from, the Soviet Union. The Soviet Union withdrew 1390 technicians and abrogated over 300 bilateral agreements and contracts.<sup>28</sup> In addition, China’s domestic economy, devastated by the Great Leap Forward, needed a new source of trade and aid.<sup>29</sup> Thus, China adopted a softer approach towards Japan, reflected in Zhou Enlai’s three

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<sup>24</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, p. 32.

<sup>25</sup> *Ibid.*, p. 33.

<sup>26</sup> Ogata, Sadako. "The Business Community and Japanese Foreign Policy: Normalization of Relations with the People's Republic of China." In *The Foreign Policy of Modern Japan*, edited by Robert A. Scalapino, Berkeley: University of California press, 1977, p. 180.

<sup>27</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, pp. 34-35.

<sup>28</sup> Ogata, Sadako. "The Business Community and Japanese Foreign Policy: Normalization of Relations with the People's Republic of China." In *The Foreign Policy of Modern Japan*, edited by Robert A. Scalapino, p. 181.

<sup>29</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, p. 34.

principles for Sino-Japanese trade in August 1960: 1) trade by government agreements; 2) by private contracts; and 3) by special consideration in individual cases.<sup>30</sup>

Changes in Japanese politics were also conducive to Sino-Japanese trade, in particular Ikeda Hayato's Prime Ministership (1960-1964). Two separate channels were important: "friendship trade" promoted by private Japanese firms, and "LT Trade", a semi-government agreement signed by Liao Chengzhi and Takasaki Tatsunosuk on 9 November 1962.<sup>31</sup> Trade increased dramatically from 1.6% of total Japanese trade in 1961 to 19.2% in 1970,<sup>32</sup> while Japan became China's leading trade partner in 1964. Its share in Chinese trade reached 14% in 1966,<sup>33</sup> with China Japan's fourth largest trading partner after the US, Australia, and Canada in 1966.<sup>34</sup>

Tsukasa Takamine argued that Japan's China policy separated political matters from economic relations, while the Chinese government tended to use trade relations as a deliberate political tool to "force Japan to re-establish official or *de facto* diplomatic relations".<sup>35</sup> The policy divergence resulted from a deterioration in political relations during Sato Eisaku's (1964-72) Prime Ministership. Even though he aspired initially to improve relations he was constrained by domestic Japanese and Chinese politics;<sup>36</sup> in Japan, the increasing influence of pro-Taiwan Liberal Democratic Party (LDP) politicians, while Chinese foreign policy was radicalised by the Cultural Revolution (1966-1976).<sup>37</sup>

Deteriorating political relations did not result in the termination of trade as they had during the Kishi government, though China used trade as a diplomatic instrument against Sato.<sup>38</sup> In 1968, Beijing converted the semi-governmental five-year LT Trade agreement signed in 1962

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<sup>30</sup> Ogata, Sadako. "The Business Community and Japanese Foreign Policy: Normalization of Relations with the People's Republic of China." In *The Foreign Policy of Modern Japan*, edited by Robert A. Scalapino, p. 181; Jan, George P. "Japan's Trade with Communist China." *Asian Survey* 9, no. 12 (1969), p. 911.

<sup>31</sup> Soeya, Yoshihide. *Japan's Economic Diplomacy with China, 1945-1978*, pp. 79-105.

<sup>32</sup> *Ibid.*, p. 47, Table 3.2.

<sup>33</sup> *Ibid.*

<sup>34</sup> Schaller, Michael. *Altered States: The United States and Japan since the Occupation*. New York: Oxford University Press, 1997, p. 272.

<sup>35</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, pp. 39-40.

<sup>36</sup> *Ibid.*, p. 39.

<sup>37</sup> *Ibid.*, pp. 39-40; Zhang, Baijia. "Chinese Politics and Asia-Pacific Policy." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, Cambridge, Mass.: Harvard University Press 2002, pp. 39-51.

<sup>38</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, p. 40.



into an annual Memorandum Trade (MT) agreement<sup>39</sup> though, as Yoshihide Soeya observed, trade survived the politicisation of relations. He noted that this was made possible by “Friendship Trade”, which compensated for losses in LT/MT Trade. The shares of Friendship and LT/MT Trade were 37% and 63% respectively in 1963, and 90% and 10% in 1969.<sup>40</sup>

To summarise, the second decade of bilateral relations was based mainly on trade as a result of Japan’s China policy of separating politics from economics. However, China tended to use trade as a political instrument to normalise diplomatic relations. Political relations deteriorated in the second half of the 1960s due to domestic circumstances in both Japan and China, though trade flourished as a result of the private friendship trade.

## 6.2 The political honeymoon of friendship relations (1972-1989)

International developments removed obstacles to the normalisation of diplomatic relations in the early 1970s, the most important of which was Nixon’s visit to Beijing giving Japan what was known as the “Nixon Shock”.<sup>41</sup> This dramatic reversal of policy caused resentment not least because it was said by the ambassador to the US, Ushiba Nobuhiko, that Nixon only informed his government less than an hour before the trip was announced.<sup>42</sup> Japan felt betrayed even though it wished to normalise relations well before Sino-US rapprochement.<sup>43</sup> Sadako Ogata noted that the “Nixon Shock” motivated the Japanese government to normalise relations rapidly which, as Hidenori Ijiri argued,<sup>44</sup> simply papered over controversial historical issues with a superficial mood of friendship.<sup>45</sup>

Tanaka Kakuei, Sato’s successor, normalised relations with Beijing three months after he became Prime Minister in September 1972, nearly seven years before China-US relations in January 1979. According to Chinese scholars Wang Jianwei and Wu Xinbo, China renounced

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<sup>39</sup> Soeya, Yoshihide. *Japan's Economic Diplomacy with China, 1945-1978*, p. 79.

<sup>40</sup> *Ibid.*, p. 78, Table 4.2.

<sup>41</sup> Ogata, Sadako. *Normalization with China: A Comparative Study of US and Japanese Processes*. Berkeley: Institute of East Asian Studies, University of California, 1988, p. 37.

<sup>42</sup> Soeya, Yoshihide. "Japan's Relations with China." In *The golden age of the US-China-Japan triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka. Cambridge, Mass.: Harvard University Press 2002, p. 212

<sup>43</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, pp. 42-43.

<sup>44</sup> Ogata, Sadako. *Normalization with China: A Comparative Study of US and Japanese Processes*, p. 37.

<sup>45</sup> Ijiri, Hidenori. "Sino-Japanese Controversy since the 1972 Diplomatic Normalization." *The China Quarterly*, no. 124 (1990), pp. 639-61.

demands for war indemnities and offered no objection to the US-Japan security alliance,<sup>46</sup> which were two issues of concern for the Tanaka government.<sup>47</sup> The decision to accept the alliance was in sharp contrast to China's vigilant stance on US-Japan security treaties in the 1950s-1960s.<sup>48</sup> The change of attitude may have come about because Nixon, during his visit to Beijing in 1972, convinced Zhou Enlai that abrogation of the Treaty might lead to Japan's re-militarisation.<sup>49</sup>

Sino-Japanese relations during 1972-1989, according to western scholars, were "special".<sup>50</sup> From the perspective of Japanese observers, Japan adopted a non-confrontational and conciliatory approach over disputes and refrained from asserting its position.<sup>51</sup> From the Chinese point of view, Reinhard Drifte observes that it was deemed necessary to constantly remind the Japanese government of war atrocities, and its obligation to prevent aggression and adopt pro-China policies as atonement for the past, although this was not expressed explicitly by the Chinese.<sup>52</sup>

The "special relationship" was consistent with China and Japan's respective and shared strategic objectives. China saw Japan as playing an important role in its anti-Soviet strategy and economic modernisation during the 1980s.<sup>53</sup> For Japan, normalisation of relations with

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<sup>46</sup> Wang, Jianwei, and Xinbo Wu. "Against Us or with Us?: The Chinese Perspective of America's Alliances with Japan and Korea." *Asia/Pacific Research Center Discussion Paper* (1998), p. 16, <http://iis-db.stanford.edu/pubs/10006/WangWu.pdf>. Accessed 19/06/2010.

<sup>47</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, p. 45.

<sup>48</sup> The details of China's attitude on US-Japan alliance before Sino-Japanese normalization, see Wang, Jianwei, and Xinbo Wu. "Against Us or with Us?: The Chinese Perspective of America's Alliances with Japan and Korea." *Asia/Pacific Research Center Discussion Paper* (1998), pp. 3-15.

<sup>49</sup> Nixon, Richard M. *The Memoirs of Richard Nixon*. South Melbourne, Vic.: Macmillan, 1978, p. 567; Kissinger, Henry. *White House Years*. Boston: Little, Brown, 1979, p. 1089.

<sup>50</sup> Drifte, Reinhard. "From "Special" Relationship to "Normal" Relationship? Issues in Japanese-Chinese Relations." (2007), p. 301, [http://iccs.aichi-u.ac.jp/archives/report/028/028\\_05\\_10.pdf](http://iccs.aichi-u.ac.jp/archives/report/028/028_05_10.pdf). Accessed 03/01/2010.

<sup>51</sup> Ijiri, Hidenori. "Sino-Japanese Controversy since the 1972 Diplomatic Normalization." *The China Quarterly*, no. 124 (1990), pp. 639-61.

<sup>52</sup> Drifte, Reinhard. "From "Special" Relationship to "Normal" Relationship? Issues in Japanese-Chinese Relations." (2007), p. 302, [http://iccs.aichi-u.ac.jp/archives/report/028/028\\_05\\_10.pdf](http://iccs.aichi-u.ac.jp/archives/report/028/028_05_10.pdf).

<sup>53</sup> Zhang, Tuosheng. "China's Relations with Japan." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, Cambridge, Mass.: Harvard University Press 2002, pp. 191-09.

China unloaded the lingering “burden” of history and weakened domestic opposition to the US alliance.<sup>54</sup>

From the Chinese perspective, the two decades following normalisation of relations were the most successful period.<sup>55</sup> Professor Zhang Tuosheng from the China Foundation for International Strategic Studies stresses four major achievements in political, economic, security and international affairs, and cultural and personal exchanges.<sup>56</sup> The Sino-Japanese Joint Statement in 1972<sup>57</sup> and the Sino-Japanese Treaty of Peace and Friendship in 1979<sup>58</sup> laid the foundation for developing cooperation, and were enhanced by top-level exchanges.<sup>59</sup>

Economic relations developed quickly, especially after China’s post-1978 economic reforms and “open door” policy. Trade grew from \$1b in 1972 to \$16.5b in the mid-1980s. By 1984, Japan was China’s largest trading partner while China was Japan’s fourth.<sup>60</sup> China mainly exported primary products and raw materials (oil and coal) in exchange for Japan’s manufactured goods.<sup>61</sup> Japanese FDI was one of China’s major sources, at \$3b during 1979-1990, or 14.5% of the total.<sup>62</sup>

Japanese ODA to China, which started in 1979, was an important part of Sino-Japanese economic engagement.<sup>63</sup> According to Japan’s Ministry of Foreign Affairs, the purpose of

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<sup>54</sup> Soeya, Yoshihide. "Japan's Relations with China." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, Cambridge, Mass.: Harvard University Press, 2002, pp. 210-26.

<sup>55</sup> Zhang, Tuosheng. "China's Relations with Japan." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, pp. 191-09.

<sup>56</sup> Zhang, Tuosheng. "China's Relations with Japan." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, pp. 193-94.

<sup>57</sup> "Sino-Japanese Joint Statement." (September 29, 1972), [http://www.fmprc.gov.cn/chn/pds/gjhdq/gj/yz/1206\\_25/1207/t163708.htm](http://www.fmprc.gov.cn/chn/pds/gjhdq/gj/yz/1206_25/1207/t163708.htm). Accessed 12/02/2009.

<sup>58</sup> "Sino-Japanese Treaty of Peace and Friendship." (August 12, 1978), [http://news.xinhuanet.com/ziliao/2002-03/26/content\\_331587.htm](http://news.xinhuanet.com/ziliao/2002-03/26/content_331587.htm). Accessed 12/02/2009.

<sup>59</sup> During the period of 1972-1989, five Japanese Prime Ministers visited China. From China’s side, Deng Xiaoping visited Japan twice, and premier Hua Guofeng paid two visits to Japan in 1980. Premier Zhao Ziyang and General Secretary Hu Yaobang visited Japan in 1982 and 1983. See Wan, Ming. *Sino-Japanese Relations: Interaction, Logic, and Transformation*. Stanford, Calif.: Stanford University Press, 2006, p. 14, Table 2.1.

<sup>60</sup> Zhang, Jifeng. "The Development and Characteristics of Sino-Japanese Economic and Trade Relations since 1990s." *Japan Studies*, no. 3 (2001), <http://ijs.cass.cn/files/geren/zhangjifeng/lw3.htm>. Accessed 26/02/2009.

<sup>61</sup> *Ibid.*

<sup>62</sup> Xu, Mei. "New Opportunity for Japanese FDI." *Japan Studies*, no. 1 (2002), <http://ijs.cass.cn/files/geren/xumei/lw8.htm>. Accessed 26/02/2009.

<sup>63</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, pp. 50-73; Soeya, Yoshihide. "Japan's Relations with China." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, pp. 210-26.

ODA was to support China's economic reforms, strengthen friendly relations and promote regional peace, prosperity, and stability.<sup>64</sup> However, scholars differ over the actual motives. Reinhard Drifte argued that the Japanese government recycled its foreign exchange reserves and trade surplus in the form of ODA, facilitated by public support for economic aid to China.<sup>65</sup> Allen Whiting, on the other hand, linked Japan's ODA initiative with war reparations. He quotes a foreign banker in Hong Kong as describing the initiative as "disguised reparations".<sup>66</sup> This view was also asserted by senior Japanese government officials with strong war guilt.<sup>67</sup> Given that the link between Japanese ODA and Chinese renunciation of reparations was not formally documented by either side, Kokubun Ryosei argued that such a link could only be established psychologically by a generation with experience of war.<sup>68</sup> Robert Orr pointed out that Japan's ODA had the implicit strategic purpose of supporting China's efforts to counter the military threat of the Soviet Union in East Asia.<sup>69</sup> Tsukasa Takamine, in turn, argued that these scholarly interpretations should only be seen as background to the ODA initiative. Its real aim was to advance Japan's economic, political and strategic interests.<sup>70</sup> Jin Xide, a Japan specialist from CASS, views Japanese ODA as less altruistic, arguing that its purpose was to develop friendly political relations and explore the Chinese market which needed foreign capital. Thus, Japanese ODA should not be seen as Japanese aid, but rather as a means of introducing foreign capital at a time when China was pushing ahead with economic reforms.<sup>71</sup>

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<sup>64</sup>Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, p. 53.

<sup>65</sup> Drifte, Reinhard. "The Ending of Japan's ODA Loan Programme to China-all's Well That Ends Well?" *Asia-Pacific Review* 13, no. 1 (2006), pp. 94-117.

<sup>66</sup> Whiting, Allen S. *China Eyes Japan*. Berkeley: University of California Press, 1989, p. 123.

<sup>67</sup> *Ibid.*; also see Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, p. 51.

<sup>68</sup> Kokubun, Ryosei. "Japanese-Chinese Relations after the end of Cold War," quoted in Drifte, Reinhard. "The Ending of Japan's ODA Loan Programme to China-all's Well That Ends Well?" *Asia-Pacific Review* 13, no. 1 (2006), p. 97.

<sup>69</sup> Orr, Robert M. *The Emergence of Japan's Foreign Aid Power*. New York: Columbia University Press, 1990, p. 73.

<sup>70</sup>Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, pp. 53-62.

<sup>71</sup>Jin, Xide. "The Evolution of Japanese ODA Policy to China and Sino-Japanese Relations." (2004), <http://ijs.cass.cn/geren/jinxd/w9502.htm>. Accessed 09/02/2009.

Wesely argued that Japanese ODA, in the form of general aid, technical cooperation and yen loans, assisted China's economy,<sup>72</sup> a view supported by CASS Japan specialist Zhang Jifeng.<sup>73</sup> In the two decades after 1979, aid and technical assistance were ¥111.2b and ¥1089.5b respectively.<sup>74</sup> Yen loans, in particular, helped China's industrial infrastructure between 1979 and 1998, contributing to the construction of 38% of the electric rail network, 25% of chemical fertiliser production, 13% percent of port facilities and 3% of power generating capacity.<sup>75</sup> Japanese-assisted infrastructure projects were present in almost every province during the 1990s<sup>76</sup> with Japanese ODA in 1986 constituting 75% of China's bilateral aid and 45% of total foreign aid receipts from multilateral institutions such as the World Bank and the United Nations Development Programme.<sup>77</sup> Japan was the largest aid donor to China from 1992.<sup>78</sup>

Growing Sino-Japanese "friendship" was also reflected in various cultural exchanges and visits at non-governmental levels. In 1984, 3000 invited Japanese youth visited China.<sup>79</sup> By 1991 there were 127 "sister city" relations.<sup>80</sup> According to a public opinion survey carried out in the 1980s by the Japanese government, 78.6% Japanese felt "friendly" toward China and only 14.7% did not.<sup>81</sup>

As mentioned above, China acquiesced to the US-Japan security treaty after normalisation of relations in 1972. Wu Xinbo and Wang Jianwei argue that by the end of 1978 China had

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<sup>72</sup> Wesely, Michael. "Jealous Suitors: Sino-Japanese Competitive Regionalism and the Future of East Asia." In *China-Japan Relations in the Twenty-First Century: Creating a Future Past?*, edited by Michael Heazle and Nick Knight, Cheltenham: Edward Elgar, 2007, pp. 207-21; Zhang, Jifeng. "The Development and Characteristics of Sino-Japanese Economic and Trade Relations since 1990s." *Japan Studies*, no. 3 (2001), <http://ijs.cass.cn/files/geren/zhangjifeng/lw3.htm>; Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, pp. 92-97.

<sup>73</sup> Zhang, Jifeng. "The Development and Characteristics of Sino-Japanese Economic and Trade Relations since 1990s." *Japan Studies*, no. 3 (2001), <http://ijs.cass.cn/files/geren/zhangjifeng/lw3.htm>.

<sup>74</sup> *Ibid.*

<sup>75</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, p. 6.

<sup>76</sup> Zhang Jifeng. "The development and characteristics of Sino-Japanese Economic and Trade Relations since 1990s." *Japan Studies*, no. 3 (2001), <http://ijs.cass.cn/files/geren/zhangjifeng/lw3.htm>.

<sup>77</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, p. 58.

<sup>78</sup> *Ibid.*, p. 5.

<sup>79</sup> Wang, Jianwei, and Xinbo Wu. "Against Us or with Us?: The Chinese Perspective of America's Alliances with Japan and Korea." *Asia/Pacific Research Center Discussion Paper* (1998), p. 21.

<sup>80</sup> Zhang, Tuosheng. "China's Relations with Japan." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, p. 194.

<sup>81</sup> Ryosei, Kokubun. "The Shifting Nature of Japan-China Relations after the Cold War." In *Japan's Relations with China: Facing a Rising Power*, edited by Peng Er Lam, New York: Routledge, 2006, p. 21.

established a parallel strategic partnership with the US and Japan to counter the Soviet Union.<sup>82</sup> Then Premier Hua Guofeng even publicly endorsed the US-Japan security alliance by declaring that “we appreciate Japan’s efforts to strengthen its alliance with the United States”,<sup>83</sup> while it was reported that Chinese military leaders did not oppose increases in Japan’s military spending.<sup>84</sup> This attitude contrasted sharply with later attitudes during the post-Cold War period when the common adversary, the Soviet Union, ceased to exist and both sides became suspicious of each other’s intentions, as will be discussed in the next section.

The flourishing relationship was attributed largely to the compromising approach each side adopted. Negotiations for the Peace and Friendship Treaty were a case in point.<sup>85</sup> It took China and Japan almost four years of hard negotiations before including an “anti-hegemony” article in the treaty. For China, to form an anti-Soviet alliance with the US and Japan was strategically imperative in the 1970s given the military threat posed in the wake of the border dispute in 1969. Japan was in a less vulnerable position because its security was ensured by the US. When China proposed the anti-hegemony article, Japan was reluctant to involve itself explicitly in strategic rivalry by directly pointing the finger at the Soviet Union. In the end, both sides took a compromising stance and the treaty, as Chae-Jin Lee observed, appeared to be almost equally beneficial to Japan and China.<sup>86</sup>

Both Chinese and Japanese scholars note that there were differences or “controversies”, as Japanese scholars put it, in bilateral relations.<sup>87</sup> Nevertheless, the desire to accommodate each other’s interests minimised tensions. Regarding the issue of history, for example, both sides were restrained. China, in particular, took a positive attitude under Deng Xiaoping. During a visit in 1978, Deng told the Japanese Emperor that the two nations should let

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<sup>82</sup> Wang, Jianwei, and Xinbo Wu. "Against Us or with Us?: The Chinese Perspective of America's Alliances with Japan and Korea." *Asia/Pacific Research Center Discussion Paper* (1998), p. 19.

<sup>83</sup> Premier Hua Gives Press Conference in Tokyo”, *Beijing Review*, 9 June, 1980, p. 12, quoted in *ibid.*, p. 20.

<sup>84</sup> Though the Chinese official who was responsible for Japanese affairs confirmed the report, he attributed the remarks made by the military leader to a lack of understanding of Japan’s situation, see *ibid.*

<sup>85</sup> Park, Yung H. "The 'Anti-Hegemony' Controversy in Sino-Japanese Relations." *Pacific Affairs* 49, no. 3 (1976), pp. 476-90.

<sup>86</sup> For details of China-Japan negotiations over the treaty, see Lee, Chae-Jin. "The Making of the Sino-Japanese Peace and Friendship Treaty." *Pacific Affairs* 52, no. 3 (1979), pp. 420-45.

<sup>87</sup> Zhang, Tuosheng. "China's Relations with Japan." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, pp. 191-209; Ijiri, Hidenori. "Sino-Japanese Controversy since the 1972 Diplomatic Normalization." *The China Quarterly*, no. 124 (1990), pp. 639-61.

bygones be bygones and adopt forward-looking attitudes.<sup>88</sup> Nevertheless, controversies over history textbooks,<sup>89</sup> the Yasukuni Shrine problem, and the Kokaryo case relating to Taiwan<sup>90</sup> surfaced during the 1980s and 1990s.

In 1982, the Chinese government campaigned strongly against Japan's move in school textbooks to "beautify" its war aggression, demanding that "the Japanese government should make correction of its mistake".<sup>91</sup> The issue was "resolved" by Prime Minister Suzuki offering an apology during his visit to Beijing in September 1982.<sup>92</sup> Prime Minister Yasuhiro Nakasone's offer of a second yen loan package to China in 1984 was also important for improving bilateral relations after the textbook dispute.<sup>93</sup>

A second controversy arose over Nakasone's visit to the Yasukuni Shrine commemorating Japan's war dead, including war criminal Hideki Tojo, Japan's wartime Prime Minister, on 15 August 1985, the 40<sup>th</sup> anniversary of its WWII surrender. This led to a series of anti-Japanese student demonstrations in Chinese cities.<sup>94</sup> The Japanese government offered an apology to settle the issue.<sup>95</sup> The Kokaryo case in 1987 involved the Osaka High Court recognising Taiwan's ownership of a student dormitory in Kyoto called Kokaryo (*Guanghualiao* in Chinese).<sup>96</sup> China criticised Japan for supporting the existence of "two Chinas", thereby

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<sup>88</sup> Akio, Takahara. "Japan's Policy toward China in the 1990s." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, Cambridge, Mass.: Harvard University Asia Center, 2004, p. 264.

<sup>89</sup> Beal, Tim, Yoshiko Nozaki, and Jian Yang. "Ghosts of the Past: The Japanese History Textbook Controversy." *New Zealand Journal of Asian Studies* 3, no. 2 (2001), pp. 177-88.

<sup>90</sup> Ijiri, Hidenori. "Sino-Japanese Controversy since the 1972 Diplomatic Normalization." *The China Quarterly*, no. 124 (1990), pp. 639-61; Zhang, Tuosheng. "Sino-Japanese Relations at the Turn of the Century (1992 to 2001)." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming. Yuan and Tanaka Akihiko, Cambridge, Mass.: Harvard University Asia Center, 2004, pp. 242-43.

<sup>91</sup> For details about the 1982 textbooks issue, see Ijiri, Hidenori. "Sino-Japanese Controversy since the 1972 Diplomatic Normalization." *The China Quarterly*, no. 124 (1990), pp. 645-48.

<sup>92</sup> Ijiri, Hidenori. "Sino-Japanese Controversy since the 1972 Diplomatic Normalization." *The China Quarterly*, no. 124 (1990), p. 646.

<sup>93</sup> Soeya, Yoshihide. "Japan's Relations with China." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, p. 223.

<sup>94</sup> Zhang, Tuosheng. "China's Relations with Japan." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, pp. 197-99.

<sup>95</sup> Ijiri, Hidenori. "Sino-Japanese Controversy since the 1972 Diplomatic Normalization." *The China Quarterly*, no. 124 (1990), pp. 650-51.

<sup>96</sup> For more details of the case, Ijiri, Hidenori. "Sino-Japanese Controversy since the 1972 Diplomatic Normalization." *The China Quarterly*, no. 124 (1990), pp. 652-55; also Zhang, Tuosheng. "Sino-Japanese Relations at the Turn of the Century (1992 to 2001)." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming. Yuan and Tanaka Akihiko, p. 245, footnote 21.

violating the spirit of the 1972 Joint Communiqué and the 1978 Peace and Friendship Treaty.<sup>97</sup> Deng Xiaoping even linked the case with the revival of militarism by a small number of Japanese.<sup>98</sup> Facing strong protests, the Japanese government apologised again and expressed regret. As Hidenori Ijiri pointed out, Japan adopted a “low posture” in reaction to China’s “high posture” of criticism, creating “structural asymmetry” in relations under the guise of a superficial mood of friendship.<sup>99</sup>

To summarise, during 1972-1989, bilateral relations were cemented by common strategic objectives reflected in more friendly political and economic cooperation. They weathered controversies over history which remained a major source of tension after 1990s when strategic objectives diverged.

### 6.3 The readjustment of China-Japan relations in the era of uncertainty (1989 to 2001)

Sino-Japanese relations during 1989-1992 underwent a fundamental change. Yoshihide Soeya argued that this period was a prelude to post-Cold War Sino-Japanese relations.<sup>100</sup> Kokubun Ryosei noted that the 1989 Tiananmen Incident had a major impact, in particular on China’s public image. According to a survey conducted by the Japanese government, the level of friendly feelings toward China dropped from 78.6% in the 1980s to 51.6%, while the level of “unfriendly feelings” increased from 14.7% to 43.1%.<sup>101</sup> Nevertheless, Japan was the first state to lift economic sanctions on China, resuming a third “yen loan” in 1990.<sup>102</sup> Also,

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<sup>97</sup> Ijiri, Hidenori. "Sino-Japanese Controversy since the 1972 Diplomatic Normalization." *The China Quarterly*, no. 124 (1990), p. 653; Zhang, Tuosheng. "China's Relations with Japan." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, p. 201.

<sup>98</sup> Deng, Xiaoping. *Selected Works of Deng Xiaoping*. Vol. 3. Beijing: People's Publishing House, 1993, p. 230.

<sup>99</sup> Ijiri, Hidenori. "Sino-Japanese Controversy since the 1972 Diplomatic Normalization." *The China Quarterly*, no. 124 (1990), p. 652.

<sup>100</sup> Soeya, Yoshihide. "Japan's Relations with China." In *The Golden Age of the US-China-Japan Triangle, 1972-1989*, edited by Ezra F. Vogel, Ming Yuan and Akihiko Tanaka, p. 211.

<sup>101</sup> Ryosei, Kokubun. "The Shifting Nature of Japan–China Relations after the Cold War." In *Japan's Relations with China: Facing a Rising Power*, edited by Peng Er Lam, p. 21.

<sup>102</sup> Wesely, Michael. "Jealous Suitors: Sino-Japanese Competitive Regionalism and the Future of East Asia." In *China-Japan Relations in the Twenty-First Century: Creating a Future Past?*, edited by Michael Heazle and Nick Knight, pp. 207-21.



Prime Minister Toshiki Kaifu was the first leader to visit China after 1989.<sup>103</sup> The Japanese emperor was invited to visit in 1992.<sup>104</sup>

The friendly atmosphere produced what Reinhard Drifte called a “short-lived honeymoon” lasting three years.<sup>105</sup> In the view of many scholars, relations began to decline in 1993,<sup>106</sup> due to a combination of international and domestic factors. Michael Yahuda argued that the key was “structural change in the international politics of East Asia occasioned by the end of the Cold War”<sup>107</sup> and disintegration of the Soviet Union, resulting in a “repositioning” of the region’s great powers.<sup>108</sup> In the view of Jin Xide, a Japan specialist, China and Japan were approaching a more “equitable balance of power”. He argued that “in the past when China was strong, Japan was weak; and when Japan was strong, China was weak. Now China and Japan are both strong”.<sup>109</sup> As a result, “the two major powers have to conduct relations when neither is prepared to defer to the other”.<sup>110</sup> Furthermore, in the view of Gilbert Rozman, the end of the quasi anti-Soviet alliance led to a resurgence in “traditional” strategic rivalry.<sup>111</sup> Both were searching for “great power identity” with regional leadership ambitions.<sup>112</sup> Competing objectives, according to Chinese analysts, were the root cause of tension. They found it difficult to adjust to change and developed mutual distrust.<sup>113</sup>

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<sup>103</sup>Sato, Kazuo. "The Japan-China Summit and Joint Declaration of 1998: A Watershed for Japan-China Relations in the 21st Century?" (2001), p. 3.

[http://www.brookings.edu/~media/Files/rc/papers/2001/01china\\_sato/sato\\_01.pdf](http://www.brookings.edu/~media/Files/rc/papers/2001/01china_sato/sato_01.pdf). Accessed 28/06/2009.

<sup>104</sup> *Ibid.*

<sup>105</sup> Drifte, Reinhard. "From “Special” Relationship to “Normal” Relationship? Issues in Japanese-Chinese Relations." (2007), pp. 301-17, [http://iccs.aichi-u.ac.jp/archives/report/028/028\\_05\\_10.pdf](http://iccs.aichi-u.ac.jp/archives/report/028/028_05_10.pdf).

<sup>106</sup> See for example, Sato, Kazuo. *The Japan-China Summit and Joint Declaration of 1998: A Watershed for Japan-China Relations in the 21st Century?*; Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement.*; Yahuda, Michael. "The Limits of Economic Interdependence." In *New Directions in the Study of China's Foreign Policy*, edited by Alastair Iain Johnston and Robert S. Ross, Stanford Calif.: Stanford University Press, 2006, pp. 162-85.

<sup>107</sup> Yahuda, Michael. "The Limits of Economic Interdependence." In *New Directions in the Study of China's Foreign Policy*, edited by Alastair Iain Johnston and Robert S. Ross, p. 162.

<sup>108</sup> *Ibid.*, pp. 162-63.

<sup>109</sup> Jin, Xide. "Characteristics and Issues in Sino-Japanese Relations in the Early Twenty-First Century." *Japanese Studies*, no. 4 (2002), p. 51.

<sup>110</sup> Yahuda, Michael. "The Limits of Economic Interdependence." In *New Directions in the Study of China's Foreign Policy*, edited by Alastair Iain Johnston and Robert S. Ross, p. 163.

<sup>111</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, p. 63.

<sup>112</sup> Rozman, Gilbert. "China's Quest for Great Power Identity." *Orbis* 43, no. 3 (1999), pp. 383-402; Rozman, Gilbert. "Japan's Quest for Great Power Identity." *Orbis* 46, no. 1 (2002), pp. 73-91.

<sup>113</sup> Liang, Yunxiang. "Hu-Koizumi Summit Breaks Sino-Japanese Stalemate." *International Herald* (June 1, 2003), <http://news.sina.com.cn/w/2003-06-01/14081123018.shtml>. Accessed 23/05/2009; Jin, Xide. *Japan's Diplomacy and Sino-Japanese Relations: New Trend in the 1990s*. Beijing: World Affairs Press, 2001; Zhang,

Changes in regional circumstances were compounded by domestic politics, particularly in Japan. Murata Koji noted that Japan underwent a profound change reflecting two trends. First, it suffered economic stagnation and unstable party politics; and, second, Japanese society was increasingly diversified and pluralistic.<sup>114</sup> Politics was more conservative after the LDP lost its dominance in 1993 and Japan's foreign policy began to be shaped by changing regional balance-of-power considerations. Michael Green described Japan's policy orientation as "reluctant realism".<sup>115</sup>

Mutual distrust deriving from competing objectives stirred up suspicion of each other's motivations, and each became increasingly prominent, in a negative sense, in the other's foreign policy.<sup>116</sup> From the Chinese perspective, Japan's rising military capability and strengthened US alliance shaped the regional security environment at the expense of China.<sup>117</sup> The dominant view is that Japan dreamed of becoming a political and military power but was "hiding its glory and waiting for the time".<sup>118</sup> Liu Jianguo, a Japan specialist from Qinghua University, argued that Japan seemed to be using the *zhu qingwa* strategy (boiling a frog by increasing the water temperature slowly and gradually) to pursue its political/military power ambitions.<sup>119</sup> Chinese diplomats saw this as a destabilising factor in the pursuit of regional peace.<sup>120</sup>

The redefinition of US-Japan defence cooperation caused China great concern.<sup>121</sup> In 1996, Prime Minister Hashimoto and President Clinton signed the US-Japan Joint Declaration on

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Tuosheng. "Sino-Japanese Relations at the Turn of the Century (1992 to 2001)." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, Cambridge, Mass.: Harvard University Asia Center, 2004, pp. 227-53.

<sup>114</sup> Murata, Koji. "Domestic Sources of Japan's Policy Towards China." In *Japan's Relations with China: Facing a Rising Power*, edited by Peng Er Lam, New York: Routledge, 2006, p. 39.

<sup>115</sup> Green, Michael J. *Japan's Reluctant Realism: Foreign Policy Challenges in an Era of Uncertain Power*. New York: Palgrave Macmillan, 2003, pp. 6-9.

<sup>116</sup> Christensen, Thomas J. "Chinese Realpolitik: Reading Beijing's World View." *Foreign Affairs* 75, no. 5 (1996), pp. 37-52.

<sup>117</sup> Wu, Xinbo. "The Security Dimension of Sino-Japanese Relations: Warily Watching One Another." *Asian Survey* 40, no. 2 (2000), pp. 296-310.

<sup>118</sup> Garrett, Banning, and Bonnie Glaser. "Chinese Apprehensions about Revitalization of the US-Japan Alliance." *Asian Survey* 37, no. 4 (1997), p. 388.

<sup>119</sup> Fan, Rui. "The View of the Japan Specialist: Frog-Boiling Strategy: Japan Moving toward Political and Military Power." *Legal News* (September 7, 2004), <http://news.sina.com.cn/w/2004-09-07/13344253699.shtml>. Accessed 12/08/2009.

<sup>120</sup> Quoted in Wan, Ming. *Sino-Japanese Relations: Interaction, Logic, and Transformation*. Stanford, Calif.: Stanford University Press, 2006, p. 123.

<sup>121</sup> Wang, Jianwei, and Xinbo Wu. "Against Us or with Us?: The Chinese Perspective of America's Alliances with Japan and Korea." *Asia/Pacific Research Center Discussion Paper* (1998); Wu, Xinbo. "The End of the Silver

Security, and in 1997 adopted the New Guidelines for US-Japan Defence Cooperation.<sup>122</sup> What worried China was whether the “circumstance surrounding Japan” articulated in the guidelines included the Taiwan Strait.<sup>123</sup> Akio Takahara argued that Japan’s use of “circumstances surrounding Japan” was ambiguous; that it was not a geographical concept but related to situational circumstances, following disagreement among Cabinet members over whether Taiwan should be included.<sup>124</sup> China was reassured that the renewed US-Japan security guidelines were not directed against it.<sup>125</sup> Nonetheless, the guidelines were viewed as “tightening the strategic noose”,<sup>126</sup> and by Xu Wansheng, from the Institute of Foreign Language Studies of the PLA, as intended to form an “anti-China encirclement”.<sup>127</sup> Other scholars contended that Japan was “a major challenging factor” in China’s security environment.<sup>128</sup>

The change in the post-Cold War strategic environment, China’s growing economic ascendancy and regional role aroused Japan’s concern over China’s intentions.<sup>129</sup> Japan suspended disbursements of ODA<sup>130</sup> after China conducted nuclear tests in 1995 and missile tests during the 1995-1996 Taiwan crisis<sup>131</sup> which, again, had a negative impact on Japanese public opinion.<sup>132</sup> According to a joint Yomiuri-Gallop survey in 1997, only 8.6% of

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Lining: A Chinese View of the US-Japanese Alliance." *The Washington Quarterly* 29, no. 1 (2005), pp. 119-30; Garrett, Banning, and Bonnie Glaser. "Chinese Apprehensions about Revitalization of the US-Japan Alliance." *Asian Survey* 37, no. 4 (1997), pp. 383-402.

<sup>122</sup>For the details, see "The Guidelines for Japan-U.S. Defense Cooperation." <http://www.mofa.go.jp/region/n-america/us/security/guideline2.html>. Accessed 12/02/2010.

<sup>123</sup> Akio, Takahara. "Japan's Policy toward China in the 1990s." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 262.

<sup>124</sup> *Ibid.*, pp. 262-63.

<sup>125</sup> *Ibid.*

<sup>126</sup>Wang, Jianwei, and Xinbo Wu. "Against Us or with Us?: The Chinese Perspective of America's Alliances with Japan and Korea." *Asia/Pacific Research Center Discussion Paper* (1998), p. 30.

<sup>127</sup> Xu, Wansheng. *The Japan-US Alliance and the Security Environment around China in the Post-Cold War Era*. Beijing: Social Sciences Academic Press, 2009, p. 3.

<sup>128</sup> Xu, Ping, and Qinghai Zhao. "Interpreting China's Peripheral Security Environment." *Journal of International Studies*, no. 2 (2007), p. 29.

<sup>129</sup> Green, Michael J., and Benjamin L. Self. "Japan's Changing China Policy: From Commercial Liberalism to Reluctant Realism." *Survival* 38, no. 2 (1996), pp. 35-58; Sato, Hideo. "Japan's China Perceptions and Its Policies in the Alliance with the United States." *Journal of International Political Economy* 2, no. 1 (1999), pp. 1-23.

<sup>130</sup> For details of two instances of ODA sanctions, see Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, pp. 115-35.

<sup>131</sup> Murata, Koji. "Domestic Sources of Japan's Policy towards China." In *Japan's Relations with China: Facing a Rising Power*, edited by Peng Er Lam, p. 40.

<sup>132</sup> *Ibid.*

respondents chose China as a trustworthy country.<sup>133</sup> In contrast, the Japanese public became increasingly positive towards democratised Taiwan.<sup>134</sup> Though Takamine Tsukasa argued that ODA was used as a strategic weapon to deter China,<sup>135</sup> Japan was losing leverage over China because of the growing strength of the Chinese economy.<sup>136</sup>

China and Japan were more assertive in advancing their strategic interests resulting in a flare-up of the dispute over the Diaoyu/Senkaku Islands. China's promulgation of the 1992 Territorial Law of the Sea and Contiguous Zone was seen by Tokyo as an important departure from the conciliatory position of the 1980s, which was reinforced by China's clash with the Philippines over Mischief Reef in 1995.<sup>137</sup> This is discussed in more detail in Chapter 8. Erection of a lighthouse on the Diaoyu Islands by Japanese activists in 1996 was viewed by Beijing as indicative of the growing influence of right-wing politics in Japan.<sup>138</sup>

Among western scholars, 1998 is seen widely as a turning point, marked by Jiang Zemin's failed visit to Japan.<sup>139</sup> David Arase argued that bilateral relations entered "a new balanced, and more realistic phase".<sup>140</sup> The "history issue" and Taiwan were brought to the fore during Jiang's visit, prompting mutual suspicion over each other's intentions.<sup>141</sup> and strengthening anti-Chinese sentiment. His insistent demand for a written apology for Japanese wartime aggression, as well as a formal endorsement of a "three no's policy"

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<sup>133</sup> Quoted in *ibid.*, p. 40.

<sup>134</sup> *Ibid.*

<sup>135</sup> *Ibid.*

<sup>136</sup> Drifte, Reinhard. "The Ending of Japan's ODA Loan Programme to China-All's Well That Ends Well?" *Asia-Pacific Review* 13, no. 1 (2006), p. 101; Murata, Koji. "Domestic Sources of Japan's Policy towards China." In *Japan's Relations with China: Facing a Rising Power*, edited by Peng Er Lam, p. 40.

<sup>137</sup> Soeya, Yoshihide. "Normative Constraint versus Structural Imperatives." In *Asian Security Practice: Material and Ideational Influences*, edited by Muthiah Alagappa, Stanford, Calif.: Stanford University Press, 1998, pp. 198-233.

<sup>138</sup> Zhang, Tuosheng. "Sino-Japanese Relations at the Turn of the Century (1992 to 2001)." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, pp. 243-45.

<sup>139</sup> Sato, Kazuo. "The Japan-China Summit and Joint Declaration of 1998: A Watershed for Japan-China Relations in the 21st Century?" (2001), pp. 9-14; see also Kokubun, Ryosei. "The Shifting Nature of Japan-China Relations after the Cold War." In *Japan's Relations with China: Facing a Rising Power*, edited by Peng Er Lam, New York: Routledge, 2006, pp. 21-36; Akio, Takahara. "Japan's Policy toward China in the 1990s." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, pp. 254-63.

<sup>140</sup> Arase, David. "Japanese ODA Policy toward China." In *Japan's Relations with China: Facing a Rising Power*, edited by Peng Er Lam, New York: Routledge, 2006, p. 95.

<sup>141</sup> Drifte, Reinhard. *Japan's Security Relations with China since 1989: From Balancing to Bandwagoning?* New York: Routledge, 2003, pp. 33-83; Rose, Caroline. *Sino-Japanese Relations: Facing the Past, Looking to the Future?* New York: Routledge Curzon, 2005.

toward Taiwan, as Bill Clinton had done when he visited China early 1998,<sup>142</sup> were rejected by the Japanese government. Nonetheless, a third political document, the *Japan-China Joint Declaration on Building a Partnership of Friendship and Cooperation for Peace and Development*, was signed.<sup>143</sup>

## 6.4 Historical antagonism, economic interdependence, political mutual distrust (2001 onwards)

Relations deteriorated sharply after 2001 when Junichiro Koizumi became Japanese Prime Minister, influenced to a large extent by his confrontational approach. Historical issues once again took centre-stage, fuelled in part by domestic nationalism.

### 6.4.1 Tensions over the issue of history

Relations were marred by a sequence of six annual visits to the Yasukuni Shrine by Koizumi,<sup>144</sup> regardless of strong protests.<sup>145</sup> Instead of expressing regret, he viewed the protests as “interference”. In a press conference in January 2006, Koizumi stated that “the approach foreign governments have taken to try to intervene in a matter of the heart and make the Yasukuni Shrine issue into a diplomatic issue also goes beyond my understanding”.<sup>146</sup> Senior level exchanges were suspended for five years.

In May 2002, after Koizumi’s second visit to the Yasukuni Shrine, the official website of *China’s Ministry of Foreign Affairs* posted “seven sensitive issues in China-Japan relations”: the history issue, Taiwan, controversy over Diaoyu Islands, intensification of the US-Japan alliance in the form of the Japan-US Security Consultative Committee or 2+2 meeting, war reparations, abandoned chemical weapons and the Guahualiao issue.<sup>147</sup>

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<sup>142</sup> Sato, Kazuo. "The Japan-China Summit and Joint Declaration of 1998: A Watershed for Japan-China Relations in the 21st Century?" (2001), pp. 14-15.

<sup>143</sup> "Japan-China Joint Declaration on Building a Partnership of Friendship and Cooperation for Peace and Development." (November 26, 1998), <http://www.mofa.go.jp/region/asia-paci/china/visit98/joint.html>. Accessed 12/02/2010.

<sup>144</sup> Prime Minister Koizumi visited the Yasukuni Shrine on August 8, 2001, April 4, 2002, January 14, 2003, January 1, 2004, October 17, 2005, and August 15, 2006.

<sup>145</sup> Wan, Ming. *Sino-Japanese Relations: Interaction, Logic, and Transformation*, pp. 235-261; Lam, Peng Er. "Japan's Deteriorating Ties with China: The Koizumi Factor." *China: An International Journal* 3, no. 2 (2005), pp. 275-91.

<sup>146</sup> "Press Conference by Prime Minister Junichiro Koizumi." (January 4, 2006), [http://www.kantei.go.jp/foreign/koizumispeech/2006/01/04press\\_e.html](http://www.kantei.go.jp/foreign/koizumispeech/2006/01/04press_e.html). Accessed 12/02/2010.

<sup>147</sup> Ministry of Foreign Affairs of People's Republic of China. "Some Sensitive Issues." (May 8, 2002),

The history issue stood out at the top of the list which stated that “the prerequisite for long-term bilateral cooperation is to face and recognise history”.<sup>148</sup> According to Chinese analysts China required “thorough reflection” and a “good attitude” from Japan.<sup>149</sup> As Chen Jian, former ambassador to Japan, said: It “did not thoroughly, profoundly, and comprehensively reconsider its aggression against China and other Asian countries, which was unanimously acknowledged by its whole nation during the period of World War II”.<sup>150</sup> As the Ministry stated, “the past, if not forgotten, can serve as a guide for the future”.<sup>151</sup> Therefore, the Japanese government was “reminded”, in lecturing tones, that it should bear in mind the historical wrongs and give students a truthful education.

China drew comparisons between Japan and Germany’s attitudes toward historical issues.<sup>152</sup> At a press conference during the annual session of the National People’s Congress on 6 March 2004, Chinese Foreign Minister Li Zhaoxing urged Japanese journalists raising Sino-Japanese relations to “go back and ask the leaders of your country why they cannot do what some European leaders have done over the history issue”.<sup>153</sup> In his memoir, *Heavy Rain and Soft Breeze*, former Chinese Foreign Minister Tang Jiaxuan agreed that “tensions between Japan and its Asian neighbours in recent years lie fundamentally in Japan’s refusal to face up to history”.<sup>154</sup> Japan had not dealt with its war history in the solemn, dignified and consistent way that Germany did in the case of the Holocaust.<sup>155</sup> One Chinese scholar

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<http://www.fmprc.gov.cn/eng/wjb/zzjg/yzs/gjlb/2721/2722/t15974.htm>. Accessed 10/02/2010.

<sup>148</sup> *ibid.*

<sup>149</sup> Chinese analysts unanimously blamed Japan for the history problem and urged Japan to adopt a correct view of history in order to improve relations with China. See for example, Liu, Jiangyong. *Japan in Hesitation*. Tianjin: Tianjin People’s Press, 2000; Su, Zhiliang. *The Truth about the Turmoil over Japanese History Textbooks*. Beijing: People’s Publishing House, 2001; Wu, Guangyi. “Analysing the History Issue in Sino-Japanese Relations.”

(February 20, 2004), <http://japan.people.com.cn/2004/2/20/200422095502.htm>. Accessed 12/02/2010.

<sup>150</sup> He, Xuehong. “Ambassador Chen Jian Speaks on Sino-Japanese Ties.” *Beijing Review* 43, no. 11 (2000), p. 8.

<sup>151</sup> Ministry of Foreign Affairs of People’s Republic of China. “Some Sensitive Issues.” (May 8, 2002), <http://www.fmprc.gov.cn/eng/wjb/zzjg/yzs/gjlb/2721/2722/t15974.htm>.

<sup>152</sup> Jia, Huixuan. “Learning from History, Removing Differences and Creating a Future.” *International Politics Quarterly*, no. 4 (2001), pp. 20-26; Wu, Guangyi. “Analysing the History Issue in Sino-Japanese Relations.” (February 20, 2004), <http://japan.people.com.cn/2004/2/20/200422095502.htm>; Wu, Guangyi. “China Should View Japan’s Resurgence Calmly.” *New People’s Weekly* (December 10, 2004), <http://news.sina.com.cn/c/2004-12-10/22445185799.shtml>. Accessed 12/02/2010.

<sup>153</sup> China News Agency. “Li Zhaoxing Answered the Questions About Illegal Immigration, Human Rights, the Issue of Taiwan at Press Conference.” (March 6, 2004), <http://www.chinanews.com.cn/n/2004-03-06/26/410303.html>. Accessed 16/02/2010.

<sup>154</sup> Tang, Jiaxuan. *Heavy Rain and Soft Breeze*. Beijing: World Affairs Press, 2009, pp. 22-23.

<sup>155</sup> For a summary of the Chinese view see Wu, Xinbo. “The Security Dimension of Sino-Japanese Relations: Warily Watching One Another.” *Asian Survey* 40, no. 2 (2000), pp. 296-310.

asked how could one have any illusion that a country that refuses to recognise its own history might act responsibly for global peace and development.<sup>156</sup> Japan's attitude was linked directly to the fear about what kind of political power Japan would become if it remilitarised, and that because Japan refused to apologise it was likely to do it again.

Chinese scholars noted that increasing military capabilities shifted the balance of power and a militarily powerful Japan would likely intervene with the US should military conflict arise in the Taiwan Strait.<sup>157</sup> In 2001, an article in the *Liberation Army Daily (Jiefangjun Ribao)* criticised Japan's moves to revise its security guidelines, suggesting that its "wrong view has distorted its security view, misled its policy, and led the country on a dangerous path".<sup>158</sup> Another article in the Chinese media questioned the reasons for enhancing military capabilities, asking what kind of "normal state" Japan wanted to become, a real one or an aggressive military power under the guise of a "normal state"?<sup>159</sup>

Koizumi no longer wanted to "bow" to China on the history issue. Both Western and Japanese scholars interpreted China as holding a "history card" to advance its political and economic interests<sup>160</sup> which was employed as early as the 1982 textbook controversy. Ian Buruma argued that pressure on Japan during the textbook controversy was Deng's response to criticism of his soft foreign policy stance.<sup>161</sup> Chalmers Johnson expressed doubts that as "a convenient lever to try to bring the Japanese government to heel, it was largely successful".<sup>162</sup>

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<sup>156</sup> Song, Guotao, ed. *Report on China's International Environment*. Beijing: China Social Sciences Press, 2002, pp. 165-66.

<sup>157</sup> Wu, Xinbo. "The Security Dimension of Sino-Japanese Relations: Warily Watching One Another." *Asian Survey* 40, no. 2 (2000), pp. 303-04.

<sup>158</sup> "Japan Is Moving Towards a Dangerous Path: Japan Will Issue a New Defence Guideline." *PLA Daily* (September 10, 2001), [http://japan.people.com.cn/2001/09/10/riben20010910\\_11250.html](http://japan.people.com.cn/2001/09/10/riben20010910_11250.html). Accessed 18/02/2010.

<sup>159</sup> Xiao, Yao. "Japan Is Still Holding the Complex of Military Power, Where Does Japan Head For?" (July 14, 2004), <http://news.sina.com.cn/w/2004-07-14/19003086207s.shtml>. Accessed 18/02/2010.

<sup>160</sup> Green, Michael J. *Japan's Reluctant Realism: Foreign Policy Challenges in an Era of Uncertain Power*, pp. 94-95; Johnson, Chalmers. "The Patterns of Japanese Relations with China, 1952-1982." *Pacific Affairs* 59, no. 3 (1986), pp. 402-28. Rose, Caroline. *Interpreting History in Sino-Japanese Relations: A Case Study in Political Decision-Making*. New York: Routledge, 1998; Kojima, Tomoyuki. "Japan's China Policy." In *Japan and China: Rivalry or Cooperation in East Asia?* edited by Peter Drysdale and Dong Dong Zhang, Canberra: Asia Pacific Press, 2000, pp. 35-36.

<sup>161</sup> Buruma, Ian. *The Wages of Guilt: Memories of War in Germany and Japan*. London: Vintage, 1995.

<sup>162</sup> Johnson, Chalmers. "The Patterns of Japanese Relations with China, 1952-1982." *Pacific Affairs* 59, no. 3 (1986), p. 424.

Japan felt that it had apologised enough<sup>163</sup> while a comparison with Beijing's attitude before the 1990s suggested that it did not take the issue seriously. During Mao's era, the Chinese government renounced war reparations and Deng's attitude was "let bygones be bygones", yet Jiang Zemin during his visit to Japan in 1998 raised the history issue in a speech at Waseda University, when he reminded the Japanese about their war deeds and the need to contain militarism.<sup>164</sup> This "was regarded by many Japanese as unnecessary, impolite, and irritating"<sup>165</sup> whereas, for the Chinese, a formal, written apology was the way for Japan to rid itself of its historical burden.<sup>166</sup> In his visit to China in 1992, the Emperor expressed "deep sorrow" for the great hardships brought by Japan.<sup>167</sup> In 1993, in a speech to the Diet, Prime Minister Morihiro Hosokawa expressed "deep remorse".<sup>168</sup> In 1995, Prime Minister Tomiichi Murayama offered a sincere apology for Japan's past.<sup>169</sup>

The re-emergence of the history issue can be attributed to Japan's closer connection with Taiwan after the end of the Cold War, which made Beijing suspicious that it intended to interfere in cross-Strait affairs should a military confrontation arise.<sup>170</sup> It was also attributable to changes in domestic politics, giving rise to patriotism at a time when China and Japan were searching for what Richard Bush called national identity in a changing international environment.<sup>171</sup> From normalisation in 1972 to the early 1990s, China's highly

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<sup>163</sup> Kojima, Tomoyuki. "Japan's China Policy." In *Japan and China: Rivalry or Cooperation in East Asia?* edited by Peter Drysdale and Dong Dong Zhang, Canberra: Asia Pacific Press, 2000, pp. 33-47.

<sup>164</sup> "Take History as a Mirror, Face the Future." *The speech delivered by Jiang Zemin at Waseda University* (November 28, 1998), [http://news.xinhuanet.com/ziliao/2002-03/26/content\\_331913.htm](http://news.xinhuanet.com/ziliao/2002-03/26/content_331913.htm). Accessed 16/02/2010.

<sup>165</sup> Cited in Akio, Takahara. "Japan's Policy toward China in the 1990s." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 264.

<sup>166</sup> Zhang, Tuosheng. "Sino-Japanese Relations at the Turn of the Century (1992 to 2001)." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 240.

<sup>167</sup> Akio, Takahara. "Japan's Policy toward China in the 1990s." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 258.

<sup>168</sup> *Ibid.*

<sup>169</sup> Zhang, Tuosheng. "Sino-Japanese Relations at the Turn of the Century (1992 to 2001)." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 231.

<sup>170</sup> Wu, Xinbo. "The Security Dimension of Sino-Japanese Relations: Warily Watching One Another." *Asian Survey* 40, no. 2 (2000), pp. 298-304.

<sup>171</sup> Bush, Richard C. "China-Japan Tensions, 1995–2006: Why They Happened, What to Do." *Brookings Policy Paper*, no. 16 (2009), pp. 24-26, [http://www.brookings-tsinghua.cn/~media/Files/rc/papers/2009/06\\_china\\_japan\\_bush/06\\_china\\_japan\\_bush.pdf](http://www.brookings-tsinghua.cn/~media/Files/rc/papers/2009/06_china_japan_bush/06_china_japan_bush.pdf). Accessed 11/03/2010.



centralised policy-making structure enabled the top leaders to dictate foreign policy with little public participation. China's Japan policy was controlled by Deng Xiaoping whose pragmatic attitudes enabled it to acquire foreign investment and technology.<sup>172</sup>

At the same time, Western scholars argued that Deng boosted patriotism to replace Communism as the ideological foundation of the Party's legitimacy, after it lost prestige in the wake of the Cultural Revolution. "Patriotic education campaigns" (*aiguo zhuyi jiaoyu*) were a key part of the new nationalist propaganda.<sup>173</sup> Against this background, Sino-Japanese history came to the surface in the 1980s,<sup>174</sup> but was handled cautiously by both sides, and bilateral relations were not affected dramatically.<sup>175</sup>

In the early 1990s, China experienced a leadership transition from the second to third generation led by Jiang Zemin. The continuing stream of patriotic propaganda intended to boost the legitimacy of the Communist Party bred nationalistic sentiments,<sup>176</sup> arguably opening an unexpected floodgate of popular anti-Japanese sentiment.<sup>177</sup> It was revealed that Jiang Zemin's unpleasant personal experiences under Japanese occupation shaped a strong personal dislike of Japan and the Japanese,<sup>178</sup> and was a contributing factor to Sino-Japanese tensions.<sup>179</sup>

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<sup>172</sup> Xu, Zhixian, ed. *Thirty Years of Sino-Japanese Relations: 1972-2002*. Beijing: Shishi Publishing House, 2002, pp. 131-32.

<sup>173</sup> Zhao, Suisheng. "'We Are Patriots First and Democrats Second': The Rise of Chinese Nationalism in the 1990s." In *What If China Doesn't Democratize?: Implications for War and Peace*, edited by Edward Friedman and Barrett L McCormick, Armonk, N.Y.: M.E. Sharpe, 2000, pp. 21-48. For more on the downplaying of 'struggle ideology' of the communist ideology and highlighting of patriotism in Chinese school history education since the mid-1980s, see Jones, Alisa. "Politics and History Curriculum Reform in Post-Mao China." *International Journal of Educational Research* 37, no. 6-7 (2002), pp. 545-66.

<sup>174</sup> For the textbook controversy, see Rose, Caroline. *Interpreting History in Sino-Japanese Relations: A Case Study in Political Decision-Making.*; Ijiri, Hidenori. "Sino-Japanese Controversy since the 1972 Diplomatic Normalization." *The China Quarterly*, no. 124 (1990), pp. 639-61.

<sup>175</sup> He, Yanan. "History, Chinese Nationalism and the Emerging Sino-Japanese Conflict." *Journal of Contemporary China* 16, no. 50 (2007), pp. 1-24.

<sup>176</sup> For a discussion about the rise of Chinese nationalism since 1990s, see Gries, Peter Hays. *China's New Nationalism: Pride, Politics, and Diplomacy*. Berkeley: University of California Press, 2004; He, Yanan. "History, Chinese Nationalism and the Emerging Sino-Japanese Conflict." *Journal of Contemporary China* 16, no. 50 (2007), pp. 1-24; Downs, Erica Strecker, and Phillip C. Saunders. "Legitimacy and the Limits of Nationalism: China and the Diaoyu Islands." *International Security* 23, no. 3 (1998), pp. 114-46; Deans, Phil. "Nationalism and National Self-Assertion in the People's Republic of China: State Patriotism versus Popular Nationalism?" *The Copenhagen Journal of Asian Studies* 21, (2005), pp. 45-63.

<sup>177</sup> He, Yanan. "History, Chinese Nationalism and the Emerging Sino-Japanese Conflict." *Journal of Contemporary China* 16, no. 50 (2007), pp. 1-24.

<sup>178</sup> Wan, Ming. *Sino-Japanese Relations: Interaction, Logic, and Transformation*, pp. 142-167; Yang, Daqing. "Mirror for the Future or the History Card? Understanding the 'History Problem'." In *Chinese-Japanese*

Patriotism, in parallel with greater access to information through the media, in particular the internet, was influential after 2000, with state-promoted campaigns restraining China's Japan policy.<sup>180</sup> An active patriotic internet movement is considered to have begun in earnest in 2003.<sup>181</sup> For instance, through an anti-Japanese website (China918.net), *baodiao*, or "protecting the Diaoyu Islands", activists were mobilised and the China Association for Protecting Diaoyu was founded, promptly organising a series of expeditions to the islands.<sup>182</sup> Seven activists landed on one of the islets in March 2004. The Chinese Ministry of Foreign Affairs' protest over their arrest reflected public pressure on government decision-making.<sup>183</sup> Another example was an online signature campaign against awarding the contract for building a fast train between Beijing and Shanghai to a Japanese firm, which eventually managed to force the government to "kick the Japanese company out".<sup>184</sup>

Against the background of the rise of anti-Japanese nationalism, Chinese leaders were under considerable domestic pressure not to appear to be "soft" in their attitudes,<sup>185</sup> which may have played a role in the ardency with which the issue was pressed. Therefore, it may be fair to conclude that history became prominent once again partly because of strong domestic political undercurrents.

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*Relations in the 21st Century: Complementarity and Conflict*, edited by Marie Söderberg, London: Routledge, 2001, pp. 10-31.

<sup>179</sup> Jiang's personal view is in sharp contrast to Mao's secret gratitude to the Japanese. According to Willem Van Kemenade, Japan's invasion of China had enabled Mao to come to power in 1949, which partly explained why he renounced war reparations from Japan. Van Kemenade, Willem. "China and Japan: Partners or Permanent Rivals?" *Clingendael Diplomacy Papers* (2006), pp. 34-35, <http://www.willemvk.org/downloads/ChinaJapanRivals.pdf>. Accessed 26/05/2010.

<sup>180</sup> For more on this topic, see He, Yanan. "History, Chinese Nationalism and the Emerging Sino-Japanese Conflict." *Journal of Contemporary China* 16, no. 50 (2007), pp. 1-24; Moore, Gregory. "History, Nationalism and Face in Sino-Japanese Relations." *Journal of Chinese Political Science* 15, no. 3 (2010), pp. 283-306.

<sup>181</sup> Yang, Jinlin. "The New Wave of Chinese Nationalism on the Horizon?" *Nanfengchuang* (October 16, 2003), <http://news.sina.com.cn/c/2003-10-16/19161934982.shtml>. Accessed 27/01/2010.

<sup>182</sup> Zhang, Jian. "The Influence of Chinese Nationalism on Sino-Japanese Relations." In *China-Japan Relations in the Twenty-First Century: Creating a Future Past?* edited by Michael Heazle and Nick Knight, Cheltenham: Edward Elgar, 2007, p. 20.

<sup>183</sup> Beukel, Erik. "Popular Nationalism in China and the Sino-Japanese Relationship: The Conflict in the East China Sea: An Introductory Study." *Danish Institute for International Studies (DIIS) Report*, no. 1 (2011), pp. 14-16, [http://kms1.isn.ethz.ch/serviceengine/Files/ISN/126613/ipublicationdocument\\_singledocument/1d4e6899-7c8a-4e3c-836e-b5b67e2b6461/en/RP-2011-01-China-Japan\\_web.pdf](http://kms1.isn.ethz.ch/serviceengine/Files/ISN/126613/ipublicationdocument_singledocument/1d4e6899-7c8a-4e3c-836e-b5b67e2b6461/en/RP-2011-01-China-Japan_web.pdf). Accessed 05/06/2011.

<sup>184</sup> Han, Xuan. "Anti-Japanese Nationalism: 80,000 Netizens Sign an Online Petition to Resist Shinkansen Bid for Bullet Train." *International Herald* (July 31, 2003), <http://news.sina.com.cn/c/2003-07-31/18091452249.shtml>. Accessed 19/02/2010; He, Yanan. "History, Chinese Nationalism and the Emerging Sino-Japanese Conflict." *Journal of Contemporary China* 16, no. 50 (2007), p. 20.

<sup>185</sup> Bush, Richard C. "China-Japan Tensions, 1995-2006: Why They Happened, What to Do." *Brookings Policy Paper*, no. 16 (2009), p. 24; He, Yanan. "History, Chinese Nationalism and the Emerging Sino-Japanese Conflict." *Journal of Contemporary China* 16, no. 50 (2007), p. 11.

On the Japanese side, China lost the high moral ground after the 1989 Tiananmen incident.<sup>186</sup> Former Vice-Minister of Foreign Affairs, Yutaka Kawashima, argued that younger Japanese did not share the memory of war and it was not a live political issue.<sup>187</sup> Ambassador Tanino Sakutaro acknowledged Japan's problematic past, but found it difficult to accept that it had not done enough.<sup>188</sup> Beijing's tactic of keeping Japan down in the struggle for pre-eminence in East Asia was counterproductive.<sup>189</sup> Nuclear tests and military exercises aimed at Taiwan in 1995-1996 contributed to Japan's desire to enhance its military capabilities and maintain the US alliance.<sup>190</sup>

The conclusion among Chinese scholars and media was that Japanese politics was moving along a conservative path. A Chinese Japan specialist at CASS pointed out that neither of the two leading conservative parties, the LDP or the Democratic Party of Japan (DPJ), was considered to be "weak" on China.<sup>191</sup> An article in *China Youth Daily* argued that the reason for Japan's tough stance was because the pro-China school in Japanese politics became marginalised after the "1955 system" of LDP one-party rule collapsed in 1993.<sup>192</sup> Gavan McCormack noted a conservative trend and rising nationalism,<sup>193</sup> while Ian Buruma argued that the Japanese were ingrained with feelings of victimhood rather than war guilt, mainly because the most powerful symbol of the war is Hiroshima.<sup>194</sup> Professor Motofumi Asai, former Director of the China Bureau in the Ministry of Foreign Affairs, agreed.<sup>195</sup> He argued that Japan faced a dilemma: if the Emperor took most responsibility for the war and was

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<sup>186</sup> Kawashima, Yutaka. *Japanese Foreign Policy at the Crossroads: Challenges and Options for the Twenty-First Century*. Washington: The Brookings Institution, 2003, pp. 95-110.

<sup>187</sup> *Ibid.*, p. 2.

<sup>188</sup> Yang, Daqing. "Mirror for the Future or the History Card? Understanding the 'History Problem'." In *Chinese-Japanese Relations in the 21st Century: Complementarity and Conflict*, edited by Marie Söderberg, pp. 10-31.

<sup>189</sup> Takagi, Seiichiro. "In Search of a Sustainable Equal Partnership: Japan-China Relations in the Post-Cold-War Era." *Japan Review of International Affairs* 13, no. 1 (1999), pp. 17-38.

<sup>190</sup> Wan, Ming. *Sino-Japanese Relations: Interaction, Logic, and Transformation*, pp. 112-13.

<sup>191</sup> Feng, Zhaokui. "Five Angles of Chinese Policy toward Japan." (2004), <http://japan.people.com.cn/2004/10/9/200410985348.htm> Accessed 22/03/2010.

<sup>192</sup> "'China School' Lost Influence in Japan's Politics, Japan's China Policy Tends to Be Assertive." *China's Youth Daily* (September 21, 2004), <http://japan.people.com.cn/2004/9/22/2004922125503.htm>. Accessed 30/09/2010. The 1955 system refers to the structure of Japanese political economy established in 1955 when the conservative parties formed the LDP and the right and the left wings of the Socialist Party emerged. Once entrenched, the 1955 system came to shape the way politics and the economy operated in Japan until 1993.

<sup>193</sup> McCormack, Gavan. "The Japanese Movement To "Correct" History." *Bulletin of concerned Asian Scholars* 30, no. 2 (1998), pp. 16-23.

<sup>194</sup> Buruma, Ian. *The Wages of Guilt: Memories of War in Germany and Japan*. London: Vintage, 1995.

<sup>195</sup> Quoted in Van Kemenade, Willem. "China and Japan: Partners or Permanent Rivals?" *Clingendael Diplomacy Papers* (2006), p. 44.

forgiven by the US, why should the Japanese people be blamed for war crimes? Obsession with the idea of victimhood contributed to Koizumi's loyalty to the imperial system, he explained.<sup>196</sup> If this explanation made sense, then, arguably, there was a "cultural logic" behind the annual Yasukuni visits regardless of the protests.<sup>197</sup>

Diplomatic tensions over the ownership of the Diaoyu Islands and resources in the East China Sea increased, as will be examined in detail in Chapter 9. In 2005, anti-Japanese demonstrations took place in several Chinese cities in response to Japan's bid for membership of the UN Security Council, and the Koizumi Cabinet's approval of the controversial history textbooks.<sup>198</sup> Former Chinese Foreign Minister Tang Jiaxuan wrote in his memoirs that "it is understandable that Chinese people cannot accept a country that fails to correctly reflect its history of invasion, and to understand public feelings of the victims to bid for UN Security Council's membership".<sup>199</sup> It is the view of Chinese academics that, after 2000, Japan regarded its security relations with China as a zero-sum game; that is, China's rise was at Japan's political and strategic expense.<sup>200</sup> CASS scholar Wu Huaizhong pointed out that Japan placed great emphasis on the "China threat" in all its annual defence white papers after 2001.<sup>201</sup>

As mentioned above, Japan suspended disbursement of ODA in 1995 and 1996<sup>202</sup> in response to China's "aggressive" behaviour. In 2000, yen loans to China were frozen in response to naval activities inside Japan's proclaimed Exclusive Economic Zone (EEZ),<sup>203</sup> while in 2002 they were cut by 25% from the previous year's level.<sup>204</sup> In 2005, the Japanese

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<sup>196</sup> *Ibid.*

<sup>197</sup> For a discussion of Koizumi's visits to the Yasukuni shrine and the impact on Sino-Japanese relations, see Wan, Ming. *Sino-Japanese Relations: Interaction, Logic, and Transformation*, pp. 235-61.

<sup>198</sup> Yang, Bojiang. "Redefining Sino-Japanese Relations after Koizumi." *The Washington Quarterly* 29, no. 4 (2006), pp. 129-37.

<sup>199</sup> Tang, Jiaxuan. *Heavy Rain and Soft Breeze*, p. 23.

<sup>200</sup> Wu, Huaizhong. "Defence White Paper: Interpreting Japan's Security Policy toward China." *Journal of Northeast Asia Forum*, no. 1 (2009), pp. 1-10.

<sup>201</sup> *Ibid.*

<sup>202</sup> Jin, Xide. "The Evolution of Japanese ODA Policy to China and Sino-Japanese Relations." (2004), <http://ijs.cass.cn/geren/jinxid/w9502.htm>.

<sup>203</sup> Takamine, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, p. 115.

<sup>204</sup> Arase, David. "Japanese ODA Policy toward China." In *Japan's Relations with China: Facing a Rising Power*, edited by Peng Er Lam, p. 92.

government decided to end ODA by 2008.<sup>205</sup> As Reinhard Drifte pointed out, deteriorating relations politicised ODA as a foreign policy tool,<sup>206</sup> though China's impressive economic growth resulted in China itself becoming an aid donor.<sup>207</sup> The contrast between a rising China and stagnating Japan after 2000 was stark in the regional economic landscape.<sup>208</sup> Concern about China's military build-up and economic growth, in combination with Japan's economic and budgetary problems,<sup>209</sup> contributed to the decision to end aid. Politics continued to play a decisive role in bilateral relations.

Relations improved after Koizumi stepped down in 2006. Prime Minister Abe's visit in 2006 immediately after his inauguration and Prime Minister Wen Jiabao's visit in 2007 were aimed at building "a mutually beneficial relationship based on common strategic interests".<sup>210</sup> From the Chinese perspective, obstacles continued to stand in the way of redefining bilateral relations, especially as Prime Minister Yasuo Fukuda, who succeeded Abe, stated in 2007 that the Japan-US alliance was "the cornerstone of Japanese diplomacy".<sup>211</sup> In addition, Abe's idea of promoting "value-oriented diplomacy"<sup>212</sup> via a "value alliance of Japan-US-Australia-India" was seen by the Chinese as building a strategic partnership to contain China,<sup>213</sup> despite the two sides signing a fourth significant political document on Sino-Japanese relations in 2008.<sup>214</sup>

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<sup>205</sup> Drifte, Reinhard. "The Ending of Japan's ODA Loan Programme to China-all's Well That Ends Well?" *Asia-Pacific Review* 13, no. 1 (2006), p. 94.

<sup>206</sup> *Ibid.*

<sup>207</sup> *Ibid.*, p. 103.

<sup>208</sup> Kokubun, Ryosei. "The Shifting Nature of Japan-China Relations after the Cold War." In *Japan's Relations with China: Facing a Rising Power*, edited by Peng Er Lam, pp. 21-36.

<sup>209</sup> Drifte, Reinhard. "The Ending of Japan's ODA Loan Programme to China-all's Well That Ends Well?" *Asia-Pacific Review* 13, no. 1 (2006), p. 112.

<sup>210</sup> "Japan-China Joint Press Statement." (October 8, 2006), [http://news.xinhuanet.com/politics/2006-10/08/content\\_5177472.htm](http://news.xinhuanet.com/politics/2006-10/08/content_5177472.htm)(chinese version),

<http://www.mofa.go.jp/region/asia-paci/china/joint0610.html> (English version). Accessed 20/02/2010.

<sup>211</sup> "Policy Speech by Prime Minister Yasuo Fukuda to the 168th Session of the Diet." (October 1, 2007), [http://www.kantei.go.jp/foreign/hukudaspeech/2007/10/01syosin\\_e.html](http://www.kantei.go.jp/foreign/hukudaspeech/2007/10/01syosin_e.html). Accessed 20/02/2010.

<sup>212</sup> Value-oriented diplomacy involved "placing emphasis on universal values such as democracy, freedom, human rights, the rule of law, and the market economy as we advance our diplomatic endeavors". "Arc of Freedom and Prosperity: Japan's Expanding Diplomatic Horizons." *Speech by Mr. Taro Aso, Minister for Foreign Affairs on the Occasion of the Japan Institute of International Affairs Seminar* (November 30, 2006), <http://www.mofa.go.jp/announce/fm/aso/speech0611.html>. Accessed 20/02/2010.

<sup>213</sup> Jin, Xide. "The 30 Years Trajectory of Sino-Japanese Relations since the Treaty of Peace and Friendship between Japan and China." (2008), <http://iis.cass.cn/geren/jinxd>. Accessed 21/05/2009.

<sup>214</sup> "China-Japan Joint Statement on Comprehensive Promotion of A "Mutually Beneficial Relationship Based on Common Strategic Interests". (May 7, 2008), <http://www.mofa.go.jp/region/asia-paci/china/joint0805.html>. Accessed 07/02/2010.

#### 6.4.2 “New thinking on Japan?” - China’s public debate

Growing anti-Japanese nationalism strained Sino-Japanese relations in the early 2000s, prompting a vigorous debate about whether China needed “new thinking on Japan” to move beyond the shadow of history. Ma Licheng, a renowned *People’s Daily (Renmin Ribao)* journalist, advocated such “new thinking” in a controversial article in the influential *Journal of Strategy and Management*.<sup>215</sup> He criticised the popular nationalism that emerged in the 1990s for its arrogance (*zida*) and xenophobia (*paiwai*), and the growth of extremism, saying that anti-Japanese sentiments were not only grounded in misperception, but detrimental to developing amicable relations with neighbours, and lessening regional fears about China’s rise. He argued that the issue of Japan’s apology was resolved and historical grievances no longer obstructed relations. Insufficient information about Japan’s contribution to China’s economy was made public.

“New thinking” was echoed by a leading Chinese international relations scholar, Shi Yinhong, from Renmin University. He published an article in the same journal in 2003 calling for a diplomatic revolution in relations.<sup>216</sup> Less sentimentally than Ma, Shi approached the issue from a realist perspective and argued that China should put aside the history dispute and seek closer ties to offset US hegemony in Asia. He proposed five points for pursuing Sino-Japanese rapprochement: first, accepting Japanese apologies; secondly, strengthening economic and trade ties, and reducing relations with the US and European Union; thirdly, stop making exaggerated claims about the rise of Japanese militarism; fourthly, welcoming Japan’s full participation in regional and international affairs as a great power; and, finally, supporting Japanese efforts to become a permanent member of the UN Security Council. Shi argued that these were a small price to pay for a diplomatic revolution that would greatly benefit China’s national interest.

Ma and Shi’s views invited a remarkably sophisticated debate in academic circles and, not surprisingly, heavy populist attack. In 2003, several hundred articles were published on the topic and the debate was reportedly listed as one of the “top ten news items in Sino-

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<sup>215</sup> Ma, Licheng. "New Thinking on Relations with Japan." *Strategy and Management*, no. 6 (2002), <http://www.china-week.com/html/1809.htm>. Accessed 28/02/2010.

<sup>216</sup> Shi, Yinhong. "Sino-Japanese Rapprochement and the 'Diplomatic Revolution'." *Strategy and Management*, no. 3 (2003), <http://www.people.com.cn/GB/guandian/1033/2015190.html>. Accessed 28/02/2010.

Japanese relations in 2003".<sup>217</sup> An article by Lin Zhibo appeared on *people's net* (a website affiliated with *People's Daily*) entitled: "Questioning the new thinking on Japan policy: a discussion with Professor Shi Yinhong".<sup>218</sup> He dismissed Shi's core argument that rapprochement with Japan helped balance against the US and ridiculed his "neglect" of the complexity of international relations, because "US-Japan relations are like those between a master and a servant (*Zhucong guanxi*)" and "there is no way that Japan will improve Japan-China relations to counterbalance the US".<sup>219</sup> The US, Lin claimed, was the culprit in the deterioration of China-Japanese relations, hypothesising the possible outcomes of a "Japan rapprochement": 1) more leverage in its foreign policy; 2) heightened US containment of China; and 3) a more assertive policy on the Taiwan issue.<sup>220</sup> According to Lin, Shi's five suggestions were neither realistic nor beneficial.

Many academic participants in the "new thinking" debate claimed to take the middle ground, concurring with some of Ma and Shi's views while disagreeing with others. For instance, Professor Pang Zhongying from Renmin University argued that it is essential to distinguish between the Japan of the first and second halves of the 20<sup>th</sup> century, when it democratised, was peaceful and made contributions to China's economy. He suggested that China and Japan learn to accentuate the positives, reduce mutual opposition and conflict, and develop mutual respect and support.<sup>221</sup> Pang contended that there was no way to insert a wedge (*xiezi*) between Japan and the US on security. Rather, he suggested that the best way to improve Sino-Japanese relations was to improve Sino-US relations.

Professor Ling Xingguang from CASS also claimed the middle ground in "Correct strategy, incorrect tactics", published in *World Economics and Politics* in 2003. He concurred with Ma and Shi on seven points while contending with them on five others, concluding that the

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<sup>217</sup> Feng, Zhaokui. "Searching for Solutions to Sino-Japanese Relations." *World Economics and Politics*, no. 5 (2004), pp. 1-7.

<sup>218</sup> Lin, Zhibo. "Questioning the New Thinking on Japan Policy: A Discussion with Professor Shi Yinhong." (2003), <http://www.people.com.cn/GB/guandian/183/8456/8457/2017423.html>. Accessed 28/02/2010.

<sup>219</sup> *Ibid.*

<sup>220</sup> *Ibid.*

<sup>221</sup> Pang, Zhongying. "Increasing Cooperation or Confrontation? Foresightedness Is Needed in Dealing with Sino-Japanese Relations." *World Economics and Politics*, no. 9 (2003), pp. 15-17.

overall situation of Sino-Japanese relations demonstrated that the negatives outweighed the positives, relations were in transition, and would not be very smooth for a decade.<sup>222</sup>

Two influential Chinese Japan specialists, Feng Zhaokui and Jiang Lifeng from the Institute of Japan Studies at CASS, stressed that Ma and Shi's views were constructive in academic debate but unrealistic in policy implementation. Jiang disagreed with Shi's suggestion that Chinese leaders should publicly express gratitude for Japan's ODA, as it was not altruistic, but benefitted Japan as well.<sup>223</sup> Feng contended that relations should be directed by five fundamental principles, of which China's national interest was the first priority. He argued that putting aside the history dispute did not reduce tensions. The solution lay, instead, in the development of healthy relations in a number of areas where Chinese and Japanese strategic interests converged in traditional and non-traditional security. He argued that increased economic cooperation led to a convergence of other national interests.<sup>224</sup>

Ma and Shi's articles provoked hostile responses from China's cyber-patriots, with some 5000 Chinese websites contributing to the "new thinking" debate.<sup>225</sup> Ma and Shi and their supporters were accused of being "traitors" (*maiguozei, haijian*). Ma even received death threats reportedly after his home address and phone number were posted.<sup>226</sup>

### 6.4.3 Economic interdependence

In contrast to difficult political relations, economic ties progressed smoothly from the early 1990s. During 1991-1995, bilateral trade increased by 20% annually,<sup>227</sup> rising to \$83b in

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<sup>222</sup> Ling, Xingguang. "Correct Strategy, Incorrect Tactics: Comments on the Two Articles by Ma Licheng and Shi Yinhong." *World Economics and Politics*, no. 9 (2003), pp. 18-21.

<sup>223</sup> Cited in Liu, Xiaobiao. "Where Will China-Japan Relations Head For?: Scholars' Observations and People's Contemplations." (2003), <http://www.people.com.cn/GB/guandian/1033/2015200.html>. Accessed 28/02/2010.

<sup>224</sup> Feng, Zhaokui. "On "New thinking on Japan." *Strategy and Management*, no. 4 (2003), the article can be found at Professor Feng's blog <http://blog.ifeng.com/article/2472599.html>. Accessed 05/03/2010.

<sup>225</sup> For a Chinese account of the debate, see Liu, Xiaobiao. "Where Will China-Japan Relations Head For?: Scholars' Observations and People's Contemplations." (2003), <http://www.people.com.cn/GB/guandian/1033/2015200.html>.

<sup>226</sup> Liu, Xiaobiao. "Who Are Patriots, Who Are Traitors?" (2003), <http://www.people.com.cn/GB/guandian/1033/2015185.html>. Accessed 28/02/2010.

<sup>227</sup> Zhang, Jifeng. "The Development and Characteristics of Sino-Japanese Economic and Trade Relations since 1990s." *Japan Studies*, no. 3 (2001), <http://ijs.cass.cn/files/geren/zhangjifeng/lw3.htm>.



2000, an eightfold increase over the decade.<sup>228</sup> It continued to grow, from \$877b in 2001 to \$2073b in 2006,<sup>229</sup> even as political relations reached their lowest point.

Japanese FDI surged, according to China's statistics, from \$500m in 1990 to \$3.17b in 1995<sup>230</sup> and remained above \$3b annually throughout the second half of the 1990s. By 2000, the cumulative value of Japanese FDI was \$28.13b, or 8.1% percent of total inflows, making Japan the prime country investor.<sup>231</sup> Japanese statistics show that the accumulative value (1985-2004) was \$31.3b, accounting for 21.9% of its total FDI in Asia.<sup>232</sup>

The phenomenon of closer economic ties combined with troubled political relations, or the so-called "hot in economics, cold in politics" (*zhengleng jingre*) phenomenon, presented an intellectual puzzle.<sup>233</sup> According to liberalism, economic interdependence promotes peace and reduces conflict between states, but it cannot explain the Sino-Japanese "hot-cold" dynamic. Michael Yahuda contended that economic interdependence has its limits because of the changes in post-Cold War East Asia, which led to Sino-Japanese strategic rivalry.<sup>234</sup> This view was echoed by Denny Roy when he wrote that "trade and investment therefore generate their own set of problems while helping little to alleviate tensions in other troubled areas of the bilateral relationship".<sup>235</sup> In the view of Japanese authors, China's economic growth was a threat to Japan's prosperity because its economy was being "hollowed out" by manufacturing relocating to China.<sup>236</sup> Others were more positive. Min Gyo Koo observed that economic interdependence repeatedly reduced Sino-Japanese tensions over territorial and maritime rights.<sup>237</sup> Michael Heazle's view was somewhat less

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<sup>228</sup> Trade statistics of China's Ministry of Commerce, <http://yzs.mofcom.gov.cn/static/date/g/date.html/1>. Accessed 02/03/2010.

<sup>229</sup> The statistics are from China's Ministry of Commerce, <http://yzs.mofcom.gov.cn/static/date/g/date.html/1>.

<sup>230</sup> Zhang, Jifeng. "The Development and Characteristics of Sino-Japanese Economic and Trade Relations since 1990s." *Japan Studies*, no. 3 (2001), Table 3, <http://ijs.cass.cn/files/geren/zhangjifeng/lw3.htm>.

<sup>231</sup> *Ibid.*

<sup>232</sup> Japan External Trade Organization (JETRO), <http://www.jetro.go.jp/en/reports/statistics>.

<sup>233</sup> There are a number of recent books that address the theme of the hot-cold dynamic between China and Japan, see for example, Lam, Peng Er, ed. *Japan's Relations with China: Facing a Rising Power*. New York: Routledge, 2006; Heazle, Michael, and Nick Knight, eds. *China-Japan Relations in the Twenty-First Century: Creating a Future Past?* Cheltenham: Edward Elgar, 2007.

<sup>234</sup> Yahuda, Michael. "The Limits of Economic Interdependence" In *New Directions in the Study of China's Foreign Policy*, edited by Alastair Iain Johnston and Robert S. Ross, pp. 162-85.

<sup>235</sup> Roy, Denny. "Stirring Samurai, Disapproving Dragon: Japan's Growing Security Activity and Sino-Japan Relations." *Asian Affairs: An American Review* 31, no. 2 (2004), p. 90.

<sup>236</sup> *Ibid.*, p. 91.

<sup>237</sup> Koo, Min Gyo. "The Senkaku/Diaoyu Dispute and Sino-Japanese Political-Economic Relations: Cold Politics and Hot Economics?" *The Pacific Review* 22, no. 2 (2009), pp. 205-32.

optimistic. He argued that the economic benefits of the relationship were only important enough to prevent political relations from deteriorating to a point where economic ties were damaged seriously.<sup>238</sup> Similarly, Kokubun Ryosei argued that economic interdependence was a positive factor in forging cooperation.<sup>239</sup>

Based on the analysis above, Sino-Japanese economic interdependence had its limits in managing bilateral relations. Though political tensions triggered by controversies over sensitive issues demonstrated these limits, the deterioration in relations was kept at a manageable level while economic benefits accrued. In the view of CASS scholar Xue Jun, the Japanese economic recovery after 2002 was led by increasing demand for Japanese exports in global markets, especially "Chinese demand".<sup>240</sup> Exports to China surged significantly by more than 30% in 2002 and 2003, while the share of Japan's exports rose from 7.68% in 2001 to 12.16% in 2003. By comparison, the share of Japan's exports to the US dropped from 30% in 2001 to 25% in 2003.<sup>241</sup> According to the Japanese Ministry of Finance, in 2002 Japan's exports increased 6.39% over 2001, while exports to China and the US grew 2.48% and 0.3% respectively.<sup>242</sup> The "Chinese contribution" was addressed explicitly by Kokubun Ryosei, who stated that the Japanese economic recovery was due in part to special procurement demands from China.<sup>243</sup> Another Japanese scholar, Tsugami Toshiya, from the Research Institute of Economy, Trade and Industry, argued that rather than viewing China as an economic threat, journalists should report on Japan's economic recovery as being dependent on both China and the US. According to 2003 statistics, many sectors of the Japanese economy benefited from China's economic growth, from raw materials industries including steel and chemicals to consumables such as household electronics and mobile phones.<sup>244</sup>

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<sup>238</sup> Heazle, Michael. "Nationalism, Security, and Prosperity: Three Dimensions of Sino-Japan Relations." In *China-Japan Relations in the Twenty-First Century: Creating a Future Past?*, edited by Michael Heazle and Nick Knight, Cheltenham: Edward Elgar 2007, pp. 175-206.

<sup>239</sup> Kokubun, Ryosei. "The Shifting Nature of Japan-China Relations after the Cold War." In *Japan's Relations with China: Facing a Rising Power*, edited by Peng Er Lam, pp. 21-36.

<sup>240</sup> Xue, Jun. "Analysing the Role of Chinese Big Market in Japanese Economic Recovery." *World Economics and Politics*, no. 6 (2004), pp. 1-9.

<sup>241</sup> *Ibid.*, p. 4, Table 3.

<sup>242</sup> *Ibid.*

<sup>243</sup> Kokubun, Ryosei. "The Shifting Nature of Japan-China Relations after the Cold War." In *Japan's Relations with China: Facing a Rising Power*, edited by Peng Er Lam, p. 27.

<sup>244</sup> Tsugami, Toshiya. "What Do Surging Exports to China Implicate?" (2003), [http://www.rieti.go.jp/en/columns/a01\\_0109.html](http://www.rieti.go.jp/en/columns/a01_0109.html). Accessed 01/03/2009.

In the context of the “hot-cold” Sino-Japanese dynamic, economic cooperation was easier to achieve than political engagement, because economic interdependence created tangible mutual benefits, despite the refrain of “China’s economic threat” echoing among many Japanese. Conditions for the political honeymoon of the 1980s were unlikely to be repeated as both regional and domestic environments conducive to Sino-Japanese friendship changed fundamentally. As Christopher Hughes argued, the history problem ran deep, and was not ameliorated easily by economic interdependence.<sup>245</sup>

Mutual trust, in particular, was required for political cooperation, something that was lacking. Worse still, mutual suspicion over each other’s intentions amplified mutual distrust. Political disputes, in turn, intensified mutual suspicion and distrust. The concluding section reflects on why history played such an important role in Sino-Japanese relations.

#### **6.4.4 The importance of history in the Sino-Japanese relationship**

Sections 6.1 to 6.3 showed that tensions over history were often shelved in the interests of *realpolitik*. During the 1990s, this began to change, as the shared threat posed by the Soviet Union evaporated and they began to view each other with increasing distrust. We saw that growing economic interdependence and simultaneous increases in political tension are difficult to reconcile conceptually. Instead, a more appropriate view might be one that takes a lead from constructivist thinking, and places at the centre of discussion the ways in which Japan and China viewed themselves and each other against the background of their shared history.

One perspective is that history became a “card” to play in order to blunt attempts by Japan to become a “normal” country and regain influence in East Asia.<sup>246</sup> After 1997 Japan lost its identity as the predominant economic force in East Asia, and efforts at attaining compensatory political power, for instance by gaining UN Security Council membership, were thwarted by China. In this view, it is easier to understand why history was of little previous importance to China: it was only with China’s rise, and Japan’s declining influence

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<sup>245</sup> Hughes, Christopher W. "Japan's Policy towards China: Domestic Structural Changes, Globalization, History and Nationalism " In *China, Japan and Regional Leadership in East Asia*, edited by Christopher M. Dent, pp. 37-51.

<sup>246</sup> Deng, Yong. *China's Struggle for Status: The Realignment of International Relations*. New York: Cambridge University Press, 2008, pp. 188-93; Terada, Takashi. "Forming an East Asian Community: A Site for Japan-China Power Struggles." *Japanese Studies* 26, no. 1 (2006), pp. 5-17.

in East Asia, that they became rivals for influence. China had at its disposal a strong weapon with which to keep Japan in check.

An alternative, though not contradictory, perspective is that tensions over history became an inflammatory issue because nationalism grew as a powerful force in domestic politics. China's leaders could not afford to be seen to take a conciliatory stance towards Japan when faced with apparent affronts to national pride and, likewise, Japanese leaders could not back down on issues such as visits to the Yasukuni shrine. The highly negative reception of the modest scholarly proposals for "new thinking" on Japan illustrated the fervour with which patriotic views took hold among Chinese commentators and the general public. In this climate, negative and distrustful views about each other became mutually reinforcing. Chinese nuclear tests in 1995 and the Taiwan Strait Crisis of 1996 in part prompted Japan to reaffirm the US alliance, which, in turn, inflamed fears of Japan's remilitarisation and further fuelled patriotism.

Yet another perspective acknowledges that, for many Chinese, including leaders such as Jiang Zemin, historical animosity towards Japan was deeply held and not so easily put aside. At the same time, many Japanese, feeling encumbered by the legacy of guilt, and conscious of the alternative narrative of Japan as the victim of nuclear attack, strongly opposed efforts to perpetuate the burden of guilt, thinking that any debt to China had been paid off. In this view, attitudes towards each other were held at a deep emotional level, with the power to overshadow bilateral relations.

We saw how relations, in the years after China embarked on economic reform and opening up, were fraught with tension and distrust, at the same time as trade flourished without any apparent interruption. Though the history issue stood at the centre of the relationship, it only became a source of political tension during the mid-1990s. Patriotism grew with Japan's loss of identity as the economic centre of Asia, while the Chinese government searched for "post-communist" ideological legitimacy.

History was to some extent a "card" with which China attempted to blunt Japanese power. Patriotism constrained the ability of both governments to take a softer stance towards each other. This was all the more difficult because both saw themselves as major Asian powers that cannot defer to the other. History played into complex and deeply held emotions on

both sides, making the pathway to a less emotionally-charged, more constructive international relationship extremely difficult.

## **6.5 The security dimensions of an integrating East Asian political economy**

We saw that relations with ASEAN, the US and Japan were affected deeply by China's growing economic power in East Asia. Though the region desired strongly to enhance economic relations with China, it nonetheless experienced various levels of unease in political relations. ASEAN's concerns were managed and contained via the "ASEAN Way" in the form of ARF, ASEAN+3 and CAFTA. China, for its part, attempted to portray itself as a responsible nation and good neighbour. In the case of the US, tension existed between China as a threat to and strategic competitor with US interests, and the benefits, economic and otherwise, arising from a cooperative relationship. I argued that this tension drove the oscillation in US attitudes. For Japan, as we saw in this chapter, relations were more bluntly a matter of political antagonism and competition for regional influence, and a search for political identity defined, in part, in terms of enmity towards one another. While the region had working relations with China which placed a high priority on economic stability, it was concerned about future intentions as its ability to deploy military power increased.

East Asia's relations were even more complex because China was central to a number of sovereignty disputes. It claimed the right to govern several territories in the South China Sea to which several ASEAN nations also laid claim. Likewise, China and Japan contended for sovereignty over islands in the East China Sea. Finally and perhaps most importantly, Taiwan was regarded as an inalienable part of China, while the US's "protectorship" placed the two states in opposition to each other. Territorial disputes therefore are a lens through which to view the paradoxical consequences of China's rise. Its contributions to the region's economic prosperity brought with it the obligation to act responsibly and maintain a stable regional order.

Because China was the nexus through which the political economy of East Asia was drawn together the region was also increasingly implicated in the South China Sea and Northeast Asian disputes. As the political economy of Northeast and Southeast Asia were drawn together, they were also drawn together in the security domain. Security, which was dealt with previously on a subregional footing, was increasingly on the agenda of East Asia as a

whole. Buzan and Waever argued that the growing security integration of Southeast and Northeast Asia emanated from three processes: the formation of regional security institutions and fora such as the ARF; concerns about China's increasing power and future intentions; and a regional perception that economic stability and growth in an interdependent East Asia require the successful management of security issues affecting the region as a whole.<sup>247</sup> Sovereignty disputes were significant in regional security discussions. The key question was whether they were dealt with adequately through the "ASEAN Way" and existing regional arrangements.

In order to understand the importance of territorial issues for the future of East Asia, it is again necessary to consider them in historical perspective. The next three chapters examine in detail the disputes and their implications for China's relations with the region.

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<sup>247</sup> Buzan, Barry, and Ole Wæver. *Regions and powers: the structure of international security*. New York: Cambridge University Press, 2003, pp. 144-71.

## **7 Taiwan: maintaining the status quo is China's reluctant option**

Taiwan is viewed by China as a part of its national territory, even though they have been separated since Liberation in 1949 and Taiwan enjoyed a significant measure of international economic and cultural acceptance. During the Cold War until 1971 it was recognised as the legitimate government of China with a seat on the UN Security Council. China placed political and, in some instances, military pressure on Taiwan to reunify with the mainland. In 2011, it was neither officially independent nor a part of China.

Taiwan also occupied a significant place in the strategic interests of the US, so much so that the stakes were raised occasionally to the point of risking armed conflict with China. As was discussed in Chapter 1, authors in the realist tradition see in China's rise a threat with the danger of military confrontation. Taiwan was the most difficult of issues for China and was, therefore, crucial to the evolution of the East Asian region.

The US and China faced a strategic dilemma over Taiwan, confronting the problem of reconciling their somewhat incompatible strategic interests. The US had to accommodate a rising China, and China the reality of US military power. At the same time, both were increasingly dependent economically on each other. Consequently, this chapter argues that their strategic interests were served best, in the short-term, by the status quo of "no independence, no unification". Hence, China's increasing influence in East Asia meant that it had to deal cautiously with a potentially explosive strategic situation. Taiwan seems to support liberal views that states with an economic stake in each other tend to avoid military conflict.

Taiwan was treated in terms of contention over conflicting security interests, yet as argued at the end of the previous chapter, Northeast and Southeast Asia were drawn into a shared regional political economy. Taiwan was scrutinised as an East Asian regional security challenge. The question is whether the "ASEAN Way" was robust enough to manage this and other security issues.

One aspect often overlooked in the literature is the degree to which Taiwan was a significant player in its own right during the process of Northeast and Southeast Asian

regional economic integration. The literature focuses on the role played by states, yet non-state economic linkages between Taiwan and China were just as crucial in the evolution of the political economy of East Asia.

A discussion of the Taiwan issue, therefore, brings together several major themes of this thesis. Taiwan is a focus of China's strategic rivalry with the US, a key component of China's economic success and transformation of the regional political economy, an emerging East Asian security challenge and also, as we will see, potentially the site of the greatest threat to peace in East Asia.

This chapter first describes how Taiwan became important in the strategic considerations of the US and China. It outlines the evolution of policies since the 1990s. Section 7.1 traces US-Taiwan relations from the Cold War until 2011, arguing that they were at the centre of Sino-US tensions. Section 7.2 examines China's Taiwan policy over six decades, emphasising growing economic interdependence.

## 7.1 The origins of the Taiwan factor in Sino-US relations

As highlighted in this chapter, US policy towards Taiwan is described accurately as one of "strategic ambiguity", in which public pronouncements and actions created deliberate uncertainty about whether it would come to Taiwan's military aid of in the event of conflict with China. The US discouraged Taiwan from declaring independence, while keeping China guessing about how it would respond to an attack on Taiwan.<sup>1</sup>

In this section, I explain the origins of the "Taiwan factor" arguing that the dilemma for the US was fear of a rising China, yet disinclination to be caught in a confrontation with China, partly to avoid a costly war, but also because of growing economic dependence on China – "America's banker", in the words of Hillary Clinton.<sup>2</sup> I conclude that it was in the interests of the US for Taiwan to be neither independent nor part of China.

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<sup>1</sup> Campbell, Kurt M., and Derek J. Mitchell. "Crisis in the Taiwan Strait?" *Foreign Affairs* 80, no. 4 (2001), pp. 14-25.

<sup>2</sup> "US Embassy Cables: Hillary Clinton Ponders US Relationship with Its Chinese 'Banker'." *The Guardian* (December 4, 2010), <http://www.guardian.co.uk/world/us-embassy-cables-documents/199393>. Accessed 05/05/2011.



### 7.1.1 The origin of the Taiwan issue

Taiwan was historically part of Chinese territory until ceded to Japan by the Shimoniki Treaty in 1895, following China's defeat in the Sino-Japanese War.<sup>3</sup> Taiwan was returned to China at the end of World War II in 1945, after Japan surrendered and relinquished all rights.<sup>4</sup> As early as 1943, the Allies agreed in the *Cairo Declaration* that "all the territories Japan has stolen from the Chinese, such as Manchuria, Formosa (Taiwan), and the Pescadores, shall be restored to the Republic of China".<sup>5</sup> It was later reaffirmed in the *Potsdam Declaration* of 1945 that "the terms of the *Cairo Declaration* shall be carried out".<sup>6</sup> Hence, Taiwan was under Nationalist Chinese control.<sup>7</sup>

Figure 7-1. Map of Taiwan and the Taiwan Strait (map of China and Taiwan as inset)



Source: <http://edition.cnn.com/interactive/maps/world/map.taiwan.strait/frame.set.exclude.html>.

When the Chinese Nationalist Party (Kuomintang, or KMT) retreated to Taiwan after losing the civil war in 1949,<sup>8</sup> Secretary of State Dean Acheson dismissed defending the KMT

<sup>3</sup> Taiwan was incorporated into the Chinese Empire as a prefecture of Fujian province in 1684, which began two centuries of nominal Qing Dynasty rule over Taiwan until it was ceded to Japan in 1895. The main reason for incorporating Taiwan into imperial China was due to security concerns: the Empire desired to keep Taiwan out of foreign hands, so as to prevent anti-Qing movements from emerging out of Taiwan. For a detailed account of Taiwan's history, see Roy, Denny. *Taiwan: A Political History*. Ithaca: Cornell University Press, 2003; Rubinstein, Murray A. *Taiwan: A New History*. Expanded ed. Armonk, N.Y.: M.E. Sharpe, 2007.

<sup>4</sup> Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*. Singapore: World Scientific Publishing, 2010, p. 12.

<sup>5</sup> "Cairo Declaration." (December 1, 1943),

[http://www.ndl.go.jp/constitution/e/shiryu/01/002\\_46/002\\_46tx.html](http://www.ndl.go.jp/constitution/e/shiryu/01/002_46/002_46tx.html). Accessed 01/08/2010.

<sup>6</sup> "Potsdam Declaration." (July 26, 1945), <http://www.ndl.go.jp/constitution/e/etc/c06.html>. Accessed 01/08/2010.

<sup>7</sup> Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, p. 12.

<sup>8</sup> "Acheson and Jessup Testimony, in US Congress, Committee on Foreign Relations, Review of the World Situation, 1949-1950," and Joint Chiefs of Staff (JCS) report, quoted in Schaller, Michael. "Securing the Great Crescent: Occupied Japan and the Origins of Containment in Southeast Asia." *The Journal of American History* 69, no. 2 (1982), p. 407.

government in exile. The US even prepared for “accepting Communist control of China for the foreseeable future”, even though China signed the Sino-Soviet Treaty of Friendship, Alliance and Mutual Assistance on 14 February 1950.<sup>9</sup>

With the outbreak of the Korean War in June 1950, President Truman ordered the Seventh Fleet into the Taiwan Strait to prevent confrontation between China and Taiwan,<sup>10</sup> issuing a statement that “determination of the future status of Formosa (Taiwan) must await the restoration of security in the Pacific, a peace settlement with Japan, or consideration by the United Nations”.<sup>11</sup> As Huang and Li point out, both Beijing and Taipei regarded US neutralisation of the Taiwan Strait as an attempt to create “two Chinas”, resulting in a concerted effort by both sides to preserve a *de jure* single state by pursuing the goal of national reunification.<sup>12</sup>

The San Francisco Peace Treaty with Japan, to which neither Mao nor Jiang’s governments were invited, was signed in September 1951. It “stipulated that Japan renounced its rights, titles, and claims over Taiwan and Penghu Islands, without specifying to whom they should be transferred”.<sup>13</sup> In a subsequent peace treaty with Taiwan in April 1952, Japan, under US pressure, renounced sovereignty over Taiwan but did not transfer it to another state, leaving its status undetermined.<sup>14</sup>

Initial US proposals to recognise both governments as separate states were rejected by both sides as entrenching the idea of “Two Chinas”. The US opted to recognise Taiwan as the only government of China, which was followed by other states, while Taiwan retained the “China Seat” on the UN Security Council and maintained diplomatic relations with most states<sup>15</sup> as the legitimate government of China.

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<sup>9</sup> *The Sino-Soviet Treaty of Friendship, Alliance and Mutual Assistance* was signed in February 14, 1950, it expired in 1979. Chen, Jian. *Mao's China and the Cold War*, pp. 50-52.

<sup>10</sup> *Ibid.*, p. 18.

<sup>11</sup> Huang, Jing, and Li, Xiaoting. *Inseparable Separation: The Making of China's Taiwan Policy*, p. 23.

<sup>12</sup> *Ibid.*, p. 21.

<sup>13</sup> Accinelli, Robert. *Crisis and Commitment: United States Policy toward Taiwan, 1950-1955*. Chapel Hill: University of North Carolina Press, 1996, pp. 80-89.

<sup>14</sup> Bush, Richard C. *At Cross Purposes: US-Taiwan Relations since 1942*. Armonk, N.Y.: ME Sharpe 2004, pp. 92-95.

<sup>15</sup> Bush, Richard C. *Untying the Knot: Making Peace in the Taiwan Strait*. Washington: Brookings Institution Press, 2005, p. 18.

Washington's agnostic position on the ultimate political status of Taiwan was the beginning of the policy of strategic ambiguity.<sup>16</sup> As President Obama's Assistant Secretary of State for East Asian and Pacific Affairs, Kurt Campbell, pointed out, Truman's statement on the determination of Taiwan's status was primarily a political stance.<sup>17</sup>

### 7.1.2 The "unsinkable aircraft carrier": US-Taiwan ties before Sino-US rapprochement

In December 1954, the US signed a Mutual Defence Treaty with Taiwan, putting the latter under its military protection.<sup>18</sup> The US had signed a series of defence treaties with Australia, New Zealand, Japan and South Korea to contain communist expansion in Asia, forging a "Great Crescent" that "stretched in an arc from the Kurile Islands to the borders of Iran and Afghanistan".<sup>19</sup> Taiwan, described by General Douglas MacArthur as an "unsinkable aircraft carrier" in the Pacific,<sup>20</sup> became a key part of a "First Island Chain" comprising, from north to south, Japan, the Ryuku Islands, South Korea, Taiwan, the Philippines, Indonesia and Australia in the Asia-Pacific.<sup>21</sup>

As Richard Bush noted, the Washington-Taipei alliance was a case of "same bed, different dreams".<sup>22</sup> Jiang never abandoned hope of launching an attack and regaining the mainland, with US support and military assistance. But Washington's strategic interest lay in stabilising the status quo in the Taiwan Strait.<sup>23</sup> Though the US did not wish to go to war with China, especially after its Korean experiences,<sup>24</sup> it was concerned about Beijing's intentions, wishing to retain strategic flexibility.<sup>25</sup> The text of the Treaty reflected this. While it asserted unity in the face of external attack in the West Pacific, it also specified that each party

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<sup>16</sup> Tucker, Nancy Bernkopf. "Strategic Ambiguity or Strategic Clarity." *In Dangerous Strait: the US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, New York: Columbia University Press, 2005, p. 188.

<sup>17</sup> Campbell, Kurt M., and Derek J. Mitchell. "Crisis in the Taiwan Strait?" *Foreign Affairs* 80, no. 4 (2001), p. 21.

<sup>18</sup> "Mutual Defense Treaty between the United States of America and the Republic of China." (December 2, 1954), <http://www.taiwandocuments.org/mutual01.htm>. Accessed 01/08/2010. This treaty was terminated in 1980, one year after the U.S. established diplomatic relations with Mainland China. According to the treaty, the stipulations over US defence applied only to Taiwan and the Pescadores (Penghu islands), but excluded Jinmen (Quemoy) and Matsu. On the US-Taiwan alliance, see Garver, John W. *The Sino-American Alliance: Nationalist China and American Cold War Strategy in Asia*. Armonk, New York: M.E. Sharpe, 1997.

<sup>19</sup> Schaller, Michael. "Securing the Great Crescent: Occupied Japan and the Origins of Containment in Southeast Asia" *The Journal of American History* 69, no. 2 (1982): p. 392.

<sup>20</sup> Yoshihara, Toshi, and James Holmes. "Command of the Sea with Chinese Characteristics." *Orbis* 49, no. 4 (2005), p. 685

<sup>21</sup> *Ibid.*, pp. 679-83.

<sup>22</sup> Bush, Richard C. *Untying the Knot: Making Peace in the Taiwan Strait*, p. 19.

<sup>23</sup> Huang, Jing, and Li, Xiaoting. *Inseparable Separation: The Making of China's Taiwan Policy*, p. 22.

<sup>24</sup> Bush, Richard C. *Untying the Knot: Making Peace in the Taiwan Strait*, p. 21.

<sup>25</sup> Su, Ge. *US China Policy and the Taiwan Issue*. Beijing: World Affairs Press, 1998, pp. 465-66.

“would act to meet the common danger in accordance with its constitutional processes” if “an armed attack” were to occur.<sup>26</sup> This particular choice of words, as John Garver wrote, “left the US with considerable flexibility in choosing whether, when, and how to respond to a China-Taiwan military clash”.<sup>27</sup> The Treaty did not include the offshore islands of Jinmen (*Quemoy*) and Mazu (*Matsu*), but merely mentioned that the provisions of the treaty included “such other territories as may be determined by mutual agreement”.<sup>28</sup>

As discussed in Section 5.1, the US protected Taiwan during the two “cross-Strait crises” in 1954-1955 and 1958. On both occasions China eventually backed down due to US intervention.<sup>29</sup> The Treaty’s ambiguity contributed to Mao’s decision to shell Jinmen and Mazu during the Second Crisis, in order to test US determination.<sup>30</sup> Jiang resisted US pressure to evacuate troops from Jinmen and Mazu and rejected a ceasefire agreement with the mainland fearing that it was tantamount to accepting “two Chinas”.<sup>31</sup>

### 7.1.3 The Taiwan issue during rapprochement and the “golden years”

With Sino-US rapprochement in 1971 Taiwan became crucial in negotiations over establishing bilateral relations. Indicative of this change was the quiet acquiescence of the US in Taiwan’s expulsion from the United Nations and its replacement on the Security Council by China in 1971. The US accepted the “one China” policy, as demanded by Beijing, in the Joint US-China, or “Shanghai”, Communiqué in 1972.<sup>32</sup>

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<sup>26</sup> “Mutual Defense Treaty between the United States of America and the Republic of China.” (December 2, 1954), <http://www.taiwandocuments.org/mutual01.htm>.

<sup>27</sup> Garver, John W. *The Sino-American Alliance: Nationalist China and American Cold War Strategy in Asia*, p. 59.

<sup>28</sup> Mutual Defense Treaty, article 6, <http://www.taiwandocuments.org/mutual01.htm>.

<sup>29</sup> For more details about the two crises, see Sun, Yan. *Taiwan Issue in China-US Relations*. Beijing: Beijing University Press, 2009, pp. 91-113, pp. 114-47.

<sup>30</sup> Zhang, Baijia. “The Changing International Scene and Chinese Policy toward the United States.” In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, Cambridge, Mass.: Harvard University Press 2001, p. 57; Gong, Li. “Tension across the Taiwan Strait in the 1950s: Chinese Strategy and Tactics” In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Changbin Jiang, Cambridge, Mass.: Harvard University Press, 2001, p. 158.

<sup>31</sup> Huang, Jing, and Li, Xiaoting. *Inseparable Separation: The Making of China's Taiwan Policy*, p. 62.

<sup>32</sup> In the communiqué, the US declared that “it affirms the ultimate objective of the withdrawal of all US forces and military installations from Taiwan. In the meantime, it will progressively reduce its forces and military installations on Taiwan as the tension in the area diminishes.” “Joint Communiqué of the United States of America and the People's Republic of China (Shanghai Communiqué).” (February 28, 1972), <http://www.china.org.cn/english/china-us/26012.htm>. Accessed 04/08/2010.

In 1979, the US “recognize[d] the Government of the People’s Republic of China as the sole legal Government of China” and “acknowledge[d] the Chinese position that there is but one China and Taiwan is part of China” in the China-US joint communiqué on the establishment of diplomatic relations,<sup>33</sup> upon which diplomatic relations with Taiwan were terminated.

However, a pro-Taiwan lobby in the American Congress was dismayed by the apparent betrayal. It was instrumental in securing the passage through Congress of the Taiwan Relations Act (TRA) on 10 April 1979, just four months after normalisation of diplomatic relations.<sup>34</sup> The TRA legalised the continuation of non-official relations between “the people of the US and the people of Taiwan”, and provided the legal foundation for “quasi-diplomatic” relations with and defence of Taiwan.<sup>35</sup>

The Section of the TRA dealing with security demonstrated US strategic ambiguity. It stated that “any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes” would be “a threat to the peace and security of the Western Pacific area and of grave concern to the United States”. The US will provide Taiwan “with arms of a defensive character” and maintain the capacity of the US to resist any resort to force or other forms of coercion that would jeopardise the security, or the social or economic system, of the people on Taiwan”.<sup>36</sup> Nancy Bernkopf Tucker noted that the TRA neither specified US actions nor gave Congress power to initiate a military response,<sup>37</sup> allowing Washington to promulgate the “one-China” policy, at least in rhetoric, while being obligated to defend Taiwan.<sup>38</sup>

The TRA provided Taiwan with a security guarantee in the absence of the Mutual Defence Treaty which ended a year after normalisation of relations. Congress was concerned that

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<sup>33</sup> "Joint Communiqué on the Establishment of Diplomatic Relations between the People's Republic of China and the United States of America." (January 1, 1979), <http://www.china.org.cn/english/china-us/26243.htm>. Accessed 04/08/2010.

<sup>34</sup> Su, Ge. *US China Policy and the Taiwan Issue*, pp. 467-72.

<sup>35</sup> *Ibid.*; also see "Taiwan Relations Act." (April 10, 1979), <http://www.taiwandocuments.org/tra01.htm>. Accessed 04/08/2010.

<sup>36</sup> "Taiwan Relations Act." Section 2.

<sup>37</sup> Tucker, Nancy Bernkopf. "Strategic Ambiguity or Strategic Clarity." *In Dangerous Strait: the US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, New York: Columbia University Press, 2005, p. 193.

<sup>38</sup> The defence article in the TRA stated that the US implemented the following policy with regard to Taiwan: (a) Defence articles and services. (b) Determination of Taiwan's defence needs. (c) United States response to threats to Taiwan or dangers to United States interests. See "Taiwan Relations Act." (April 10, 1979), <http://www.taiwandocuments.org/tra01.htm>.

China might take over Taiwan by force.<sup>39</sup> Richard Bush, Director of the American Institute in Taiwan, the unofficial organisation carrying out the rough equivalent of diplomatic institutional links after 1979, wrote that the TRA was “the mandate to preserve the status quo regarding Taiwan’s place in US law”.<sup>40</sup>

President Reagan continued Washington’s strategic ambiguity towards Taiwan, proposing “Six Assurances” as guidelines for US “non-official” relations, especially arms sales,<sup>41</sup> but just before the Third Joint Sino-US Communiqué in 1982 he agreed to reduce US arms sales.<sup>42</sup> This “diplomatic contradiction” was another reflection of “strategic ambiguity” in the “dual track policy” of maintaining diplomatic relations with China concurrently with non-official relations with Taiwan.<sup>43</sup> Nonetheless, Reagan dealt cautiously with arms sales to Taiwan, without troubling Sino-US relations, in large measure because they counterbalanced Soviet influence. But once this strategic consideration was removed following the disintegration of the Soviet Union, Taiwan became a “strategic chip” in Sino-US relations.

#### 7.1.4 The renewal of the Taiwan issue in response to China’s rise

With the breakup of the Soviet Union President Bush (Senior) began to chart a “new world order” as the basis for the US’s post-Cold War global strategy,<sup>44</sup> while victory in the First Gulf War in 1991 demonstrated US military supremacy and established it as the sole

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<sup>39</sup> Su, Ge. *US China Policy and the Taiwan Issue*, p. 467.

<sup>40</sup> Bush, Richard C. "Thoughts on the Taiwan Relations Act." (2009), [http://www.brookings.edu/opinions/2009/04\\_taiwan\\_bush.aspx](http://www.brookings.edu/opinions/2009/04_taiwan_bush.aspx). Accessed 03/05/2011.

<sup>41</sup> The Six Assurances are “a)The United States would not set a date for ending arms sales to the Republic of China (ROC); b)The United States would not hold prior consultations with the People’s Republic of China regarding arms sales to the ROC; c)The United States would not play a mediation role between the PRC and the ROC; d)The United States would not revise the *Taiwan Relations Act*; e)The United States would not alter its position regarding sovereignty over Taiwan and f) the United States would not exert pressure on the ROC to enter into negotiations with the PRC.” See “The “Six Assurances” To Taiwan.” (July 1982), <http://www.taiwandocuments.org/assurances.htm>. Accessed 04/08/2010.

<sup>42</sup> In the Joint Communiqués (August 17, 1982) ‘the United States Government states that it does not seek to carry out a long-term policy of arms sales to Taiwan, that its arms sales to Taiwan will not exceed, either in qualitative or in quantitative terms, the level of those supplied in recent years since the establishment of diplomatic relations between the United States and China, and that it intends gradually to reduce its sale of arms to Taiwan, leading, over a period of time, to a final resolution.’ “Joint Communiqué between the People’s Republic of China and the United States of America (China-US August 17 Communiqué).” (August 17, 1982 ), <http://www.china.org.cn/english/china-us/26244.htm>. Accessed 04/08/2010.

<sup>43</sup> Zhou, Zhongfei. *The International Background of Taiwan Independence*. Beijing: Jiuzhou Press, 2009, pp. 120-21.

<sup>44</sup> Bush, George. "Address before a Joint Session of the Congress on the Persian Gulf Crisis and the Federal Budget Deficit." (September 11, 1990), [http://bushlibrary.tamu.edu/research/public\\_papers.php?id=2217&year=1990&month=9](http://bushlibrary.tamu.edu/research/public_papers.php?id=2217&year=1990&month=9). Accessed 09/07/2010.

superpower.<sup>45</sup> With the demise of the “common enemy”, US Taiwan policy went through a cycle of adjustment, as discussed in chapter 5, coinciding with the “China Threat” debate. The Taiwan issue re-emerged subsequently as a potential means for the US to “contain” a rising China.

The 1990s witnessed the development of “substantive” relations between the US and Taiwan. In the eyes of Chinese analysts, after President Clinton was elected in 1992, the US upgraded relations with Taiwan in three ways. First, the joint communiqué with China, or the 8.17 Communiqué, did not prevent the US from committing to Taiwan’s defence. The TRA took precedence over the 8.17 Communiqué, it was argued, because the former was a US domestic law while the latter was merely a policy statement.<sup>46</sup> Second, the US policy adjustment allowed Taiwan to expand its “international space”.<sup>47</sup> Third, the US government permitted Lee Teng-hui’s visit to Cornell University in 1995. This was seen by the Chinese government as deliberate interference in its domestic affairs, a violation of the principles of the three communiqués on which China-US relations were based, and implying US acceptance of “two Chinas”. It protested strongly, declaring that “for the Chinese people who have stood up, there is nothing more important than national sovereignty and unification, the Chinese government and Chinese people are prepared for any challenges”.<sup>48</sup>

Ensuing diplomatic tensions triggered the Third Cross-Strait Crisis in 1996. The PLA conducted a series of military exercises in coastal areas near the Taiwan Strait, to which the US sent two aircraft carrier battle groups in 1996 to “watch the situation”.<sup>49</sup> As one Chinese scholar interpreted it, on the one hand, the US military presence was a signal that it would not remain neutral in a cross-Strait clash; on the other hand, the US would not protect Taiwan if it provoked unilateral action.<sup>50</sup>

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<sup>45</sup> Liu, Huangqing. *The Memoirs of Liu Huangqing*. Beijing: Liberation Army Press, 2004, pp. 606-08.

<sup>46</sup> Article in *People’s Daily*, April 29, 1994, quoted in Zhou, Zhongfei. *The International Background of Taiwan Independence*, p. 121.

<sup>47</sup> *Ibid.*, p. 154.

<sup>48</sup> Comments in *People’s Daily*, May 24, 1995, quoted in *Ibid.*, p. 24.

<sup>49</sup> For the decision to deploy two aircraft carrier battle groups to the Taiwan area during the crisis, see Tucker, Nancy Bernkopf, ed. *China Confidential: American Diplomats and Sino-American Relations, 1945-1996*. New York: Columbia University Press, 2001, pp. 482-90.

<sup>50</sup> Guo, Jianping. *The Study on US-Taiwan Relations, Japan-Taiwan Relations, EU-Taiwan Relations in Post Cold War Era*. Beijing: Jiuzhou Press, 2009, pp. 26-27.

President Clinton's strategic ambiguity exhibited a dilemma. The US did not want confrontation nor wish to see China take over Taiwan. In order to prevent either outcome, the US sought to balance the "one China" policy, which reassured Beijing, with strengthening deterrence by assisting Taiwan's defence capabilities.<sup>51</sup>

For US policymakers, the Third Taiwan Crisis was a turning point in US-Taiwan security cooperation because Washington realised it knew very little about the capabilities of the Taiwanese armed forces.<sup>52</sup> In addition, China's military modernisation contributed to the US resolve to strengthen Washington-Taipei military coordination.<sup>53</sup> After 1997, the Clinton Administration undertook "software" initiatives including discussions over strategy, training, logistics, command and control and plans in the event of an attack from China.<sup>54</sup> The purpose of these initiatives was to enable Taiwan to integrate and employ more effectively arms purchased from the US.<sup>55</sup> For the US a solution to the security dilemma was to gradually shift the burden for Taiwan's defence onto Taiwan itself.

During the second Clinton Presidency, in realisation of the sensitivity of the Taiwan issue, policy shifted from "full" to "limited involvement",<sup>56</sup> behind which lay improvements in bilateral relations, leading to the establishment of a "constructive strategic partnership" with China. President Clinton reiterated the "one China" policy during his visit to Beijing in 1998, giving assurances that the US was opposed to a two-China policy, Taiwanese independence, and Taiwanese membership of the United Nations and other international organisations. This is known as the "three No's" policy.<sup>57</sup> The US feared that a rise in support for Taiwanese independence, promoted by Taiwan's Democratic Progressive Party (DPP),

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<sup>51</sup> Chase, Michael S. "US-Taiwan Security Cooperation: Enhancing an Unofficial Relationship." In *Dangerous Strait: The US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, New York: Columbia University Press, 2005, p. 170.

<sup>52</sup> Campbell, Kurt M., and Derek J. Mitchell. "Crisis in the Taiwan Strait?" *Foreign Affairs* 80, no. 4 (2001), pp. 14-25; Pomfret, John. "In Fact and in Tone, US Expresses New Fondness for Taiwan." *The Washington Post* (April 30, 2002), <http://www.washingtonpost.com/ac2/wp-dyn?pagename=article&node=&contentId=A4982-2002Apr29&notFound=true>. Accessed 28/09/2010.

<sup>53</sup> Goldstein, Steven M., and Randall Schriver. "An Uncertain Relationship: The United States, Taiwan and the Taiwan Relations Act." *The China Quarterly*, no. 165 (2001), p. 166.

<sup>54</sup> Chase, Michael S. "US-Taiwan Security Cooperation: Enhancing an Unofficial Relationship." In *Dangerous Strait: The US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, p. 167.

<sup>55</sup> Kan, Shirley A. "Taiwan: Major U.S. Arms Sales since 1990." *CRS Report for Congress, RL30957* (Updated September 16, 2003), pp. 2-3.

<sup>56</sup> Tao, Wenzhao. *American China Policy in Post-Cold War Era*. Chongqing: Chongqing Publishing House, 2006, p. 94.

<sup>57</sup> Xinhua News Agency. "President Re-Stated US's 'Three No's Policy on Taiwan Issue." (June 30, 1998), <http://www.people.com.cn/GB/shizheng/252/7429/7437/20020210/667811.html>. Accessed 08/08/2010.



further complicated cross-Strait relations, already strained by Lee Teng-hui's "two Chinas" posture. The US promoted cross-Strait peace talks in the hope of minimising the possibility of a military clash that would drag the US into a war with China.<sup>58</sup>

In short, the Clinton Administration's Taiwan policy was marked by continuing strategic ambiguity. The initial attempt was to contain China's challenge by adjusting Washington's unofficial relations with Taiwan. After the 1995-1996 Crisis, the US government recognised that armed confrontation was a real danger, and that a better strategy was to detach from Taiwan while equipping it for self-defence.<sup>59</sup>

Strategic ambiguity temporarily gave way to "explicit clarity" during the early days of George W Bush's presidency in 2001.<sup>60</sup> Condoleezza Rice, National Security Advisor in the first Bush administration and Secretary of State in the second, argued in 2000 that "China is a great power with unresolved vital interests" which "would like to alter Asia's balance of power in its own favour", concluding "that alone makes it a strategic competitor, not a strategic partner".<sup>61</sup> She stressed that the US should pursue cooperation with China, but "should never be afraid to confront Beijing when our interests collide".<sup>62</sup> According to Rice, China's vital interests concerning the Taiwan issue "collided" with "the US's deep interest in the security of Taiwan".

Having positioned China as a strategic competitor, the Bush Administration's commitment to the "one-China" policy tilted substantially towards Taiwan. First, the US government lifted restrictions on official visits from Taiwan at the governmental level, permitting Chen Shui-bian "transit" through the US on a trip to Central and South America.<sup>63</sup> Second, Washington supported Taiwan's membership as an observer of the World Health Organisation, for which statehood was a requirement. This was seen as a violation of the "three No's" policy articulated by President Clinton.<sup>64</sup> Third, President Bush made a clear commitment to Taiwan's security in a TV interview, stating that the US would "do whatever

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<sup>58</sup> Tao, Wenzhao. *American China Policy in Post-Cold War Era*, p. 94.

<sup>59</sup> Chase, Michael S. "US-Taiwan Security Cooperation: Enhancing an Unofficial Relationship." In *Dangerous Strait: The US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, p. 167.

<sup>60</sup> Tucker, Nancy Bernkopf. "Strategic Ambiguity or Strategic Clarity." In *Dangerous Strait: the US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, pp. 201-02.

<sup>61</sup> Rice, Condoleezza. "Promoting National Interest" *Foreign Affairs* 79, no. 1 (2000), p. 56.

<sup>62</sup> *Ibid.*

<sup>63</sup> Sun, Yan. *Taiwan Issue in China-US Relations*, p. 309.

<sup>64</sup> *Ibid.*, p. 311.

it takes to defend Taiwan".<sup>65</sup> Fourth, in April 2001, President Bush approved a major \$4b arms package, the largest since 1992, when President Bush Senior approved the sale of 150 F-16 jet fighters.<sup>66</sup> He also declared that the US would deal with future requests for arms on an "as-needed" basis, departing from the previous process of holding annual "pre-talks".<sup>67</sup>

The terror attacks of 11 September 2001 changed US foreign and security policies. The Bush administration concluded that it was necessary for the US to form a global coalition to fight a war on terror with as many allies as possible.<sup>68</sup> It shifted policy on China, emphasising the importance of stabilising and developing relations. President Bush stated that "the United States seeks a constructive relationship with a changing China",<sup>69</sup> attending the APEC leaders' summit in Shanghai in November and meeting with Jiang Zemin. President Bush officially described Sino-American relations as "constructive cooperation" and restated the "one-China policy" when he met President Hu Jintao at the 2004 APEC summit, affirming US commitment to the terms of the three joint communiqués.<sup>70</sup>

As the US sought Chinese cooperation in the war on terror, it was more cautious in dealing with the Taiwan issue. President Bush came out strongly in support of maintaining the status quo,<sup>71</sup> while Chen Shui-bian's promotion of Taiwan Independence after 2000 was described as "the biggest landmine" in China-US relations.<sup>72</sup> In December 2003 Bush declared publicly that the US opposed "any unilateral decision by either China or Taiwan to change the status quo" and rebuked Chen Shui-bian's referendum plans, stating that "the comments and actions made by the leader of Taiwan indicate that he may be willing to

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<sup>65</sup> Wallace, Kelly. "Bush Pledges Whatever It Takes to Defend Taiwan." (April 25, 2001), <http://archives.cnn.com/2001/ALLPOLITICS/04/24/bush.taiwan.abc>. Accessed 08/08/2010.

<sup>66</sup> Kan, Shirley A. "Taiwan: Major U.S. Arms Sales since 1990." *CRS Report for Congress, RL30957* (Updated September 16, 2003), pp. 5-6.

<sup>67</sup> For the US old process of arms sales to Taiwan, see Chase, Michael S. "US-Taiwan Security Cooperation: Enhancing an Unofficial Relationship." In *Dangerous Strait: The US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, pp. 171-73.

<sup>68</sup> US National Security Council. "The National Security Strategy of the United States." (2002), <http://georgewbush-whitehouse.archives.gov/nsc/nss/2002/nss.pdf>. Accessed 10/08/2010.

<sup>69</sup> *Ibid.*

<sup>70</sup> Xinhua News Agency. "President Hu Jintao Meets with US President Bush." (November 21, 2004), <http://news.sina.com.cn/c/2004-11-21/02154981863.shtml>. Accessed 10/08/2010.

<sup>71</sup> Tucker, Nancy Bernkopf. "Strategic Ambiguity or Strategic Clarity." In *Dangerous Strait: the US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, pp. 203-04.

<sup>72</sup> "Armitage: US Not Required to Defend Taiwan." *China Daily* (December 23, 2004), [http://www.chinadaily.com.cn/english/doc/2004-12/23/content\\_402713.htm](http://www.chinadaily.com.cn/english/doc/2004-12/23/content_402713.htm). Accessed 10/08/2010.

make decisions unilaterally to change the status quo, which we oppose".<sup>73</sup> He later reiterated his opposition when meeting Hu Jintao in 2004.<sup>74</sup>

The new approach can again be regarded as adhering to strategic ambiguity, as it was not made clear what actions the US would take in case either side were to act "unilaterally". This was also demonstrated in the remarks of US Deputy Secretary of State Richard Armitage, when asked "if the United States would defend Taiwan if a war breaks out", to which he replied, "we are not required to defend" and "we all agree that there is but one China, and Taiwan is part of China".<sup>75</sup>

President Bush continued Clinton's policy of better equipping Taiwan to defend itself. From the late 1980s, Taiwan was ranked consistently as the US's second or third largest arms purchaser and the single largest customer in Asia.<sup>76</sup> From 2002-08 it was the fourth largest.<sup>77</sup> Between 1990 and 2009, arms sales were about \$24b,<sup>78</sup> exceeding the level specified in the 8.17 Joint Communiqué. The US hoped to ensure that Taiwan's military would "match" China's and allow it to "defend" itself in a cross-Strait confrontation.<sup>79</sup>

### 7.1.5 Maintaining the cross-Strait status quo - the American stake

In his opening remarks to the first US-China Strategic and Economic Dialogue in Washington in July 2009, President Obama quoted Mengzi when committing the US to "sustained

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<sup>73</sup> "President Bush and Premier Wen Jiabao's Remarks to the Press." *Remarks by President Bush and Premier Wen Jiabao in Photo Opportunity* (December 9, 2003), <http://georgewbush-whitehouse.archives.gov/news/releases/2003/12/print/20031209-2.html>. Accessed 06/07/2010.

<sup>74</sup> "President Bush and Premier Wen Jiabao's Remarks to the Press-Remarks by President Bush and Premier Wen Jiabao in Photo Opportunity." (December 9, 2003), <http://georgewbush-whitehouse.archives.gov/news/releases/2003/12/print/20031209-2.html>.

<sup>75</sup> Armitage said that the "Taiwan Relations Act" required the United States to keep sufficient force in the Pacific to be able to deter attack, but "we are not required to defend. And these are questions that actually reside with the U.S. Congress, which has to declare an act of war." See "Armitage: US Not Required to Defend Taiwan." *China Daily* (December 23, 2004), [http://www.chinadaily.com.cn/english/doc/2004-12/23/content\\_402713.htm](http://www.chinadaily.com.cn/english/doc/2004-12/23/content_402713.htm).

<sup>76</sup> Goldstein, Steven M., and Randall Schriver. "An Uncertain Relationship: The United States, Taiwan and the Taiwan Relations Act." *The China Quarterly*, no. 165 (2001), p. 162.

<sup>77</sup> Kan, Shirley A. "Taiwan: Major U.S. Arms Sales since 1990." *CRS Report for Congress, RL30957* (June 3, 2011), pp. 1-2.

<sup>78</sup> *Ibid.*, pp. 65-68, Table 2.

<sup>79</sup> *Ibid.*, pp. 2-5.

cooperation, not confrontation".<sup>80</sup> It needed China's cooperation on issues such as terrorism, energy, climate change, nuclear proliferation and North Korea.

I argued in this section that, for as long as there was the threat of a Chinese military takeover of Taiwan, the US sought to create uncertainty over what role, if any, it would take. While the US maintained good relations with China, it could not be seen to desert Taiwan.<sup>81</sup> At the least, doing so would cause the US to lose credibility abroad and incense the domestic pro-Taiwan lobby. Thus, the interests of the US were served best by a continuation of the status quo; no unilateral declaration of independence by Taiwan and no increase in China's power through reunification.<sup>82</sup> This option seemed to provide the US with its best chance of maintaining positive political and economic relations with China, as well as political and military primacy in East Asia.

The situation in the Taiwan Strait was complicated somewhat for the US by the advent of Taiwanese democracy, which raised the spectre of a unilateral declaration of independence that the US would find difficult to oppose. Taiwan's democratisation started in the early 1990s, and the US had to support it given they had shared "a common strategic perspective" for four decades.<sup>83</sup> Richard Bush argued, however, that Taiwan's democratisation complicated this common perspective, as it "ended past constraints on expression of a Taiwan identity and on new ideas about how best to guarantee the island's future".<sup>84</sup> In Bush's view, the shared perspective depended always on the premise that there was no fundamental contradiction between Taiwanese democracy and US interests.<sup>85</sup>

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<sup>80</sup> In his speech, he quoted Meng Zi as follows: "Thousands of years ago, the great philosopher Mencius (Meng Zi) said: "A trail through the mountains, if used, becomes a path in a short time, but, if unused, becomes blocked by grass in an equally short time." Our task is to forge a path to the future that we seek for our children-to prevent mistrust or the inevitable differences of the moment from allowing that trail to be blocked by grass; to always be mindful of the journey that we are undertaking together. See Office of the Press Secretary, The White House. "Remarks by the President at the US-China Economic and Strategic Dialogue." (July 27, 2009), [http://www.whitehouse.gov/the\\_press\\_office/Remarks-by-the-President-at-the-US/China-Strategic-and-Economic-Dialogue](http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-at-the-US/China-Strategic-and-Economic-Dialogue). Accessed 05/08/2009.

<sup>81</sup> Ross, Robert S. "From Denial to Leadership: The Clinton Administration and China " In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming. Yuan and Tanaka Akihiko, Cambridge, Mass.: Harvard University Asia Center, 2004, pp. 125-55.

<sup>82</sup> Yang, Jiemian. "The Bush Administration's Taiwan Policy: Evolution and Trends." *American Foreign Policy Interests*, no. 24 (2002), p. 150.

<sup>83</sup> Bush, Richard C. "Thoughts on the Taiwan Relations Act." (2009), [http://www.brookings.edu/opinions/2009/04\\_taiwan\\_bush.aspx](http://www.brookings.edu/opinions/2009/04_taiwan_bush.aspx).

<sup>84</sup> *Ibid.*

<sup>85</sup> Bush, Richard C. "U.S.-Taiwan Relations: What's the Problem?" (2007), [http://www.brookings.edu/speeches/2007/1203\\_taiwan\\_bush.aspx](http://www.brookings.edu/speeches/2007/1203_taiwan_bush.aspx). Accessed 11/08/2010.

If Taiwan's pursuit of independence as a democratic state put the US at risk of becoming involved in war with China, the interest in avoiding such a war would have to override its rhetorical commitment to democracy.

## 7.2 From confrontation to peaceful and stable development: China's Taiwan policy

In China's eyes, Taiwan was "part of China" and "China's internal affair", but in practice, it was never dealt with as such. Rather, it was a Cold-War legacy linked inextricably to US strategic interests. Over sixty years, China's policy toward Taiwan underwent a number of shifts; from liberation to peaceful reunification, to peaceful and stable development. Taiwan's democratisation process, which produced calls for independence after the 1990s, made reunification either by peaceful or non-peaceful means more complicated.

In this section, I show how China's policy towards Taiwan was increasingly more conciliatory after the 1950s, despite the Cold War, until the early 2000s, at which point it became more pragmatic. I consider the implications of Taiwanese independence aspirations for China's reunification aspirations, arguing that China also faced a security dilemma: it tried to avoid direct confrontation with the US while adopting policy flexibility by refusing to renounce the use of force as a last resort if *de jure* independence was pursued. The reluctant policy choice was cooperation with the US to maintain the status quo by preventing Taiwanese independence. As a result, China placed its hopes on peaceful reunification, partly on the presumption that, as economic ties grew ever stronger, it became easier for Taiwan to accept reunification. China worked to enhance economic relations while continuing dialogue, in particular with the KMT, which opposed independence.

### 7.2.1 From Mao Zedong's confrontation to Deng Xiaoping's peaceful reunification

#### 7.2.1.1 Peaceful reunification under "one country, two systems"

During the Cold War, China's policy toward Taiwan took a confrontational stance, with the goal of "liberation" through violent revolution.<sup>86</sup> However, the two attempts to militarily

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<sup>86</sup> For China's Taiwan policy during Mao's era, see Goldstein, Steven M. "Terms of Engagement: Taiwan's Mainland Policy." In *Engaging China: The Management of an Emerging Power*, edited by Alastair Iain Johnston and Robert S. Ross, New York: Routledge, 1999, pp. 57–86; Gong, Li. "Tension across the Taiwan Strait in the 1950s: Chinese Strategy and Tactics." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited

“test the waters” during the 1950s failed.<sup>87</sup> Early efforts at “peaceful liberation” were through either the establishment of direct links between Beijing and Taipei, or reunification based on Taiwan’s acceptance of the principle that its sovereignty belonged to the mainland, in exchange for keeping its own political and economic systems.<sup>88</sup> Beijing referred to Jiang’s regime as *Jiangbang* (the Jiang Jieshi Clique), while Taipei ridiculed Mao’s government as *gongfei* (communist bandits).<sup>89</sup>

It cannot be stressed highly enough that, though Mao and Jiang were political enemies, they insisted on the “one China” principle and opposed Taiwanese independence, despite US attempts to create “two Chinas”.<sup>90</sup> The difference lay in their opposite interpretations of “one China”. Each sought unification under their rule.<sup>91</sup> Mao tried to liberate Taiwan while Jiang’s ambition was to recover the mainland,<sup>92</sup> though neither side, as discussed in section 7.1.2, succeeded as a result of the US intervention.

A significant change in China’s Taiwan policy took place in 1979, when Beijing formally shifted from a policy of confrontation to a policy of “peaceful reunification” through negotiation. China declared an end to the bombardment of Jinmen and other islands.<sup>93</sup> Deng Xiaoping indentified “reunification of Taiwan with Mainland China” as one of the three main tasks to be accomplished by China in the 1980s.<sup>94</sup> The shift was the logical

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by Robert S. Ross and Jiang, Changbin, Cambridge, Mass.: Harvard University Press, 2001, pp. 141-72; Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, pp. 44-87.

<sup>87</sup> Gong, Li. "Tension across the Taiwan Strait in the 1950s: Chinese Strategy and Tactics." In *Re-Examining the Cold War: US-China Diplomacy, 1954-1973*, edited by Robert S. Ross and Jiang, Changbin, pp. 141-72.

<sup>88</sup> Sun, Yan. *Taiwan Issue in China-US Relations*, pp. 162-69; Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, pp. 44-87.

<sup>89</sup> Zhao, Suisheng. "Economic Interdependence and Political Divergence: A Background Analysis of the Taiwan Strait Crisis." In *Across the Taiwan Strait: Mainland China, Taiwan, and the 1995-1996 Crisis*, edited by Suisheng Zhao, New York: Routledge, 1999, p. 22.

<sup>90</sup> *Ibid.*, pp. 114-68; Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, pp. 22-88.

<sup>91</sup> In 1950s, the US was intended to separate Taiwan from Mainland China three times. But ‘Taiwan independence’ was denied by Jiang Jieshi. Xie, Liping. "‘One China’: The Same Thought of Mao Zedong and Jiang Jieshi."

<http://cpc.people.com.cn/GB/64162/64172/64915/4627019.html>. Accessed 10/01/2010.

<sup>92</sup> See Goldstein, Steven M. "Terms of Engagement: Taiwan's Mainland Policy." In *Engaging China: The Management of an Emerging Power*, edited by Alastair Iain Johnston and Robert S. Ross, New York: Routledge, 1999, p. 58; Wu, Xinbo. "The Analysis of China-US Consensus on Taiwan Issue." *Journal of Asia-Pacific Studies*, no. 2 (2000), pp. 62-64.

<sup>93</sup> The Chinese government issued a message to Taiwan on January 1, 1979, see "The Message to Compatriots in Taiwan." (January 1, 1979),

[http://news.xinhuanet.com/ziliao/2003-01/23/content\\_704733.htm](http://news.xinhuanet.com/ziliao/2003-01/23/content_704733.htm). Accessed 01/07/2010.

<sup>94</sup> Deng, Xiaoping. *Selected Works of Deng Xiaoping*. Vol. 2. Beijing: People’s Publishing House, 1984, p. 204.

consequence of normalisation of Sino-US relations and economic reform.<sup>95</sup> As Michael Swaine argued, the former led to Washington's articulation of the "one China" policy while the latter required the development of a peaceful and stable external environment, including amicable relations with the major powers and its Asian neighbours, including Taiwan.<sup>96</sup>

The Chinese government issued *the Message to Compatriots in Taiwan* on 1 January 1979.<sup>97</sup> It contained 3 elements. First, reunification should occur under the framework of "one country, two systems". Second, hope rested on establishing three links (mail, flights, and visits) to facilitate people-to-people contacts. Third, talks should be conducted between the KMT and Communist Party. On 1 October 1981, a nine-point policy towards Taiwan was articulated by Marshal Ye Jianying, specifically suggesting *sangtong* (commercial, postal and travel links) and *silu* (academic, cultural, economic and athletic exchanges).<sup>98</sup>

Deng's Taiwan policy reflected his pragmatism in pursuing a gradual process of cross-strait reconciliation through the expansion of political contacts, economic integration and people-to-people exchanges.<sup>99</sup> Under the "one country, two systems" framework, relations were akin to a central and local government with a high degree of autonomy, with the "central government" holding sovereignty.<sup>100</sup>

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<sup>95</sup> Yuan, Zheng. "China in a Dilemma: The Threat of Economic Sanction Can Not Solve the Problem of US's Arms Sale to Taiwan." (2010), [http://ias.cass.cn/show/show\\_project\\_ls.asp?id=1358](http://ias.cass.cn/show/show_project_ls.asp?id=1358). Accessed 15/01/2011.

<sup>96</sup> Swaine, Michael D. "Chinese Decision-Making Regarding Taiwan, 1979-2000." In *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*, edited by David M. Lampton, Stanford, Calif.: Stanford University Press, 2001, pp. 311-12.

<sup>97</sup> "The Message to Compatriots in Taiwan." (January 1, 1979), [http://news.xinhuanet.com/ziliao/2003-01/23/content\\_704733.htm](http://news.xinhuanet.com/ziliao/2003-01/23/content_704733.htm).

<sup>98</sup> The nine points of the proposal were: 1) the CCP and KMT should hold talks on an equal footing to bring about reunification; 2) the two sides should establish three links and other forms of cross-strait exchange; 3) Taiwan could enjoy a high degree of autonomy as a special administrative region and retain its own armed forces; 4) Taiwan could remain its existing social economic system; 5) Taiwanese leaders and social elites could take up national leadership posts and participate in the running of the state; 6) the central government could subsidise Taiwan in the event that Taiwan would experience financial difficulties; 7) Taiwan's business people were most welcome to invest in the mainland, and their rights and interests would be protected; 8) Taiwanese people would be welcome to settle on the mainland; 9) Taiwanese people would be welcome to make proposals and suggestions regarding the issue of national reunification. See "Ye Jianying Raises a Nine-Point Peace Proposal". *People's Daily* (October 1, 1981), <http://tw.people.com.cn/GB/26741/139936/139938/8427757.html>. Accessed 01/07/2010.

<sup>99</sup> Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, pp. 114-15.

<sup>100</sup> "Ye Jianying Raises a Nine-Point Peace Proposal". *People's Daily* (October 1, 1981), <http://tw.people.com.cn/GB/26741/139936/139938/8427757.html>; Deng, Xiaoping. *Selected Works of Deng Xiaoping*. Vol. 3. Beijing: People's Publishing House, 1993, pp. 30-31.

Both the message and proposal were received negatively. KMT leaders affirmed the policy of “no contact, no negotiation and no compromise”.<sup>101</sup> For Taipei, the only way to reunify China was for Beijing to “renounce communism and adopt the KMT’s Three People’s Principles (*minzu, minquan* and *minsheng*: nationalism, democracy and people’s livelihood) instead”.<sup>102</sup> The Chinese government attempted to promote CCP-KMT talks through various channels, but to no avail.<sup>103</sup> Jiang Jinguo’s (Jiang Jieshi’s son) government faced two different kinds of pressure in the early 1980s: First, from Washington for political democratisation; and secondly, from Taiwan’s business community who asked the government to allow it to trade and invest in the mainland.<sup>104</sup> In 1987, the KMT government ended martial law and allowed residents to travel to the mainland to visit their hometowns and relatives.<sup>105</sup>

Cross-strait economic interaction began in the mid-1980s when the Chinese government established four Special Economic Zones in Fujian and Guangdong Provinces. In order to maintain the competitiveness of their products Taiwan’s manufacturing industries began to relocate to Southern China to take advantage of its cheap labour and land.<sup>106</sup> Taiwanese FDI in the late 1980s was dominated by labour-intensive small and medium-sized enterprises, while cross-strait bilateral trade increased quickly. According to Taiwanese statistics, exports to China in 1990 accounted for 6.54% of total exports and 8.2% of China’s total imports, rising to 12.95% and 13.09% respectively in 1992.<sup>107</sup> In 1992, Taiwan’s investment in China was 21.8% of total FDI.<sup>108</sup> Chinese statistics show that Taiwanese FDI was 9.5% of total FDI during the same year.<sup>109</sup>

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<sup>101</sup> Lee, Lai To. *The Reunification of China: PRC-Taiwan Relations in Flux*. New York: Praeger, 1991, p. 38.

<sup>102</sup> *Ibid.*, pp. 39-40.

<sup>103</sup> Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, pp. 126-39.

<sup>104</sup> Bush, Richard C. *Untying the Knot: Making Peace in the Taiwan Strait*, p. 41.

<sup>105</sup> Lee, Lai To. *The Reunification of China: PRC-Taiwan Relations in Flux*, pp. 46-47.

<sup>106</sup> Naughton, Barry, ed. *The China Circle: Economics and Technology in the PRC, Taiwan and Hong Kong*. Washington: Brookings Institution Press, 1997; Brick, Andrew B. "The Emergence of Greater China: The Diaspora Ascendant." (1992), [www.policyarchive.org/handle/10207/bitstreams/12770.pdf](http://www.policyarchive.org/handle/10207/bitstreams/12770.pdf). Accessed 09/06/2009.

<sup>107</sup> Cheng, Tun-jen. "China-Taiwan Economic Linkage: Between Insulation and Superconductivity." In *Dangerous Strait: The US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, New York: Columbia University Press, 2005, p. 96, Table 5.1.

<sup>108</sup> *Ibid.*, p. 99, Table 5.3.

<sup>109</sup> The statistics come from the Taiwan Affairs Office of the State Council, [http://www.gwytb.gov.cn/lajm/lajm/201101/t20110121\\_1718208.htm](http://www.gwytb.gov.cn/lajm/lajm/201101/t20110121_1718208.htm),



Beijing actively promoted cross-strait economic cooperation to facilitate political cooperation.<sup>110</sup> In April 1990, President Yang Shangkun stated that “we should promote political integration through the economy, compel the Taiwan authorities to talk with us by manipulating the Taiwanese people’s opinions, and lead exchanges between the two sides in a direction favourable to the reunification of the motherland” .<sup>111</sup>

After Lee Teng-hui succeeded Jiang Jinguo as President and was re-elected in 1990, he presented a new proposal for bilateral communication and exchange, with three preconditions: Beijing should implement democracy, renounce the use of force, and stop interfering in Taiwan’s conduct of foreign relations.<sup>112</sup> Though all three were politically unacceptable, Beijing nonetheless recognised the possibility of progress since this was the first time that Taiwan had presented ideas for negotiations.<sup>113</sup> Both sides subsequently set up institutional structures to conduct cross-strait relations. In late 1990 and early 1991, the KMT government established a three-tier structure: the National Unification Council (NUC), the Mainland Affairs Council and the Straits Exchange Foundation (SEF). China established the Taiwan Affairs Office and the Association for Relations across the Taiwan Straits (ARATS) in 1991.<sup>114</sup>

In 1992, the first meeting between ARATS and SEF was held in Beijing, resulting in the “1992 Consensus” which adhered to the “one-China” principle, but outlined their respective understanding, or “one China, different interpretations”, of the principle.<sup>115</sup> For Beijing, the one China principle meant that Taiwan was a part of the People’s Republic, while for Taipei, it understood “one China to be the Republic of China, which was founded in 1912 and holds de jure sovereignty over all of China, but currently has jurisdiction only over Taiwan,

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<sup>110</sup> Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, pp. 171-72.

<sup>111</sup> Zhao, Suisheng. "Economic Interdependence and Political Divergence: A Background Analysis of the Taiwan Strait Crisis." In *Across the Taiwan Strait: Mainland China, Taiwan, and the 1995-1996 Crisis* edited by Suisheng Zhao, New York: Routledge, 1999, p. 27.

<sup>112</sup> Bush, Richard C. *Untying the Knot: Making Peace in the Taiwan Strait*, pp. 24-25.

<sup>113</sup> Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, pp. 143-44.

<sup>114</sup> Bush, Richard C. "Lee Teng-Hui and "Separatism"." In *Dangerous Strait: The US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, New York: Columbia University Press, 2005, pp. 75-76.

<sup>115</sup> For details about the first ARATS-SEF meeting and the negotiating process of the consensus, see Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, pp. 153-60; "Backgrounder: "1992 Consensus" On "One-China" Principle." (2004), [http://english.people.com.cn/200410/13/eng20041013\\_160081.html](http://english.people.com.cn/200410/13/eng20041013_160081.html). Accessed 21/08/2010.

Penghu, Kinmen, Matsu".<sup>116</sup> By agreeing to disagree, Wang Daohan, chairman of ARATS and his counterpart, Koo Chen-fu, chairman of SEF, were able to hold an historic first meeting in Singapore in April 1993.<sup>117</sup>

It seemed to Beijing that the Wang-Koo, or ARATS-SEF, meeting was positive because the two sides at least agreed on "one China", leaving the door open for further negotiation.<sup>118</sup> Beijing reaffirmed that it would not seek to change the cross-strait status quo as long as Taipei continued to endorse the one China principle.<sup>119</sup>

## 7.2.2 Jiang Zemin's eight-point proposal

Jiang Zemin became General Secretary of the CCP immediately after the 1989 Tiananmen Incident. From 1989 to 1992, the new leadership confronted several challenges posed by a changing international environment. As discussed in chapter 3, the G7 countries imposed economic sanctions after Tiananmen, isolating China internationally. With the collapse of the Soviet Union in 1991, China's leaders were vigilant of western pressure to reform politically, especially from the US.<sup>120</sup> Furthermore, in the early 1990s, Taiwan embarked on a process of democratisation and calls were made for a separate Taiwanese identity. Domestically, Deng's policy of economic reform and opening-up was under attack from Party hardliners.<sup>121</sup>

Deng's 1992 "Southern Tour" set the Party on the direction of continuing economic reform and opening-up, reflected in Jiang's Report to the 14<sup>th</sup> Party Congress, which stressed that its priority was "to grasp the opportunity for economic development, deepened reforms and

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<sup>116</sup> The meaning of "one China" cited in see Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, pp. 155-56.

<sup>117</sup> The Brookings Institution. "Taiwan's Role in Peace and Stability in East Asia: A Discussion with Dr. Ma Ying-Jeou." (March 23, 2006), <http://www.brookings.edu/~media/Files/events/2006/0323taiwan/20060323.pdf>. Accessed 21/08/2010.

<sup>118</sup> Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, pp. 172-73.

<sup>119</sup> Garver, John W. *The Sino-American Alliance: Nationalist China and American Cold War Strategy in Asia*, pp. 54-56.

<sup>120</sup> Yang, Jisheng. *The Deng Xiaoping Era: A Record of the Two Decades of China's Reform and Opening-Up*. Beijing: Central Compilation and Translation Press, 1998, pp. 509-14.

<sup>121</sup> *Ibid.*; also see Zhao, Suisheng. "Deng Xiaoping's Southern Tour: Elite Politics in Post-Tiananmen China." *Asian Survey* 33, no. 8 (1993), pp. 739-756. For studies of Chinese politics during Deng's era, see Baum, Richard. *Burying Mao: Chinese politics in the age of Deng Xiaoping*. Princeton, N.J.: Princeton University Press, 1994; Fewsmith, Joseph. *China since Tiananmen: The politics of transition*. New York: Cambridge University Press, 2001; Vogel, Ezra F. *Deng Xiaoping and the transformation of China*. Cambridge, Mass.: Belknap, 2011.

opening up".<sup>122</sup> With regard to cross-strait relations, he called for "the end of the state of hostility in the Taiwan Strait and holding talks on peaceful reunification".<sup>123</sup> In order to concentrate on economic development, Beijing was keen to maintain a peaceful international environment and take a gradualist approach towards the Taiwan issue.<sup>124</sup> Jiang Zemin announced a conciliatory policy initiative towards Taiwan, the so-called "Eight-point Proposal", on 30 January 1995.<sup>125</sup> The eight points were:

- 1) Adhering to the principle of one China is the basis and prerequisite for peaceful reunification. China's sovereignty and territorial integrity must never be allowed to suffer division;
- 2) Beijing did not object to the development of nongovernmental economic and cultural ties between Taiwan and other countries, but opposed Taiwan's activities in expanding international space aimed at creating "two Chinas" or "one China, one Taiwan".;
- 3) On the premise of the one China principle, the two sides could conduct political negotiations on peaceful reunification, including all matters of concern to the Taiwan authorities. As a first step, negotiations should be held and an agreement reached on officially ending the state of hostility between the two sides under the one-China principle. On this basis, the two sides should jointly bear responsibility to maintain China's sovereignty and territorial integrity and map out a plan for the future development of cross-strait relations. Regarding the modalities and venues of the negotiations, a mutually acceptable solution can be worked out through consultations on an equal footing.
- 4) Beijing would continue to strive for peaceful reunification because Chinese should not fight Chinese. Reserving the right to use force would not be directed against Taiwanese people but against the foreign forces who intervene in China's reunification and scheme for Taiwan's independence;
- 5) The two sides should make a greater effort to develop cross-strait economic exchange and cooperation to promote mutual prosperity while maintaining political disagreement. Three links should be established as soon as possible;
- 6) Both sides should jointly inherit and promote Chinese culture, which constitutes an important basis for peaceful reunification;
- 7) Beijing will fully respect the Taiwan people's way of life, and protect their legitimate rights and interests. Beijing is willing to exchange opinions with all political parties and

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<sup>122</sup> Jiang, Zemin. "Accelerating the Reform, the Opening to the Outside World and the Drive for Modernization, So as to Achieve Greater Successes in Building Socialism with Chinese Characteristics, the Report Delivered at 14th Party Congress" (October 12, 1992), <http://cpc.people.com.cn/GB/64162/64168/64567/65446/4526308.html>.

<sup>123</sup> *Ibid.*

<sup>124</sup> Garver, John W. *Face Off: China, the United States, and Taiwan's Democratization*. Seattle: University of Washington Press, 1997, pp. 59-61.

<sup>125</sup> The Taiwan Affairs Office of the State Council. "Jiang Zemin's Eight-Point Proposal." (January 30, 1995), [http://www.gwytb.gov.cn/en/Special/Jiang/201103/t20110316\\_1789198.htm](http://www.gwytb.gov.cn/en/Special/Jiang/201103/t20110316_1789198.htm). Accessed 21/08/2010.

personages on the issue with regard to the development of the cross-strait relations and peaceful reunification;

8) the leaders of both sides should pay visits to each other in appropriate capacities. The Chinese should handle Chinese affairs on their own and do not need to resort to international venues.<sup>126</sup>

These “eight points” aimed at engaging Taiwan in a gradualist approach towards reunification. Huang Jing and Li Xiaoting note that they conveyed several conciliatory messages.<sup>127</sup> First, Beijing regarded relations as between equal parts of one China, which departed from the view that relations were between a “central and local government”, as devised by Mao and Deng.<sup>128</sup> Second, as Professor Niu Jun from Beijing University pointed out, Beijing downplayed the importance of using military force and focused on maintaining strategic deterrence instead.<sup>129</sup> Third, Beijing did not oppose Taiwan’s pursuit of “international space” as long as it was on the basis of the 1992 one-China consensus.

In the absence of cross-strait political contacts, Beijing promoted economic cooperation with a conviction that it would help facilitate political dialogue and lay foundations for reunification. The policy was “use business to steer politics and use people to influence the government” (*yi shang cu zheng, yi min cu guan*).<sup>130</sup> As Zhao Suisheng pointed out, Beijing hoped to “set up its own political constituency on the island” where entrepreneurs and investors (*Taishang*) “had a vested interest to please, to appease, or at least not to offend the Beijing government”.<sup>131</sup> Deng’s Southern Tour of 1992 and the first Wang-Koo meeting of 1993 spurred a second wave of investment in the mainland,<sup>132</sup> accounting for 65.6% of all Taiwanese FDI.<sup>133</sup> In 1992, Taiwanese FDI was 11.4% of total inflows.<sup>134</sup> By 1997, it was

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<sup>126</sup> *Ibid.*

<sup>127</sup> Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, pp. 185-86.

<sup>128</sup> *Ibid.*, p. 185.

<sup>129</sup> Niu, Jun. “Chinese Decision Making in Three Military Actions across the Taiwan Strait.” In *Managing Sino-American Crises: Case Studies and Analysis*, edited by Michael D. Swaine, Tuosheng Zhang and Danielle F. S. Cohen, Washington: Carnegie Endowment for International Peace, 2006, p. 299.

<sup>130</sup> Shu, Keng, and Gunter Schubert. “Agents of Taiwan-China Unification? The Political Roles of Taiwanese Business People in the Process of Cross-Strait Integration.” *Asian Survey* 50, no. 2 (2010), pp. 287-310.

<sup>131</sup> Zhao, Suisheng. “Economic Interdependence and Political Divergence: A Background Analysis of the Taiwan Strait Crisis.” In *Across the Taiwan Strait: Mainland China, Taiwan, and the 1995-1996 Crisis*, edited by Suisheng Zhao, p. 27.

<sup>132</sup> Cheng, Tun-jen. “China-Taiwan Economic Linkage: Between Insulation and Superconductivity.” In *Dangerous Strait: The US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, p. 97.

<sup>133</sup> *Ibid.*, p. 99, Table 5.3.

<sup>134</sup> The statistics come from Taiwan Affairs Office of the State Council, [http://www.gwytb.gov.cn/lajm/lajm/201101/t20110121\\_1718208.htm](http://www.gwytb.gov.cn/lajm/lajm/201101/t20110121_1718208.htm). Accessed 04/05/2011.

60%.<sup>135</sup> Cross-strait trade also increased. The total volume of bilateral trade was \$7.41b in 1992, nearly doubling to \$14.4b in 1993. In 1999, it reached \$23.48b, of which Taiwan's exports made up \$19.53b or 83% of the total.<sup>136</sup> This indicates that China quickly became a major market for Taiwan's exports while Taiwan constituted one of the main sources of FDI in China. Nevertheless, despite closer economic cooperation, political relations did not make the substantial progress that Beijing expected.

### 7.2.3 Moves towards Taiwanese independence

The 1990s witnessed volatile cross-Strait relations as a result of Taiwan's democratisation and the emergence of a pro-independence movement, starting with the government of Taiwan-born Lee Teng-hui. With the election of Chen Shui-bian as President, moves towards Taiwanese independence became particularly pronounced. These historical developments are discussed in this section.

#### 7.2.3.1 Lee Teng-Hui and the beginning of the movement towards Taiwanese independence

Gradual democratisation began in the late 1980s after Lee Teng-hui became President in 1988 following Jiang Jinguo's death, and the growing influence of the pro-independence DPP.<sup>137</sup> Using Taiwan's booming economy for leverage, Lee embarked upon "pragmatic diplomacy" aimed at acquiring greater international recognition of Taiwan as a political entity separate from China, through strengthening bilateral relations and securing dual recognition for Taipei in international organisations.<sup>138</sup> Lee made a private visit to Singapore in 1989 as "the President from Taiwan",<sup>139</sup> while Taiwan was admitted, along with China and Hong Kong, to APEC under the name "Chinese Taipei" in August 1991.<sup>140</sup> In April 1993, Lee officially launched the campaign for Taipei's "return" to the UN under the divided-state

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<sup>135</sup> Cheng, Tun-jen. "China-Taiwan Economic Linkage: Between Insulation and Superconductivity." In *Dangerous Strait: The US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, p. 99, Table 5.3.

<sup>136</sup> The statistics come from the Taiwan Affairs Office of the State Council, [http://www.gwytb.gov.cn/lajm/lajm/201101/t20110121\\_1718210.htm](http://www.gwytb.gov.cn/lajm/lajm/201101/t20110121_1718210.htm). Accessed 04/05/2011.

<sup>137</sup> Zhou, Zhongfei. *The International Background of Taiwan Independence*, pp. 137-44;

For a detailed account of the Taiwanese independence movement, see Phillips, Steven. "Building a Taiwanese Republic: The Independence Movement, 1945-Present." In *Dangerous Strait: The US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, New York: Columbia University Press, 2005, pp. 45-69.

<sup>138</sup> Clough, Ralph N. *Reaching across the Taiwan Strait: People-to-People Diplomacy*. Boulder, Co.: Westview Press 1993, pp. 101-22.

<sup>139</sup> Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, p. 142.

<sup>140</sup> *Ibid.*, p. 162.

formula.<sup>141</sup> He also pressed for constitutional amendments to end Taiwan's long-standing sovereignty claim over all of China.<sup>142</sup> Economically, the KMT government adopted a "going south" (*nanxia*) policy in 1993, aimed at directing outbound investment away from China toward Southeast Asia, but this had limited effect on entrepreneurs eager to benefit from the mainland market.<sup>143</sup> In 1996, Lee's government promoted "no haste, be patient" (*jieji yongren*), aimed at slowing down capital flows from Taiwan to the mainland. The policy restricted entrepreneurs from investing in infrastructure projects and high-tech sectors, and capped investment.<sup>144</sup>

The 1992 sale of 150 F-16 fighters to Taiwan was seen by China as a violation of the 1982 Sino-US Communiqué in which Washington pledged to gradually reduce arms sales. Furthermore, it suggested that the US was shifting away from the "one China" policy and encouraging the pro-independence movement.<sup>145</sup> The Chinese government was frustrated with Lee's new approach to seek a separate national identity. Beijing issued a White Paper entitled *The Taiwan Question and Reunification of China*<sup>146</sup> in August 1993, reiterating that "there is only one China in the world, Taiwan is an inalienable part of China", and reaffirming the "one country, two systems" policy for peaceful reunification. Lee continued with "pragmatic diplomacy", advancing the pro-independence agenda at every opportunity. In April 1994, in an interview with Japanese journalist Shiba Ryotaro, he expressed "the sorrow of being Taiwanese" and "Taiwan must be a possession of the Taiwanese themselves", while describing the KMT as an "outside regime" which oppressed the

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<sup>141</sup> Zhou, Zhongfei. *The International Background of Taiwan Independence*, p. 152.

<sup>142</sup> *Ibid.*

<sup>143</sup> Cheng, Tun-jen. "China-Taiwan Economic Linkage: Between Insulation and Superconductivity." In *Dangerous Strait: The US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, p. 103.

<sup>144</sup> *Ibid.*, p. 103; Shu, Keng, and Gunter. Schubert. "Agents of Taiwan-China Unification? The Political Roles of Taiwanese Business People in the Process of Cross-Strait Integration." *Asian Survey* 50, no. 2 (2010), p. 289. For detailed overviews, see Sheng, Lijun. *China and Taiwan: Cross-Strait Relations under Chen Sui-Bian*. Singapore: Institute of Southeast Asian Studies, 2002; Bush, Richard C. *Untying the Knot: Making Peace in the Taiwan Strait*. Washington: Brookings Institution Press, 2005; Tanner, Murray Scot. *Chinese Economic Coercion against Taiwan: A Tricky Weapon to Use*. Santa Monica: RAND, 2007.

<sup>145</sup> Bush, Richard C. *Untying the Knot: Making Peace in the Taiwan Strait*, pp. 170-72; Swaine, Michael D. "Chinese Decision-Making Regarding Taiwan, 1979-2000." In *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*, edited by David M. Lampton, pp. 314-15.

<sup>146</sup> The Taiwan Affairs Office of the State Council. "The Taiwan Question and Reunification of China." (September 1, 1993), [http://www.gwytb.gov.cn/en/Special/WhitePapers/201103/t20110316\\_1789216.htm](http://www.gwytb.gov.cn/en/Special/WhitePapers/201103/t20110316_1789216.htm). Accessed 11/10/2010.

Taiwanese.<sup>147</sup> This interview was seen by China as evidence of his separatist intentions,<sup>148</sup> while it strongly opposed Washington's approval in 1995 of Lee's visit to Cornell University.<sup>149</sup>

These tensions finally spilled over into the Third Taiwan Strait Crisis, as discussed in Section 7.1.4. It did not end in military confrontation, but the exercises demonstrated to "foreign interfering forces" and pro-independence groupings that China was serious about preventing Taiwanese independence.<sup>150</sup>

Following the Crisis, President Clinton reaffirmed the "Three No's" policy and Washington urged the resumption of ARATS-SEF talks under the "one China" principle.<sup>151</sup> But cross-Strait tensions increased again in 1999 when, in an interview, Lee for the first time publicly declared that China's ties with Taiwan were "a special state-to-state relationship",<sup>152</sup> violating the terms of the 1992 Consensus.<sup>153</sup> Professor Tao Wenzhao, a Chinese expert on Sino-US relations, described Lee's statement as a deliberate attempt to "block" the third cross-Strait dialogue<sup>154</sup> and prevent his successor from pursuing a more accommodating policy.<sup>155</sup>

Beijing's response to Lee's statement and the tense relationship with Washington<sup>156</sup> was a second White Paper, *The One-China Principle and the Taiwan Issue*, in 2000. It stated formally that the Chinese government was not obliged to commit itself to "rule out the use

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<sup>147</sup> Bush, Richard C. "Lee Teng-Hui and "Separatism"." In *Dangerous Strait: The US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, pp. 81-82.

<sup>148</sup> Zhou, Zhongfei. *The International Background of Taiwan Independence*, p. 152.

<sup>149</sup> Jia, Qingguo. "Narrowing Differences but Diverging Priorities: Sino-American Relations, 1992-2000." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, p. 169; Mann, James. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*, p. 328.

<sup>150</sup> Sun, Yan. *Taiwan Issue in China-US Relations*, pp. 264-65.

<sup>151</sup> Tao, Wenzhao. *American China Policy in Post-Cold War Era*, pp. 95-98.

<sup>152</sup> Lee Teng-hui's Responses to Questions Submitted by Deutsche Welle, in the interview, he said" .... The historical fact is that since the establishment of the Chinese communist regime in 1949, it has never ruled the territories under the Republic of China (ROC) jurisdiction: Taiwan, Penghu, Kinmen, and Matsu." See "Lee Teng-Hui's Responses to Questions Submitted by Deutsche Welle ". (July 9, 1999), <http://www.fas.org/news/taiwan/1999/0709.htm>. Accessed 22/08/2010.

<sup>153</sup> Tao, Wenzhao. *American China Policy in Post-Cold War Era*, p. 98.

<sup>154</sup> The second Wang-Koo talk held in Beijing in October 1998, the third one was planned to hold in Taipei in the fall of 1999.

<sup>155</sup> Tao, Wenzhao. *American China Policy in Post-Cold War Era*, pp. 99-100.

<sup>156</sup> Bilateral relations had been badly damaged by the US bombing of the Chinese embassy in Belgrade, and the highly critical assessment of Chinese military modernisation and espionage against the US contained in the controversial Cox Committee Report.

of force” if “Taiwan denies the One-China Principle and tries to separate Taiwan from the territory of China”.<sup>157</sup>

### 7.2.3.2 *Chen Shui-bian’s pursuit of Taiwanese de jure independence*

Chen Shui-bian began to advance Taiwan’s *de jure* independence after the DPP was elected in 2000. His initial stance was conciliatory, affirming a “Five No’s” pledge in his inaugural address in March 2000.<sup>158</sup> The pledge was that the government would not: 1) declare independence; 2) change the national title from "the Republic of China" to "the Republic of Taiwan"; 3) include the doctrine of special state-to-state relations in the Constitution; 4) hold a referendum on unification or independence; or 5) abolish the National Unification Council and the National Unification Guidelines.<sup>159</sup> During his time in office, however, Chen proceeded to break every one of these pledges.

First, in a televised address on 3 August 2002 to the annual conference of the World Federation of Taiwanese Associations, he characterised cross-Strait relations as “One Country on Each Side”, a continuation of Lee’s “special state-to-state relationship”.<sup>160</sup> Chen also asserted the desire to “sincerely appeal and to encourage to consider the significance and urgency of passing a referendum law... to change the status quo”.<sup>161</sup> The statement clearly departed from the “five no’s” pledge.

Secondly, he promoted a “name rectification campaign” between 2002 and 2007, aimed at taking steps to replace the terms "China", "Republic of China", or "Taipei" with "Taiwan" in official documents, Taiwan-registered organisations, universities, companies, and public enterprises.<sup>162</sup> At the same time, Chen continued to advocate Taiwan’s case for UN

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<sup>157</sup> The Taiwan Affairs Office, and the Information Office of the State Council. "The One-China Principle and the Taiwan Issue." (February 2002),

[http://www.gwytb.gov.cn/en/Special/WhitePapers/201103/t20110316\\_1789217.htm](http://www.gwytb.gov.cn/en/Special/WhitePapers/201103/t20110316_1789217.htm). Accessed 22/08/2010.

<sup>158</sup> Huang, Jing and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, p. 248.

<sup>159</sup> Cited in *Ibid.*, p. 251.

<sup>160</sup> Chen stated that it needs to be clear that "with Taiwan and China on each side of the Taiwan Strait, each side is a country." Zhou, Zhongfei. *The International Background of Taiwan Independence*, p. 200.

<sup>161</sup> Quoted in Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, pp. 262-63.

<sup>162</sup> Phillips, Steven. "Building a Taiwanese Republic: The Independence Movement, 1945-Present." In *Dangerous Strait: The US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, pp. 66-67.



membership and creation of a Taiwanese passport.<sup>163</sup> The purpose of the campaign was to remove any trace of “China” from Taiwan.

Thirdly, in February 2006 Chen announced that the NUC would “cease to function” and the National Unification Guidelines would “cease to apply”, while he pledged not to alter the status quo.<sup>164</sup> The Chinese media commented that the agency and guidelines were abandoned because they impeded Chen’s “commitment” to an independent Taiwan.<sup>165</sup>

Fourthly, he pursued *de jure* independence through “constitutional re-engineering”, including passing a referendum law in 2003 and proposing to hold a referendum in 2006 on a new constitution for an “independent Taiwan” which would come into force in 2008.<sup>166</sup> The plans were only abandoned due to strong opposition from Beijing and Washington.

During two terms as President, Chen’s incremental pursuit of Taiwan’s *de jure* independence and unilateral provocations to change the status quo were seen by Washington as detrimental to US national interests. President Bush and other high-level officials pointed out consistently that the US opposed Taiwanese independence. In December 2003, Bush stated publicly that “we oppose any unilateral decision by either China or Taiwan to change the status quo... the leader of Taiwan has indicated that he may be willing to make decisions unilaterally to change the status quo, which we oppose”.<sup>167</sup> Secretary of State, Colin Powell, restated the position at a press conference in September 2004, that “there is no support in the United States for an independence movement in Taiwan because that would be inconsistent with our obligations and our commitment to our one China policy”.<sup>168</sup> In response to the plan to abolish the NUC and National Unification Guidelines, the State Department asserted that “...our firm policy is that there should be no unilateral change in

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<sup>163</sup> *Ibid.*

<sup>164</sup> Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, p. 322.

<sup>165</sup> The guidelines stipulate that “both the mainland and Taiwan areas are parts of Chinese territory. Helping to bring about national unification should be the common responsibility of all Chinese people.” Xinhua News Agency. “Taiwan's Chen Abolishes Unification Council, Guidelines.” (February 28, 2006), [http://english.peopledaily.com.cn/200602/28/eng20060228\\_246451.html](http://english.peopledaily.com.cn/200602/28/eng20060228_246451.html). Accessed 11/03/2010.

<sup>166</sup> Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, p. 273.

<sup>167</sup> “President Bush and Premier Wen Jiabao’s Remarks to the Press-Remarks by President Bush and Premier Wen Jiabao in Photo Opportunity.” (December 9, 2003), <http://georgewbush-whitehouse.archives.gov/news/releases/2003/12/print/20031209-2.html>.

<sup>168</sup> Cited in Huang, Jing and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, p. 289.

the status quo, as we have said many times".<sup>169</sup> As Huang Jing pointed out, the statement reflected "mounting frustration with and distrust of Chen".<sup>170</sup>

Chen's push towards independence gained little public support and gave the KMT, which opposed the DPP, a chance to advance its political agenda and win the 2008 election. According to a survey conducted by the National Chengchi University of Taiwan, in 2006 about 84% of Taiwanese generally supported maintaining the status quo, while only 5.6% were in favour of independence.<sup>171</sup> The KMT gained 35.5% of the vote compared with 18.7% for the DPP.<sup>172</sup> On 26 April, a KMT delegation headed by its Chairman, Lien Chan, embarked on an historic visit to China. In his welcoming address, President Hu Jintao hailed the visit as "a milestone in the history of CCP-KMT relations as well as cross-strait relations", and expressed the wish that the CCP and the KMT "jointly strive for the prospects of peace, stability, and development in cross-strait relations".<sup>173</sup> Echoing Hu's "wish", Lien stated that the KMT opposed Taiwan independence and other separatist proposals and activities, and the two sides should communicate on the basis of the 1992 Consensus.<sup>174</sup> The historic meeting culminated in a CCP-KMT Joint Communiqué which declared a common vision for "promoting peace and development of cross-strait relations".<sup>175</sup> It consisted of five points: 1) talks should resume on the basis of the 1992 consensus; the two sides 2) should end the state of hostility in the Taiwan Strait and reach a peace agreement; 3) promote comprehensive economic cooperation and social exchanges such as establishing the three links and a cross-strait common market; 4) explore the issue of Taiwan's international participation; and 5) establish a platform for party-to-party exchanges.<sup>176</sup>

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<sup>169</sup> "Taiwan - Senior Taiwan Officials' Comments on National Unification Council." *Press Statement Adam Ereli, Deputy Spokesman, Washington D.C.* (March 2, 2006), <http://merln.ndu.edu/archivepdf/china/State/62488.pdf>. Accessed 25/08/2010.

<sup>170</sup> Huang, Jing and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, p. 325.

<sup>171</sup> NCCU, the election study centre. "Changes in the Unification-Independence Stances of Taiwanese as Tracked in Surveys (1994-2011)." <http://esc.nccu.edu.tw/english/modules/tinyd2/content/tonduID.htm>. Accessed 22/03/2011.

<sup>172</sup> NCCU, the election study centre. "Changes in the Party Identification of Taiwanese as Tracked in Surveys (1992-2011)." <http://esc.nccu.edu.tw/english/modules/tinyd2/content/partyID.htm>. Accessed 22/03/2011.

<sup>173</sup> Xinhua News Agency. "Hu Jintao Meets Lien Chan at the Great Hall of the People." (April 29, 2005), [http://news.xinhuanet.com/taiwan/2005-04/29/content\\_2895152.htm](http://news.xinhuanet.com/taiwan/2005-04/29/content_2895152.htm). Accessed 05/03/2010.

<sup>174</sup> Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, pp. 308-09.

<sup>175</sup> Xinhua News Agency. "The Joint Communiqué between Hu Jintao and Lien Chan." (April 29, 2005), [http://news.xinhuanet.com/taiwan/2005-04/29/content\\_2895784.htm](http://news.xinhuanet.com/taiwan/2005-04/29/content_2895784.htm). Accessed 05/03/2010.

<sup>176</sup> *Ibid.*

In March 2006, Ma Ying-jeou, who replaced Lien Chen as Chairman of KMT, articulated a “Five Do’s” proposal for developing cross-strait relations if the KMT returned to power.<sup>177</sup> The KMT would: 1) resume the interrupted talks on the basis of 1992 Consensus; 2) negotiate a peace accord; 3) facilitate and accelerate economic and financial exchanges, leading eventually to the formation of a common market across the Taiwan Strait; 4) negotiate a *modus vivendi* regarding Taiwan's participation in international activities based on pragmatism; and 5) accelerate change in the cultural and educational areas.<sup>178</sup> He stressed that “Taiwan should become a peacemaker, not a troublemaker”.<sup>179</sup>

Table 7-1 China’s foreign trade with Taiwan in \$ billions (2000-2008)

Year	Total Trade	Export	Import	Surplus/deficit
2000	30.53	5.04	25.49	-20.45
2001	32.34	5.00	27.34	-22.34
2002	44.67	6.59	38.08	-31.49
2003	58.36	9.00	49.36	-40.36
2004	78.32	13.35	64.78	-51.23
2005	91.23	16.55	74.68	-58.13
2006	107.84	20.74	87.11	-66.37
2007	124.48	23.46	101.02	-77.56
2008	129.22	25.88	103.34	-77.46

Source: statistics from Taiwan Affairs Office of the State Council, [http://www.gwytb.gov.cn/lajm/lajm/201101/t20110121\\_1718251.htm](http://www.gwytb.gov.cn/lajm/lajm/201101/t20110121_1718251.htm).

Economic relations across the strait continued to boom. Table 7-1 shows that bilateral trade experienced a four-fold increase during Chen Shui-bian’s Presidency, from \$30b in 2000 to \$129b in 2008. Most strikingly, Taiwan enjoyed a growing trade surplus, which in large measure offset Taiwan’s trade deficit with other economies. As Ma Ying-jeou noted: “had Taiwan not traded with the mainland, Taiwan’s total foreign trade would have had a huge

<sup>177</sup> The Brookings Institution. "Taiwan's Role in Peace and Stability in East Asia: A Discussion with Dr. Ma Ying-jeou." (March 23, 2006), <http://www.brookings.edu/~media/Files/events/2006/0323taiwan/20060323.pdf>.

<sup>178</sup> *Ibid.*, pp. 17-18.

<sup>179</sup> *Ibid.*, p. 21.

deficit in 2005".<sup>180</sup> Taiwan's actual FDI to China totalled \$47.58b over 1989-2008, with more than 77,000 Taiwanese companies investing in the mainland.<sup>181</sup> During 2000-2008, Taiwan's investment was \$23.7b,<sup>182</sup> accounting for nearly 50% of cumulative FDI from 1989. This investment surge was attributed to Taiwan's IT companies relocating their manufacturing to maintain competitiveness in the late 1990s.<sup>183</sup> By doing so, Taiwanese companies and mainland manufacturers were linked into a global supply chain.<sup>184</sup> Taking the personal computer industry as an example, US firms provided the brands, such as Dell and Compaq, sophisticated technology and components, and market services, while Taiwanese companies carried out manufacturing and assembly in China for export.<sup>185</sup>

#### 7.2.4 China's policy toward Taiwan under Hu Jintao's leadership

In a report delivered to the Sixteenth Party Congress on 8 November 2002, Jiang Zemin stressed that China should seize the "strategic opportunity" of the first two decades of the twenty-first century to continue concentrating on the central task of economic development and integration into the global economy.<sup>186</sup> In a speech at the Bo'ao Forum on 3 November 2003, Zheng Bijian, Chairman of the China Forum, argued that China would strive for a peaceful international environment to develop its economy and safeguard world peace.<sup>187</sup> This new national strategy was described as China's "peaceful rise", later re-named "peaceful development".<sup>188</sup>

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<sup>180</sup> The Brookings Institution. "Taiwan's Role in Peace and Stability in East Asia: A Discussion with Dr. Ma Ying-Jeou." (March 23, 2006), p. 15.

<sup>181</sup> The statistics of investment comes from Taiwan Affairs Office of the State Council, [http://www.gwytb.gov.cn/lajm/lajm/201101/t20110121\\_1718252.htm](http://www.gwytb.gov.cn/lajm/lajm/201101/t20110121_1718252.htm).

<sup>182</sup> *Ibid.*

<sup>183</sup> Cheng, Tun-jen. "China-Taiwan Economic Linkage: Between Insulation and Superconductivity." In *Dangerous Strait: The US-Taiwan-China Crisis*, edited by Nancy Bernkopf Tucker, pp. 97-99.

<sup>184</sup> Bush, Richard C. *Untying the Knot: Making Peace in the Taiwan Strait*, p. 31.

<sup>185</sup> Cooke, Terry. "Cross-Strait Economic Ties and the Dynamics of Globalization." In *Cross-Strait Economic Ties: Agent of Change or a Trojan Horse? Asia Program Special Report 118* (February 2004), pp. 8-12.

<sup>186</sup> Jiang, Zemin. "Build a Well-Off Society in an All-Round Way and Create a New Situation in Building Socialism with Chinese Characteristics." *The Report Delivered at 16th Party Congress* (November 8, 2002), <http://cpc.people.com.cn/GB/64162/64168/64569/65444/4429125.html>.

<sup>187</sup> He reiterated the ideas of China's peaceful rise in the influential American publication *Foreign Affairs* in 2005. See Zheng, Bijian. "China's 'Peaceful Rise' To Great-Power Status." *Foreign Affairs* 84, no. 5 (2005), pp. 18-24.

<sup>188</sup> On 10 December 2003, Chinese Premier Wen Jiabao delivered a speech at Harvard University in which he emphasised that China had chosen the "road of peaceful rise" and stressed that China's development would rely only on its own strength. On 26 December that year at a symposium commemorating the 110th anniversary of Mao Zedong's birth, Chinese President Hu Jintao stressed the need to adhere to the road of China's peaceful rise; we can say that at this point the doctrine was officially launched as China's national

However, Chen Shui-bian's provocations after 2003 posed a challenge to Beijing's "peaceful development" strategy. Professor Huang Jiashu, an expert on cross-strait relations at Renmin University, argued that Hu felt a sense of pressing urgency and danger stemming from Taiwan's independence movement,<sup>189</sup> while Chen's referendum campaign was criticised as a "provocative" act.<sup>190</sup> In response, the National People's Congress adopted the Anti-Secession Law in March 2005. Hu Jintao put forward the "Four-point guidelines on cross-Straits relations": 1) never waver in adhering to the one-China principle; 2) never give up efforts to seek peaceful reunification; 3) never stop placing hope in the Taiwan people; and 4) never make compromises in opposing the separatist activities aimed at Taiwanese independence.<sup>191</sup>

The Anti-Secession Law reaffirmed that China would resort to non-peaceful means in the event that Taiwan declared unilateral independence (Article 8). However, it should be noted that the Law also specified measures China should take to maintain peace and stability in the Taiwan Strait (Article 6) and achieve peaceful reunification (Article 7).<sup>192</sup>

The four-point proposal and Anti-Secession Law indicated a shift towards a more pragmatic position on cross-strait relations. As Huang Jiashu pointed out, Jiang Zemin regarded preventing independence and reunification as two integrated parts of China's Taiwan policy, while Hu Jintao pursued the two objectives separately.<sup>193</sup> According to senior officials at the

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strategy. See Bei, Shan. "The Origins of the Theory of China's Peaceful Rise." *International Herald* (April 19, 2004), <http://www.people.com.cn/GB/guandian/8213/8309/28296/2456452.html>. Accessed 22/03/2010; Zheng, Bijian. "China's peaceful rise" to great-power status." *Foreign Affairs* 84, no. 5 (2005), pp. 18-24; Hu, Zongshan. *China's Peaceful Rise: Theory, History, and Strategy*. Beijing: World Affairs Press, 2006; Liang, Shoude, and Yihu Li, eds. *China and the World: the Theory of Peaceful Development and Its Practice*. Beijing: World Affairs Press, 2008.

<sup>189</sup> Huang, Jiashu. "The Adjustments and New Thinking in Beijing's Taiwan Policy." *China Review*, no. 5 (2005), <http://gb.chinareviewnews.com/crnwebapp/doc/docDetailCreate.jsp?coluid=54&kindid=0&docid=100114873&mdate=0324160752>. Accessed 16/12/2009.

<sup>190</sup> Xinhua News Agency. "NPC Spokesperson Slams Taiwan 'Referendum'." (March 4, 2004), [http://www.gwytb.gov.cn/en/Special/OneCountryTwoSystem/201103/t20110316\\_1789252.htm](http://www.gwytb.gov.cn/en/Special/OneCountryTwoSystem/201103/t20110316_1789252.htm). Accessed 23/08/2010.

<sup>191</sup> Xinhua News Agency. "Hu Jintao Proposed Four-Point Guidelines on Cross-Strait Relations under New Circumstances." (March 4, 2005), [http://news.xinhuanet.com/taiwan/2005-03/04/content\\_2649922.htm](http://news.xinhuanet.com/taiwan/2005-03/04/content_2649922.htm). Accessed 23/08/2010.

<sup>192</sup> "Anti-Secession Law." [http://www.gwytb.gov.cn/en/Special/OneChinaPrinciple/201103/t20110317\\_1790121.htm](http://www.gwytb.gov.cn/en/Special/OneChinaPrinciple/201103/t20110317_1790121.htm).

<sup>193</sup> Huang, Jiashu. "The Adjustments and New Thinking in Beijing's Taiwan Policy." *China Review*, no. 5 (2005), <http://gb.chinareviewnews.com/crnwebapp/doc/docDetailCreate.jsp?coluid=54&kindid=0&docid=100114873&mdate=0324160752>.

Taiwan Affairs Office, the goal of achieving reunification was not mentioned in the anti-secession law because it was considered a separate and long-term task.<sup>194</sup> The policy shift meant, as Huang and Li identified, that Hu Jintao's "pro-status quo" approach had become the anchor for China's Taiwan policy,<sup>195</sup> reflecting Beijing's "new thinking" on improving cross-strait relations.<sup>196</sup> First, the status quo had remained unchanged since 1949, which was not only Beijing's position, but was also found in Taiwanese regulations and documents. Second, Hu affirmed that "Beijing was willing to hold talks with any individuals or any political parties in Taiwan as long as they recognise the one-China principle and 1992 consensus". Third, the four-point guidelines declared that marketing Taiwan's agricultural products on the mainland was in the fundamental interest of Taiwan's farmers, and therefore had to be addressed in a "down-to-earth manner".<sup>197</sup>

The shift in China's Taiwan policy partly reflected a calculation that the US also had a stake in preventing Taiwanese independence, which posed a strategic problem for the US, as discussed in Section 7.1.4. Any unilateral declaration of independence threatened to drag the US and China into an armed conflict that neither side wanted nor could afford. This gave Beijing some leverage since, as Hu Jintao emphasised to President Bush in April 2006, "China and the US share common strategic interests in opposing and curbing Taiwanese independence and maintaining peace and stability in the Taiwan Strait".<sup>198</sup>

China continued to promote cross-strait economic cooperation and social exchange. In April 2006, one year after Lien Chan's historic trip to the mainland, the First CCP-KMT Economic and Trade Forum opened in Beijing. On 15 May, Chen Yunlin, Chairman of ARATS, announced 15 policies to promote cross-strait social and economic relations, including exempting Taiwan's agricultural and fishery products from import taxes and customs inspections, and strengthening cooperation in health care, education, tourism.<sup>199</sup> At the

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<sup>194</sup> Cited in Huang, Jing, and Xiaoting Li. *Inseparable Separation: The Making of China's Taiwan Policy*, p. 279.

<sup>195</sup> *Ibid.*, p. 6.

<sup>196</sup> Huang, Jiashu. "The Adjustments and New Thinking in Beijing's Taiwan Policy." *China Review*, no. 5 (2005), <http://gb.chinareviewnews.com/crnwebapp/doc/docDetailCreate.jsp?coluid=54&kindid=0&docid=100114873&mdate=0324160752>.

<sup>197</sup> Xinhua News Agency. "Hu Jintao Proposed Four-Point Guidelines on Cross-Strait Relations under New Circumstances." (March 4, 2005), [http://news.xinhuanet.com/taiwan/2005-03/04/content\\_2649922.htm](http://news.xinhuanet.com/taiwan/2005-03/04/content_2649922.htm).

<sup>198</sup> Xinhua News Agency. "President Hu Jintao Holds a Meeting with President Bush." (April 21, 2006), [http://news.xinhuanet.com/newscenter/2006-04/21/content\\_4454675.htm](http://news.xinhuanet.com/newscenter/2006-04/21/content_4454675.htm). Accessed 23/08/2010.

<sup>199</sup> China News Agency. "Chen Yunlin Announces Fifteen Preferential Policies Towards Taiwan." (April 15, 2006), <http://news.sina.com.cn/c/p/2006-04-15/19399628960.shtml>. Accessed 23/08/2010.

Second CCP-KMT Economic and Trade Forum in April 2007, China announced another package of 13 preferential policies towards Taiwan, which opened further not only the mainland's huge market to agricultural products, but also the job market to Taiwanese professionals.<sup>200</sup> In his Report to the Seventeenth Party Congress in 2007, Hu Jintao reiterated China's commitment to "build up the peaceful and stable development of Cross-Strait relations" through social economic integration.<sup>201</sup> The preferential policies were part of a strategy to win over the hearts and minds of the Taiwanese people, deepening dependence on China and gradually paving the way for reunification.

### 7.2.5 Cross-strait relations under Ma Ying-jeou's leadership

In May 2008, Ma Ying-jeou was elected Taiwan's President. From Beijing's perspective, the KMT's return to power was a positive change in favour of stable and peaceful development of cross-strait relations.<sup>202</sup> The new Chairman of the KMT, Wu Poh-hsiung, met with Hu Jintao in Beijing in May 2008, the highest-level encounter between the two sides since 1949. Hu proposed a sixteen-character principle for cross-strait cooperation: "building up mutual trust, shelving controversies, seeking common views despite differences, and creating together a win-win solution" (*jianlihixin, gezhizhengyi, qiutongcunyi, gongchuang shuangying*).<sup>203</sup> In June 2008, one month after Ma's inauguration, official talks re-opened. Chen Yunlin (ARATS Chairman) and Chiang Pin-kun (SEF Chairman) signed four agreements on charter flights, shipping transportation, mail delivery and food safety, resulting in the establishment of the "three links".<sup>204</sup> Taiwan relaxed the limits on investment in the mainland and began to allow mainland investment on the island.<sup>205</sup> In June 2010, the two

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<sup>200</sup> Xinhua News Agency. "Mainland Announces Thirteen Policies to Taiwan." (April 30, 2007), [http://www.china.com.cn/overseas/txt/2007-04/30/content\\_8195444.htm](http://www.china.com.cn/overseas/txt/2007-04/30/content_8195444.htm). Accessed 26/08/2010.

<sup>201</sup> Hu, Jintao. "Hold High the Great Banner of Socialism with Chinese Characteristics and Strive for New Victories in Building a Moderately Prosperous Society in All Respects." *The Report Delivered at 17th Party Congress* (October 15, 2007), <http://cpc.people.com.cn/GB/104019/104099/6429414.html>.

<sup>202</sup> Huang, Jiashu. "Four Changes in Mainland's Taiwan Policy." *China Review*, no. 12 (2008), <http://mgb.chinareviewnews.com/crnwebapp/doc/docDetailCreate.jsp?coluid=7&kindid=0&docid=100815891>. Accessed 16/12/2009.

<sup>203</sup> "The CCP General Secretary Hu Jintao Meets with the KMT Chairman Wu Po-Hsiung." *People's Daily* (May 28, 2009), <http://politics.people.com.cn/GB/1024/7312615.html>. Accessed 26/08/2010.

<sup>204</sup> Xinhua News Agency. "Mainland, Taiwan Sign Historic Agreements on Flights, Tourism." (June 13, 2008), [http://www.chinadaily.com.cn/bizchina/2008-06/13/content\\_6759629.htm](http://www.chinadaily.com.cn/bizchina/2008-06/13/content_6759629.htm). Accessed 26/08/2010.

<sup>205</sup> Shan, Yuli. "Taiwan's Mainland Policy and the Strategy to Promote Cross-Strait Economic Cooperation in the Post-ECFA Era." *Comprehensive Competition*, no. 1 (2011), pp. 36-37.

sides signed an Economic Cooperation Framework Agreement.<sup>206</sup> Bilateral trade reached a new high of \$145.37b in 2010, with Taiwan's trade surplus at \$86b.<sup>207</sup> Taiwan's trade dependency on the mainland, which was 20.0%, while its export dependency was 28.4%,<sup>208</sup> in 2005 increased to nearly 30% and 40% respectively in 2009.<sup>209</sup>

However, Ma's leadership also posed challenges for China. First, Ma pledged a "three no's" policy of no reunification, no independence and no use of force when inaugurated.<sup>210</sup> Although the KMT recognised the "1992 Consensus" it maintained the difference over what "one-China" meant. In Ma's view, Taiwanese identity did not equal independence.<sup>211</sup> It was defined instead by a democratic political system which was the precondition for reunification.<sup>212</sup> As a Chinese scholar pointed out, Ma's objective was to strengthen Taiwan's economy and negotiate its international space by improving cross-strait relations,<sup>213</sup> which was incompatible with Beijing's objective that closer social-economic cooperation would lead eventually to reunification. Second, Ma's mainland policy needed to strike a balance between Washington and Beijing. As discussed in section 7.1.4, it deteriorated during Chen Shui-bian's Presidency as a result of the pursuit of *de jure* independence. Though Ma improved relations with Beijing, he also reinforced the security alliance with Washington.<sup>214</sup>

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<sup>206</sup> Xinhua News Agency. "Chen Yunlin and Chiang Pin-Kun Sign Economic Cooperation Framework Agreement." (June 29, 2010), [http://news.xinhuanet.com/tw/2010-06/29/c\\_12277496.htm](http://news.xinhuanet.com/tw/2010-06/29/c_12277496.htm). Accessed 26/08/2010.

<sup>207</sup> Statistics come from the Taiwan Affairs Office of the State Council, [http://www.gwytb.gov.cn/lajm/lajm/201101/t20110128\\_1737103.htm](http://www.gwytb.gov.cn/lajm/lajm/201101/t20110128_1737103.htm).

<sup>208</sup> Statistics come from the Taiwan Affairs Office of the State Council, [http://www.gwytb.gov.cn/lajm/lajm/201101/t20110121\\_1718211.htm](http://www.gwytb.gov.cn/lajm/lajm/201101/t20110121_1718211.htm).

<sup>209</sup> Shan, Yuli. "Taiwan's Mainland Policy and the Strategy to Promote Cross-Strait Economic Cooperation in the Post-ECFA Era." *Comprehensive Competition*, no. 1 (2011), p. 39.

<sup>210</sup> Ma, Ying-jeou. "Taiwan's Renaissance: Presidential Inauguration Address." (May 20, 2008), [http://china.usc.edu/\(S\(fe01a2jxtqwgzrirkn2dq45\)A\(FBSRwu3sygEkAAAAODdiMTQ1NDEtNDQzYy00N2MwLTk1MTktNWlxNThhNWI4NTg51Ebim5kqHVrFjkFWNKGeHbSYqbg1\)\)/ShowArticle.aspx?articleID=1304&AspxAutoDetectCookieSupport=1](http://china.usc.edu/(S(fe01a2jxtqwgzrirkn2dq45)A(FBSRwu3sygEkAAAAODdiMTQ1NDEtNDQzYy00N2MwLTk1MTktNWlxNThhNWI4NTg51Ebim5kqHVrFjkFWNKGeHbSYqbg1))/ShowArticle.aspx?articleID=1304&AspxAutoDetectCookieSupport=1). Accessed 29/07/2010.

<sup>211</sup> The Brookings Institution. "Taiwan's Role in Peace and Stability in East Asia: A Discussion with Dr. Ma Ying-jeou." (March 23, 2006), p. 27.

<sup>212</sup> Rigger, Shelly. "Taiwan's Presidential and Legislative Elections." *Orbis* 52, no. 4 (2008), p. 697.

<sup>213</sup> Shan, Yuli. "Taiwan's Mainland Policy and the Strategy to Promote Cross-Strait Economic Cooperation in the Post-ECFA Era." *Comprehensive Competition*, no. 1 (2011), p. 38.

<sup>214</sup> Ma, Ying-jeou. "Taiwan's Renaissance: Presidential Inauguration Address." (May 20, 2008), [http://china.usc.edu/\(S\(fe01a2jxtqwgzrirkn2dq45\)A\(FBSRwu3sygEkAAAAODdiMTQ1NDEtNDQzYy00N2MwLTk1MTktNWlxNThhNWI4NTg51Ebim5kqHVrFjkFWNKGeHbSYqbg1\)\)/ShowArticle.aspx?articleID=1304&AspxAutoDetectCookieSupport=1](http://china.usc.edu/(S(fe01a2jxtqwgzrirkn2dq45)A(FBSRwu3sygEkAAAAODdiMTQ1NDEtNDQzYy00N2MwLTk1MTktNWlxNThhNWI4NTg51Ebim5kqHVrFjkFWNKGeHbSYqbg1))/ShowArticle.aspx?articleID=1304&AspxAutoDetectCookieSupport=1).



Cross-strait rapprochement caused concern in Washington. For some US observers, the KMT “could reach an accommodation with Beijing that may complicate US regional interests”.<sup>215</sup> For other analysts, improvements in cross-strait relations were a positive sign that the KMT was stabilising the status quo.<sup>216</sup> Beijing and Taipei had to take US interests into serious consideration over cross-strait relations.

### 7.2.6 Taiwan issue-China’s core national interests

The Taiwan issue was highly emotive for China, as well as of great strategic importance. It was regarded as the last remaining element of the “century of humiliation”.<sup>217</sup> The significance of the question of Taiwan’s sovereignty has to be understood in the broader regional context of China’s rise in East Asia.

The prospect of Taiwanese independence was threatening for several reasons. From the geo-strategic point of view, Taiwan was crucial to China’s national security and economic viability. According to Luo Yuan, a professor from the Military Academy of the PLA, a separate Taiwan presented a constant threat to China’s southeast coastal areas, compromising China’s naval capacity to defend the Xisha and Nansha Islands.<sup>218</sup> Furthermore, Taiwan was a key element of the “first island chain”<sup>219</sup>, blocking China’s navy from projecting a permanent blue-water presence and expanding “strategic depth”.<sup>220</sup> Greater reliance on maritime transport for exports and to supply raw materials, energy and commodities meant that a separate Taiwan constrained the navy’s ability to defend the sea-lanes of communication (SLOC).<sup>221</sup> China risked losing face if it was unable to prevent

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<sup>215</sup> Dumbaugh, Kerry. "Taiwan-U.S. Relations: Recent Developments and Their Policy Implications." *CRS Report for Congress, RL34683* (September 25, 2008), p. 19; see also Sutter, Robert. "Cross-Strait Moderation and the United States,-Policy Adjustments Needed." *PacNet*, no. 17 (March 5, 2009), <http://www.csis.org/files/media/csis/pubs/pac0917.pdf>. Accessed 03/04/2010.

<sup>216</sup> Bush, Richard C., and Alan Romberg. "Cross-Strait Moderation and the United States" - a Response to Robert Sutter." ( March 12, 2009), [http://www.brookings.edu/opinions/2009/0312\\_cross\\_strait\\_relations\\_bush.aspx](http://www.brookings.edu/opinions/2009/0312_cross_strait_relations_bush.aspx). Accessed 03/04/2010.

<sup>217</sup> Mahbubani, Kishore. "Understanding China." *Foreign Affairs* 84, no. 5 (2005), pp. 49-60.

<sup>218</sup> Luo, Yuan. "'Taiwan Independence' Is the Biggest Threat to National Security." *Guofang Zhishibao* (February 24, 2004), <http://mil.news.sina.com.cn/2004-02-24/1709183994.html>. Accessed 19/02/2010.

<sup>219</sup> The first island chain is considered to include the Kuril Islands, Japan and the Ryukyu Islands, Taiwan, the Philippines, and Indonesia (Borneo to Natuna Besar). It was formed during the Cold War as the US’s defence perimeter to contain Soviet/Communism expansion.

<sup>220</sup> Luo, Yuan. "'Taiwan Independence' Is the Biggest Threat to National Security." *Guofang Zhishibao* (February 24, 2004), <http://mil.news.sina.com.cn/2004-02-24/1709183994.html>.

<sup>221</sup> "Taiwan Issue and China’s National Security-the Core National Interest, Interview with Zhou Jianming and Jin Canrong." (February 28, 2002),

Taiwan from becoming independent, which would be seen very negatively as confirmation that was not rising but suffering ongoing humiliation instead.<sup>222</sup>

China's position on Taiwan has always had to account for the US treating it as an important part of its sphere of influence. China had no desire for conflict with the US. A loss would mean further humiliation. Furthermore, a war in the Strait would centre on China's east coast, where the main export manufacturing industries are located.<sup>223</sup>

Equally importantly, from a political perspective, maintaining regional peace was indispensable for facilitating economic growth. "Good-neighbourly" relations with ASEAN and South Korea improved greatly. China could not afford to be seen as an aggressor in East Asia, or sacrifice the gains made from involvement in East Asian regionalism.

In the 21<sup>st</sup> century, Cold War ideological rivalries disappeared and Beijing came to see the US as one of its most important bilateral relationships, adjusting its foreign policy accordingly when the circumstances required in order to avoid confrontation over Taiwan. While China sought good relations with the US primarily for strategic reasons, it also required access to US capital, technology and markets. China came, reluctantly, to accept the status quo over Taiwan. By discouraging independence, conflict was avoided and, through closer economic ties, China hoped for closer political union eventually.

### 7.3 Conclusion

As a legacy of the Cold War, the Taiwan issue was entangled in relations among the great powers in East Asia. China's predicament was that it saw Taiwan as an inalienable part of its territory, yet Taiwan was also part of the US's self-assigned sphere of strategic interest. The US dilemma was that it had a strategic interest in a separate Taiwan, yet its aspirations to defend that interest were compromised by growing economic reliance on China.

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[http://cross-straits.com/plzhx/zhjzh/zhift/200708/t20070801\\_395496.htm](http://cross-straits.com/plzhx/zhjzh/zhift/200708/t20070801_395496.htm). Accessed 23/01/2010; Zhang, Wenmu. *The Analysis of China's National Interests in World Geo-Politics*. Jinan: Shandong People's Publishing House, 2004.

<sup>222</sup> See for example, Peng, Guangqian. "The Preliminary Analysis of the Characteristics of 2010 International Security Situation." (January 2010), [http://news.xinhuanet.com/world/2010-01/29/content\\_12898656.htm](http://news.xinhuanet.com/world/2010-01/29/content_12898656.htm). Accessed 04/02/2010; Zhang, Shirong. *Taiwan Issue in China-US-Japan Security Relations in the Early 21st Century*. Beijing: Jiuzhou Press, 2010, p. 101.

<sup>223</sup> "Taiwan Issue and China's National Security-the Core National Interest, Interview with Zhou Jianming and Jin Canrong." (February 28, 2002), [http://cross-straits.com/plzhx/zhjzh/zhift/200708/t20070801\\_395496.htm](http://cross-straits.com/plzhx/zhjzh/zhift/200708/t20070801_395496.htm).

Much was at stake as the Taiwan issue could have led the US and China into armed conflict. Both sides attempted to manage the situation by simultaneously exerting pressure to protect their respective interests while also providing each other with reassurances of non-violence. The US through the policy of strategic ambiguity attempted to obfuscate its intended actions in the case of a cross-strait conflict, a tactic that resulted in weapons sales while remaining equivocal publicly about whether or not it was obliged to defend Taiwan. For its part, China attempted to maintain policy flexibility by reserving the right to use force, while averring in dealings with Taiwan that all options were on the table provided it supported the one-China principle. The result of this mutual accommodation was a continuation of Taiwan's status.

Growing economic interdependence explained in part why China and the US had a significant stake in not risking conflict. Furthermore, China's emphasis on the importance of a stable regional environment and good-neighbourly relations served to effectively constrain it from acting too forcefully on Taiwan. Constraints on behaviour are an apparent vindication of the liberal view<sup>224</sup> that economic interdependence results in solutions other than war for the resolution of differences. From this perspective, China's rise was not an unmitigated boon that allowed it to dictate terms to the region as it pleased. Instead, it had to manage a difficult situation with regard to Taiwan, which became even more challenging after 2009 with the US declaration of renewed interest in China's territorial disputes in the South China Sea. These disputes are the subject of the next chapter.

Taiwan remained a source of tension. Whether the issue spun out of control depended on how China and the US managed relations. Despite Beijing's acceptance of Taipei's interpretation of the "one China" principle, Beijing and Washington's shared "common strategic interests" in preserving the cross-strait status quo, and Beijing's preference for deterring independence rather than "pushing for reunification", Taiwan was an "inseparable separation", in the words of Huang and Li. Taiwan was destabilising, if not quite "the biggest landmine" in Sino-US relations, as Richard Armitage called it.

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<sup>224</sup> For example: Brzezinski, Zbigniew, and John J Mearsheimer. "Clash of the Titans." *Foreign Policy* 146, no. 1 (2005), pp. 46-49; Ross, Robert S. "The Geography of the Peace: East Asia in the Twenty-First Century." *International Security* 23, no. 4 (1999), pp. 81-118.

Taiwan was central to East Asia where growing regional ties meant that previously localised security disputes were of significance for the entire region. If a liberal perspective is helpful in understanding China-Taiwan relations, then it may be the case that East Asian economic integration, including Taiwan, reduced cross-Strait tensions. Even so, East Asian regionalism had to deal more intensively with Taiwan, due to its importance to China's views on territorial integrity, as well as its status as a major economic player in East Asia.

## 8 China's South China Sea dilemma: striking a balance between sovereignty, development and security

The South China Sea<sup>1</sup> was a major source of tension and instability in East Asia because of the complexity of territorial disputes involving China, Taiwan and five ASEAN states. Though seen by China as its indisputable territory, resting on historical claims of discovery and occupation, competing claims emerged during the 1970s, after prospects for petroleum exploration emerged. The claims intensified when the United Nations Convention on the Law of the Sea (UNCLOS) was ratified in 1982 as the standard for demarcating offshore jurisdictional limits for resource exploitation. For China, the area was not only an issue of territorial integrity, but also of increasing strategic importance with little or no room for compromise among claimants and, on occasion, armed confrontation. Bilateral tensions resulted in stalemates which were managed increasingly by ASEAN's regional mechanisms and the "ASEAN Way": i.e. through negotiation and non-binding declarations that identified consensus. This process largely suited China's preference for non-coercive regional engagement, and kept tensions short of conflict.

This chapter argues that China's increased influence in East Asia created new challenges. While claiming sovereignty, access to its vast energy resources and the integrity of the SLOC, it also required constructive relations with ASEAN. As was the case with Taiwan, China's rise constrained its behaviour in East Asia.

I argue that, after the election of the Obama Administration, the US used the South China Sea dispute to revive its strategic presence in East Asia and check China's growing influence. The prospect of increased rivalry Sino-US rivalry was a driving force in regional affairs. For ASEAN the crucial test was not just how China behaved but whether the US treated the "ASEAN Way" with respect when intervening in the South China Sea.

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<sup>1</sup> The South China Sea covers an area of 800,000 square kilometers and contains four major archipelagos: the Pratas, Macclesfield Bank, the Paracels, and the Spratlys (in Chinese, their names are respectively Beisha, Zhongsha, Xisha, and Nansha).

Section 8.1 describes how contending claims over islands in the South China Sea arose and developed after the 1970s. Section 8.2 examines how China's view of sovereignty impacted on relations with ASEAN, while Section 8.3 considers the changing role played by the US.

## 8.1 The South China Sea disputes: genesis and overlapping claims

The South China Sea, driven by overlapping sovereignty claims to the Spratly (*Nansha*) Islands, was one of the most contentious issues in East Asia. Six claimants staked sovereignty claims either on the basis of historical evidence of discovery and occupation or by resting on the extension of sovereign jurisdiction under various interpretations of the provisions of UNCLOS.<sup>2</sup> Some scholars identified five sensitive areas of dispute.<sup>3</sup> This chapter focuses on the Spratlys.

### 8.1.1 The emergence of the Spratlys dispute

China regarded the South China Sea islands as its territory over many centuries, resting on historical records and maps of discovery and occupation dating back to the Han Dynasty (206 BC - 220 AD) when the "silk sea route" was used for regional and international trade.<sup>4</sup> The first map of South China Sea island groups was produced by Zhao Rushi during the Song Dynasty (13th century). Further evidence, according to the Chinese government, is found in the map of Zheng He's voyages during the Ming Dynasty (15th century),<sup>5</sup> and a series of

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<sup>2</sup>For the contents of United Nations Convention on the Law of the Sea (UNCLOS), see [http://www.un.org/Depts/los/convention\\_agreements/texts/unclos/unclos\\_e.pdf](http://www.un.org/Depts/los/convention_agreements/texts/unclos/unclos_e.pdf). Accessed 01/10/2010.

<sup>3</sup> The first area is situated in the eastern Gulf of Thailand where Malaysia, Thailand and Cambodia have overlapping claims to maritime boundaries; the second area is located in the northern waters of the Natuna Islands where Vietnam and Indonesia have disagreement; the third area is the area surrounding the Gulf of Tonkin where China and Vietnam are contending with each other; the fourth area is the Paracels, involving China and Vietnam as contending parties.

<sup>4</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*. Beijing: China Economic Publishing House, 2010, p. 16.

<sup>5</sup> For studies of Zheng He's voyages, see Finlay, Robert. "The Treasure-Ships of Zheng He: Chinese Maritime Imperialism in the Age of Discovery." *Terrae Incognitae* 23, no. 1 (1991), pp. 1-12; Finlay, Robert. "Portuguese and Chinese Maritime Imperialism: Camoes's Lusiads and Luo Maodeng's Voyage of the San Bao Eunuch." *Comparative Studies in Society and History* 34, no. 2 (1992), pp. 225-41; Levathes, Louise. *When China Ruled the Seas: The Treasure Fleet of the Dragon Throne 1405-1433*. New York: Oxford University Press, 1996; Zheng, Hesheng, and Yijun Zheng, eds. *Collected Sources on Zheng He's Voyages*. Beijing: Haiyang Publishing House, 2005; Dreyer, Edward L. *Zheng He: China and the Oceans in the Early Ming Dynasty, 1405-1433*. New York: Pearson Longman, 2006. Zhao, Gang. "Shaping the Asian Trade Network: The Conception and Implementation of the Chinese Open Trade Policy, 1684--1840." Ph.D., The Johns Hopkins University, 2007; Wade, Geoff. "The Zheng He Voyages: A Reassessment." National University of Singapore, *Asia Research Institute Working Paper Series*, no. 31 (2004), [www.ari.nus.edu.sg/docs/wps/wps04\\_031.pdf](http://www.ari.nus.edu.sg/docs/wps/wps04_031.pdf). Accessed 08/02/2011.

maps of Chinese territory published during the Qing Dynasty.<sup>6</sup> Assertions of sovereignty were supported by evidence of Chinese fishing activities, exploration and management of the islands.<sup>7</sup> In addition, China's claims were recognised in international declarations and treaties after World War II, in which Japan relinquished all rights, titles and claims to Taiwan (Formosa) and Penghu (the Pescadores), as well as the Xisha (Paracel) and Nansha Islands.<sup>8</sup>

Figure 8-1. Map of the South China Sea, showing the area claimed by China as its territorial waters



Source: <http://www.china-briefing.com/news/2011/05/31/chinas-territorial-disputes-in-the-south-china-sea-and-east-china-sea.html>.

China declared sovereignty over the Paracels and Spratlys in 1949, before the San Francisco Treaty and Peace Treaty with Japan in 1951.<sup>9</sup> In August 1951, Zhou Enlai stated that:

The inviolable sovereignty of the People's Republic of China over Spratly Island and the Paracel Archipelago will by no means be impaired, irrespective of

<sup>6</sup>Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, pp. 16-17.

<sup>7</sup> *Ibid.*, pp. 19-23.

<sup>8</sup>See "Cairo Declaration." (December 1, 1943), [http://www.ndl.go.jp/constitution/e/shiryō/01/002\\_46/002\\_46tx.html](http://www.ndl.go.jp/constitution/e/shiryō/01/002_46/002_46tx.html); "Potsdam Declaration." (July 26, 1945), <http://www.ndl.go.jp/constitution/e/etc/c06.html>.

<sup>9</sup>*Ibid.* Neither the Republic of China nor Taiwan was invited to the San Francisco Peace Conference, and neither were parties to the San Francisco Treaty. Article 2 (f) stated: "Japan renounces all right, title and claim to the Spratly Islands and to the Paracel Islands." The undecided future gave birth to controversies over the ownership of the Spratlys. See "San Francisco Treaty (Treaty of Peace with Japan)." (September 8, 1951), <http://www.taiwandocuments.org/sanfrancisco01.htm>. Accessed 01/08/2010.

whether the American-British draft for a peace treaty with Japan should make any stipulation and of the nature of any such stipulation.<sup>10</sup>

Nonetheless, the legal and political vacuum left by the San Francisco Conference sowed the seeds for subsequent territorial disputes. Until the mid-1960s, claims to the South China Sea Islands were limited. Only the US-backed South Vietnam government contested sovereignty over the Spratlys.<sup>11</sup> In the 1950s, private Philippine groups asserted ownership over parts of the Spratlys known as the “Kingdom of Humanity” and Cloma’s “discovery”,<sup>12</sup> though the Philippine government did not lodge any official claim.<sup>13</sup>

Contest over the Spratlys was complicated further by the emergence of the Philippines, Malaysia and Brunei as new claimants in the 1970s,<sup>14</sup> while China, Taiwan and Vietnam contested each other’s claims over the Paracels.<sup>15</sup> China, Taiwan and Vietnam claimed all the Spratlys, while the Philippines, Malaysia and Brunei claimed a portion.

### 8.1.2 Strategic significance of the South China Sea

The strategic importance of the South China Sea for littoral states derived from fishing<sup>16</sup> and potential oil and gas resources. In 1968, it was reported by the Committee for Coordination of Joint Prospecting for Mineral Resources in the Asia Off-shore Area, under the United Nations Economic Commission for Asia and the Far East, that the Spratlys contained large deposits of oil and gas.<sup>17</sup> The release of this report<sup>18</sup> coincided with the beginning of exploration.<sup>19</sup> Competition intensified because of the two oil crises in the 1970s/80s, with

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<sup>10</sup> Quoted in Catley, Bob, and Makmur Keliat. *Spratlys: The Dispute in the South China Sea*. Aldershot: Ashgate, 1997, p. 26.

<sup>11</sup> For the details of how Vietnam contested China’s claim over the South China Sea see *Ibid.*, pp. 33-34; and also see Valero, Gerardo M. C. "Spratly Archipelago Dispute: Is the Question of Sovereignty Still Relevant?" *Marine Policy* 18, no. 4 (1994), pp. 320-25.

<sup>12</sup> The ‘Kingdom of Humanity’ was claimed by Morton F. Meads who was reported to have established a number of settlements on the Spratlys and declared it as a sovereign country, but its history was short-lived. ‘Cloma’s discovery’ refers to Thomas Cloma who ‘discovered’ a maritime territory with a total area of about 60,000 square nautical miles, named as Kalayaan (Freedomland), which was part of the Spratlys. See Catley, Bob and Makmur Keliat. *Spratlys: The Dispute in the South China Sea*, p. 28.

<sup>13</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, p. 2.

<sup>14</sup> Storey, Ian J. "Maritime Security in Southeast Asia: Two Cheers for Regional Cooperation." *Southeast Asian Affairs* (2009), pp. 36-58.

<sup>15</sup> *Ibid.*, p. 46.

<sup>16</sup> Catley, Bob and Makmur Keliat. *Spratlys: The Dispute in the South China Sea*, pp. 44-59.

<sup>17</sup> *Ibid.*

<sup>18</sup> the Committee for Co-ordination of Joint Prospecting for Mineral Resources in Asian Offshore Areas (CCOP) Technical Bulletin, 1969(2) quoted in Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, p. 13.

<sup>19</sup> *Ibid.*, p. 6.



the continental shelves of Southeast Asia considered “frontiers for development in the future”.<sup>20</sup> For these reasons, Christopher Joyner argued, sovereignty claims dragged rival states into a tangled nexus of regional conflict and rivalry.<sup>21</sup>

The South China Sea was strategically important because it linked the Pacific and Indian Oceans, through choke-points of the Taiwan Strait in Northeast Asia and the Strait of Malacca in Southeast Asia. The South China Sea was crucial historically for Northeast Asian seaborne trade with the rest of world. More than a quarter of global trade traversed these SLOCs, including 70% of Japan’s energy needs and 65% of China’s.<sup>22</sup> Freedom of navigation and maritime security constituted critical issues not only for the littoral states<sup>23</sup> but also for non-claimants, notably the US and Japan.<sup>24</sup> The US was seldom absent, though, as discussed in Section 8.3, this depended on its strategic priorities at the time.

### 8.1.3 The overlapping claims over Spratlys

#### 8.1.3.1 The role of international law

Maritime and seabed jurisdiction claims were governed by UNCLOS,<sup>25</sup> under which the state holding valid legal title to sovereignty over an island was permitted to establish a twelve-mile territorial sea and a 200-mile EEZ. An archipelagic state had the right to draw a straight baseline between the outermost islands and acquired exclusive rights to explore and exploit living and non-living resources within the area enclosed by that baseline. Provisions relating to the “twelve-mile territorial sea”, “200-mile EEZ” and “continental shelf”<sup>26</sup> created complex, overlapping claims to sovereignty over the Spratlys. An exhaustive analysis of each

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<sup>20</sup> Chia, Lin Sien, and Colin MacAndrews, eds. *Southeast Asian Seas: Frontiers for Development*. Singapore: McGraw-Hill International, 1981, pp. 3-19.

<sup>21</sup> Joyner, Christopher C. "The Spratly Islands Dispute in the South China Sea: Problems, Policies, and Prospects for Diplomatic Accommodation." In *Investigating Confidence Building Measures on the Asia Pacific Region*, edited by Ranjeet K. Singh, Washington: Henry L. Stimson Centre, 1999, pp. 53-108, it is available at <http://southchinasea.org/docs/Joyner,%20Spratly%20Islands%20Dispute.pdf>. 10/01/2010.

<sup>22</sup> Schofield, Clive, and Ian James Storey. "Energy Security and Southeast Asia: The Impact on Maritime Boundary and Territorial Disputes." *Harvard Asia Quarterly* 9, no. 4 (2005), pp. 36-46.

<sup>23</sup> Storey, Ian J. "Maritime Security in Southeast Asia: Two Cheers for Regional Cooperation." *Southeast Asian Affairs* (2009), pp. 36-37.

<sup>24</sup> *Ibid.*

<sup>25</sup> The historical background of UNCLOS, see [http://www.un.org/Depts/los/convention\\_agreements/convention\\_historical\\_perspective.htm](http://www.un.org/Depts/los/convention_agreements/convention_historical_perspective.htm). Accessed 01/10/2010.

<sup>26</sup> See UNCLOS, Part II: Territorial Sea and Contiguous Zone, Part V: Exclusive Economic Zone, and Part VI: Continental Shelf, [http://www.un.org/Depts/los/convention\\_agreements/texts/unclos/unclos\\_e.pdf](http://www.un.org/Depts/los/convention_agreements/texts/unclos/unclos_e.pdf).

claim from a legal perspective is beyond the scope of this thesis. Suffice it to note that UNCLOS provided legal grounds for a number of sovereignty claims.

### 8.1.3.2 *The overlapping claims*

Vietnam had long claimed sovereignty over the entire Spratly archipelago and a portion of the Paracels, based on historical contact with the islands during the 16<sup>th</sup>-19<sup>th</sup> century Nguyen dynasty.<sup>27</sup> Claims by the South Vietnamese government in Saigon resulted in military clashes and China taking control of the Paracels in 1974,<sup>28</sup> which Hanoi contested after Vietnam was reunited in 1975. Maps and supporting “historical evidence” were presented in two White Papers in 1979 and 1982,<sup>29</sup> while in 1980 China questioned their authenticity in a document attempting to refute Vietnam’s claim.<sup>30</sup>

Encouraged by ongoing UNCLOS negotiations, Vietnam declared a 200 nautical mile EEZ in 1977, including the Paracels and Spratlys in its territorial waters,<sup>31</sup> occupying at least 29 islands, islets and atolls which resulted in a series of confrontations during the 1980s that culminated in a violent clash in 1988.<sup>32</sup> Though tensions eased after Sino-Vietnam relations were normalised in 1991, Vietnam granted multinational oil companies from the US and Japan concessions or licensing projects within the claimed area, along with accelerating the exploitation of fishing resources.<sup>33</sup>

The Philippines’ official claim to sovereignty over the Spratly Islands, referred to as *Kalayaan*, was made in 1971 on the basis of Cloma’s “discovery” of uninhabited islands in 1947.<sup>34</sup> The claim was in response to an unarmed Philippine naval vessel being fired on by Taiwanese forces stationed on Itu Aba Island (Taiping in Chinese), which had been occupied

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<sup>27</sup> Valero, Gerardo M. C. "Spratly Archipelago Dispute: Is the Question of Sovereignty Still Relevant?" *Marine Policy* 18, no. 4 (1994), pp. 321-25.

<sup>28</sup> Storey, Ian. "Maritime Security in Southeast Asia: Two Cheers for Regional Cooperation." *Southeast Asian Affairs* (2009), p. 46.

<sup>29</sup> They were issued by the Vietnamese Foreign Ministry, each entitled Vietnam’s Sovereignty Over the Hoang Sa and Truong Sa Archipelagos. *Ibid.*

<sup>30</sup> On 30 January 1980, Chinese Foreign Ministry issued a document entitled *China’s Indisputable Sovereignty over the Xisha and Nansha Islands*.

<sup>31</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, pp. 84-85.

<sup>32</sup> Joyner, Christopher C. "The Spratly Islands Dispute in the South China Sea: Problems, Policies, and Prospects for Diplomatic Accommodation." In *Investigating Confidence Building Measures on the Asia Pacific Region*, edited by Ranjeet K. Singh, Washington: Henry L. Stimson Centre, 1999, p. 61.

<sup>33</sup> Li, Jinming. *The Waves of South China Sea: Southeast Countries and the Issue of South China Sea*. Nanchang: Jiangxi Higher Education Press, 2005, pp. 52-64.

<sup>34</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, pp. 19-23.

since 1956.<sup>35</sup> The Philippine government protested the incident, annexed *Kalayaan* and issued a Presidential Decree in 1978 declaring “a 200-mile EEZ” and other rights.<sup>36</sup> Nine islands and islets were occupied where military bases were constructed and troops stationed.<sup>37</sup>

Malaysia’s claim was made in 1979 with the publication of a map extending the continental shelf into Malaysian territory. The claim was based mainly on provisions regarding continental shelves under UNCLOS.<sup>38</sup> According to Buszynski and Sazlan, Malaysia was prompted by Vietnam’s occupation of the Spratlys and the Philippine declaration of sovereignty of 1978.<sup>39</sup> Malaysia occupied at least five islands, deployed troops and established military infrastructure.<sup>40</sup> Brunei was the only state without a military presence, though it established an EEZ of 200 nautical miles that extended to the south of the Spratlys and included Louisa Reef. Brunei explored for and exploited petroleum and gas resources, which accounted for 90% of exports from the Spratly islands.<sup>41</sup>

As a result, the South China Seas were the source of diplomatic tension and the occasional military clash, such as the Sino-Vietnamese confrontations of the 1970-80s and Sino-Philippine conflict over Mischief Reef in the 1990s, for which China was criticised for “creeping assertiveness” by ASEAN and other non-claimants.<sup>42</sup> For China, reclaiming “lost territories” was nothing less than the long overdue recovery of sovereignty. Its perception of, and policy towards, the Spratlys dispute is explored in the next section.

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<sup>35</sup> Joyner, Christopher C. "The Spratly Islands Dispute in the South China Sea: Problems, Policies, and Prospects for Diplomatic Accommodation." In *Investigating Confidence Building Measures on the Asia Pacific Region*, edited by Ranjeet K. Singh, Washington: Henry L. Stimson Centre, 1999, p. 60.

<sup>36</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, p. 116.

<sup>37</sup> Joyner, Christopher C. "The Spratly Islands Dispute in the South China Sea: Problems, Policies, and Prospects for Diplomatic Accommodation." In *Investigating Confidence Building Measures on the Asia Pacific Region*, edited by Ranjeet K. Singh, Washington: Henry L. Stimson Centre, 1999, pp. 61-62.

<sup>38</sup> Emmers, Ralf. "Maritime Dispute in the South China Sea: Strategic and Diplomatic Status Quo." *Institute of Defence and Strategic Studies Singapore (IDSS) Working Paper*, no. 87 (2005), pp. 4-5.

<sup>39</sup> Leszek, Buszynski, and Sazlan Iskandar. "Maritime Claims and Energy Cooperation in the South China Sea." *Contemporary Southeast Asia* 29, no. 1 (2007), p. 147.

<sup>40</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, p. 43, pp. 148-49.

<sup>41</sup> *Ibid.*, pp. 151-52.

<sup>42</sup> Storey, Ian James. "Creeping Assertiveness: China, the Philippines and the South China Sea Dispute." *Contemporary Southeast Asia* 21, no. 1 (1999), pp. 95-118.

## 8.2 China's South China Sea policy and its impact on Sino-ASEAN relations

As the largest and most powerful disputant in the South China Sea, China's sovereignty claims reinforced its image as a "threat", inclined previously towards exporting revolution during the Cold War, and willing subsequently to take tough action over disputed territory to protect its expanding economic and security interests in East Asia. Military confrontations between China and Vietnam and the Philippines were viewed by the latter as a sign that China was gradually establishing a greater physical presence in the South China Sea.<sup>43</sup> From China's perspective, the Spratlys were Chinese territory since ancient times, which had been lost during the "century of humiliation". Beijing presented its assertiveness as long overdue and legitimate action to protect China's territorial integrity.<sup>44</sup>

This section focuses on China's Spratlys policy in the context of Sino-ASEAN relations and changing strategic priorities. During the 1970/80s, superpower rivalry was much more important in China's foreign policy than territorial disputes in the South China Sea. After the end of the Cold War, China's Spratlys policy underwent significant adjustments prompted by changing internal and external environments. Economic development required a stable and amicable regional environment in which Sino-ASEAN relations were an important part of China's good-neighbourly policy, yet territorial disputes strained bilateral relations. China's strident reassertion of sovereignty in 1992 caused concern in ASEAN, requiring China to balance relations without backing down on its territorial claims. One of the pillars of this approach was the notion of "joint development" of disputed territories. These points are considered below.

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<sup>43</sup> Chang, Pao-Min. "A New Scramble for the South China Sea Islands." *Contemporary Southeast Asia* 12, no. 1 (1990), pp. 20-39; Amer, Ramses. "The Territorial Disputes between China and Vietnam and Regional Stability." *Contemporary Southeast Asia* 19, no. 1 (1997), pp. 86-113; Storey, Ian James. "Creeping Assertiveness: China, the Philippines and the South China Sea Dispute." *Contemporary Southeast Asia* 21, no. 1 (1999), pp. 95-118.

<sup>44</sup> Chen, Jie. "China's Spratly Policy: With Special Reference to the Philippines and Malaysia." *Asian Survey* 34, no. 10 (1994), p. 893.

### 8.2.1 China's view of territorial sovereignty over the Spratly Islands

For Chinese scholars, there was sufficient historical evidence to justify China's centuries-long title claims over the South China Sea.<sup>45</sup> Bearing the name of South *China* Sea was indicative, it was claimed, of China's historical influence in the region, which "fosters the image of the region being a 'Chinese lake'", as Christopher Joyner put it.<sup>46</sup> The Chinese view of the Spratly Islands was compounded by sensitivity over the loss of territories during the "century of humiliation", serving as a constant reminder that China was the victim of Western imperialism and expansionism.<sup>47</sup> Chen Jie noted that the Spratlys as "part of the motherland's territory" was embedded in China's national psyche.<sup>48</sup> In Chinese eyes, as he explained, the nature of the dispute was clear: China was not joining a competition for claiming territory in the South China Sea, but reclaiming rights over territory occupied by adversaries that took advantage of China's weakness and internal turmoil, preoccupations with Cold War superpower threats and incapacity to project naval power.<sup>49</sup> The conclusion was that as China grows stronger, its "lost territory" will not be "carved up" again.

Though territorial integrity was regarded as inviolable and non-negotiable, China's "Spratly policy" was not based solely on this principle. The policy was the subject of different strategic objectives at different times.

### 8.2.2 China's reassertion of its rights over the South China Sea in the era of economic rise

In the 1950s and 1960s, territorial claims over the South China Sea were limited and China kept a low profile. Tensions in the 1970s coincided with a series of changes in the international environment, which saw China align with the US to counterbalance the Soviet threat after the Sino-Soviet split in the late 1960s. China's policy on the Spratlys was subject

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<sup>45</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*. Beijing: China Economic Publishing House, 2010; Li, Jinming. *The Waves of South China Sea: Southeast Countries and the Issue of South China Sea*. Nanchang: Jiangxi Higher Education Press, 2005.

<sup>46</sup> Joyner, Christopher C. "The Spratly Islands Dispute in the South China Sea: Problems, Policies, and Prospects for Diplomatic Accommodation." In *Investigating Confidence Building Measures on the Asia Pacific Region*, edited by Ranjeet K. Singh, Washington: Henry L. Stimson Centre, 1999, p. 77.

<sup>47</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, pp. 7-9.

<sup>48</sup> Chen, Jie. "China's Spratly Policy: With Special Reference to the Philippines and Malaysia." *Asian Survey* 34, no. 10 (1994), p. 893.

<sup>49</sup> *Ibid.*, pp. 893-94; see also Kim, Shee Poon. "The South China Sea in China's Strategic Thinking." *Contemporary Southeast Asia* 19, no. 4 (1998), pp. 369-87.

to the strategic objective of forming an anti-Soviet united front in the 1970s and early 1980s. Sino-Vietnamese clashes caused by the dispute, in 1974 and again in 1978, were China's attempt to "teach Vietnam a lesson" in response to Soviet support.<sup>50</sup> By way of contrast, China took a fairly conciliatory attitude to Malaysia and the Philippines when they occupied islands and reefs and engaged in economic exploration.<sup>51</sup>

In the mid-1980s, China began to pay greater attention to matters of regional security as a result of the shift in China's strategic objectives from pursuing the struggle between the great powers to concentrating on economic reform and modernisation. It reassessed the strategic importance of the South China Sea and the crucial value of marine resources.<sup>52</sup>

The Spratlys was not a significant issue in China's foreign policy until the late 1980s when the coastal development strategy was introduced,<sup>53</sup> requiring that the eastern coastal region have secure seaborne routes for expanding foreign trade and access to natural resources.<sup>54</sup>

China became a net oil importer in 1993, to the point where in 2011 China was the second largest oil consumer after the US.<sup>55</sup> In 2005, China's net oil imports were 0.119 billion tons, increasing to 0.204b tons in 2009, accounting for 52% percent of consumption.<sup>56</sup> The high demand prompted an expansion of energy supplies at home and abroad.<sup>57</sup> Chinese observers described the natural resource potential in the South China Sea as a "second

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<sup>50</sup> Yu, Xiangdong. "The Development of Sino-Vietnam Relations since Its Normalization." In *China and Its Neighbours: Making New Partnership*, edited by Yunling Zhang, Beijing: Social Sciences Academic Press, 2008, pp. 118-19.

<sup>51</sup> Chen, Jie. "China's Spratly Policy: With Special Reference to the Philippines and Malaysia." *Asian Survey* 34, no. 10 (1994), p. 894.

<sup>52</sup> *Ibid.*, p. 895.

<sup>53</sup> *Ibid.*

<sup>54</sup> *Ibid.*, p. 896.

<sup>55</sup> Downs, Erica S. "The Chinese Energy Security Debate." *The China Quarterly* 177, no. 1 (2004), pp. 21-41.

<sup>56</sup> Xu, Kexin. "National Development and Reform Commission: China's Dependency on Oil Imports above Precarious Level for the First Time." *Financial Daily* (January 19, 2010), <http://finance.sina.com.cn/roll/20100119/03257265959.shtml>. Accessed 25/09/2010.

<sup>57</sup> Zweig, David, and Jianhai Bi. "China's Global Hunt for Energy." *Foreign Affairs* 84, no. 5 (2005), pp. 25-38; Downs, Erica S. "The Chinese Energy Security Debate." *The China Quarterly* 177, no. 1 (2004), pp. 21-41; Yergin, Daniel. "Ensuring Energy Security." *Foreign Affairs* 85, no. 2 (2006), pp. 69-82; Erickson, Andrew, and Gabe Collins. "Beijing's Energy Security Strategy: The Significance of a Chinese State-Owned Tanker Fleet." *Orbis* 51, no. 4 (2007), pp. 665-84.

Persian Gulf".<sup>58</sup> The Chinese Ministry of Land and Resources estimated that reserves could be 23 to 30b tons, or one third of China's known reserves.<sup>59</sup>

The South China Sea was also an important shipping route for energy, with up to about 80% of crude oil<sup>60</sup> and 60% of trade coming through the Straits of Malacca,<sup>61</sup> which were as important for Northeast Asia, with South Korea, Japan and Taiwan dependent on 80% of crude oil imports,<sup>62</sup> as the South China Sea was for China and Southeast Asia's energy security.<sup>63</sup>

The strategic significance of the South China Sea required a stronger Chinese naval presence in its "blue water territory" to face contestation and occupation by other claimants.<sup>64</sup> A long-held Chinese view was that tensions were the result of US interference while Chinese naval power was weak.<sup>65</sup> Modernisation of China's naval power accelerated during the early 1990s.<sup>66</sup>

Considerations over the crucial strategic value of the South China Sea led to a significant shift in policy in the early 1990s towards a pointed re-assertion of China's claims, manifested in the passing of the *Territorial Law of the Sea and Contiguous Zone* by the National People's Congress in 1992. Article 2 stated that:

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<sup>58</sup> Zhang, Li. "Study on the Characteristics and Its Exploitation Strategy of South China Sea Resources." *Journal of Zhanjiang Ocean University* 22, no. 2 (2002), pp. 13-17; Cheng, Jie, Ning Wang, and Xiejie Li. "The Status of Resource Potential and Petroleum Exploration of the South China Sea." *Progress in Geophysics* 22, no. 4 (2007), pp. 1285-94.

<sup>59</sup> Jia, Quanxin. "Oil Reserves in the South China Sea Has Great Potential, CNOOC Collaborates with American Danven Oil for Joint Development." (December 7, 2005), [http://news.xinhuanet.com/fortune/2005-12/07/content\\_3888478.htm](http://news.xinhuanet.com/fortune/2005-12/07/content_3888478.htm). Accessed 24/09/2010.

<sup>60</sup> Ding, Hao, Bingyu Tan, and Xuecheng Sun. "An Analysis of China's Oil Security of 2008." In *A Review of China's National Security in 2008*, edited by Xiaochun Zhao, Beijing: Shi Shi Publishing House, 2009, pp. 179-92.

<sup>61</sup> Erickson, Andrew, and Gabe Collins. "Beijing's Energy Security Strategy: The Significance of a Chinese State-Owned Tanker Fleet." *Orbis* 51, no. 4 (2007), pp. 670-71.

<sup>62</sup> US Department of Defense. "Annual Report to Congress: Military Power of the People's Republic of China, 2009." (March 2009), p. 5, [http://www.defenselink.mil/pubs/pdfs/China\\_Military\\_Power\\_Report\\_2009.pdf](http://www.defenselink.mil/pubs/pdfs/China_Military_Power_Report_2009.pdf). Accessed 08/07/2010.

<sup>63</sup> Storey, Ian J. "New Energy Projects Help China Reduce Its 'Malacca Dilemma'." *Viewpoints* (May 14, 2007), <http://www.iseas.edu.sg/viewpoint/is14may07.pdf>. Accessed 25/06/2010. Lanteigne, Marc. "China's Maritime Security and the 'Malacca Dilemma'." *Asian Security* 4, no. 2 (2008), pp. 143-61.

<sup>64</sup> Kim, Shee Poon. "The South China Sea in China's Strategic Thinking." *Contemporary Southeast Asia* 19, no. 4 (1998), pp. 380-81.

<sup>65</sup> Chen, Jie. "China's Spratly Policy: With Special Reference to the Philippines and Malaysia." *Asian Survey* 34, no. 10 (1994), pp. 895-96.

<sup>66</sup> O'Rourke, Ronald. "China Naval Modernization: Implications for U.S. Navy Capabilities—Background and Issues for Congress." *CRS Report For Congress, RL33153* (July 22, 2011), p. 2.

The land territory of the People's Republic of China includes from the mainland of the PRC and its coastal islands, Taiwan and all islands appertaining thereto including the Diaoyu Islands, the Penghu Islands, the Dongsha Islands, Zhongsha Islands and Nansha Islands as well as other islands belonging to the PRC.<sup>67</sup>

China's re-assertion of sovereignty, four decades after Zhou Enlai's 1951 statement, was viewed with alarm by ASEAN and presented a major challenge in Sino-ASEAN relations. China's attempts to assuage ASEAN's concerns are discussed in the next section.

### 8.2.3 Balancing China's strategic interests against international relations with ASEAN

In response to the new Chinese law, ASEAN issued a *Declaration on the South China Sea* (the Manila Declaration) in 1992, which called for "all parties concerned to exercise restraint" and resolve disputes through peaceful means. Its intention was to speak "with one voice" on the South China Sea.<sup>68</sup> From China's point of view, the *Declaration* was an attempt to "internationalise" the disputes.<sup>69</sup>

The Mischief Reef (*Meiji Jiao*) incident in 1995 disrupted Sino-ASEAN relations, and Sino-Philippine relations in particular.<sup>70</sup> The Philippines, which argued that the Reef was within its 200-mile EEZ, discovered the presence of Chinese troops. The incident sparked diplomatic tensions and a number of minor military confrontations,<sup>71</sup> compounded by the Scarborough Shoal (*Huangyan Jiao*) incident in 1997. Two vessels carrying Chinese and foreign amateur radio enthusiasts, who planned to make a broadcast from the Shoal, were intercepted by the Philippine Navy.<sup>72</sup> The attempted landing was viewed by the Philippines, and ASEAN as a whole, as a manifestation of China's assertiveness.<sup>73</sup> President Ramos remarked that the Spratlys was "a litmus test of whether China as a great power intends to play by

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<sup>67</sup> "Territorial Law of the Sea and Contiguous Zone." (1992), the full text (in Chinese) is available at China's Ministry of Defence website, [http://www.mod.gov.cn/policy/2009-07/14/content\\_4088031.htm](http://www.mod.gov.cn/policy/2009-07/14/content_4088031.htm). Accessed 09/09/2010.

<sup>68</sup> Emmers, Ralf. "The De-Escalation of the Spratly Dispute in Sino-Southeast Asian Relations." *RSIS Working Paper*, no. 129 (2007), pp. 1-18.

<sup>69</sup> Chen, Jie. "China's Spratly Policy: With Special Reference to the Philippines and Malaysia." *Asian Survey* 34, no. 10 (1994), p. 902.

<sup>70</sup> Kim, Shee Poon. "The South China Sea in China's Strategic Thinking." *Contemporary Southeast Asia* 19, no. 4 (1998), pp. 378-79.

<sup>71</sup> Storey, Ian J. "Maritime Security in Southeast Asia: Two Cheers for Regional Cooperation." *Southeast Asian Affairs* (2009), p. 47.

<sup>72</sup> Storey, Ian James. "Creeping Assertiveness: China, the Philippines and the South China Sea Dispute." *Contemporary Southeast Asia* 21, no. 1 (1999), p. 98.

<sup>73</sup> Storey, Ian James. "Creeping Assertiveness: China, the Philippines and the South China Sea Dispute." *Contemporary Southeast Asia* 21, no. 1 (1999), pp. 95-118.



international rules, or makes its own".<sup>74</sup> The Philippines denied China's territorial claims, sending a group of Congressmen to the shoal and erecting the Philippine flag.<sup>75</sup>

China faced a dilemma in deciding on the best policy option. It needed to balance nurturing friendly Sino-ASEAN relations with maintaining national sovereignty,<sup>76</sup> yet territorial disputes with some ASEAN members, in particular Vietnam and the Philippines, undermined Sino-ASEAN relations more generally.<sup>77</sup>

China tried to show restraint. "Provocations", as perceived by ASEAN, were nothing more, in China's view, than actions to protect territory contested by others.<sup>78</sup> Though its stand was non-negotiable, joining the ARF demonstrated a willingness to commit itself to regional stability,<sup>79</sup> and indeed it was encouraged as a means of constraining China to be a responsible regional power, as considered in Section 4.2.<sup>80</sup> When the Spratlys dispute was brought up for discussion at the ARF in 1995, Foreign Minister Qian Qichen stated publicly that China was willing to resolve territorial disputes with other claimants on the basis of the UNCLOS.<sup>81</sup>

Vietnam's admission to ASEAN in 1995 strengthened its collective bargaining power. Vietnam endorsed the 1992 Manila Declaration and acceded to the TAC. Membership, for China, was a case of "two sides of the same coin". It helped to de-escalate the dispute, but transformed it into a multilateral issue at the ASEAN-China level, when China would have preferred to handle it bilaterally. Ang argued that "Vietnam's best and perhaps only solution

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<sup>74</sup> The Philippine president Ramos remarked that the Spratlys had become 'a litmus test of whether China, as a great power, intends to play by international rules or makes its own.' Quoted in *Ibid.* p. 112.

<sup>75</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, pp. 127-28.

<sup>76</sup> Li, Mingjiang. "China's South China Sea Dilemma: Balancing Sovereignty, Development, and Security." In *Security and International Politics in the South China Sea: Towards a Cooperative Management Regime*, edited by Sam Bateman and Ralf Emmers, New York: Routledge, 2009, pp. 140-54.

<sup>77</sup> Chang, Pao-Min. "A New Scramble for the South China Sea Islands." *Contemporary Southeast Asia* 12, no. 1 (1990), pp. 20-39; Amer, Ramses. "The Territorial Disputes between China and Vietnam and Regional Stability." *Contemporary Southeast Asia* 19, no. 1 (1997), pp. 86-113; Storey, Ian James. "Creeping Assertiveness: China, the Philippines and the South China Sea Dispute." *Contemporary Southeast Asia* 21, no. 1 (1999), pp. 95-118; Chen, Jie. "China's Spratly Policy: With Special Reference to the Philippines and Malaysia." *Asian Survey* 34, no. 10 (1994), pp. 893-903.

<sup>78</sup> Kim, Shee Poon. "The South China Sea in China's Strategic Thinking." *Contemporary Southeast Asia* 19, no. 4 (1998), pp. 369-87.

<sup>79</sup> Shambaugh, David. "China Engages Asia: Reshaping the Regional Order." *International Security* 29, no. 3 (2005), pp. 68-69.

<sup>80</sup> Wanandi, Jusuf. "ASEAN's China Strategy: Towards Deeper Engagement." *Survival* 38, no. 3 (1996), pp. 117-28.

<sup>81</sup> Foot, Rosemary. "China in the ASEAN Regional Forum: Organizational Processes and Domestic Modes of Thought." *Asian Survey* 38, no. 5 (1998), p. 431.

in order to pre-empt a *fait accompli* in the Spratlys [was] to depend on ASEAN support and to 'internationalise' the issue as much as it possibly [could]".<sup>82</sup> Multilateral talks involving Vietnam and the Philippines were conducted after the 1995 Mischief Reef incident,<sup>83</sup> culminating in the Sino-ASEAN *Declaration on the Conduct of Parties in the South China Sea* (DOC) in 2002.<sup>84</sup> It stressed the need for peaceful resolution of territorial disputes. Though the code of conduct was not a legally binding document but rather a political statement, it was a compromise made by China for the sake of seeking "common ground" with ASEAN despite its preference for bilateral negotiations.<sup>85</sup> The non-binding nature of the DOC was in keeping with the "ASEAN Way" of international consultation and identifying points of agreement and consensus. A Joint Working Group made up of senior officials was set up in 2004, designed to help translate the DOC into concrete cooperative activities.<sup>86</sup> The DOC was signed in the context of a number of other agreements that drew ASEAN and China closer together. It was soon followed by China's accession to the TAC in 2003, a hugely significant step in creating friendlier political ties, as discussed in Section 4.4.3, and the signing of the "Joint Declaration of Sino-ASEAN on Strategic Partnership, Peace and Prosperity".<sup>87</sup>

#### 8.2.4 Shelving territorial disputes in favour of joint development

As an alternative to seeking a final resolution to the disputes, something which was likely to be unobtainable due to the tenacity with which all sides adhered to their claims, China instead proposed the idea of "shelving the disputes and conducting joint development" in the South China Sea.<sup>88</sup> This policy dated back to the late 1970s, when it was put forward by

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<sup>82</sup> Ang, Cheng Guan. "Vietnam-China Relations since the End of the Cold War." *Institute of Defence and Strategic Studies (IDSS) Working Paper*, no. 1 (1998), p. 23.

<sup>83</sup> Leszek, Buszynski, and Sazlan Iskandar. "Maritime Claims and Energy Cooperation in the South China Sea." *Contemporary Southeast Asia* 29, no. 1 (2007), p. 154.

<sup>84</sup> "Declaration on the Conduct of Parties in the South China Sea." (November 4, 2002), <http://www.aseansec.org/13163.htm>. Accessed 02/09/2008.

<sup>85</sup> Regarding the negotiation process of the code of conduct, see Leszek, Buszynski. "ASEAN, the Declaration on Conduct, and the South China Sea." *Contemporary Southeast Asia* 25, no. 3 (2003), pp. 354-58.

<sup>86</sup> "ASEAN-China Senior Officials Meeting on the Implementation of the Declaration on the Conduct of Parties in the South China Sea." (December 7, 2004), <http://www.aseansec.org/16888.htm>. Accessed 10/09/2008.

<sup>87</sup> "Joint Declaration of Sino-ASEAN on Strategic Partnership on Peace and Prosperity." (October 8, 2003), <http://www.aseansec.org/15265.htm>. Accessed 02/09/2008.

<sup>88</sup> Li, Qingjin. "Deng Xiaoping's Thought of Joint Development and the Issue of Diaoyu Islands." *Japanese Studies*, no. 4 (1999), pp. 1-12.

Deng Xiaoping in the context of territorial disputes with Japan in the East China Sea.<sup>89</sup> He further elaborated this idea in 1984 when China and Britain reached agreement over Hong Kong's sovereignty, to the effect that "one country, two systems" could be adopted in some cases and a policy of "joint development" in others.<sup>90</sup> According to Deng Xiaoping, "joint development" was a peaceful means to resolve disputes in the South China Sea. He conveyed the idea in meetings with the Philippines' Vice President in 1986 and President Aquino in 1988.<sup>91</sup>

China's approach to management of disputes was reaffirmed by Foreign Minister Qian Qichen on several occasions when he joined the ASEAN Foreign Ministers' meetings in the 1990s.<sup>92</sup> The two sides agreed "not to allow existing differences to hamper the development of friendly relations and cooperation" in the Joint Statement of the Second Informal ASEAN Summit in 1997.<sup>93</sup>

Despite these good intentions, substantive joint cooperation was not achieved. In the 1980s and 1990s, competition among claimants saw them build a physical presence in the form of lighthouses and fishing ports on some of the atolls and islands, and starting oil and gas cooperation with foreign companies in disputed waters.<sup>94</sup> Sino-Vietnamese competition over the Wanan Bei-21 Block (WAB-21) was a case in point. In 1992, China concluded an agreement with the American Crestone Energy Cooperation for the development of WAB-21. The Vietnamese government objected that the block overlapped with the Vietnamese-claimed zone and invited Mobil to explore the Blue Dragon field which was in Crestone's

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<sup>89</sup> Ministry of Foreign Affairs of people's Republic of China. "Shelving the Disputes, Conducting Joint Development." (November 7, 2000), <http://www.fmcofrc.gov.hk/chn/topic/zgwj/wjlshk/t8958.htm>. Accessed 22/04/2010.

<sup>90</sup> Pan, Guang. "Review of Deng Xiaoping's Strategic Thinking on Settling Territorial Disputes." *PLA Daily* (September 13, 2010), [http://news.china.com/zh\\_cn/history/all/11025807/20100915/16145896.html](http://news.china.com/zh_cn/history/all/11025807/20100915/16145896.html). Accessed 21/11/2010

<sup>91</sup> *Ibid.*

<sup>92</sup> Li, Jinming. *The Waves of South China Sea: Southeast Countries and the Issue of South China Sea*, pp. 294-98.

<sup>93</sup> "Joint Statement of the Meeting of Heads of State/Government of the Member States of ASEAN and the President of the People's Republic of China." (December 16, 1997), <http://www.aseansec.org/5225.htm>. Accessed 10/09/2008.

<sup>94</sup> Li, Jinming. *The Waves of South China Sea: Southeast Countries and the Issue of South China Sea*, pp. 50-51.

contracted area.<sup>95</sup> This, along with other incidents, led to diplomatic tensions in the 1990s and early 2000s.<sup>96</sup>

The wording of the DOC suggested an obligation for signatories to cooperate on issues affecting them, such as marine scientific research, environmental protection and the management of resources. Bateman argued that the non-binding nature of the DOC made it inadequate to the task of establishing a regime for cooperation in the South China Sea. He argued that the only way forward was the establishment of a cooperative management regime that obliged littoral states to work together in functional areas where they had common interests, such as the development of energy resources, but also management of fishing and the marine environment, safety, law and order at sea.<sup>97</sup>

Other developments suggested positive signs of joint development. In 2004, China and Vietnam ratified maritime boundary and fisheries cooperation agreements for the Beibu (Tonkin) Gulf, putting an end to years of negotiation and debate.<sup>98</sup> In 2005, a trilateral agreement was signed by China, Vietnam and the Philippines to conduct seismic surveys off the eastern part of the Spratlys.<sup>99</sup> It was praised by President Gloria Arroyo as a “diplomatic breakthrough” and the first step in the implementation of the 2002 Declaration of Conduct.<sup>100</sup> For China, the agreement was a breakthrough in applying the principle of “shelving the disputes, conducting joint development”, as expressed at the time by the Chinese ambassador to the Philippines.<sup>101</sup> But growing tensions between China and Vietnam and the Philippines, with US involvement after 2009, put joint development on hold, as is discussed in section 8.3.3.

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<sup>95</sup> *Ibid.*, pp. 52-54.

<sup>96</sup> For more details about the Sino-Vietnamese dispute in this respect, see *ibid.*, pp. 52-64; also see Leszek, Buszynski, and Sazlan Iskandar. "Maritime Claims and Energy Cooperation in the South China Sea." *Contemporary Southeast Asia* 29, no. 1 (2007), pp. 156-61.

<sup>97</sup> Bateman, Sam. "When 'elephants' dance." *The Straits Times* (August 18, 2010), [http://viet-studies.info/kinhte/when\\_elephants\\_dance.htm](http://viet-studies.info/kinhte/when_elephants_dance.htm). Accessed 05/11/2011; "The Regime of the South China Sea – The Significance of the Declaration on the Conduct of Parties." (2011), [http://blog.canpan.info/oprf/img/858/dr.bateman\\_presentation.pdf](http://blog.canpan.info/oprf/img/858/dr.bateman_presentation.pdf). Accessed 05/11/2011; "Managing the South China Sea: Sovereignty is not the Issue." *RSIS Commentaries*, no. 136 (September 29, 2011), <http://rsis.edu.sg/publications/Perspective/RSIS1362011.pdf>. Accessed 05/11/2011.

<sup>98</sup> Yu, Xiangdong. "The Development of Sino-Vietnam Relations since Its Normalization." In *China and Its Neighbours: Making New Partnership*, edited by Yunling Zhang, p. 130.

<sup>99</sup> Xinhua News Agency. "China, the Philippines, and Vietnam Sign Manila Agreement, Joint Exploration Oil Resources in the South China Sea." (March 15, 2005), [http://news.xinhuanet.com/world/2005-03/15/content\\_2698410.htm](http://news.xinhuanet.com/world/2005-03/15/content_2698410.htm). Accessed 15/09/2010.

<sup>100</sup> *Ibid.*

<sup>101</sup> *Ibid.*

In conclusion, China's South China Sea policy reflected a compromise between sovereignty claims and maintenance of a stable external environment, especially in relation to ASEAN. We see in the next section how the United States' re-involvement in the South China Sea and re-engagement with East Asia in general stirred the troubled waters of the South China Sea.

### 8.3 The role of the US in the South China Sea dispute

The multilateral nature of the South China Sea disputes invited the involvement of external powers, in particular the US, which was consistent with its strategic interests in East Asia. The growing importance the US attached to the South China Sea after 2008 was interpreted by Chinese scholars as a policy of "containing" China's growing influence in the region.

#### 8.3.1 American policy on the South China Sea during the Cold War

During the Cold War, the US adopted a neutral position regarding the South China Sea, not inclining toward any particular disputant.<sup>102</sup> This policy was guided by the strategy of containment, designed to check Soviet and/or Chinese power in East Asia.<sup>103</sup> Disputes over the islands in the South China Sea emerged in a changing international environment, in which the power configuration in the "China-Soviet-US triangle" was shifting. With the Sino-Soviet split of the late 1960s, President Nixon's decision to disengage from Vietnam and the Sino-American rapprochement of 1971 readjusted US foreign policy towards South Vietnam.<sup>104</sup> This allowed China to take control of the Paracel islands by a risk-free military operation in 1974, even though the US maintained a strong military presence in the South China Sea at the time.<sup>105</sup>

After Vietnam was reunited in 1975, Hanoi "inherited" six islands in the Spratlys that were held by South Vietnam in an effort to prevent Chinese control.<sup>106</sup> Vietnam moved into the Soviet orbit by signing the *Treaty of Friendship and Cooperation* in 1978, giving the Soviet Union use of Cam Ranh Bay, which enabled it to effectively project military power into the

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<sup>102</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, pp. 162-63.

<sup>103</sup> Zheng, Zemin. "American Policies Towards South China Sea During the Cold War." *Southeast Asian Affairs* (*nanyang wenti yanjiu*), no. 4 (2005), pp. 13-19.

<sup>104</sup> *Ibid.*, p. 17.

<sup>105</sup> *Ibid.*

<sup>106</sup> Ang, Cheng Guan. "The South China Sea Dispute Revisited." *Australian Journal of International Affairs* 54, no. 2 (2000), p. 203.

Pacific.<sup>107</sup> The Soviet naval presence prompted the US to strengthen ties with China. With the Sino-Vietnamese conflict over the Spratlys in 1988, neither the US nor the Soviet Union interfered.<sup>108</sup>

During the 1970/80s, disputes over the South China Sea were very much a Sino-Vietnamese affair. They did not carry much weight in US policy towards East Asia, as long as the sea lines of communication were guaranteed. US strategic objectives aligned with China to keep Soviet power in check.

### 8.3.2 American policy on the South China Sea after the Cold War

The US shifted gradually from a neutral position to one of involvement after the Cold War. In 1992, the US withdrew from the Subic Bay naval and Clark Field air bases in the Philippines, after the Philippines' Senate refused to grant fresh leases.<sup>109</sup> The withdrawal had immediate implications for East Asian security. First, US allies in Southeast Asia had to look after their own national security. For the main US ally, the Philippines, the once strong and special security tie was left on uncertain ground.<sup>110</sup>

In the early 1990s, US policy towards the South China Sea, as stated by then US Undersecretary of State, Robert Zoellick, was to preserve freedom of navigation and support peaceful resolution of disputes, and not to make judgements on the merits of the claims.<sup>111</sup> This was reflected in Department of Defence Reports to Congress at the time.<sup>112</sup>

During the Clinton Presidency in mid-1990s, the US changed from a neutral position to a limited but not active level of involvement, though, for some Chinese scholars, US interference stretched back as far as the Southeast Asia Treaty Organisation.<sup>113</sup> According to Qiu Danyang, Washington adjusted its policy on the South China Sea to serve US strategy in

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<sup>107</sup> Storey, Ian, and Carlyle Thayer. "Cam Ranh Bay: Past Imperfect, Future Conditional." *Contemporary Southeast Asia* 23, no. 3 (2001), pp. 454-55.

<sup>108</sup> Lee, Lai To. "China, the USA and the South China Sea Conflicts." *Security Dialogue* 34, no. 1 (2003), pp. 25-39.

<sup>109</sup> Banlaoi, Rommel. "The Role of Philippine-American Relations in the Global Campaign against Terrorism: Implications for Regional Security." *Contemporary Southeast Asia* 24, no. 2 (2002), pp. 298-99.

<sup>110</sup> *Ibid.*

<sup>111</sup> Quoted in Ang Cheng, Guan. "The South China Sea Dispute Revisited." *Australian Journal of International Affairs* 54, no. 2 (2000), p. 208.

<sup>112</sup> For details of four reports regarding South China Sea, see *Ibid.* pp. 208-09.

<sup>113</sup> Zhang, Mingliang. "Southeast Asia Collective Defense Treaty and American Policy towards the South China Sea." *Southeast Asian Studies*, no. 6 (2004), pp. 47-50.

three ways: first, as part of its strategy to contain China; second, to strike a wedge in China-ASEAN relations; and third, as a pretext for its military presence in the Asia-Pacific.<sup>114</sup>

Washington began to see the disputes as a threat that could lead to military conflict. In 1994, US Ambassador to Japan Walter Mondale stated in a speech that even with the end of the Cold War and all the progress in resolving regional disputes, threats to stability in East Asia remained and “competing territorial claims in the South China Sea cannot be ignored”.<sup>115</sup> Later that year, Secretary of Defence William Perry stated that the South China Sea created anxiety about the future. He noted that, if disputed claims to the Spratlys erupted in conflict, it would deliver a devastating blow to regional security and threaten vital sea lines of communication.<sup>116</sup>

The policy shift signalled Washington’s intention to get involved. During the ASEAN Post-Ministerial meeting in 1995, in response to the Mischief Reef incident,<sup>117</sup> Secretary of State Warren Christopher stated that the dispute was one reason why the US needed to maintain a strong military presence.<sup>118</sup> In the same year, the Assistant Secretary of Defence for International Security Affairs, Joseph Nye, stated that the US would secure freedom of navigation by military means if impeded by conflict.<sup>119</sup> According to Chinese analysts, Nye’s remark was the first time the US government raised the possibility of military intervention.<sup>120</sup> A US Senator stated publicly that the Mischief Reef incident of 1995 was one of the reasons that the Clinton government decided to normalise relations with

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<sup>114</sup> Qiu, Danyang. "The US Factor in China-Philippine Spratlys Dispute." *Contemporary Asia-Pacific*, no. 5 (2002), pp. 44-48.

<sup>115</sup> Mondale, Walter. "Managing U.S.-Japan Relations into the 21st Century, Address before the National Press Club, Washington D.C., August 6, 1994." *US Department of State Dispatch*, no. 38 (September 19, 1994), <http://dosfan.lib.uic.edu/ERC/briefing/dispatch/1994/html/Dispatchv5no38.html>. Accessed 15/09/2010.

<sup>116</sup> Perry, William. "The Sino-U.S. Relationship and Its Impact on World Peace, Address at the National Defense University, Beijing, China, October 18, 1994." *US Department of State Dispatch*, no. 44 (October 31, 1994), <http://dosfan.lib.uic.edu/ERC/briefing/dispatch/1994/html/Dispatchv5no44.html>. Accessed 15/09/2010.

<sup>117</sup> US Department of State. "Remarks by US Secretary of State Warren Christopher at the Seven-Plus-One Session of the ASEAN Post-Ministerial Conference." (August 2, 1995), <http://dosfan.lib.uic.edu/ERC/briefing/dossec/1995/9508/950802dossec.html>. Accessed 26/09/2010.

<sup>118</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, p. 166.

<sup>119</sup> Dumbaugh, Kerry, David Ackerman, Richard Cronin, Shirley Kan, and Larry Niksch. "China’s Maritime Territorial Claims: Implications for U.S. Interests." *CRS Report FOR Congress, RL31183* (November 12, 2001), p. 15.

<sup>120</sup> Holloway, Nigel. "Jolt from the Blue." *Far Eastern Economic Review* 158, no. 31 (1995), p. 22.

Vietnam.<sup>121</sup> For Chinese analysts, securing freedom of navigation was merely a pretext for US interference.<sup>122</sup>

In 1999, ratification of the Visiting Forces Agreement between the US and the Philippines signalled a more active US policy.<sup>123</sup> Banlaoi argued that the Philippines signed the agreement to deter China because of the US withdrawal and incapacity of the Philippine defence forces to respond to Chinese actions in 1995.<sup>124</sup> At the ARF Senior Official Meetings in 1999, the Clinton Administration proposed to set up an international working group, whereas China was reluctant to discuss the issue multilaterally. The proposal received minimal support from ASEAN.<sup>125</sup>

At the start of the 21<sup>st</sup> century, from the Chinese point of view, the US strengthened its military presence and increased its influence in East Asia by taking the opportunity offered by international action against terrorism, in which the US worked closely with Southeast Asian states.<sup>126</sup> Wei Hong argued that military exercises conducted between the US and ASEAN nations in the name of anti-terrorism were nothing but the exertion of the US's growing influence through cooperation with Vietnam and the Philippines in particular to balance Chinese power.<sup>127</sup>

Chinese scholars observed that from 2003 the number of large-scale joint US/ASEAN military exercises increased rapidly. US-Philippines exercises in 2006 numbered over 37 compared with 24 in 2005.<sup>128</sup> In 2002, the Philippines' government stated that Manila

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<sup>121</sup> US Department of State Daily Briefing, May 10, 1995, quoted in Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, p. 170.

<sup>122</sup> *Ibid.*, p. 167.

<sup>123</sup> Dumbaugh, Kerry, David Ackerman, Richard Cronin, Shirley Kan, and Larry Niksch. "China's Maritime Territorial Claims: Implications for U.S. Interests." *CRS Report For Congress, RL31183* (November 12, 2001), p. 16.

<sup>124</sup> Banlaoi, Rommel. "The Role of Philippine-American Relations in the Global Campaign against Terrorism: Implications for Regional Security." *Contemporary Southeast Asia* 24, no. 2 (2002), p. 294; Lee, Lai To. "China, the USA and the South China Sea Conflicts." *Security Dialogue* 34, no. 1 (2003), pp. 28-29.

<sup>125</sup> *Ibid.*, pp. 33-36; Dumbaugh, Kerry, David Ackerman, Richard Cronin, Shirley Kan, and Larry Niksch. "China's Maritime Territorial Claims: Implications for U.S. Interests." *CRS Report For Congress, RL31183* (November 12, 2001), p. 16.

<sup>126</sup> Lu, Fanghua. "An Examination of the US Factor in the South China Sea Issue." *Southeast Asia and South Asia Studies*, no. 4 (2009), pp. 6-10.

<sup>127</sup> Wei, Hong. "Influence of American Factor on China-ASEAN Relations." *Southeast Asian Affairs (nanyang wenti yanjiu)*, no. 1 (2006), pp. 10-15.

<sup>128</sup> Lu, Fanghua. "An Examination of the US Factor in the South China Sea Issue." *Southeast Asia and South Asia Studies*, no. 4 (2009), p. 7.



intended to “resolve” illegal fishing in the South China Sea through *Balikatan2002-1* (shoulder-to-shoulder) exercises with Washington<sup>129</sup> in a location where China and the Philippines contended for sovereignty. The exercise’s objective was to defend against invasion by a third party, instead of anti-terrorism.<sup>130</sup> In 2008, joint exercises were conducted in the waters off Palawan Island, the nearest location to the Spratlys.<sup>131</sup> In addition, US military ties with Indonesia improved steadily after 9/11. In 2005, Washington lifted an arms embargo and resumed military assistance for the “purpose” of counter-terrorism.<sup>132</sup> In 2009 and 2010, the US and Indonesia co-hosted two multilateral military exercises in the South China Sea, with thousands of soldiers from ASEAN states participating.<sup>133</sup>

Apart from reinvigorated security ties with the Philippines and Indonesia, the US steadily improved political and military ties with its old adversary Vietnam, starting with a 2003 port visit to Ho Chi Minh City by an American naval vessel.<sup>134</sup> Ties were strengthened further by a week-long series of joint exercises aboard the *USS John S McCain* after it arrived in the central Vietnamese port of Danang in August 2010. The US also sent the carrier *USS George Washington* to the South China Sea to join the exercise.<sup>135</sup> Professor Shen Dingli, Director of the Centre of American Studies at Fudan University, opined in an interview with the Hong Kong paper *Ming Pao*, that Washington was intent on uniting more states to balance China’s possible Asian dominance.<sup>136</sup> Another Chinese expert, Professor Ren Huaifeng, from the National Institute for South China Sea Studies, concluded that the US was designing a new “power game” to serve its strategy of containing and balancing China.<sup>137</sup>

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<sup>129</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, p. 179.

<sup>130</sup> Luo, Li, and Shulin Yuan. "A Tentative Analysis of the Issue of South China Sea in China's National Security." *Journal of Jinan University*, no. 1 (2005), pp. 7-11.

<sup>131</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, p. 178.

<sup>132</sup> *Ibid.*, p. 173.

<sup>133</sup> Zhang, Shaozhong. "US's Interference in the South China Sea: What Does the US Want to Do?" (July 29, 2010 ), <http://www.people.com.cn/GB/32306/33232/12286023.html>. Accessed 28/10/2010.

<sup>134</sup> Wu, Shicun. *The Genesis of Nansha Islands Dispute and Its Development*, p. 174.

<sup>135</sup> McCoy, Clifford. "US Southeast Asia Pose Risks China Clash." *Asia Times* (September 1, 2010), [http://www.atimes.com/atimes/Southeast\\_Asia/LI01Ae01.html](http://www.atimes.com/atimes/Southeast_Asia/LI01Ae01.html). Accessed 20/09/2010.

<sup>136</sup> Cited in China News Agency. "Hong Kong Media: US Carrier Visiting Vietnam Tends to Involve in the South China Sea to Contain China." (August 10, 2010),

<http://news.163.com/10/0810/11/6DNK8OUT000146BD.html>. Accessed 20/09/2010.

<sup>137</sup> *Ibid.*

From the US perspective, much of its influence in the region was lost after 2001 because of President Bush's "war on terror". Some analysts argued that the US was "distracted" from Southeast Asia, leaving a power vacuum which China filled slowly and willingly.<sup>138</sup> Secretary of State Condoleezza Rice's absence from the ARF in 2005 and cancellation of a planned visit to Indonesia in 2006 led to Southeast Asian criticism of the US for not paying enough attention to the region.<sup>139</sup> Some even went so far as to comment that "it was a sign that the US was ceding the region to China".<sup>140</sup> The Bush Administration refused to accede to ASEAN's TAC, a prerequisite for joining the East Asia Summit, which was inaugurated in 2005, on the grounds that it would constrain US policy and undermine its alliances.<sup>141</sup> In contrast, China engaged actively with ASEAN by signing the TAC in 2003, participating in the East Asia Summit, and by stronger economic ties through CAFTA. Deng Yong and Thomas Moore concluded that the situation not only allowed China to expand its economic and political influence, but jeopardised that of the US.<sup>142</sup>

US accession to the TAC in July 2009 marked Washington's "comeback" to Southeast Asia, described as "a reaffirmation of the US political and security commitment to the region".<sup>143</sup> The Obama Administration's desire to upgrade the US presence in the Asia Pacific<sup>144</sup> was interpreted by Chinese analysts as "strengthening US influence in the South China Sea", and aimed at countering China's growing assertiveness and enhanced naval presence.<sup>145</sup>

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<sup>138</sup> Vaughn, Bruce, and Wayne M. Morrison. "China-Southeast Asia Relations: Trends, Issues, and Implications for the United States." *CRS Report for Congress, RL32688* (April 4, 2006), p. 5.

<sup>139</sup> Dalpino, Catharin. "U.S. Ratchets up Regionalism and Boosts Ties with Muslim States." *Comparative Connections*, no. 1 (2006), [http://www.csis.org/files/media/csis/pubs/0601qus\\_seasia.pdf](http://www.csis.org/files/media/csis/pubs/0601qus_seasia.pdf). Accessed 10/03/2011.

<sup>140</sup> Cited in Vaughn, Bruce. "East Asia Summit (EAS): Issue for Congress." *CRS Report For Congress, RL33242* (January 11, 2006), p. 4.

<sup>141</sup> Manyin, Mark E., Michael John Garcia, and Wayne M. Morrison. "US Accession to ASEAN's Treaty of Amity and Cooperation (TAC)." *CRS Report For Congress, R40583* (July 13, 2009), p. 2.

<sup>142</sup> Deng, Yong, and Thomas Moore. "China Views Globalization: Toward a New Great Power Politics?" *Washington Quarterly* 27, no. 3 (2004), pp. 115-36.

<sup>143</sup> "Joint Statement -- 1st ASEAN-U.S. Leaders' Meeting: Enhanced Partnership for Enduring Peace and Prosperity." (November 15, 2009), <http://www.aseansec.org/24020.htm>. 22/09/2010.

<sup>144</sup> Manyin, Mark E., Michael John Garcia, and Wayne M. Morrison. "US Accession to ASEAN's Treaty of Amity and Cooperation (TAC)." *CRS Report For Congress, R40583* (July 13, 2009), p. 1.

<sup>145</sup> Ju, Hailong, and Hongliang Ge. "The Impact of US 'Comeback' to Southeast Asia on the Security Situation in the South China Sea." *The Forum Of World Economy And Politics*, no. 1 (2010), pp. 87-97.

### 8.3.3 China's "core interest" vs. the US's "national interest": Can the US and China calm troubled waters?

According to one Chinese observer, President Obama was implementing a "three-D" foreign policy emphasising development, expanding public diplomacy, and strengthening defence ties with regional allies.<sup>146</sup> The move was welcomed by ASEAN, which was engaged actively with China economically but dependent on the US militarily.<sup>147</sup> In an interview with the *Wall Street Journal* during the UN General Assembly in September 2010, Singapore Prime Minister Lee Hsien Loong reiterated the need for the US to maintain an active presence in the region for the sake of peace, a role that China could not undertake.<sup>148</sup>

From a Chinese perspective, ASEAN claimants to the Spratlys were more assertive after 2009 in large part as a result of the US "coming back to" the region.<sup>149</sup> In February 2009, the Philippines passed the Baseline Law which defined its national maritime boundaries to incorporate the contested Spratly islands, an action Beijing condemned as "illegal and invalid".<sup>150</sup> In March the same year, Malaysian Prime Minister Badawi landed on Swallow Reef and declared sovereignty.<sup>151</sup>

In between these two events, the US sent the navy surveillance ship *Impeccable* to collect intelligence in China's EEZ near Hainan Island, where it was "harassed", according to the Pentagon, by Chinese ships.<sup>152</sup> This was not the first time that the US navy conducted surveillance in this area; as the Pentagon said, it was a "routine" operation. Chinese and US military airplanes collided over the same island in 2001, causing a severe problem for Sino-

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<sup>146</sup> Sun, Ru. "Three Changes of American Foreign Policy toward East Asia." *People's Daily* (August 3, 2009), <http://world.people.com.cn/GB/14549/9772278.html>. Accessed 24/09/2010.

<sup>147</sup> Acharya, Amitav. "Seeking Security in the Dragon's Shadow: China and Southeast Asia in the Emerging Asian Order." *Institute of Defence and Strategic Studies (IDSS) Working Paper*, no. 44 (2003).

<sup>148</sup> Page, Jeremy, Patrick Barta, and Jay Solomon. "US, ASEAN to Push Back against China." *Wall Street Journal* (September 22, 2010), <http://online.wsj.com/article/SB10001424052748704814204575507731570730468.html>. Accessed 03/01/2011.

<sup>149</sup> Swaine, Michael D., and M Taylor Fravel. "China's Assertive Behavior Part Two: The Maritime Periphery." *China Leadership Monitor*, no. 35 (2011), pp. 16-17, Appendix.

<sup>150</sup> Ministry of Foreign Affairs of People's Republic of China. "China's Sovereignty over Huangyan Island and Nansha Islands Is Indisputable." (February 18, 2009), <http://news.sina.com.cn/c/2009-02-18/175815182801s.shtml>. Accessed 20/09/2010.

<sup>151</sup> "Malaysian Prime Minister Landed on Swallow's Reef to Declare Its 'Sovereignty'." (March 6, 2009), <http://news.sina.com.cn/c/2009-03-06/005617345262.shtml>. Accessed 20/09/2010.

<sup>152</sup> For details about the incident, see Jian, Junbo. "China-US Spat a Drop in the Ocean." *Asia Times* (March 14, 2009), <http://www.atimes.com/atimes/China/KC14Ad01.html>. Accessed 10/09/2010.

US diplomatic relations (see Section 5.5). Professor Jian Junbo argued that US actions amounted to “maritime espionage”, noting that this was perhaps the first time China took action to rebuke the US.<sup>153</sup> The change reflected the reality of China’s increasingly confident ability to protect its maritime security.<sup>154</sup>

China’s assertiveness amplified US perceptions of a threat posed by China’s growing military power, in particular its capacity for naval power projection. A 2009 report on China’s military power released by the Pentagon stated that “the South China Sea plays an important role in Northeast Asia and Southeast Asia security considerations”, and “current trends in China’s military capabilities are a major factor in changing the East Asian military balance”.<sup>155</sup> Walter Lohman from the conservative US think-tank the Heritage Foundation argued that the US should unequivocally support the right of the Philippines to stake its claims because a neutral position left its allies with no option but to acquiesce to Beijing.<sup>156</sup> One US scholar even raised the possibility that China might use fishing vessels to monitor its maritime boundaries, a strategy of “defeating harshness with kindness” (*yirou kegang*).<sup>157</sup>

Tensions between Washington and Beijing heated up when Secretary of State Hillary Clinton stated at the ARF meeting in Hanoi in July 2010 that the US had a “national interest” in the South China Sea, and expressed support for a “collaborative diplomatic process” towards peaceful resolution of territorial disputes.<sup>158</sup> Chinese Foreign Minister Yang Jiechi lashed out at these remarks, saying that internationalising the issue “will only make matters worse and the resolution more difficult”, and “Asian countries could solve their own problems without interference by outside nations”.<sup>159</sup> According to Taylor Frael, “Mrs Clinton’s move was in reaction to a long series of episodes in the South China Sea that American officials believed

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<sup>153</sup> *Ibid.*

<sup>154</sup> *Ibid.*

<sup>155</sup> US Department of Defense. "Annual Report to Congress: Military Power of the People’s Republic of China, 2009." (March 2009), p. 6, p. 28, [http://www.defenselink.mil/pubs/pdfs/China\\_Military\\_Power\\_Report\\_2009.pdf](http://www.defenselink.mil/pubs/pdfs/China_Military_Power_Report_2009.pdf).

<sup>156</sup> Lohman, Walter. "The Challenge to U.S. Leadership in the South China Sea." (2009), <http://www.heritage.org/Research/AsianandthePacific/wm2313.cfm>. Accessed 11/09/2010.

<sup>157</sup> Goldstein, Lyle. "Strategic Implications of Chinese Fisheries Development." *China Brief* 9, no. 16 (August 5, 2009), [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=35372](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=35372). Accessed 30/03/2010.

<sup>158</sup> Thayer, Carlyle A. "Recent Developments in the South China Sea: Grounds for Cautious Optimism?" *RSIS Working Paper*, no. 220 (2010), p. 13.

<sup>159</sup> Ministry of Foreign Affairs of People's Republic of China. "Foreign Minister Yang Jiechi Rebukes Hillary’s Remarks on the Issue of South China Sea." (July 26, 2010), <http://news.sina.com.cn/c/2010-07-26/012520754496.shtml>. Accessed 22/01/2011.

reflected greater assertiveness by China".<sup>160</sup> Chinese officials had labelled the South China Sea a "core interest" in a private meeting in March 2010.<sup>161</sup>

In the eyes of Washington, China was behaving more assertively. First, according to Michael Swaine and Taylor Fravel, in 2009 China imposed and extended an annual unilateral fishing ban to foreign fleets, resulting in an increase in the detention of Vietnam boats.<sup>162</sup> Second, in 2008 China increased to seven or eight the number of regular maritime security patrols conducted by the Fisheries Administration and State Oceanographic Administration.<sup>163</sup> Third, China conducted scientific activities and extensive naval exercises.<sup>164</sup> These activities were regarded by western observers as evidence of Beijing's assertiveness, culminating in the confidence to declare that the South China Sea was a "core interest".<sup>165</sup>

In the first half of 2011, China's maritime patrols began to target hydrocarbon seismic exploration vessels,<sup>166</sup> resulting in clashes with Philippine and Vietnamese ships.<sup>167</sup> Some analysts argue that China's assertiveness posed a deliberate strategic challenge to the US.<sup>168</sup>

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<sup>160</sup> Wong, Edward. "China Hedges over Whether South China Sea Is a 'Core Interest' Worth War." *The New York Times* (March 30, 2011), [http://www.nytimes.com/2011/03/31/world/asia/31beijing.html?\\_r=1](http://www.nytimes.com/2011/03/31/world/asia/31beijing.html?_r=1). Accessed 22/04/2011;

Tan, Liya. "China Expressed to the US for the First Time, South China Sea Is China's Core Interest." *Global Times* (July 3, 2010), <http://mil.huangqi.com/Observation/2010-07/901630.html>. Accessed 21/12/2010. It should be noted that the media just quoted Kyodo news, but it is so far not stated publically by Chinese government.

<sup>161</sup> Wong, Edward "Chinese Military Seeks to Extend Its Naval Power." *New York Times* (April 24, 2010), <http://www.nytimes.com/2010/04/24/world/asia/24navy.html>. Accessed 22/01/2011.

<sup>162</sup> Swaine, Michael D., and M. Taylor Fravel. "China's Assertive Behavior Part Two: The Maritime Periphery." *China Leadership Monitor*, no. 35 (2011), p. 5.

<sup>163</sup> *Ibid.*, p. 6.

<sup>164</sup> *Ibid.*, p. 7.

<sup>165</sup> Thayer, Carlyle A. "The United States and Chinese Assertiveness in the South China Sea." *Security Challenges* 6, no. 2 (2010), pp. 69-84; Yoshihara, Toshi, and James R. Holmes. "Can China Defend a "Core Interest" in the South China Sea?" *The Washington Quarterly* 34, no. 2 (2011), pp. 45-59.

<sup>166</sup> *Ibid.*

<sup>167</sup> See for example, Thayer, Carlyle. "Aggressive Assertiveness: Beijing Ratchets up Pressure in South China Sea." (June 12, 2011), <http://www.defensenews.com/story.php?i=6792066&c=FEA&s=COM>; Arase, David. "China's Militant Tactics in the South China Sea." (June 29, 2011), <http://www.eastasiaforum.org/2011/06/29/china-s-militant-tactics-in-the-south-china-sea/>; Thayer, Carlyle. "South China Sea Disputes: ASEAN and China." (July 14, 2011), <http://www.eastasiaforum.org/2011/07/14/south-china-sea-disputes-asean-and-china/>; Baviera, Aileen S. P. "China and the South China Sea: Time for a Code of Conduct?" (July 1, 2011), <http://www.eastasiaforum.org/2011/07/01/china-and-the-south-china-sea-time-for-a-code-of-conduct/>; these four articles accessed 06/09/2011.

<sup>168</sup> Thayer, Carlyle A. "The United States and Chinese Assertiveness in the South China Sea." *Security Challenges* 6, no. 2 (2010), pp. 69-84; Yoshihara, Toshi, and James R. Holmes. "Can China Defend a "Core Interest" in the South China Sea?" *The Washington Quarterly* 34, no. 2 (2011), pp. 45-59; Baviera, Aileen S.P. "Territorial Disputes in East Asia: Proxies for China-US Strategic Competition?" (November 27, 2010), <http://www.eastasiaforum.org/2010/11/27/territorial-disputes-in-east-asia-proxies-for-china-us-strategic-competition/>. Accessed 06/09/2011.

A comment in the Singapore media stated that the South China Sea was an international military exercise field where the two big powers were conducting strategic games.<sup>169</sup>

From the Chinese point of view, China was responding only to Vietnam and the Philippines' growing and more assertive challenges to its sovereignty.<sup>170</sup> The trigger for tensions was a request, with specific deadlines, by the UN Commission on the Limits of the Continental Shelf in May 2009 for information on claims relating to continental shelves and EEZs. In response to submissions by Malaysia, Vietnam and the Philippines, China presented three documents and a map supporting its claims.<sup>171</sup> The map, with nine dashed lines (*jiudianxian*) in a U-shape covering an estimated 80% plus of the South China Sea, was also seen by some observers as evidence that China was adopting a more assertive posture.<sup>172</sup> Michael Swaine disagreed, noting that its stance was "reactive" and consistent with a longstanding position on the sovereignty issue.<sup>173</sup>

In a meeting with US officials in June 2011, Vice Foreign Minister Cui Tiankai said that "we are troubled by some recent events in the South China Sea but we were not the party who provoked these incidents".<sup>174</sup> He emphasised that China had neither occupied "islands by illegal means..., done the most to explore oil and gas resources in the region", nor "displayed force against fishermen of other countries".<sup>175</sup> Chinese analysts expressed concern over a series of joint military exercises carried out in 2009 between the US, the Philippines, Thailand, Singapore, Malaysia, Indonesia and Brunei, under the banner of

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<sup>169</sup> Han, Yonghong. "How Has the South China Sea Become the 'Core Interest'?" *Lianhe Zaobao* (August 23, 2010), <http://www.zaobao.com/special/china/cnpol/pages3/cnpol100823a.shtml>. Accessed 25/09/2010.

<sup>170</sup> Swaine, Michael D., and M. Taylor Fravel. "China's Assertive Behavior Part Two: The Maritime Periphery." *China Leadership Monitor*, no. 35 (2011), p. 17, Appendix: actions of other South China Sea claimants.

<sup>171</sup> For more details see *ibid.*, pp. 2-5.

<sup>172</sup> Beckman, Robert. "South China Sea: How China Could Clarify Its Claims." *RSIS Commentary*, no. 116 (2010), <http://dr.ntu.edu.sg/bitstream/handle/10220/6596/RSIS1162010.pdf?sequence=1>. Accessed 12/11/2010.

<sup>173</sup> Swaine, Michael D., and M. Taylor Fravel. "China's Assertive Behavior Part Two: The Maritime Periphery." *China Leadership Monitor*, no. 35 (2011), pp. 2-3.

<sup>174</sup> Quoted in Durfee, Don. "China Urges U.S. to Stay out of Sea Dispute." (June 22, 2011), <http://www.reuters.com/article/2011/06/22/us-china-sea-dispute-idUSTRE75L14L20110622>. 10/11/2011.

<sup>175</sup> *Ibid.*

“Cooperation Afloat Readiness and Training” (or CARAT),<sup>176</sup> as intended to contain China’s rise.<sup>177</sup>

As for the reference to the South China Sea as China’s “core interest”, Professor Wang Jisi, the Dean of School of International Studies at Beijing University, wrote in *Foreign Affairs* that, “apart from the issue of Taiwan.... [the] Chinese government has never officially identified any single foreign policy issue as one of the country’s core interests”.<sup>178</sup> At a conference for China’s top diplomats in July 2009, Hu Jintao stated that diplomacy “must safeguard the interests of sovereignty, security, and development”.<sup>179</sup> Dai Bingguo, China’s State Councillor for External Relations, described China’s core interests in December 2010 as follows: first, political stability, or the stability of Communist Party leadership and the socialist system; second, sovereign security, territorial integrity and national unification; and third, sustainable economic and social development.<sup>180</sup> Some Chinese scholars, including Zhu Feng from Beijing University, argued that foreign policy should be cautious in describing any specific issue as a “core interest” given the provocative nature of the term to other countries.<sup>181</sup> Other analysts, however, such as Su Hao from the China Foreign Affairs University, suggested that the concept of “core interest” was exaggerated by the US to alienate China from its neighbours.<sup>182</sup>

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<sup>176</sup> Li, Mingjiang. "Reconciling Assertiveness and Cooperation? China’s Changing Approach to the South China Sea Dispute." *Security Challenges* 6, no. 2 (2010), pp. 49-68.

<sup>177</sup> Zhang, Shaozhong. "US’s Interference in the South China Sea: What Does the US Want to Do?" (July 29, 2010), <http://www.people.com.cn/GB/32306/33232/12286023.html>; Wang, Chuanjian. "American South China Sea Policy: History and Reality." *Diplomatic Review*, no. 6 (2009), pp. 87-100; Cai, Penghong. "Analysing American Policy Towards the South China Sea Issue." *Contemporary International Relations*, no. 9 (2009), pp. 1-7; Lu, Fanghua. "An Examination of the US Factor in the South China Sea Issue." *Southeast Asia and South Asia Studies*, no. 4 (2009): 6-10; Ju, Hailong, and Hongliang Ge. "The Impact of US 'Comeback' to Southeast Asia on the Security Situation in the South China Sea." *The Forum of World Economy and politics*, no. 1 (2010), pp. 87-97.

<sup>178</sup> Wang, Jisi. "China's Search for a Grand Strategy: A Rising Great Power Finds Its Way." *Foreign Affairs* 90, no. 2 (2011), p. 71.

<sup>179</sup> Xinhua News Agency. "Hu Jintao and Other Chinese Leaders Attend 11th Conference for China’s Top Diplomats." (July 20, 2009), [http://news.xinhuanet.com/politics/2009-07/20/content\\_11740850.htm](http://news.xinhuanet.com/politics/2009-07/20/content_11740850.htm). Accessed 07/08/2010.

<sup>180</sup> Dai, Bingguo. "Persisting Peace and Development Path." (December 6, 2010), <http://www.mfa.gov.cn/chn/gxh/tyb/zyxw/t774662.htm>. Accessed 09/08/2011.

<sup>181</sup> Zhu, Feng. "China Should Be Cautious in Using the Term of ‘Core Interest’ with Regard to the South China Sea." *International Herald* (January 11, 2011), [http://military.china.com/zh\\_cn/top01/11053250/20110111/16335641.html](http://military.china.com/zh_cn/top01/11053250/20110111/16335641.html). Accessed 29/01/2011; Han, Xudong. "Prudent to Use ‘Core National Interests’." *Outlook Weekly* (July 25, 2010), [http://news.xinhuanet.com/world/2010-07/25/c\\_12369991.htm](http://news.xinhuanet.com/world/2010-07/25/c_12369991.htm). Accessed 28/08/2010.

<sup>182</sup> Cited in Han, Yan. "US-Vietnam Military Relations Are Enhanced to Counterbalance China’s Influence."

From the Chinese perspective, increasing military exercises in the South China Sea were understood best in the context of military modernisation, in particular changes to the Chinese Navy's strategy. Zhang Huachen, Deputy Commander of China's East Sea Fleet, stated that China's maritime strategy shifted from near-seas to far-seas defence. Accordingly, military exercises were conducted beyond the first island chain towards the western Pacific.<sup>183</sup> With the expansion of China's national interests as a result of economic development, he stressed that the navy had a significant responsibility to protect maritime security including safeguarding the sea lanes for oil imports and supporting territorial claims in disputed waters.<sup>184</sup> Da Wei, Deputy Director of the Institute of American Studies at the China Institutes of Contemporary International Relations, argued that China's rise "has given rise to anxiety, misgivings and insecurity in the West and China's neighbouring countries", which Washington was taking advantage of to justify "coming back" to Asia.<sup>185</sup>

The assertive stance adopted by China and the US reflected respective deep concerns.<sup>186</sup> For the US, China's growing economic and military power challenged its primacy in East Asia. For Chinese analysts, Washington used the South China Sea to band together ASEAN states to contain China's rise.<sup>187</sup>

China faced a security dilemma in the South China Sea. It required a peaceful international environment in general and friendly regional environment in particular, which meant good

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(August 8, 2010), [http://www.voanews.com/chinese/news/20100808\\_US\\_Vietnam-100217059.html](http://www.voanews.com/chinese/news/20100808_US_Vietnam-100217059.html).

Accessed 30/08/2010.

<sup>183</sup> Zhang, Huachen. "China's Navy Is Moving Towards Comprehensive, Large-Scale Development of Information Technology." (March 9, 2010),

[http://www.china.com.cn/military/txt/2010-03/09/content\\_19565171.htm](http://www.china.com.cn/military/txt/2010-03/09/content_19565171.htm). Accessed 15/05/2011.

<sup>184</sup> *Ibid.*

<sup>185</sup> Da, Wei. "Has China Become "Tough"?" *China Security* 6, no. 3 (2010), pp. 101-02.

<sup>186</sup> Some Chinese analysts and scholars indicated that China should adopt a cautious attitude when staking out China's 'core interests'. For instance, Professor Han Xudong at National Defence University pointed out that China's comprehensive national strength, especially its military power, is not yet sufficient to safeguard all China's core interests. Prematurely publicizing all of China's core interests might be counter-productive. Thus he recommended that China release its list of core interests in a step-by-step fashion as China became stronger. See Han, Xudong. "Prudent to Use 'Core National Interests'." *Outlook Weekly* (July 25, 2010), [http://news.xinhuanet.com/world/2010-07/25/c\\_12369991.htm](http://news.xinhuanet.com/world/2010-07/25/c_12369991.htm); Da, Wei. "Why Should China Declare Its National Core Interest?" *Global Times* (July 27, 2010), <http://opinion.huanqiu.com/roll/2010-07/961082.html>. Accessed 28/08/2010

<sup>187</sup> Wang, Chuanjian. "American South China Sea Policy: History and Reality." *Diplomatic Review*, no. 6 (2009), pp. 87-100; Cai, Penghong. "Analysing American Policy Towards the South China Sea Issue." *Contemporary International Relations*, no. 9 (2009), pp. 1-7; Lu, Fanghua. "An Examination of the US Factor in the South China Sea Issue." *Southeast Asia and South Asia Studies*, no. 4 (2009): 6-10; Ju, Hailong, and Hongliang Ge. "The Impact of US 'Comeback' to Southeast Asia on the Security Situation in the South China Sea." *The Forum of World Economy and politics*, no. 1 (2010), pp. 87-97.



relations with ASEAN.<sup>188</sup> Dai Bingguo re-emphasised the policy of “establish good neighbourliness, make neighbours prosperous and make them feel secure” (*mulin, fulin and anlin*) in December 2010.<sup>189</sup> Growing naval capabilities, including an increase in military exercises, were viewed as tasks the PLA Navy was obliged to perform to defend vital interests in the Western Pacific, but they were interpreted by Vietnam, the Philippines and the US, as the assertive and aggressive behaviour of a rising China. Some analysts argued that China reversed its “smile diplomacy” in Southeast Asia prior to 2008, replacing it with “frown diplomacy”.<sup>190</sup> As a result, the Philippines and Vietnam turned to the US for “a solution to Chinese aggression”.<sup>191</sup> In the view of Beijing, US involvement meant regional disputes were internationalised so as to require multilateral solutions, while Beijing preferred bilateral negotiations. As Chinese Vice Foreign Minister Cui Tiankai said, “the United States is not a claimant state to the dispute in the South China Sea and so it is better for the United States to leave the dispute to be sorted out between claimant states”.<sup>192</sup>

Due to the complexity of the dispute and US involvement, how to deal with ASEAN claimants and compete with the US in a positive way in the region presented China with long-term challenges.<sup>193</sup> Despite these challenges, Professor Su Hao believed that Sino-ASEAN cooperation did not have to be overshadowed by territorial disputes, because a solid foundation for bilateral cooperation was laid over the previous two decades.<sup>194</sup> At the

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<sup>188</sup> Dai, Bingguo. "Persisting Peace and Development Path." (December 6, 2010), <http://www.mfa.gov.cn/chn/gxh/tyb/zyxw/t774662.htm>.

<sup>189</sup> *Ibid.*

<sup>190</sup> Emmerson, Donald K. "China's 'Frown Diplomacy' in Southeast Asia." *Asia Times* (October 5, 2010), <http://www.atimes.com/atimes/China/LJ05Ad02.html>. Accessed 10/05/2011.

<sup>191</sup> Chen, Jennifer. "Vietnam's Open Port Policy: Strategy for Keeping China at Bay." ( March 1, 2011), <http://www.eastasiaforum.org/2011/03/01/vietnams-open-port-policy-strategy-for-keeping-china-at-bay/>. Accessed 03/05/2011;

Bower, Ernest. "US-Philippine Alliance: A Statesman Is Born." (April 20, 2011), <http://www.eastasiaforum.org/2011/04/20/us-philippine-alliance-a-statesman-is-born/>. Accessed 03/05/2011.

<sup>192</sup> Cited in Durfee, Don. "China Urges U.S. to Stay out of Sea Dispute." (June 22, 2011), <http://www.reuters.com/article/2011/06/22/us-china-sea-dispute-idUSTRE75L14L20110622>.

<sup>193</sup> Li, Zheng. "China Is Facing Three Challenges in the South China Sea." *Outlook Weekly* (July 23, 2011), <http://world.people.com.cn/GB/14549/15227023.html>. Accessed 27/09/2011.

<sup>194</sup> Cited in Xiao, Xin. "Expert Says the Disputes over South China Sea Will Not Change the Direction of China-ASEAN Cooperation." (July 21, 2011), <http://world.people.com.cn/GB/1029/42354/15206870.html>. Accessed 27/09/2011.

China-ASEAN Foreign Ministers meeting in July 2011, guidelines for implementing the DOC were endorsed, encouraging dispute resolution through cooperation and negotiation.<sup>195</sup>

It was not in the interest of the US to see tensions escalate out of control into armed conflict. It also faced a strategic dilemma. In the words of Jian Junbo from Fudan University, Washington pursued a “two track” strategy.<sup>196</sup> The US wanted China to take more responsibility in dealing with global issues such as terrorism, climate change and, in particular, strengthening economic relations, yet the US was wary of China’s strategic intentions in the Asia Pacific.<sup>197</sup> If this is the case, the US was unlikely to side with the Philippines against China in a military confrontation, even though the 1951 mutual defence treaty remained in place. In this sense, the US faced the same situation as it did with Taiwan. It was in the US’s best interests for the status quo to continue, because of the high costs of potential conflict.

US secretary of Defence Robert Gates stressed during his Philippines visit that the US had “no position” on the competing Spratly claims.<sup>198</sup> In a meeting with Philippine Foreign Secretary Albert del Rosario on 23 June 2011, Secretary of State Hillary Clinton stated that the US “is committed to the defence of the Philippines and providing it with affordable weaponry amid mounting tensions in the South China Sea”, but would not comment specifically on whether the US would provide military assistance in the event of an attack by China near the disputed islands, and stressed that she “want[ed] to underscore our commitment to the defence of the Philippines”.<sup>199</sup> The joint US-Philippines CARAT military exercises in June 2011 were part of Washington’s honouring its treaty commitments through collective muscle-flexing, without necessarily having any intention of backing up this show of force in the case of conflict.<sup>200</sup> Professor Su Hao told the *Global Times* that

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<sup>195</sup> Xinhua News Agency. "New Guidelines on South China Sea Give Green Light for China-ASEAN Cooperation." (July 24, 2011), <http://english.peopledaily.com.cn/90001/90776/90883/7449559.html>. Accessed 09/08/2011.

<sup>196</sup> Jian, Junbo. "China Averts Collision in South China Sea." *Asia Times* (July 29, 2011), <http://www.atimes.com/atimes/China/MG29Ad01.html>. Accessed 12/08/2011.

<sup>197</sup> Pan, Chengxin. "Is the South China Sea a New ‘Dangerous Ground’ for US-China Rivalry?" (May 24, 2011 ), <http://www.eastasiaforum.org/2011/05/24/is-the-south-china-sea-a-new-dangerous-ground-for-us-china-rivalry/>. Accessed 16/07/2011.

<sup>198</sup> Adriano, Joel D. "Waters Roil in the South China Sea." *Asia Times* (June 17, 2011), [http://www.atimes.com/atimes/Southeast\\_Asia/MF17Ae02.html](http://www.atimes.com/atimes/Southeast_Asia/MF17Ae02.html). Accessed 12/08/2011.

<sup>199</sup> Pennington, Matthew. "Clinton: U.S. Committed to Defend Philippines." *The Associated Press* (June 23, 2011), <http://www.navytimes.com/news/2011/06/ap-us-committed-to-defend-philippines-062311/>. Accessed 14/08/2011.

<sup>200</sup> Labita, Al. "US-Philippines Flex Collective Muscle." *Asia Times* (June 24, 2011),

keeping tensions manageable while avoiding conflict best served US strategic interest in the region. He argued that the US was intent on establishing a multilateral dialogue that would enable Washington to play a major role in seeking a solution to the disputes, and that this was aimed at constraining China's influence.<sup>201</sup>

A significant factor was exactly how the US planned to go about "resolving" disputes. The "ASEAN Way" provided claimants with a means to manage tensions through traditional mechanisms of dialogue, consultation and consensus seeking. Its non-coercive nature clearly suited China and, as noted in Chapter 4, was the reason for its willing engagement in regional groupings from the 1990s. ASEAN itself was comfortable with this regional approach. The US had little international experience of dealing with matters in this way, so it was possible that its approach to "resolving" tensions would seek formal and binding treaties and "outcomes" rather than consensus and the "status quo". To the extent that the US attempted to impose Western-style processes of dispute resolution on top of the "ASEAN Way", it was conceivable that it faced opposition from ASEAN, which welcomed US interest in the region to balance China, but not a US takeover of the regional agenda and processes.

## 8.4 Conclusion

China faced a difficult strategic situation in the South China Sea, due to conflicting national interests and efforts to assert its claim. The Spratly and Paracel islands, with their strategically important location and potential oil and gas reserves, were of great potential value. Nevertheless, China could not overplay its hand for fear of damaging "good neighbourly relations" and disturbing regional stability. In this way, China's rise did not produce, as a strict realist view would predict, greater danger of conflict, but rather a situation in which the economic costs of armed conflict outweighed the possible gains. China attempted to avert conflict while still reaping at least some of the rewards of pushing its claims under the principle of "shelving disputes, carrying out joint development". As with Taiwan, the expectations of liberal commentators were borne out by China's approach.

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[http://www.atimes.com/atimes/Southeast\\_Asia/MF24Ae01.html](http://www.atimes.com/atimes/Southeast_Asia/MF24Ae01.html). Accessed 12/08/2011.

<sup>201</sup> Zhi, Gang, Hongxin Fan, and Da Xiao. "Expert: US Strategy: Maintaining Tension but Avoiding a Conflict in the South China Sea." *Global Times* (June 13, 2011), <http://world.huangqi.com/roll/2011-06/1752811.html>. Accessed 21/08/2011.

In 2009 the US declared that its national interests were also implicated in the South China Sea disputes, giving implicit support to the claims of China's neighbours, complicating the issue for China and bringing stronger pressure to bear towards a resolution of the disputes. I argued that this initiative may be understood as the US attempting to restrain the growing influence of China and increase its own stature, by casting itself in the role of "fair mediator". Because a similar set of calculations of strategic interest applied to the US as China, I argued that US shows of support in Southeast Asia were unlikely to translate into military support in open conflict. I suggested also that US attempts to foist a Western, non-ASEAN approach to dispute resolution on the region were likely to meet with resistance from ASEAN as well as China.

The next chapter considers the third of China's significant territorial disputes, with Japan over the Diaoyu Islands in the East China Sea. Here again, we see that the dispute intensified in the wake of China's rise, and that the status quo appeared strategically to be the most opportune solution for China and Japan.

## **9 China's East China Sea dilemma: a sea of conflict or cooperation?**

China and Japan could not come to terms with respective sovereignty claims over a small group of islands in the East China Sea, which the Chinese call Diaoyu and the Japanese Senkaku, or how maritime boundaries should be delimited according to international law. Competition flared regularly, intensifying after the 1990s. As noted in Section 6.4, nationalism brought emotionally-laden history to the fore. The islands' economic and strategic significance grew also because of potentially rich oil and gas reserves at a time when China's energy demands were increasing. One repercussion of its increased assertiveness was the potential for US involvement because of the security treaty with Japan. As was the case in the South China Sea, I argue that the US was ambiguous over how to respond to Sino-Japanese tensions, trying to "contain" China's influence, but unwilling to be involved directly.

The first section assesses competing sovereignty claims from a legal and historical perspective. Section 2 places the Sino-Japanese dispute over gas and oil resources in the context of worsening political relations. Section 3 considers the role played by the US and Section 4 the prospects for a settlement as opposed to stalemate.

### **9.1 The Sino-Japanese dispute over the East China Sea**

The East China Sea dispute involved two specific but inter-related aspects: ownership of the Diaoyu/Senkaku Islands and demarcation of maritime boundaries. Though the islands did not sustain human activities, states exercising sovereignty claimed a vast area of surrounding waters as their continental shelf/economic exclusion zone according to international law. This is of great importance not only for extending national territory but also because of the undersea resources. When the quest for territory was entangled with national identity and pride, as well as economic benefit, disputes over contested area were understandably intense. In this section, I analyse the background to the dispute and the claimants' contested arguments.

### 9.1.1 Sovereignty dispute over Diaoyu/Senkaku Islands

The uninhabited Diaoyu/Senkaku Islands lie at the edge of the continental shelf of the East China Sea, with a total land area of only about seven square kilometres.<sup>1</sup> They were incorporated by Japan in 1895 under the terms of the Shimonoseki Treaty after China's defeat in the Sino-Japanese War (1894-5), along with Taiwan and the Penghu Island group (Pescadores), and administrated subsequently by the US from 1945 until the islands were returned to Japan in 1972.<sup>2</sup> At this point, China began to contest Japan's sovereignty. The controversy focused on two points: whether the Islands were *terra nullius* (vacant territory) and should have been returned to China.

Figure 9-1. Map of East China Sea, showing Japanese- and Chinese-claimed boundaries



Source: <http://www.china-briefing.com/news/2011/05/31/chinas-territorial-disputes-in-the-south-china-sea-and-east-china-sea.html>.

<sup>1</sup> Valencia, Mark J. "The East China Sea Dispute: Context, Claims, Issues, and Possible Solutions." *Asian Perspective* 31, no. 1 (2007), pp. 151-152.

<sup>2</sup> The US returned the islands under the terms of the Okinawa Reversion Treaty in 1971. Dumbaugh, Kerry, David Ackerman, Richard Cronin, Shirley Kan, and Larry Nicksch. "China's Maritime Territorial Claims: Implications for U.S. Interests." *CRS Report For Congress, RL31183* (November 12, 2001), pp. 21-22; Blanchard, Jean-Marc F. "The U.S. Role in the Sino-Japanese Dispute over the Diaoyu (Senkaku) Islands, 1945-1971." *The China Quarterly*, no. 161 (2000), pp. 95-123.

On the first point, Japan insisted that the Islands were uninhabited when discovered and occupied, and controlled by Japan until its surrender in 1945.<sup>3</sup> The Japanese government asserted sovereignty in the following official statement:

From 1885 on, surveys of the Senkaku Islands had been thoroughly made by the Government of Japan through the agencies of Okinawa Prefecture and by way of other methods. Through these surveys, it was confirmed that the Senkaku Islands had been uninhabited and showed no trace of having been under the control of China. Based on this confirmation, the Government of Japan made a Cabinet Decision on 14 January 1895 to erect a marker on the Islands to formally incorporate the Senkaku Islands into the territory of Japan.<sup>4</sup>

China contested Japan's *terra nullius* argument using historical records and maps of discovery which showed that sovereignty over the Islands was established by China long before 1895. According to the Chinese historian Ju Deyuan, the Diaoyu Islands were discovered and named by the Chinese as early as the Warring States Period. A very detailed map from the Ming dynasty indicates that the Islands and surrounding waters were in China's coastal defence system.<sup>5</sup> They were used as navigational aids by investiture missions to the Ryukyu Islands during the Ming and Qing dynasties.<sup>6</sup> As supporting evidence, the islands, as the source of a rare herb, were granted to the supplier of herbal medicine by the Empress Dowager Ci Xi in 1893.<sup>7</sup>

Chinese scholars and official media cite studies by Japanese historians in support. *Xinhua News Agency* reported that Kiyoshi Inoue, a renowned Japanese historian, confirmed in chapter 3 of his book *The Diaoyu Islands and their Adjacent Islands* that, as early as the 16<sup>th</sup> century, they were an intrinsic part of China's territory.<sup>8</sup> According to Inoue, the islands

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<sup>3</sup> Drifte, Reinhard. "Japanese-Chinese territorial disputes in the East China Sea—between military confrontation and economic cooperation." *Working Paper, Asia Research Centre, London School of Economics and Political Science* (2008), p. 6, [http://eprints.lse.ac.uk/20881/1/Japanese-Chinese\\_territorial\\_disputes\\_in\\_the\\_East\\_China\\_Sea\\_\(LSERO\).pdf](http://eprints.lse.ac.uk/20881/1/Japanese-Chinese_territorial_disputes_in_the_East_China_Sea_(LSERO).pdf). Accessed 21/05/2010.

<sup>4</sup> Ministry of Foreign Affairs of Japan. "The Basic View on the Sovereignty over the Senkaku Islands." <http://www.mofa.go.jp/region/asia-paci/senkaku/senkaku.html>. Accessed 12/10/2010.

<sup>5</sup> Ju, Deyuan. *The Historical Sovereignty of Diaoyu Islands and Its Origin of International Law*. Beijing: Kunlun Publishing House, 2006, pp. 5-6.

<sup>6</sup> Zheng, Hailin. *The study of Diaoyu Islands: from Historical and Legal Perspectives*. Beijing: Zhonghua Book Company, 2007, pp. 90-101.

<sup>7</sup> Zhu, Fenglan. "Sino-Japanese dispute over East China Sea and Prospect of solutions." *Contemporary Asia-Pacific Studies*, no. 7 (2005), <http://iaps.cass.cn/xueshuwz/showcontent.asp?id=363>. Accessed 03/01/2010.

<sup>8</sup> Xinhua News Agency. "Japan's actions over Diaoyu Islands defy facts, draw protests." (September 21, 2010), [http://news.xinhuanet.com/english2010/china/2010-09/21/c\\_13523557.htm](http://news.xinhuanet.com/english2010/china/2010-09/21/c_13523557.htm). Jiang Yu, Spokesperson of Ministry of Foreign Affairs of China also cited Kiyoshi Inoue's book to confirm China's sovereignty over Diaoyu

were only given the Japanese name “Senkaku” in 1900. Their correct historical name was Tiaoyu Islands, or Diaoyutai,<sup>9</sup> a view shared by another Japanese scholar, Murata Tadayoshi, from Tokyo Metropolitan University.<sup>10</sup> According to Gavan McCormack, though, this view, “today appears to have little support among Japanese scholars” who “unite in declaring the appropriation of the islands legitimate and in accord with international law, dismissing as irrelevant the circumstances under which Japan made its claim and (with few exceptions) expressing outrage that China has not accepted their reading of law or history”.<sup>11</sup> Hiromichi Moteki, Director of the Society for the Dissemination of Historical Fact, declared that the Senkaku Islands were an intrinsic part of Japanese territory.<sup>12</sup>

Japan also argued that its claim in 1895 met with no objection from China, and that the return of the Islands in 1971 proved its sovereignty. According to the official statement:

The fact that China expressed no objection to the status of the Islands being under the administration of the United States under Article III of the San Francisco Peace Treaty clearly indicates that China did not consider the Senkaku Islands as part of Taiwan. It was not until the latter half of 1970, when the question of the development of petroleum resources on the continental shelf of the East China Sea came to the surface, that the Government of China and Taiwan authorities began to raise questions regarding the Senkaku Islands.<sup>13</sup>

China contended that its silence in 1895 should be seen in terms of the Qing Dynasty’s defeat in Sino-Japanese War.<sup>14</sup> It did not have sufficient bargaining leverage to hold on to Taiwan, let alone to maintain the much smaller and less important Diaoyu Islands. As one Chinese scholar asked: how could a weak China express its objection to Japan’s control under such circumstances?<sup>15</sup>

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Islands. Ministry of Foreign Affairs of People's Republic of China. "The press conference held by Jiang Yu." (September 14, 2010), <http://www.mfa.gov.cn/chn/gxh/tyb/fyrbt/jzhsl/t752318.htm>. Accessed 12/10/2010.

<sup>9</sup> Pan, Zhongqi. "Sino-Japanese Dispute over the Diaoyu/Senkaku Islands: The Pending Controversy from the Chinese Perspective." *Journal of Chinese Political Science* 12, no. 1 (2007), pp. 71-92.

<sup>10</sup> Quoted in Wang, Jinsi. "What Does The View of Some Japanese Scholars Tell Us?" *Lianhe Zaobao* (2008), [http://www.zaobao.com/special/forum/pages6/forum\\_jp080626a.shtml](http://www.zaobao.com/special/forum/pages6/forum_jp080626a.shtml). Accessed 11/02/2010.

<sup>11</sup> McCormack, Gavan. "Small Islands - Big Problem: Senkaku/Diaoyu and the Weight of History and Geography in China-Japan Relations." *The Asia-Pacific Journal* 9 no. 1 (2011), <http://www.japanfocus.org/-Gavan-McCormack/3464>. Accessed 03/03/2011.

<sup>12</sup> Hiromichi, Moteki. "The Senkaku Islands Constitute an Intrinsic Part of Japan." (2010), [http://www.sdh-fact.com/CL02\\_1/79\\_S4.pdf](http://www.sdh-fact.com/CL02_1/79_S4.pdf). Accessed 06/03/2011.

<sup>13</sup> Ministry of Foreign Affairs of Japan. "The Basic View on the Sovereignty over the Senkaku Islands." <http://www.mofa.go.jp/region/asia-paci/senkaku/senkaku.html>.

<sup>14</sup> Pan, Zhongqi. "Sino-Japanese Dispute over the Diaoyu/Senkaku Islands: The Pending Controversy from the Chinese Perspective." *Journal of Chinese Political Science* 12, no. 1 (2007), p. 78.

<sup>15</sup> *Ibid.*



Though China acquiesced in the declared status of the Islands in the San Francisco Peace Treaty, it objected officially to the Treaty as legally binding. On 16 August 1951, Zhou Enlai, Minister of Foreign Affairs, issued a statement. The treaty, it stated, violated the United Nations Declaration of 1 January 1942, the Cairo Declaration, the Yalta Agreements, the Potsdam Declaration and Agreement, and the Basic Post-Surrender Policy of the Far Eastern Commission.<sup>16</sup> For China, sovereignty over the Islands was a bilateral issue to be settled with Japan. As the Treaty between the US and Japan excluded China, it was illegal.<sup>17</sup>

Japan cited the US-Japan Ryukyu Reversion Agreement in 1971 to validate its sovereignty:

The Senkaku Islands have been placed under the administration of the United States of America as part of the Nansei Shoto Islands, in accordance with Article III of the said treaty, and are included in the area, the administrative rights over which were reverted to Japan in accordance with the Agreement Between Japan and the United States of America Concerning the Ryukyu Islands and the Daito Islands signed on 17 June 1971. The facts outlined herein clearly indicate the status of the Senkaku Islands being part of the territory of Japan.<sup>18</sup>

This argument, too, was unacceptable because it was based on the San Francisco Treaty, with China lodging a formal protest.<sup>19</sup> Reversion did not, in its view, change the Islands' sovereignty. Though the US position was neutral,<sup>20</sup> quoting the Okinawa (Ryukyu) Reversion Treaty meant, as James Hsiung argued, that "Japan would have to prove beyond reasonable doubt that the United States had sovereign title to Diaoyutai before turning it over to Japan. It is plain that Japan could not have gotten something that the United States did not have in the first place".<sup>21</sup>

On the second point of controversy, China and Japan, not surprisingly, disagreed strongly. Japan insisted that the Islands were *terra nullius* when incorporated in January 1895, and

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<sup>16</sup> Price, John. "A Just Peace? The 1951 San Francisco Peace Treaty in Historical Perspective." *JPRI Working Paper*, no. 78 (2001), <http://www.jpri.org/publications/workingpapers/wp78.html>. Accessed 12/09/2009.

<sup>17</sup> Wu, Hui. "The Sino-Japanese Dispute over the Diaoyu Islands and the Prospect for its Resolution from International Law Perspective." *The Studies on the History of China's border*, no. 1 (2001), <http://www.china1931.net/newse/baodiao/200607/977.html>. Accessed 08/03/2010.

<sup>18</sup> Ministry of Foreign Affairs of Japan. "The Basic View on the Sovereignty over the Senkaku Islands." <http://www.mofa.go.jp/region/asia-paci/senkaku/senkaku.html>.

<sup>19</sup> Wu, Hui. "The Sino-Japanese Dispute over the Diaoyu Islands and the Prospect for its Resolution from International Law Perspective." *The Studies on the History of China's border*, no. 1 (2001), <http://www.china1931.net/newse/baodiao/200607/977.html>.

<sup>20</sup> Blanchard, Jean-Marc F. "The U.S. Role in the Sino-Japanese Dispute over the Diaoyu (Senkaku) Islands, 1945-1971." *The China Quarterly*, no. 161 (2000), p. 96.

<sup>21</sup> Hsiung, James C. "Sea Power, the Law of the Sea, and the Sino-Japanese East China Sea "Resource War"." *American Foreign Policy Interests* 27, no. 6 (2005), p. 520.

“[s]ince then, the Senkaku Islands have continuously remained as an integral part of the Nansei Shoto Islands which are the territory of Japan. These islands were neither part of Taiwan nor part of the Pescadores Islands which were ceded to Japan from the Qing Dynasty of China in accordance with Article II of the Treaty of Shimonoseki which came into effect in May of 1895”.<sup>22</sup> Therefore, it was right to return the Islands to Japan in 1971.

China contended that the Islands were only ceded, along with Taiwan, after China lost the Sino-Japanese War.<sup>23</sup> Their geographic location suggested that they belonged to the Penghu (Pescadores) Islands appertaining to Taiwan, not the Ryukyu Islands. China argued that the Diaoyu Islands, along with other ceded territory, should have returned to China under the terms of the Cairo and Potsdam Declarations signed in 1943 and 1945 respectively.<sup>24</sup>

To summarise, both China and Japan argued that their respective sovereignty was inviolable and non-negotiable. China asserted that the Diaoyu Islands were part of its territory until 1895 when they were ceded to Japan and should have been returned after 1945. Japan argued that it had continuous and effective control of the islands with the exception of US occupation between 1945 and 1971. What happened before 1895 did not refute Japan’s claim.

### 9.1.2 Dispute over delimitation of East China Sea

The dispute over maritime boundary delimitation arose from different principles applied to China and Japan’s continental shelves<sup>25</sup> and EEZs.<sup>26</sup> According to UNCLOS, either the continental shelf or EEZ extends 200 nautical miles from the baseline. In the East China Sea,

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<sup>22</sup> Ministry of Foreign Affairs of Japan. “The Basic View on the Sovereignty over the Senkaku Islands.” <http://www.mofa.go.jp/region/asia-paci/senkaku/senkaku.html>.

<sup>23</sup> “Treaty of Shimonoseki.” (April 17, 1895), <http://www.taiwandocuments.org/shimonoseki01.htm>. Accessed 12/03/2010. The Treaty (article 2) stipulates, among other things, that China cedes to Japan “the island of Formosa together with all islands appertaining or belonging to said island of Formosa”.

<sup>24</sup> See “Cairo Declaration.” (December 1, 1943), [http://www.ndl.go.jp/constitution/e/shiryō/01/002\\_46/002\\_46tx.html](http://www.ndl.go.jp/constitution/e/shiryō/01/002_46/002_46tx.html); “Potsdam Declaration.” (July 26, 1945), <http://www.ndl.go.jp/constitution/e/etc/c06.html>.

<sup>25</sup> Regarding the definition of the continental shelf, Article 76:1 of the 1982 UNCLOS stipulates “that the continental shelf of a coastal State 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 from the baselines from which the breadth of the territorial sea is measured where the outer edge of the continental margin does not extend up to that distance.” “United Nations Convention on the Law of the Sea.” [www.un.org/Depts/los/convention\\_agreements/texts/unclos/unclos\\_e.pdf](http://www.un.org/Depts/los/convention_agreements/texts/unclos/unclos_e.pdf).

<sup>26</sup> As for the EEZ, Article 57 of UNCLOS stipulates that “the exclusive economic zone shall not extend beyond 200 nautical miles from the baselines from which the breadth of the territorial sea is measured.” *Ibid*.

the Continental Shelf ranges from 167 to a maximum of 325 nautical miles, while the average breadth is 216 nautical miles, resulting in overlapping claims. Under UNCLOS, ownership of the Diaoyu Islands was a factor that significantly influenced the location of the maritime boundary.<sup>27</sup> Sovereignty over the Islands affected 40,000 sq km of surrounding continental shelf/EEZ.<sup>28</sup>

According to Peter Dutton, since UNCLOS provided no unified guidance as to maritime delimitation standards, signatories tended to use different principles to support their claims.<sup>29</sup> China used the principle of natural prolongation of the land territory and argued that this adhered to the principle of fairness.<sup>30</sup> According to Zhu, "the median or equidistance line is only one method of demarcation, and should not be the compulsory one, let alone be the principle of delimitation, therefore, it shall only be applied under the condition of equitable principles".<sup>31</sup> China advocated that delimitation should be agreed to through consultation,<sup>32</sup> arguing that the Okinawa Trough just off the Ryukyu Islands was a natural, geomorphologic boundary between the two Continental Shelves.<sup>33</sup> Moreover, because Taiwan was closer to the Diaoyu Islands than Japan it was reasonable to see them as an extension of Taiwan rather than Okinawa.<sup>34</sup>

In 1998, China passed the *Law on the Exclusive Economic Zone and the Continental Shelf of the People's Republic of China*,<sup>35</sup> which stipulated that

the exclusive economic zone of the People's Republic of China covers the area beyond and adjacent to the territorial sea of the People's Republic of China, extending to 200

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<sup>27</sup> Su, Steven Wei. "The Diaoyu Islands and Their Possible Effect on the Maritime Boundary Delimitation between China and Japan." *Chinese Journal of International Law* 3 (2004), pp. 385-420; Su, Steven Wei. "The territorial dispute over the Diaoyu/Senkaku islands: An update." *Ocean Development & International Law* 36, no. 1 (2005), pp. 45-46.

<sup>28</sup> Dzurek, Daniel. "The Senkaku/Diaoyu Islands Dispute." (1996), <http://www-ibru.dur.ac.uk/resources/docs/senkaku.html>. Accessed 11/09/2010.

<sup>29</sup> Dutton, Peter. "Carving up the East China Sea." *Naval War College Review* 60, no. 2 (2007), pp. 45-50.

<sup>30</sup> Zhang, Dongjiang, and Wu, Weili. "The Discussion of the Issue of Sino-Japanese Delimitation in the East China Sea and Its Settlements." *World Economics and Politics*, no. 4 (2006), pp. 35-42.

<sup>31</sup> Zhu, Fenglan. "Sino-Japanese dispute over East China Sea and Prospect of solutions." *Contemporary Asia-Pacific Studies*, no. 7 (2005), <http://iaps.cass.cn/xueshuwz/showcontent.asp?id=363>.

<sup>32</sup> Zhang, Yaoxian, Zenglin Han, and Xiaopeng An. "The Study on the Maritime Delimitation between China and Its Neighbouring Countries." *Geography Science* 20, no. 6 (2000), pp. 494-502.

<sup>33</sup> Cai, Penghong. "Sino-Japanese Dispute in the East China Sea and the Prospect of Joint Development." *Contemporary International Relations*, no. 3 (2008), pp. 43-49.

<sup>34</sup> "History Proves Diaoyu Islands Are China's Territory." *Beijing Review* 39, no. 39 (1996), p. 10.

<sup>35</sup> It was adopted at the 3rd Meeting of the Standing Committee of the Ninth National People's Congress on June 26, 1998.

nautical miles from the baselines from which the breadth of the territorial sea is measured.....the continental shelf of the People's Republic of China 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 from the baselines from which the breadth of the territorial sea is measured where the outer edge of the continental margin does not extend up to that distance.<sup>36</sup>

Japan favoured the “median line principle”, arguing that the continental shelf extended 200 nautical miles using the Diaoyudao/Senkaku Islands rather than the Okinawa Trough as the base point. It contended that the Trough was “just an incidental depression in a continuous continental margin between the two countries” and did not form the basis for maritime delimitation,<sup>37</sup> which should be by drawing an equidistant line.<sup>38</sup>

Determination to secure sovereignty over the Diaoyu/Senkaku Islands left the dispute unsettled and more complicated to manage. UNCLOS, with its ambiguity, did not help any agreement but rather generated bitter competition,<sup>39</sup> which is why the Diaoyu/Senkaku Islands dispute intensified after the 1990s.

### 9.1.3 The background of the Sino-Japanese dispute over the East China Sea

The Diaoyu/Senkaku Islands dispute first emerged following a 1968 report by the United Nations Economic Commission for Asia and the Far East suggesting the presence of substantial energy deposits under the East China Sea.<sup>40</sup> According to Zhu Fenglan, Japan negotiated with the US soon after its release and “took the islands back” in 1971.<sup>41</sup> A “protect the Diaoyu Islands” campaign was launched among Taiwanese students, while anti-Japanese protests erupted in North America followed by protests among overseas Chinese

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<sup>36</sup> "Law on the Exclusive Economic Zone and the Continental Shelf of the People's Republic of China." (1998), article 2, <http://www.fmprc.gov.cn/chn/gxh/zlb/tyfg/t556664.htm>. Accessed 02/05/2010.

<sup>37</sup> Valencia, Mark J. "The East China Sea Dispute: Context, Claims, Issues, and Possible Solutions." *Asian Perspective* 31, no. 1 (2007), p. 147.

<sup>38</sup> *Ibid.*

<sup>39</sup> Pan, Zhongqi. "Sino-Japanese Dispute over the Diaoyu/Senkaku Islands: The Pending Controversy from the Chinese Perspective." *Journal of Chinese Political Science* 12, no. 1 (2007), pp. 83-84.

<sup>40</sup> Chung, Chien-peng. "The Diaoyu/Tiaoyutai/Senkaku Islands Dispute: Domestic Politics and the Limits of Diplomacy." *American Asian Review* 16, no. 3 (1998), p. 135; Blanchard, Jean-Marc F. "The U.S. Role in the Sino-Japanese Dispute over the Diaoyu (Senkaku) Islands, 1945-1971." *The China Quarterly*, no. 161 (2000), p. 98; Dzurek, Daniel. "The Senkaku/Diaoyu Islands Dispute." (1996), <http://www-ibru.dur.ac.uk/resources/docs/senkaku.html>; Zhu, Fenglan. "Sino-Japanese dispute over East China Sea and Prospect of solutions." *Contemporary Asia-Pacific Studies*, no. 7 (2005), <http://iaps.cass.cn/xueshuwz/showcontent.asp?id=363>.

<sup>41</sup> Zhu, Fenglan. "Sino-Japanese dispute over East China Sea and Prospect of solutions." *Contemporary Asia-Pacific Studies*, no. 7 (2005), p. 5.

communities in 1970.<sup>42</sup> China declared that the Diaoyu Islands were its “sacred territory” and that foreign exploitation of the area would not be tolerated.<sup>43</sup> The inclusion of the Diaoyu Islands into the Okinawa Reversion Treaty between the US and Japan led to increased popular protests, though it was not included in the agreement to “normalise” Sino-Japanese relations.<sup>44</sup>

The dispute flared again in 1978 when the right-wing Japanese Youth Federation (*Nihon Seinensha*) erected a lighthouse on the Islands to symbolise Japan’s sovereignty.<sup>45</sup> A group of right-wing Diet members urged the government to include the Diaoyu Islands in negotiations over the Peace and Friendship Treaty.<sup>46</sup> In response, China dispatched more than 80 fishing boats which repeatedly circled the islands.<sup>47</sup> Though Sino-Japanese negotiations were disrupted, the sovereignty issue was shelved again and “left to future generations” in the 1978 treaty, in exchange for Japan’s support for the Treaty’s “anti-hegemony” clause.<sup>48</sup>

In contrast to the intensification of Sino-Japanese tensions after the 1990s, which nearly froze political relations, the 1970 and 1978 flare-ups were relatively low key affairs. Both geopolitical and economic factors were at play. Geopolitically, the dispute was not a big issue. Faced with a common adversary in the Soviet Union, it was outweighed by the political and strategic benefits of normalising relations in 1972, when Japan endorsed the one-China policy and terminated official connections with Taiwan. In addition to growing economic power, Japan sought to expand its political influence in East Asia.

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<sup>42</sup> Downs, Erica Strecker, and Phillip C. Saunders. “Legitimacy and the limits of nationalism: China and the Diaoyu Islands.” *International Security* 23, no. 3 (1998), p. 126. The students protested against the Taiwan authorities for engaging in joint development of oil with Japan and South Korea while the issue of sovereignty over Diaoyu Islands had not yet been settled.

<sup>43</sup> Zhu, Fenglan. “Sino-Japanese dispute over East China Sea and Prospect of solutions.” *Contemporary Asia-Pacific Studies*, no. 7 (2005), p. 4; Park, Choon-Ho. “Oil under Troubled Waters: The Northeast Asia Sea-Bed Controversy.” *Harvard International Law Journal* 14, no. 2 (1973), pp. 229-34.

<sup>44</sup> Tretiak, Daniel. “The Sino-Japanese Treaty of 1978: The Senkaku Incident Prelude.” *Asian Survey* 18, no. 12 (1978), pp. 1235-49; Blanchard, Jean-Marc F. “The U.S. Role in the Sino-Japanese Dispute over the Diaoyu (Senkaku) Islands, 1945-1971.” *The China Quarterly*, no. 161 (2000), pp. 98-99.

<sup>45</sup> Pan, Zhongqi. “Sino-Japanese Dispute over the Diaoyu/Senkaku Islands: The Pending Controversy from the Chinese Perspective.” *Journal of Chinese Political Science* 12, no. 1 (2007), p. 74.

<sup>46</sup> Tretiak, Daniel. “The Sino-Japanese Treaty of 1978: The Senkaku Incident Prelude.” *Asian Survey* 18, no. 12 (1978), pp. 1241-42.

<sup>47</sup> Blanchard, Jean-Marc F. “The U.S. Role in the Sino-Japanese Dispute over the Diaoyu (Senkaku) Islands, 1945-1971.” *The China Quarterly*, no. 161 (2000), p. 99.

<sup>48</sup> For the negotiation of the treaty, see Tretiak, Daniel. “The Sino-Japanese Treaty of 1978: The Senkaku Incident Prelude.” *Asian Survey* 18, no. 12 (1978), pp. 1245-46.

The de-escalation of the dispute was also influenced by economic factors, especially after 1978. Japan provided low-interest loans in the form of ODA while foreign investment and technology contributed to China's economic growth. Min Gyo Koo concluded that growing economic interdependence was a pacifying force.<sup>49</sup>

## 9.2 The re-ignition of the Sino-Japanese dispute over the East China Sea

In Chapter 6 I discussed how changes in domestic politics and rising nationalism in China and Japan from the 1990s led to growing tensions. A number of sensitive issues shelved in favour of cultivating relations came to the surface. The highly emotional history/textbook and territorial issues in particular became entangled. At the same time, China's energy demand was growing rapidly; the end result was competition over the natural resources of the East China Sea. These factors re-ignited the territorial dispute, which is discussed in more detail below.

### 9.2.1 The escalation of the sovereignty dispute over Diaoyu Islands

The flare-up in the 1990s began, from the Chinese perspective, when Japan reportedly was preparing to recognise the lighthouse built on the Diaoyu Islands by right-wing nationalists in 1978 as "an official navigation mark".<sup>50</sup> The move invited a strong reaction from Taiwan, which dispatched two fishing boats full of athletes who attempted to ascend the rocks with an Olympic torch, but were prevented from doing so by the Japanese Coast Guard and Maritime Self Defence Forces.<sup>51</sup> Anti-Japanese demonstrations erupted in Taiwan and Hong Kong, though they were banned in China.<sup>52</sup> After condemning recognition of the lighthouse as a violation of sovereignty, demanding that the activities of right-wing organisations be curtailed,<sup>53</sup> both governments downplayed the incident and agreed to shelve the issue, preventing further escalation.<sup>54</sup>

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<sup>49</sup> Koo, Min Gyo. "The Senkaku/Diaoyu Dispute and Sino-Japanese Political-Economic Relations: Cold Politics and Hot Economics?" *The Pacific Review* 22, no. 2 (2009), pp. 205-32.

<sup>50</sup> Downs, Erica Strecker, and Phillip C. Saunders. "Legitimacy and the Limits of Nationalism: China and the Diaoyu Islands." *International Security* 23, no. 3 (1998), p. 128.

<sup>51</sup> Chung, Chien-peng. "The Diaoyu/Tiaoyutai/Senkaku Islands Dispute: Domestic Politics and the Limits of Diplomacy." *American Asian Review* 16, no. 3 (1998), p. 137.

<sup>52</sup> Downs, Erica Strecker, and Phillip C. Saunders. "Legitimacy and the Limits of Nationalism: China and the Diaoyu Islands." *International Security* 23, no. 3 (1998), pp. 129-30.

<sup>53</sup> *Ibid.*

<sup>54</sup> *Ibid.*

Nonetheless, the situation did not substantially improve. In 1992, China asserted its sovereignty claim by adopting the *Law on the Territorial Sea and Contiguous Zone*, which was discussed in Chapters 7 and 8 in the context of Taiwan and the South China Sea respectively. The *Law* included the Diaoyu Islands as China's territory,<sup>55</sup> which was regarded by Japan as a "clear infringement of its sovereignty":

There is no doubt that *Senkaku Shoto* are uniquely Japanese territory, both historically and from the point of view of international law, and our country actually controls these islands effectively. The present Chinese Act is very regrettable and we demand correction.<sup>56</sup>

When Prime Minister Miyazawa raised the assertion of sovereignty with President Jiang Zemin in April 1992, he declared that China's stance towards the Diaoyu Islands remained unchanged.<sup>57</sup> According to Drifte, the PLA insisted on specifying the Diaoyu Islands in the new *Law*, along with the South China Sea,<sup>58</sup> but Jiang Zemin took a more conciliatory approach for two reasons. First, to end western sanctions as quickly as possible after the 1989 Tiananmen Square Incident, China pushed for better relations with Japan as a first step,<sup>59</sup> inviting the Emperor to visit in 1992 for the 20<sup>th</sup> anniversary of normalisation of relations. Second, the Chinese government did not want the dispute to damage bilateral economic relations. In 1990, the Japanese government ended sanctions and resumed Yen loans, followed by the resumption of leaders' visits in 1991.

Japan's declaration of a 200-nautical mile EEZ around the Diaoyu Islands in June 1996, after ratifying UNCLOS, was another flashpoint. Right-wing Japanese activists erected yet another lighthouse and requested the government to recognise it as an official beacon.<sup>60</sup> This "provocation" resulted once again in large-scale anti-Japanese protests in Hong Kong and

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<sup>55</sup> "Territorial Law of the Sea and Contiguous Zone of the People's Republic of China." (1992), [http://www.mod.gov.cn/policy/2009-07/14/content\\_4088031.htm](http://www.mod.gov.cn/policy/2009-07/14/content_4088031.htm). Accessed 12/09/2009.

<sup>56</sup> Quoted in Hagström, Linus. "Quiet Power: Japan's China Policy in Regard to the Pinnacle Islands." *The Pacific Review* 18, no. 2 (2005), p. 166.

<sup>57</sup> *Ibid.*, p. 167.

<sup>58</sup> Drifte, Reinhard. "From "Special" Relationship to "Normal" Relationship? Issues in Japanese-Chinese Relations." (2007), p. 312.

<sup>59</sup> Zhang, Baijia. "Chinese Domestic and Foreign Policies in the 1990s." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, Cambridge, Mass.: Harvard University Asia Center, 2004, p. 65.

<sup>60</sup> Chung, Chien-peng. "The Diaoyu/Tiaoyutai/Senkaku Islands Dispute: Domestic Politics and the Limits of Diplomacy." *American Asian Review* 16, no. 3 (1998), p. 142; Valencia, Mark J. "The East China Sea Dispute: Context, Claims, Issues, and Possible Solutions." *Asian Perspective* 31, no. 1 (2007), p. 130; Downs, Erica Strecker, and Phillip C. Saunders. "Legitimacy and the Limits of Nationalism: China and the Diaoyu Islands." *International Security* 23, no. 3 (1998), p. 133.

Taiwan,<sup>61</sup> which widened when a Hong Kong activist drowned after being prevented from landing on the islands by Japan's maritime authority, and flags raised by the activists were removed.<sup>62</sup> The Chinese government lodged a formal protest and the Party and Army newspapers adopted a strong anti-Japanese tone. Liberation Army Daily (*Jiefangjun Bao*), declared that China "would rather sustain a heavy economic cost than lose an inch of soil".<sup>63</sup> Still, the Chinese government wanted to downplay the dispute, which ended with a commitment by the Japanese government to handle outstanding issues in Sino-Japanese relations cautiously,<sup>64</sup> though some stress that China was unwilling to jeopardise Japanese ODA.<sup>65</sup> Others note that China was concerned about the reconfirmation of the US-Japan alliance, viewing the erection of the lighthouse and Prime Minister Hashimoto's 1996 visit to the Yasukuni Shrine as "part of a plot" to revive militarism.<sup>66</sup>

After 1996, diplomatic rows and clashes between Japanese right-wing groups and Chinese protesters occurred on a regular basis. Five incidents are of note. First, in 1997 a Japanese legislator landed on one of the Islands, which was denounced by China as "illegal" and a "serious violation of its territory sovereignty".<sup>67</sup> Japan, in response, restated its "fundamental position", declaring that the government was not behind such activities and did not offer any support.<sup>68</sup> Secondly, in 2000, a right-wing group landed and built a shrine. Beijing demanded "that Japan honours its commitment, restricts the right-wing activists,

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<sup>61</sup> Chung, Chien-peng. "The Diaoyu/Tiaoyutai/Senkaku Islands Dispute: Domestic Politics and the Limits of Diplomacy." *American Asian Review* 16, no. 3 (1998), pp. 144-48.

<sup>62</sup> *Ibid.*, p. 149.

<sup>63</sup> Cited in *Ibid.*

<sup>64</sup> Downs, Erica Strecker, and Phillip C. Saunders. "Legitimacy and the Limits of Nationalism: China and the Diaoyu Islands." *International Security* 23, no. 3 (1998), p. 135.

<sup>65</sup> Hagström, Linus. "Quiet Power: Japan's China Policy in Regard to the Pinnacle Islands." *The Pacific Review* 18, no. 2 (2005), p. 179; Chung, Chien-peng. "The Diaoyu/Tiaoyutai/Senkaku Islands Dispute: Domestic Politics and the Limits of Diplomacy." *American Asian Review* 16, no. 3 (1998), p. 142; Nathan, Andrew J., and Robert S. Ross. *The Great Wall and the Empty Fortress: China's Search for Security*. New York: Norton, 1997, p. 92.

<sup>66</sup> Akio, Takahara. "Japan's Policy toward China in the 1990s." In *The Age of Uncertainty: The US-China-Japan Triangle from Tiananmen (1989) to 9/11 (2001)*, edited by Ezra F. Vogel, Ming Yuan and Tanaka Akihiko, Cambridge, Mass.: Harvard University Asia Center, 2004, p. 262.

<sup>67</sup> Su, Steven Wei. "The Territorial Dispute over the Tiaoyu/Senkaku Islands: An Update." *Ocean Development & International Law* 36, no. 1 (2005), pp. 45-61.

<sup>68</sup> Ministry of Foreign Affairs of Japan. "Press Conference by the Press Secretary." (October 15, 1996), <http://www.mofa.go.jp/announce/press/1996/10/1015.html#2>. Accessed 09/06/2010.



and prevents similar incidents from recurring".<sup>69</sup> It replied by restating that the Islands were Japanese territory.

Thirdly, in March 2004, a group of seven Chinese activists landed on the islands, the first successful attempt after an earlier failure. After 10 hours they were arrested and detained by the Japanese Coast Guard.<sup>70</sup> The Chinese government protested and called the arrests a serious violation of sovereignty. The diplomatic row ended when Japan deported the activists.<sup>71</sup> Fourthly, in February 2005, the Japanese government decided to place the second lighthouse erected in 1988 under state control and protection.<sup>72</sup> This was denounced by China's Foreign Ministry as "a serious provocation and violation of Chinese territorial sovereignty" and "the Chinese will never accept this".<sup>73</sup>

The fifth and most serious diplomatic incident began on 7 September 2010, when a Chinese fishing trawler collided with Japanese coast guard vessels in the vicinity of the Diaoyu Islands, resulting in the detention of the trawler's captain.<sup>74</sup> The crisis intensified after Tokyo decided to hold the captain and charge him according to Japanese law. Beijing protested and on 21 September Premier Wen Jiabao, attending the UN Development Summit in New York, called on Japan to release the Chinese captain unconditionally, which it did.<sup>75</sup> Some analysts saw this as Japan's "humiliating defeat" against "China's victory".<sup>76</sup> Beijing

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<sup>69</sup> Ministry of Foreign Affairs of People's Republic of China. "Foreign Ministry spokesman condemns Japanese right-wing activists' violation of Chinese territory." (November 7, 2000), <http://www.fmprc.gov.cn/chn/pds/wjdt/fyrbt/t5925.htm>. Accessed 09/06/2010.

<sup>70</sup> Smith, Charles K. "Island feud a barometer of China-Japan ties." *Asia Times* (May 6, 2004), <http://www.atimes.com/atimes/Japan/FE06Dh02.html>. Accessed 10/09/2010.

<sup>71</sup> Drifte, Reinhard. "Japanese-Chinese territorial disputes in the East China Sea—between military confrontation and economic cooperation." *Working Paper, Asia Research Centre, London School of Economics and Political Science* (2008), [http://eprints.lse.ac.uk/20881/1/Japanese-Chinese territorial disputes in the East China Sea \(LSERO\).pdf](http://eprints.lse.ac.uk/20881/1/Japanese-Chinese%20territorial%20disputes%20in%20the%20East%20China%20Sea%20(LSERO).pdf).

<sup>72</sup> *Ibid.*, p. 13.

<sup>73</sup> "Japan Action Violation of Chinese Sovereignty." *China Daily* (February 12, 2005), [http://www.chinadaily.com.cn/english/doc/2005-02/12/content\\_416200.htm](http://www.chinadaily.com.cn/english/doc/2005-02/12/content_416200.htm). Accessed 15/09/2010.

<sup>74</sup> McCormack, Gavan. "Small Islands - Big Problem: Senkaku/Diaoyu and the Weight of History and Geography in China-Japan Relations." *The Asia-Pacific Journal* 9 no. 1 (2011), <http://www.japanfocus.org/-Gavan-McCormack/3464>; Lee, Peter. "High Stakes Gamble as Japan, China and the U.S. Spar in the East and South China Seas." *The Asia-Pacific Journal* 43, no. 1 (2010), <http://japanfocus.org/-Peter-Lee/3431>. Accessed 02/08/2010.

<sup>75</sup> Xinhua News Agency. "Wen Jiabao Calls For Japan's Immediate And Unconditional Release The Captain." (September 22, 2010), [http://news.xinhuanet.com/world/2010-09/22/c\\_12596265.htm](http://news.xinhuanet.com/world/2010-09/22/c_12596265.htm). Accessed 11/12/2010.

<sup>76</sup> Fackler, Martin, and Ian Johnson. "Japan Retreats with Release of Chinese Boat Captain." *The New York Times* (September 24, 2010), <http://www.nytimes.com/2010/09/25/world/asia/25chinajapan.html>. Accessed 13/11/2010.

requested an apology as well as compensation, but Japan refused, demanding instead compensation for repairs to the damaged coast guard boats.<sup>77</sup> Many western observers viewed China's actions as confirmation of assertive and aggressive behaviour in the East China Sea.<sup>78</sup>

In Jiang Wenran's view, Beijing was reacting to what it regarded as "Japan's unilateral break from the status quo" in handling such incidents and "an escalation of Tokyo's assertion of sovereignty".<sup>79</sup> Previously, Japan deported Chinese violators, as in the 2004 incident discussed above. Moreover, Tang Chongnan from CASS argued that Japan had not only apologised but also paid compensation when a Taiwan fishing boat collided with a Japanese coast guard vessel in 2008.<sup>80</sup> According to Mike Mochizuki, a leading academic on Japanese politics and foreign policy at George Washington University, "from Beijing's perspective, to have a Taiwanese government stand up to Tokyo and get an apology, and for Beijing not to do the same would lead to criticisms among nationalists in China".<sup>81</sup> Others point out that China's response was cautious because the incident occurred just before the 79<sup>th</sup> anniversary of the Japanese invasion of Northeast China on 18 September. The government discouraged public protests.<sup>82</sup>

### 9.2.2 The dispute over gas and oil in the East China Sea

The Diaoyu/Senkaku Islands are just a group of uninhabited islets and barren rocks, but sovereignty gave exclusive rights to explore and exploit natural resources in and below the surrounding waters. The prospect of gas and oil brought tensions to the surface in the 1970s, yet they did not spin out of control until China became an oil importer in 1993.

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<sup>77</sup> Foster, Malcolm. "Japan, China Test Each Other's Diplomatic Resolve." *The Associated Press* (September 27, 2010), <http://www.businessweek.com/ap/financialnews/D9IG8K902.htm>. Accessed 13/11/2010.

<sup>78</sup> Yoshikazu, Shimizu. "PLA Takes Hard Line In East China Sea." *Asia Times* ( December 17, 2010), <http://www.atimes.com/atimes/Japan/LL17Dh01.html>. Accessed 23/01/2011; Brown, Peter J. "China's Navy Cruises Into Pacific Ascendancy." *Asia Times* (April 22, 2010), <http://www.atimes.com/atimes/China/LD22Ad01.html>. Accessed 13/11/2010.

<sup>79</sup> Jiang, Wenran. "New Twists over Old Disputes in China-Japan Relations." *China Brief X*, no. 20 (2010), p. 12, [http://www.jamestown.org/uploads/media/cb\\_010\\_37b83a.pdf](http://www.jamestown.org/uploads/media/cb_010_37b83a.pdf). Accessed 17/12/2010.

<sup>80</sup> Tang, Chongnan. "The Collision Incident in the Diaoyu Islands and Current Sino-Japanese Relations." (2010), <http://ijs.cass.cn/2010/0930/409.html>. Accessed 18/01/2011.

<sup>81</sup> "Japan, China and the Senkakus-Interview with Mike Mochizuki by Richard Katz." *Asia Policy Point* (February 24, 2011), <http://newasiapolicypoint.blogspot.com/2011/02/japan-china-and-senkakus.html>. Accessed 06/05/2011.

<sup>82</sup> Jiang, Wenran. "New Twists over Old Disputes in China-Japan Relations." *China Brief X*, no. 20 (2010), p. 12, [http://www.jamestown.org/uploads/media/cb\\_010\\_37b83a.pdf](http://www.jamestown.org/uploads/media/cb_010_37b83a.pdf).

In August 2003 the state-owned China National Offshore Oil Corporation and China Petroleum and Chemical Corporation concluded contracts worth billions of dollars with two foreign oil companies, Royal Dutch/Shell and the US company Unocal, for exploration and production in the area of the East China Sea called the Xi Hu Trough.<sup>83</sup> This caused Japan great concern, and Beijing was asked for data on the location of the oil fields, which was not forthcoming.

In mid-2004, Japanese media reported that gas exploitation had started within China's EEZ, and claimed that this might harm Japanese maritime interests, because the closest gas field was only 5 kilometres away from Japan's claimed median line.<sup>84</sup> Beijing argued that the gas fields were, indisputably, within China's EEZ<sup>85</sup> and proposed joint development as a compromise, but this offer was rejected. Shoichi Nakagawa, Head of the Ministry of Economy, Trade and Industry, made an aerial inspection to confirm the existence of the project. In July, Japan chartered a Norwegian ship and started an intensive seismic survey east of the "median line" opposite Chunxiao to prevent possible infringement on its resources.<sup>86</sup>

The "tit-for-tat" reactions continued in 2005. Tokyo gave Japanese names to the Chinese oil and gas fields<sup>87</sup> and, mid-year, Teikoku Oil Company was granted the right to explore for oil and gas. With government approval, Teikoku drafted plans to develop three fields along the Japanese side of the median line but on China's continental shelf. China responded strongly that "Japan's action constitutes a severe provocation to the interests of China as well as the norms governing international relations. China has lodged a protest to the Japanese side, and reserves the right to further reaction".<sup>88</sup> As Sino-Japanese tensions escalated, Teikoku refrained from exploration for "safety reasons".<sup>89</sup>

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<sup>83</sup> Kosuke, Takahashi. "Gas and Oil Rivalry in the East China Sea." *Asia Times* (July 27, 2004), <http://www.atimes.com/atimes/Japan/FG27Dh03.html>. Accessed 14/07/2010.

<sup>84</sup> "Chronological Events and Turning Points of Sino-Japanese Oil And Gas Competition." *Global Times* (July 30, 2010), <http://japan.people.com.cn/95927/100490/100494/7087561.html>. Accessed 21/09/2010.

<sup>85</sup> *Ibid.*

<sup>86</sup> Liao, Janet Xuanli. "Sino-Japanese Energy Security and Regional Stability: The Case of the East China Sea Gas Exploration." *East Asia* 25, no. 1 (2008), pp. 59-60.

<sup>87</sup> Namely: Shirakaba (*Chunxiao*), Asunaro (*Longqing*), Kusunoki (*Duanqiao*), Kashi (*Tianwantai*), and Kikyo (*Lengquan*).

<sup>88</sup> Au, Kung-wing. "The East China Sea Issue: Japan-China Talks for Oil and Gas." *East Asia* 25, no. 3 (2008), p. 226.

<sup>89</sup> *Ibid.*

### 9.2.3 Deng's dictum: shelving the dispute, conducting joint development--nothing but rhetoric?

The intense war of words erupted with hardly any attempt at a negotiated solution, despite thirty years of "normal" relations. The idea of "shelving the dispute" tactically avoided a political stalemate in 1972 and 1978<sup>90</sup> and again in 1990, when the Chief Cabinet Secretary Sakamoto Misuji acknowledged Deng Xiaoping's 1978 pronouncements, calming Chinese protests.<sup>91</sup> The cost though, as Drifte pointed out, was "sweeping explosive issues under the carpet by agreeing to disagree for the time being".<sup>92</sup>

In 1990 the Japanese government changed its position and claimed that "there does not exist any territorial problem with China".<sup>93</sup> Bilateral talks only seriously addressed the maritime demarcation issue after both sides ratified UNCLOS and declared EEZs.<sup>94</sup> Cooperation was limited to the 1997 Fisheries Agreement and the Prior Notification Agreement of 2000, which was intended to stop repeated incursions of Chinese maritime research vessels into Japan's claimed EEZ.<sup>95</sup>

According to Drifte, China made various proposals for joint development of the continental shelf and/or the Senkaku Islands, beginning in 1978, with Deng Xiaoping's proposed joint exploration of resources,<sup>96</sup> followed two years later by Deputy Premier Yao Yilin's proposal for a joint oil development.<sup>97</sup> In October 1996, Chinese Foreign Minister Qian Qichen suggested to a Japanese media group in Beijing that the sovereignty issue over the Diaoyu

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<sup>90</sup> Li, Qingjin. "Deng Xiaoping's Thought of Joint Development and the Issue of Diaoyu Islands." *Japanese Studies*, no. 4 (1999), pp. 1-12.

<sup>91</sup> Sukanuma, Unryu. *Sovereign rights and territorial space in Sino-Japanese relations: irredentism and the Diaoyu/Senkaku Islands*. Honolulu: University of Hawaii Press, 2001, p. 140.

<sup>92</sup> Drifte, Reinhard. "From "Sea of Confrontation" to "Sea of Peace, Cooperation and Friendship"? Japan facing China in the East China Sea." *Japan aktuell* 3, (2008), p. 30, [http://www.giga-hamburg.de/dl/download.php?d=/content/publikationen/archiv/ja\\_aktuell/jaa\\_0803\\_fokus\\_drifte.pdf](http://www.giga-hamburg.de/dl/download.php?d=/content/publikationen/archiv/ja_aktuell/jaa_0803_fokus_drifte.pdf). Accessed 24/05/2010.

<sup>93</sup> Quoted in Hagström, Linus. "Quiet Power: Japan's China Policy in Regard to the Pinnacle Islands." *The Pacific Review* 18, no. 2 (2005), p. 169.

<sup>94</sup> Drifte, Reinhard. "From "Special" Relationship to "Normal" Relationship? Issues in Japanese-Chinese Relations." (2007), p. 314.

<sup>95</sup> Przystup, James J. "Japan-China Relations: The Past is Always Present." *Comparative Connections* 3, no. 1 (2001), [http://csis.org/files/media/isis/pubs/0101qjapan\\_china.pdf](http://csis.org/files/media/isis/pubs/0101qjapan_china.pdf). Accessed 22/05/2010.

<sup>96</sup> Li, Qingjin. "Deng Xiaoping's Thought of Joint Development and the Issue of Diaoyu Islands." *Japanese Studies*, no. 4 (1999), p. 3.

<sup>97</sup> Drifte, Reinhard. "From "Sea of Confrontation" to "Sea of Peace, Cooperation and Friendship"? Japan Facing China in the East China Sea." *Japan aktuell* 3, (2008), p. 35.

Islands should be shelved and the area jointly developed.<sup>98</sup> In response, Japan demanded settlement of the maritime border or recognition of its title to the Senkaku Islands as a precondition.<sup>99</sup>

As far as Chinese oil and gas exploration, which started in 1974, and scientific research vessels in the disputed area were concerned, the Japanese government did not raise concerns until the end of the 1990s.<sup>100</sup> China initially conducted sporadic seismic surveys on the Japanese-claimed side of the median line between 1995 and 1997 without any response, but Japan finally reacted by chartering the Norwegian seismic survey ship.<sup>101</sup>

From October 2004 to the end of 2007, 11 rounds of director-level negotiations were conducted, but no substantive progress was made due to more-than-usually uncomfortable relations during the Koizumi Administration.<sup>102</sup> Janet Xuanli Liao argued that negotiations were almost doomed to fail because of this “cold” political environment.<sup>103</sup> China insisted on “joint development” while the Japanese simply repeated their demand for data and a halt to China’s activities.<sup>104</sup> *Yomiuri Shimbun* reported that, on the first day of the first round of negotiations, and expecting a quick solution, Minister of Economy, Trade and Industry Shoichi Nakagawa stated that the dispute was about Japan’s “national interests and sovereignty” but was also relevant to its energy security,<sup>105</sup> After negotiations ended with little progress, he stated angrily that: “I don’t know why these discussions were even held... I

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<sup>98</sup> Drifte, Reinhard. "Japanese-Chinese Territorial Disputes in the East China Sea—between Military Confrontation and Economic Cooperation." *Working Paper, Asia Research Centre, London School of Economics and Political Science* (2008), p. 13.

<sup>99</sup> Ministry of Foreign Affairs of Japan. "Press Conference by the Press Secretary." (October 15, 1996), <http://www.mofa.go.jp/announce/press/1996/10/1015.html#2>.

<sup>100</sup> Drifte, Reinhard. "Japanese-Chinese Territorial Disputes in the East China Sea—between Military Confrontation and Economic Cooperation." *Working Paper, Asia Research Centre, London School of Economics and Political Science* (2008), p. 14.

<sup>101</sup> The Chinese name for the negotiations is ‘China-Japan Consultations regarding the East Sea’, the Japanese officially called them the ‘Japan-China Consultations concerning the East China Sea and Other Matters’.

<sup>102</sup> Au, Kung-wing. "The East China Sea Issue: Japan-China Talks for Oil and Gas." *East Asia* 25, no. 3 (2008), pp. 228-36; Liao, Janet Xuanli. "Sino-Japanese Energy Security and Regional Stability: The Case of the East China Sea Gas Exploration." *East Asia* 25, no. 1 (2008), pp. 64-70. The first round of talks began on 25<sup>th</sup> 2004.

<sup>103</sup> Liao, Janet Xuanli. "Sino-Japanese Energy Security and Regional Stability: The Case of the East China Sea Gas Exploration." *East Asia* 25, no. 1 (2008), p. 64.

<sup>104</sup> Au, Kung-wing. "The East China Sea Issue: Japan-China Talks for Oil and Gas." *East Asia* 25, no. 3 (2008), p. 225.

<sup>105</sup> Quoted in Liao, Janet Xuanli. "Sino-Japanese Energy Security and Regional Stability: The Case of the East China Sea Gas Exploration." *East Asia* 25, no. 1 (2008), p. 65.

don't plan to get involved in further talks that end without resolution".<sup>106</sup> The Chinese argued that competition was inevitable given "energy scarcity" and the "surprising convergence of supply sources".<sup>107</sup>

The next five rounds of talks proceeded during Koizumi's tenure and, again, little progress was made.<sup>108</sup> During the second round of talks, 30-31 May 2005, Beijing proposed two specific areas for joint development located on the Japanese side of the median line. This was, not surprisingly, unacceptable to Tokyo which insisted on the provision of geological data and demanded that China stop work in the Chunxiao field.<sup>109</sup> In the third round, 30 September-1 October 2005, the Japanese proposed a joint development area divided equally by Japan's proposed median line, including the Chunxiao, Duanqiao and Tianwaitian oil and gas fields.<sup>110</sup> This was unacceptable to the Chinese.

Talks were suspended for a few months after exploration rights were granted to the Teikoku Oil Company in July 2005 and Koizumi's fifth visit to the Yasukuni Shrine three months later. According to Liao, this ruled out certain compromises that Beijing purportedly was prepared to make in the third round.<sup>111</sup> When bilateral talks resumed on 6-7 March 2006, the Chinese offered to jointly explore two areas, one to the south on the Japanese side near the Diaoyu Islands, the other to the north of the Longjing field on the Chinese side of the median line.<sup>112</sup> Because Tokyo believed that the proposal gave Beijing an advantage in the Diaoyu Islands sovereignty issue the offer was rejected.<sup>113</sup> Foreign Minister Taro Aso commented bluntly

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<sup>106</sup> Quoted in Au, Kung-wing. "The East China Sea Issue: Japan-China Talks for Oil and Gas." *East Asia* 25, no. 3 (2008), pp. 228-29.

<sup>107</sup> Liao, Janet Xuanli. "Sino-Japanese Energy Security and Regional Stability: The Case of the East China Sea Gas Exploration." *East Asia* 25, no. 1 (2008), p. 65.

<sup>108</sup> This information about the 11 rounds of negotiation is drawn heavily from Drifte, Reinhard. "Japanese-Chinese Territorial Disputes in the East China Sea—between Military Confrontation and Economic Cooperation." *Working Paper, Asia Research Centre, London School of Economics and Political Science* (2008); Liao, Janet Xuanli. "Sino-Japanese Energy Security and Regional Stability: The Case of the East China Sea Gas Exploration." *East Asia* 25, no. 1 (2008), pp. 57-78; Au, Kung-wing. "The East China Sea Issue: Japan-China Talks for Oil and Gas." *East Asia* 25, no. 3 (2008), pp. 223-41, and a number of Chinese media reports.

<sup>109</sup> Au, Kung-wing. "The East China Sea Issue: Japan-China Talks for Oil and Gas." *East Asia* 25, no. 3 (2008), p. 229.

<sup>110</sup> *Ibid.*, p. 230.

<sup>111</sup> Liao, Janet Xuanli. "Sino-Japanese Energy Security and Regional Stability: The Case of the East China Sea Gas Exploration." *East Asia* 25, no. 1 (2008), pp. 66-67.

<sup>112</sup> Drifte, Reinhard. "Japanese-Chinese Territorial Disputes in the East China Sea—between Military Confrontation and Economic Cooperation." *Working Paper, Asia Research Centre, London School of Economics and Political Science* (2008), p. 29.

<sup>113</sup> Liao, Janet Xuanli. "Sino-Japanese Energy Security and Regional Stability: The Case of the East China Sea Gas Exploration." *East Asia* 25, no. 1 (2008), p. 68.

that “the Senkaku (Diaoyu) Islands are Japanese territory historically and in the eyes of international law. Japan won’t jointly develop the gas fields”.<sup>114</sup> China responded by reaffirming its “indisputable sovereignty” stating that it “will not discuss joint development with the precondition of accepting the median line”.<sup>115</sup> Inclusion of the Diaoyu Islands complicated negotiations. The fifth and sixth rounds were fruitless.<sup>116</sup>

After Prime Minister Shinzo Abe’s Beijing visit in late 2006, relations improved, facilitating subsequent consultations. The technical experts’ meeting, an ancillary to the seventh round, on 29 March 2007, boosted confidence before Prime Minister Wen Jiabao’s visit to Japan in 2007.<sup>117</sup> At the Wen-Abe summit, the two leaders vowed “to make the East China Sea a ‘Sea of Peace, Cooperation and Friendship’”.<sup>118</sup> Although there was no “breaking news”, four rounds were held in the second half of 2007 demonstrating the willingness of both sides to accelerate negotiations.<sup>119</sup>

#### 9.2.4 Toward joint development?

Spurred by improving relations following the Fukuda-Hu Summit in May 2008, an in-principle consensus on joint development in the East China Sea was reached on 18 June. China refers to this as the “6.18 Consensus”.<sup>120</sup> Though only a provisional agreement which did not prejudice their respective legal positions, it was the first substantive step towards working out concrete measures for joint development. From the perspective of Chinese scholars, the “Consensus” itself was a milestone irrespective of its transitional and “under-specified nature”.<sup>121</sup> In the view of Western scholars, the significance of the agreement was

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<sup>114</sup> Quoted in *ibid.*

<sup>115</sup> Ministry of Foreign Affairs of people's Republic of China. "Chinese Foreign Ministry spokesman Qin Gang at Press Conference." (March 9, 2006), <http://www.fmprc.gov.cn/chn/pds/wjdt/fyrbt/t239432.htm>. Accessed 04/06/2010.

<sup>116</sup> The fifth round was conducted on 18 May 2006 in Tokyo, the sixth on 8-9 July 2006 in Beijing.

<sup>117</sup> Au, Kung-wing. "The East China Sea Issue: Japan-China Talks for Oil and Gas." *East Asia* 25, no. 3 (2008), p. 232.

<sup>118</sup> "Japan-China Joint Press Statement." (April 11, 2007), <http://www.mofa.go.jp/region/asia-paci/china/pv0704/joint.html>. Accessed 10/10/2010.

<sup>119</sup> The eighth round was conducted on May 25, 2007; the ninth on June 26, 2007; the tenth on October 11, 2007; and the eleventh on November 14, 2007.

<sup>120</sup> Ministry of Foreign Affairs of People's Republic of China. "China and Japan Reach Principled Consensus on the East China Sea Issue." (June 18, 2008), <http://au.china-embassy.org/eng/fyrth/t466632.htm>. Accessed 15/08/2010.

<sup>121</sup> Xinhua News Agency. "Gao Hong Analyses Sino-Japanese issue over East China Sea-the interview with Professor Gaohong." (June 20, 2008), [http://news.xinhuanet.com/world/2008-06/20/content\\_8406565.htm](http://news.xinhuanet.com/world/2008-06/20/content_8406565.htm). Accessed 20/08/2010; Lei, Zhihua. "The ocean law expert interprets the China-Japan agreement on the East

more political than economic or legal because it did not resolve the East China Sea dispute.<sup>122</sup>

Professor Gao Hong, a CASS Japan specialist, made two observations.<sup>123</sup> First, the “6.18 Consensus” revealed China and Japan’s pragmatism, with no mention of the Diaoyu/Senkaku Islands sovereignty issue. Secondly, it demonstrated that compromises could be made on a reciprocal basis. Compared with previous rounds, the “Consensus” offered a potential way forward in negotiations over delineating the maritime boundary. Allowing Japanese enterprises to participate in the development of the Chunxiao field was a concession because they are located in undisputed territory west of the median line. Gao Hong concluded that joint development was a “win-win situation” and conducive to regional stability.<sup>124</sup>

Reinhard Drifte argued that the agreement marked a post-Koizumi improvement in bilateral relations but did not present any substantive progress in determining the East China Sea’s maritime boundaries.<sup>125</sup> The concession to Japanese companies signalled “cooperative” as opposed to “joint” development,<sup>126</sup> indicating that sovereign rights over the field belonged to China. He concluded that further negotiations were difficult as both sides faced domestic opposition.<sup>127</sup> Chinese civic action groups staged a protest in front of the Japanese embassy and internet opposition to the deal was apparent.<sup>128</sup>

By the end of 2011 further negotiations on implementing the agreement had not commenced. After the diplomatic row over the “boat collision incident” in September 2010, Chinese Foreign Minister Yang Jiechi emphasised the need to prepare “the appropriate

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China Sea." *Global Times* (June 19, 2008), <http://china.huanqiu.com/roll/2008-06/143630.html>. Accessed 09/08/2010.

<sup>122</sup> Drifte, Reinhard. "From “Sea of Confrontation” to “Sea of Peace, Cooperation and Friendship”? Japan Facing China in the East China Sea." *Japan aktuell* 3 (2008), pp. 27-51.

<sup>123</sup> Xinhua News Agency. "Gao Hong Analyses Sino-Japanese issue over East China Sea-the interview with Professor Gaohong." (June 20, 2008), [http://news.xinhuanet.com/world/2008-06/20/content\\_8406565.htm](http://news.xinhuanet.com/world/2008-06/20/content_8406565.htm).

<sup>124</sup> *Ibid.*

<sup>125</sup> Drifte, Reinhard. "From “Sea of Confrontation” to “Sea of Peace, Cooperation and Friendship”? Japan Facing China in the East China Sea." *Japan aktuell* 3 (2008), p. 44.

<sup>126</sup> "The Vice Foreign Minister comments on the China-Japan agreement on the East China Sea." *Global Times* (June 19, 2008), <http://china.huanqiu.com/roll/2008-06/144297.html>. Accessed 09/08/2010.

<sup>127</sup> Drifte, Reinhard. "From “Sea of Confrontation” to “Sea of Peace, Cooperation and Friendship”? Japan Facing China in the East China Sea." *Japan aktuell* 3 (2008), p. 45.

<sup>128</sup> Przystup, James J. “Japan-China Relations: Progress in Building a Strategic Relationship.” *Comparative Connections* 10, no. 2 (2008), <http://csis.org/files/media/csis/pubs/0702q.pdf>. Accessed 22/05/2010.



conditions and atmosphere”, when he was urged to resume negotiations by his Japanese counterpart Maehara in October 2010.<sup>129</sup>

### 9.3 The role of the US in the Sino-Japanese dispute over the Diaoyu Islands

It will be recalled that from 1945 to 1972, the Diaoyu/Ryukyu Islands were administrated by the US as part of their occupation of Okinawa. In 1971, the US and Japan signed the Okinawa Reversion Treaty, returning the Islands to Japan. The State Department declared that the US had returned “administrative rights” to Japan, and adopted a neutral position with regard to the competing sovereignty claims.<sup>130</sup> However, according to a study conducted by Jean-Marc F Blanchard, “the US favoured in both word and deed Japanese claims to the Islands” until its public retreat in 1971.<sup>131</sup> During negotiations for the San Francisco Peace Treaty in 1951, John Foster Dulles, Chief US delegate and later Secretary of State in the Eisenhower Administration, stated that the Japanese had only “residual sovereignty” over the Ryukyu Islands, including the Senkakus. Thus, the US, he continued, “will not transfer its sovereign powers over the Ryukyu Islands to any nation other than Japan”.<sup>132</sup> In 1962, President Kennedy also recognised “the Ryukyus to be a part of the Japanese homeland and look forward to the day when the security interests of the Free World will permit their restoration to full Japanese sovereignty”.<sup>133</sup> US neutrality was restated by all Administrations after 1971.<sup>134</sup>

Whether the US-Japan security treaty of 1996 applied to the Islands was a question of major significance. Under the 1971 Okinawa Reversion Treaty, the US agreed that the treaty covered the Diaoyu/Senkaku Islands.<sup>135</sup> Both Secretary of State William Rogers and Deputy

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<sup>129</sup> Przystup, James J. “Japan-China Relations: Troubled Waters: Part II.” *Comparative Connections* 12, no. 4 (2011), [http://csis.org/files/publication/1004qjapan\\_china.pdf](http://csis.org/files/publication/1004qjapan_china.pdf). Accessed 13/07/2011.

<sup>130</sup> Nicksch, Larry A. “Senkaku (Diaoyu) islands dispute: the US legal relationship and obligations.” *CRS Report for Congress, 96-798* (September 30, 1996), pp. 3-4.

<sup>131</sup> Blanchard, Jean-Marc F. “The U.S. Role in the Sino-Japanese Dispute over the Diaoyu (Senkaku) Islands, 1945-1971.” *The China Quarterly*, no. 161 (2000), p. 97.

<sup>132</sup> *Ibid.*, p. 109.

<sup>133</sup> Quoted in Dumbaugh, Kerry, David Ackerman, Richard Cronin, Shirley Kan, and Larry Nicksch. “China’s Maritime Territorial Claims: Implications for U.S. Interests.” *CRS Report For Congress, RL31183* (November 12, 2001), p. 21.

<sup>134</sup> Nicksch, Larry A. “Senkaku (Diaoyu) Islands Dispute: The US Legal Relationship and Obligations.” *CRS Report for Congress, 96-798* (September 30, 1996), p. 4.

<sup>135</sup> Dumbaugh, Kerry, David Ackerman, Richard Cronin, Shirley Kan, and Larry Nicksch. “China’s Maritime Territorial Claims: Implications for U.S. Interests.” *CRS Report For Congress, RL31183* (November 12, 2001), p. 22.

Secretary of Defence David Packard stressed, in testimony before the Foreign Relations Committee in 1971, that the Security Treaty was relevant.<sup>136</sup> In 1996 the *New York Times* quoted a number of Japanese officials as saying that the US was obliged to use military force if conflict with China erupted.<sup>137</sup> Though Ambassador Walter Mondale remarked that US forces were not compelled by the treaty to intervene,<sup>138</sup> the US Secretary of Defence stated in a press conference in Tokyo in December 1996 that “the US will honour its security agreement to Japan”.<sup>139</sup> The Chinese government responded that the US-Japan Security Treaty “must not exceed the bilateral category, and there is no reason for any third country to intervene in the Sino-Japanese dispute over the Diaoyu Islands”.<sup>140</sup>

When the Chinese fishing vessel clashed with the Japanese Coast Guard in 2010, Maehara Seiji, Minister of Land, Infrastructure, Transport and Tourism, who became Foreign Minister soon after, declared that US Secretary of State Hillary Clinton had assured him on 23 September that the Senkakus/Diaoyu Islands were subject to the US-Japan Security Treaty.<sup>141</sup> This was after Premier Wen Jiabao stated at the 65<sup>th</sup> UN General Assembly in New York that “when it comes to sovereignty, national unity and territorial integrity, China will not yield or compromise”.<sup>142</sup> Only a few weeks earlier, the Obama Administration “ha[d] decided not to state explicitly that the Senkaku Islands are subject to the Japan-US security treaty”, and “Washington’s stance towards the issue”, as the report said, “is believed to avoid irritating Beijing amid efforts to ensure continued cooperation with China to keep the US economy's recovery on track from the financial crisis”.<sup>143</sup>

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<sup>136</sup> Nicksch, Larry A. "Senkaku (Diaoyu) Islands Dispute: The US Legal Relationship and Obligations." *CRS Report for Congress*, 96-798 (September 30, 1996), p. 4.

<sup>137</sup> Kristof, Nicholas D. "An Asian Mini-Tempest Over Mini-Island Group." *The New York Times* (September 16, 1996), <http://www.nytimes.com/1996/09/16/world/an-asian-mini-tempest-over-mini-island-group.html?scp=1&sq=a%20mini%20aisan%20tempest%20over%20mini%20island%20group&st=cse>. Accessed 14/05/2010.

<sup>138</sup> *Ibid.*

<sup>139</sup> Dumbaugh, Kerry, David Ackerman, Richard Cronin, Shirley Kan, and Larry Nicksch. "China's Maritime Territorial Claims: Implications for U.S. Interests." *CRS Report For Congress*, RL31183 (November 12, 2001), p. 22.

<sup>140</sup> Quoted in *ibid.*, p. 23.

<sup>141</sup> "Clinton: Senkakus subject to security pact." *The Japan Times* (September 25, 2010), <http://search.japantimes.co.jp/cgi-bin/nn20100925a5.html>. Accessed 29/10/2010.

<sup>142</sup> Xinhua News Agency. "Premier Wen expounds 'real China' at UN debate." (September 24, 2010), [http://www.chinadaily.com.cn/china/2010WenUN/2010-09/24/content\\_11340091.htm](http://www.chinadaily.com.cn/china/2010WenUN/2010-09/24/content_11340091.htm). Accessed 29/10/2010.

<sup>143</sup> "U.S. fudges Senkaku security pact status." *The Japan Times* (August 17, 2010), <http://search.japantimes.co.jp/cgi-bin/nn20100817a1.html>. Accessed 15/01/2011.

Washington's position appeared to have shifted.<sup>144</sup> Other analysts, such as Sakai Tanaka, argued that the heavy-handed approach was intended for Japan, South Korea and Vietnam "to construct a net encircling China".<sup>145</sup> His argument was echoed by a number of Western scholars who argued that the dispute functioned as "a wedge of containment", making Japan more dependent on the US military presence in Okinawa.<sup>146</sup>

The US had no interest in allowing the dispute to spin out of control, though it faced a dilemma, as in the South China Sea. The US was historically unwilling to become involved in a military confrontation, which was why, according to a Congressional Research Service report, the Nixon Administration removed the Senkakus from the concept of Japanese "residual sovereignty"<sup>147</sup> during rapprochement with China in 1971-1972.<sup>148</sup>

In 1996 the Japanese government received an ambiguous response to whether the US-Japan Security Treaty applied, due to a policy disagreement between the State Department and Ministry of Defence.<sup>149</sup> Internal differences aside, the question of whether the US would use force was dismissed as a "hypothetic situation" by a State Department spokesman who refused to make further comment.<sup>150</sup>

As argued in the previous chapter, the US was anxious about China's challenge to its primacy, yet the US needed China's cooperation on many issues, not least as a purchaser of treasury bonds. As Peter Lee argued, "the US is happy to have its allies foment politically

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<sup>144</sup> US Department of State. "Joint Press Availability with Japanese Foreign Minister Seiji Maehara." (October 27, 2010), <http://www.state.gov/secretary/rm/2010/10/150110.htm>. Accessed 25/11/2010; Lee, Peter. "High Stakes Gamble as Japan, China and the U.S. Spar in the East and South China Seas." *The Asia-Pacific Journal* 43, no. 1 (2010), <http://japanfocus.org/-Peter-Lee/3431>.

<sup>145</sup> Tanaka Sakai, "Rekindling China-Japan Conflict: The Senkaku/Diaoyutai Islands Clash." *The Asia-Pacific Journal* 39, no. 3 (2010), <http://japanfocus.org/-Tanaka-Sakai/3418>. Accessed 25/11/2010.

<sup>146</sup> McCormack, Gavan. "Small Islands - Big Problem: Senkaku/Diaoyu and the Weight of History and Geography in China-Japan Relations." *The Asia-Pacific Journal* 9, no. 1 (2011).

<sup>147</sup> Dumbaugh, Kerry, David Ackerman, Richard Cronin, Shirley Kan, and Larry Niksch. "China's Maritime Territorial Claims: Implications for U.S. Interests." *CRS Report For Congress, RL31183* (November 12, 2001), p. 22.

<sup>148</sup> *Ibid.*

<sup>149</sup> *Ibid.*, p. 24.

<sup>150</sup> Kristof, Nicholas D. "Would you fight for these islands?" *The New York Times* (October 20, 1996), <http://www.nytimes.com/1996/10/20/weekinreview/would-you-fight-for-these-islands.html?scp=1&sq=Would+you+fight+for+these+islands&st=cse&pagewanted=print>. Accessed 14/05/2010.

useful confrontation with China, but unwilling to alienate China by backing its proxies with determined diplomatic and military escalation when things get tough".<sup>151</sup>

#### 9.4 Toward a settlement, or maintaining the status quo?

China's *Southern Weekly* wrote that the sensitivity of the East China Sea lay in the islands presenting a powerful symbol of mutual historical glory and humiliation, an unhealed wound causing occasional "pain".<sup>152</sup> Anti-Japanese nationalism ignited and exacerbated bilateral tensions that went beyond the territorial issue itself. No solution was acceptable in the short and medium term, except maintaining the status quo.

Effective control of the Diaoyu/Senkaku Islands gave Japan leverage to manoeuvre on both legal and diplomatic fronts.<sup>153</sup> By contrast, the Chinese government could not take any action other than lodge diplomatic protests and assert "indisputable sovereign rights" when a "provocation" occurred. As Wen Jiabao told Prime Minister Naoto Kan during the Asia-Europe Meeting in October 2010, "the Islands have been Chinese territory since ancient times".<sup>154</sup> Chinese officials, moreover, stressed that "under international law it is simply not possible to have effective control over a territory as long as another state also claims sovereignty over it".<sup>155</sup> Neither China nor Japan was willing to compromise in order to resolve the dispute.

The Diaoyu Islands and Taiwan issues were interrelated strategically. China and Japan were suspicious of each other's intentions. Some Chinese analysts expressed concern that Japan, by enhancing its military capability and strengthening the US-Japan security alliance, was constraining, if not containing, a rising China.<sup>156</sup> The view that Japan may invoke the US

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<sup>151</sup> Lee, Peter. "High Stakes Gamble as Japan, China and the U.S. Spar in the East and South China Seas." *The Asia-Pacific Journal* 43, no. 1 (2010), <http://japanfocus.org/-Peter-Lee/3431>.

<sup>152</sup> Jia, Xiang. "Interpreting 'Diaoyu Psyche' of Chinese leaders." *Southern Weekly* (January 9, 2003), <http://www.china1931.net/newse/baodiao/200607/866.html>. Accessed 13/10/2010.

<sup>153</sup> Hagström, Linus. "Quiet Power: Japan's China Policy in Regard to the Pinnacle Islands." *The Pacific Review* 18, no. 2 (2005), pp. 168-69.

<sup>154</sup> Xinhua News Agency. "Premier Wen reiterates Diaoyu Islands Chinese territory." (October 5, 2010), <http://english.peopledaily.com.cn/90001/90776/90883/7157432.html>. Accessed 12/11/2010.

<sup>155</sup> Quoted in Hagström, Linus. "Quiet Power: Japan's China Policy in Regard to the Pinnacle Islands." *The Pacific Review* 18, no. 2 (2005), p. 171.

<sup>156</sup> Wang, Jianwei, and Xinbo Wu. "Against Us or with Us?: The Chinese Perspective of America's Alliances with Japan and Korea." *Asia/Pacific Research Center Discussion Paper* (1998), pp. 30-33.

alliance gained ground in 2010 when Hillary Clinton confirmed that the US was obliged to defend Japan and its surrounding areas, including the Diaoyu Islands.<sup>157</sup>

Some Chinese analysts suggested that China should shelve the sovereignty and history issues, and pursue “common interests”. A peaceful international environment, conducive to economic growth, was served best by a good-neighbourly policy, it was argued. During his Japan visit in April 2007, Premier Wen Jiabao stated that “our nation’s development has reached a critical moment. We need to have a peaceful and conducive international environment. The improvement of Sino-Japanese relations is beneficial to the two peoples”.<sup>158</sup> The implication was that it was not in China’s interests for relations to be punctuated by diplomatic spats. Whether China and Japan could move out of the shadow of the past, and forge an amicable bilateral relationship at a time when both were strong and had to learn to live as “two tigers on the same mountain”, was a formidable challenge. If strategic interests were maximised by Sino-Japanese cooperation and China needed “new thinking on Japan”, Japan also needed new thinking on China.

## 9.5 Conclusion

The dispute over the sovereignty of the Diaoyu Islands was shelved for 17 years after relations were normalised in 1972. However, tensions intensified during the 1990s with both sides viewing each other as increasingly assertive. The dispute was of particular importance because of the potential for military conflict.

China and Japan faced a novel situation in which both were strong powers in East Asia. For Japan, keeping the dispute alive prevented China from gaining control of large oil and gas deposits. Similarly, US confirmation in 2010 that the Diaoyu Islands were covered by its Defence Treaty with Japan may also be understood as seeking to contain China.

The Diaoyu Islands dispute was in stalemate at the end of 2011. I argued in Chapter 6 that it surfaced because of China’s enhanced energy requirements and domestic patriotism which became a potent force. Both China and Japan sought to appease respective domestic

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<sup>157</sup> Tang, Chongnan. "The Collision Incident in the Diaoyu Islands and Current Sino-Japanese Relations." (2010), <http://ijs.cass.cn/2010/0930/409.html>.

<sup>158</sup> Xinhua News Agency. "Premier Wen Jiabao meet Chinese residents and students representatives in Japan." (April 13, 2007), [http://news.xinhuanet.com/world/2007-04/13/content\\_5972024.htm](http://news.xinhuanet.com/world/2007-04/13/content_5972024.htm). Accessed 23/05/2010.

patriotic pressures by intensifying the dispute as a political issue. It became a regional flashpoint in the 1990s because of competition for influence in East Asia, changing national identities, and because Japan was no longer the region's economic leader and China was no longer able to appeal to communist ideology for political legitimacy.

Given that Japan had internationally recognised control over the islands, the best outcome that China could have expected was continued stalemate, with the attendant opportunities for playing the "history card" and strengthening its position with domestic patriots. I noted earlier, however, that merging Northeast and Southeast Asia into an East Asian region, driven by China at the centre of economic integration as well as multilateral political engagement, brought security challenges related to China onto the regional agenda. Security fora, centred on Southeast Asian groupings, considered Northeast Asian tensions. The question was whether Japan was content with non-binding negotiation in the spirit of the "ASEAN Way", or tempted to seek international support to "resolve" the Diaoyu dispute in its favour once and for all, given US support in 2010, and desire to reinvolve itself in East Asian affairs. I suggested that it is likely that the US position was political bluster and not backed by any intention to go to war with China. Nevertheless, misjudgements could have incurred the cost of war, and hence escalation of the dispute was a significant threat to regional peace. It was in China's best interests to maintain a positive relationship with Japan and, as I suggested in the final section of this chapter, to continue to promote a peaceful settlement along the lines of joint development of resources.

## 10 Conclusion

China was for centuries the undisputed dominant power in East Asia, and then for almost two centuries it suffered humiliation at the hands of Western powers and Japan and the almost complete loss of its economic and political centrality to East Asia. After 1945, US hegemony through “hub-and-spokes” security alliances, and Japan’s economic dominance after the 1960s, shaped the political economy of East Asia. Yet, following post-1978 reforms, subsequent emergence as the “world’s factory” and major foreign creditor of the US, China restored itself to a position of economic pre-eminence in the region. Many commentators spoke of China’s rise as a “resurgence” to some semblance of past glories.

This thesis stressed the significance of the evolution of the political economy of East Asia in historical context for understanding the impact of China’s rise. China reshaped the region, especially after the AFC in 1997/98, via two closely related processes. First, the Overseas Chinese Business Sphere, in which Taiwan in particular played a crucial role, was a driving force surpassing the dominant Japanese flying geese model. Secondly, China, which preferred bilateral relations, accepted full participation in East Asian regionalism via the ARF, ASEAN+3 and CAFTA. In the process, China’s role in East Asia increased, but with the successes came new forces restraining its rise and new imperatives balancing a range of conflicting economic and strategic interests. I argued that though none of the dominant theoretical frameworks of realism, liberalism or constructivism in International Relations fully captured East Asia’s complexity, yet each shed some light on different aspects of China’s rise.

Prominent among the drivers of China’s behaviour, in addition to bilateral relations, was engagement with ASEAN, which it accepted as a necessary requirement for continued economic growth, strengthening political ties, especially in competition with Japan, and reacting to disinterest in, then reassertion of, US primacy. China participated in the ARF from the early 1990s, and gained recognition for supporting East Asia at the height of the AFC.

In apparent support of liberal perspectives in International Relations, China followed the route of greater involvement with the institutions of East Asia for economic and especially

political benefits. The thesis argued that the pursuit of CAFTA was motivated mainly by strategic considerations. I argued that Japan was restricted from a political leadership role because of the constraints the security treaty with the US placed on its foreign and defence policies. Though China was more favourably placed than Japan to play a leading role in East Asia, ASEAN supported US primacy to balance China. This did not necessarily mean, though, that ASEAN was “hedging”. A US presence was valuable to ASEAN but, at the same time, it did not wish the US to play a hegemonic role because the benefits the region gained from China’s rise were great and the risks of conflict arising from challenging the regional “status quo” great. ASEAN was formed in 1967 with the intention of providing mutual solidarity against the interference of external powers, and this remained its primary goal as the political economy of East Asia evolved into the 21<sup>st</sup> century.

The expectation was that CAFTA, despite regional concerns, would increase trade and, indeed, it was, in 2010, the central agreement in the political economy of East Asia. Neither Japan, Korea nor the US were in a position to enter into an FTA with ASEAN. The picture of East Asia I sketched was one where Japan remained a major economic player, as shown by the extent of trade with and FDI in ASEAN, but where the Overseas Chinese Business Sphere, supported by state reforms, greatly increased China’s regional influence to the point where it surpassed Japan’s. The US reacted to the perceived threatened loss of US primacy, and Japan to the actual loss of its economic dominance.

Sino-US and Sino-Japanese relations were marked by significant tensions, which trade did not erase. The US and China were drawn closer by economic dependence, but differences rather than commonalities were highlighted, which made for an increasingly difficult political environment, not an easier one. The thesis analysed the security dilemmas experienced by China and the US because of competing interests over North Korea, Taiwan and the South and East China Seas, mutual economic entanglement and the desire to avoid damaging military conflict. The oscillatory pattern of conflict and conciliation reflected the US’s dilemma in dealing with China, which appeared to pose a serious challenge to its primacy, yet at the same time was indispensable for its economic welfare. US attempts from 2010 to stir up the anxieties of ASEAN, by declaring its interest in the peaceful resolution of the South China Sea disputes, was interpreted as an attempt to contain China by undermining its hard-gained image as a good neighbour. China’s growing importance,



however, restricted the US to “strategic ambiguity” over Taiwan, but with little likelihood of following through with military assistance in any conflict with China.

Sino-Japanese relations were an apparent counter-example to the liberal perspective that strong economic ties ameliorated political relations. I argued that this is explained by competition for strategic influence in East Asia. China’s rise deprived Japan of its identity as East Asia’s dynamic economy, yet market reforms undermined the legitimacy of Communist Party rule. Patriotism flourished in Japan and China, fuelling mutual hostility. Sino-Japanese relations are amenable to analysis borrowed from a constructivist viewpoint which explains deeply-held antagonisms. Mutual hostility came to the fore over territorial disputes in which neither side was prepared to lose face by yielding to the other. Nevertheless, Japan and China referred regularly to the need to protect their economic ties by maintaining the “status quo”.

In the first chapter, I reviewed the debate on what the rise of China held in store for East Asia. A key question was whether China’s rise is peaceful. I argued that the South and East China Seas became important as a direct consequence of China’s rise, because of the need to secure the sea-lanes of communication and access to energy. Taiwan and the “lost territories” were a means to restore what was taken during the “century of national humiliation” and not returned.

Realist commentators argue that China engaged with East Asia for the sake of economic gain, but once the ability to project power grows, it will disengage from regional arrangements if necessary and pursue the national interest by whatever means necessary, including forcible reappropriation of claimed territories. I argued that there is no convincing evidence that China had plans to do so. Instead, the “good neighbour” policy was a key element of regional engagement. CAFTA was motivated similarly by a desire to give substance to the image of a benign power committed to rising peacefully and, significantly, to improving prospects for peaceful reunification with Taiwan.

China was comfortable with the emphasis of the “ASEAN Way” on consensus-building and non-interference, and viewed the status quo as an adequate compromise given the twin pressures of pursuing strategic interests and maintaining “good-neighbourly” relations. China appeared to feel content with how ASEAN “imagined” the future of the region,

suggesting that it was consonant with projections of China's peaceful development. There was little impetus in ASEAN for changing the status quo and no reason to welcome undue US interference if tensions increased.

Through the analysis in Chapters 7-9 we gained a clearer picture of why China tried to behave as a responsible and restrained power. The desire to regain lost territories was stifled by the realisation that acting aggressively was not in its best interests. I suggested that this was not because the moment for military conflict had not yet arrived, or that China was biding its time, but because conflict would be disastrous economically. China was forced to concede that its sovereignty claims would not be recognised in the immediate future, and that supporting the status quo was an equally important imperative.

Taiwan occupied an unusual and crucial position in East Asia. It was a major territorial challenge for China and the international community. A unilateral declaration of independence was not countenanced because it would lead to certain war, yet commentators usually overlooked Taiwan's importance as a key, "non-state" player in the Overseas Chinese Business Sphere and the processes of economic integration in East Asia.

China attempted to accommodate the US in relation to Taiwan, pinning hopes on a slow process of creeping reunification rather than a violent takeover. Unwillingly, China also downplayed disputes with ASEAN over the South China Sea, which was made all the more difficult by US declarations of interest during the Obama Administration in resolving regional disputes.

The US and Chinese economies were linked sufficiently to ensure that military conflict would be mutually disastrous. Hence, they did not challenge each other over Taiwan, or the South China and East China Seas. I concluded that China and the US did not constitute a military "threat" to each other, as realists argue.

In the East China Sea, matters were complicated by poor political relations between China and Japan, and in this context it was a zone of rivalry for the sake of domestic approval as much as maintaining face at the international level. At the same time, relations did not deteriorate to the point of armed conflict, where a state of effective stalemate obtained.

The thesis suggested that, from China's point of view, there was no compelling reason to take military action to overturn the status quo, and strong political and economic reasons not to. For as long as China was able to exercise some control over events, it preferred the route of stability while accepting that this also meant stalemate. However, it should be emphasised that the situation could have changed easily if events ran beyond the control of the great powers and the ARF. Particularly precarious was Taiwan; if a Taiwanese government declared unilateral independence, with or without US support, China would almost certainly not accept such a turn of events, and war would be highly likely.

The thesis pointed to the emergence of a number of salient issues in Asian security. Traditional "Northeast" Asian challenges were enmeshed increasingly with Southeast Asian regionalism. If there is to be an East Asian security community by 2015, the question posed by regionalisation and greater US involvement was whether the "ASEAN Way" was robust and resilient enough, or whether the US will pressure ASEAN to reform its ways and seek formal treaty solutions to the region's security challenges. While many commentators criticised the "ASEAN Way" for avoiding solutions and accepting the status quo, the thesis concluded that ASEAN and the other regional fora will resist any moves to institutionalise and become a "treaty organisation".

The "ASEAN Way" served China and Southeast Asia well in that tensions were managed and prevented from escalating. The status quo in the South China Sea, attained by consensus building and the Declaration of Conduct, was an acceptable, though not ideal, state of affairs for most of the parties. Though they managed, through engagement and negotiation, to avoid conflict, the US signalled its intention to push the region towards "resolving disputes", rather than simply "managing tensions", by determining sovereignty and replacing non-binding declarations with legally-binding treaties and agreements. ASEAN, which welcomed US involvement in the South China Sea as a "hedge" against China, resisted such moves. ASEAN welcomed closer ties with China as a "hedge" against US hegemony. ASEAN expected all regional actors to adhere to the principles of the Treaty of Amity and Cooperation.

The thesis also questioned the strategic challenges facing Japan as it dealt with a rising China in the context of its security treaty with the US. Japan was under pressure to pursue

the “ASEAN Way” and avoid direct confrontations with China for the sake of East Asian stability, yet there are those who argued that its security interests are served better by directly challenging Chinese assertiveness on the Diaoyu dispute and North Korea, presumably with US support. If there is to be an “Asia Pacific Century” the wrong question to ask was whether it will be led, and to what end, by China or the US, assuming that Japan cannot compete for regional leadership. It was the wrong question because any competition for leadership will likely end in conflict and end the “Century” before it starts. This was the primary challenge for East Asian regionalism, as it sought to move towards an East Asian Free Trade Area and East Asian “Security Community”. Such moves are the subject of the next thesis.

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