

**SPECIAL ASSESSMENT**

**D E C E M B E R**

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# **Asia's China Debate**



**Asia-Pacific Center for Security Studies**



## Asia-Pacific Center for Security Studies



### SPECIAL ASSESSMENT

DECEMBER 2003

## Asia's China Debate

H.C. "Hank" Stackpole is President of the Asia-Pacific Center for Security Studies. He has extensive military and private sector experience in Asia including as Commander of Marine Forces Pacific and President of Loral Asia-Pacific. He holds degrees from Princeton, The George Washington University, and Stanford and is a graduate of the National War College and Naval Command and Staff College.

## Foreword

H . C . S T A C K P O L E

Lieutenant General, U.S. Marine Corps, Retired  
President, Asia-Pacific Center for Security Studies

China has been a prominent feature of the Asia-Pacific region's security landscape in a variety of forms. Now, however, its rapid economic growth—especially trade—diplomatic activism, and military modernization are developments that have significant implications for the entire region, including the United States. The Asia-Pacific Center for Security Studies teaching and research faculty, in an effort to better understand how countries in the region are thinking about and dealing with China, and to share the results of its findings with the wider government and analytic community, has produced this Special Assessment entitled *Asia's China Debate*. This is the second issue of our Special Assessment series.

As might be expected from a range of analyses that address ten country perspectives concerning China and issues such as China's historical relations with the region, its multilateral participation, economic growth and regional integration and its emerging regional road and rail links, Asia's China debate differs in texture and intensity across these topics and countries. Still, some common themes about Asia's China debate do emerge from these analyses. One is that China is a relative newcomer to regional prominence and countries in the region are still working out what China's growing weight means to their economies, societies and security. A corollary is that the United States continues to be regarded as the single most important country to the region's peace and prosperity. These two conclusions are connected. Asia's future China debate will certainly hinge to a great deal on developments in and decisions by China, but the role and relations of the United States in the region will also shape it. Two other major premises of Asia's China debate are that U.S.-China tensions are unwelcome and pressures by either to "choose sides" even worse.

I am pleased to present this publication with the hope that it will advance discussion and inform policy about Asia-Pacific security issues not only among the military and civilian leaders who attend our College of Security Studies executive and senior executive courses, but also among the government and policy analysis communities on both sides of the Pacific. It is by contributing to such discussions that the Asia-Pacific Center for Security Studies meets its mission to complement Pacific Command's (PACOM's) theater security cooperation strategy of maintaining positive security relationships with nations in the region as well as to enhance cooperation, and build relationships for a secure Asia-Pacific.





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### **Asia's China Debate**

Satu P. Limaye is Director of Research at the Asia-Pacific Center for Security Studies. He specializes in U.S. relations with Asia. He received his B.S. from the School of Foreign Service, Georgetown University and his Ph.D. from Magdalen College, Oxford University where he was a Marshall Scholar.

## Editor's Note

**S A T U P . L I M A Y E**

Director of Research

*Asia's China Debate* is the second publication in the Asia-Pacific Center for Security Studies Special Assessment series. It follows a March 2003 Special Assessment entitled *Asia-Pacific Responses to U.S. Security Policies*, which examined how regional countries were reacting to U.S. security policies in the context of 9/11 and the release of official documents such as the Quadrennial Defense Review (QDR) and National Security Strategy (NSS), in the lead-up to Operation Iraqi Freedom, and amidst debate about North Korea's nuclear provocations. *Asia's China Debate* constitutes part of an ongoing examination of key features of the Asia-Pacific security environment. It is generally acknowledged that next to the United States, China is today the most significant economic, political and military power in the region.

Much attention is being paid to China's changing regional diplomacy and more generally its rise in the Asia-Pacific and the implications of these developments—including for the United States. Less attention has been paid to the related topic of how Asian countries regard China and the meaning of Asia's responses for U.S. interests. While the majority of papers in this Special Assessment deal with individual country debates about China, other papers address issues such as China's historical role in the region and the likely weight of that past on Asia's China debate today, regional responses to China as the center of economic growth and integration, China's cooperation with neighbors on road and rail links, and its participation in multilateral organizations. *Asia's China Debate* thus comprises both country and functional issue approaches to understanding China's evolving place in the region. However, not every country or every issue relevant to Asia's China debate has been examined.

Given the range of countries and issues, a single template for each analysis was deliberately avoided. However, each analysis addresses some common questions. First, what are the principal drivers or considerations (e.g., economic, security, ethnicity, history, border or territorial disputes) shaping policies and attitudes toward China? What are the relative weights of these drivers and how have they changed in a particular country or on a specific issue? Second, who are the main stakeholders or

players (e.g., foreign ministry, defense ministry/military, business community, public opinion) in a country's debate about China? Third, what are the main schools of thought regarding China in a particular country or on an issue? Finally, what are the implications for the United States of specific debates about China? By offering a framework within which to analyze individual country or issue debates about China, but avoiding a template straitjacket, it was felt that the tone and content of the debate about China could be more accurately assessed.

These analyses are the contribution of an APCSS teaching and research faculty with keen insights, expertise and experience on Asia-Pacific security issues. We hope this and other APCSS publications will inform the deliberations of policy-makers and the analytical community on both sides of the Pacific.

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## Asia-Pacific Center for Security Studies



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### Asia's China Debate

Associate Professor John H. Miller joined the Asia-Pacific Center for Security Studies in 2000, following a twenty-five-year career with the U.S. Foreign Service. A Japanese language officer, he specialized in Japanese domestic politics and foreign policy. Dr. Miller holds a Ph.D. from Princeton University, an M.A. from Stanford University, and a B.A. from Amherst College.

# The Weight of the Past: East Asia's China Debate

J O H N H . M I L L E R

## Executive Summary

- How might China's East Asian neighbors react to a bid by Beijing to reassert its historical dominance in the region?
- Each views China through a distinctive national prism based largely on its historical experience with China.
- The Japanese, accustomed to viewing their country as East Asia's pacesetter and model, would probably balk at subordination to China.
- The Koreans (North and South), conditioned to look to China as a mentor and protector, might find Chinese dominance acceptable.
- The Vietnamese, predisposed to emulate China but fiercely protective of their independence, would likely resist Chinese hegemony.
- The Thai and Burmese, both willing in the past to accept Chinese suzerainty, might again "bend with the wind" blowing from a strong China.
- The Malaysians and Indonesians, whose posture toward China is influenced by the legacy of the Chinese diaspora, would be wary.
- These predispositions are not determinative; other variables also shape the interaction of East Asian countries with China.
- None of these variables is more important than the influence of the United States, which remains the region's dominant power.



## INTRODUCTION

**H**istorical patterns of interaction between nations admittedly provide an uncertain guide to their current and future relations. Nations, after all, change, as does the environment in which they act. Yet attitudes rooted in the past often live on or—just as importantly—are perceived to do so. A case in point is the widespread assumption that a strong China will inevitably seek to reprise the dominant role its imperial predecessor played in East Asia until the mid-nineteenth century. Whether or not this assumption accurately describes the intentions of Chinese leaders, it feeds the unease that China's rise during the 1990s has inspired in the region. China's neighbors do not, however, look at its putative quest for dominance in the same way. Each views China through a distinctive national prism based largely on historical experience. The images refracted through these prisms differ. China is seen variously—and sometimes simultaneously—as threatening and benign, partner and rival, protector and oppressor, and mentor and protégé. How did these images evolve? And how do they influence current attitudes toward China?

## CHINA AT THE CENTER

**U**ntil the mid-nineteenth century, the Chinese Empire exercised unchallenged dominance over East Asia (here defined to include Southeast Asia). It dwarfed its neighbors in area and population. Its economy was the largest in the world and included a thriving commercial sector that produced luxury goods in demand regionally and globally. It boasted an ancient and sophisticated civilization based on Confucianism, a secular creed that idealized family relationships, social order, and benevolent government. Its Mandarin elite, recruited by competitive examinations, represented China's "best and brightest." Its centralized bureaucratic monarchy delivered remarkably efficient and honest government. At its apex stood the emperor, who claimed to rule not only China but also the entire world. This expansive claim was buttressed by both religious and secular sanctions. As the "Son of Heaven," he was a semi-divine mediator between the supernatural and natural realms. As a Confucian "sage king," he brought harmony and contentment to China and spread the blessings of the Confucian Way among the benighted "barbarians" beyond its borders.

Despite the emperor's claim to be a universal monarch, neither conquest nor proselytization appealed to China's rulers. They were inward looking and fundamentally isolationist. They viewed foreign relations as a matter of keeping the barbarians at bay and properly respectful. From the Chinese perspective, the most dangerous were the nomads in the west and north—the Mongols, Tibetans, Turks, and Manchus—who periodically combined to overrun or menace China. In the eighteenth century, they were pacified by force of arms and placed under Chinese supervision. No attempt was made, however, to Sinicize them. They were left to pursue their traditional way of life under their own rulers as long as the latter accepted the emperor's overlordship and guidance. This relationship was confirmed by the payment of ceremonial "tribute" to the emperor who in turn provided protection to subordinate rulers and authorized their right to govern on his behalf. The threat of force operated in the background: Chinese armies stood ready to punish or even depose unruly vassals.

Imperial China applied the same approach to the management of its relations with the states on its eastern and southern periphery, including Japan, Korea, Vietnam, Thailand, Burma, and Nepal. Most accepted tributary status, since not to do so was to court danger. Although Beijing regarded these states as less threatening than the nomads and rarely interfered in their affairs, it was quite capable of launching punitive military strikes against them, and did so against Burma in the 1760s and Vietnam in the 1780s.

Beyond simply keeping on the good side of the Chinese colossus, other motives were in play. Korea and Vietnam looked to China as a cultural and political model and attempted to fashion themselves into “miniature Chinas.” Their kings welcomed investiture by the Chinese emperor as an indispensable prop of their domestic political legitimacy. The Koreans also saw China as a protector from the warlike and—from their point of view—less civilized Japanese, who had devastated their country in an invasion in the 1590s. The Vietnamese, on the other hand, regarded China as the chief threat to their independence. They remembered with bitterness and suspicion its thousand-year occupation and attempt to reconquer Vietnam in the fifteenth century.

The Burmese and Thai were not attracted to China's Confucian civilization and did not consider its political system worthy of emulation. They drew their ideals from South Asian Buddhist and Hindu traditions. Their rulers regarded themselves as Buddhist “god-kings” and had no need of legitimization by China's emperor. Their acceptance of his suzerainty was dictated by expediency. The maintenance of friendly relations with Beijing enabled them to focus on their political and military rivalry with each other and Vietnam for dominance over the smaller principalities between them. In addition, the tributary relationship and its ceremonial exchange of “gifts” provided a vehicle for lucrative official trade with China. The Islamic sultanates of peninsular and island Southeast Asia were also interested in trade with China, but this did not require them to enter into tributary relations and few did so. (One exception was the sultanate of Sulu in the southern Philippines.) The “junk trade” between the islands and south China, which was conducted by private Chinese merchants largely outside of Beijing's purview, offered them adequate access to the Chinese market.

Alone among the major states of East Asia, Japan rejected Chinese overlordship. Its feudal military elite, the Samurai, considered this a national humiliation and an affront to the authority of their own emperor. Lacking naval power and mindful of Japan's attempted conquest of China in the 1590s, Beijing was not disposed to try to bring it to heel by military force. The Japanese, in any case, posed little threat. Their policy of national seclusion, adopted in the early seventeenth century, dealt themselves out as political-military players in East Asia. But they embraced Confucianism, accepted China's position as regional superpower, and admired it from afar as the fountainhead of their own civilization. They chafed, however, at the notion that their feudal system made them inferior to China. Intellectual movements arose that extolled Japan's uniqueness and superiority. These contrasted the rise and fall of Chinese dynasties with the single, unbroken line of Japanese emperors who were descendants of the Sun Goddess, the divine progenitor of Japan and its people. The seeds of modern emperor-centered Japanese nationalism were thus sown in reaction to China.

## CHINA IN ECLIPSE

**B**etween the mid-nineteenth century and World War II, China faded from the center of East Asia. Its Mandarin elite, distracted by domestic rebellion and convinced of the superiority of China's Confucian civilization, proved incapable of fending off Western encroachments. Beginning with the Opium War of 1839–42, the imperial government suffered a series of humiliating military defeats that forced it to open the country on terms dictated by the West and abandon its claims of suzerainty over its neighbors. Vietnam was lost to the French in the Sino-French war of 1884–85. But the crowning disgrace was China's expulsion from Korea by Japan in the Sino-Japanese war of 1894–95. The shock of this humiliation fatally discredited the imperial regime and pushed it toward collapse in 1911. The proclamation of a Western-style republic in 1912 did not end China's troubles. It fell into warlord anarchy that was only partially overcome by the establishment of a nationalist government in 1928 under Chiang Kai-shek. In addition to warlords, Chiang faced a communist insurgency led by Mao Zedong and renewed Japanese aggression.

China's travails were not unique. Except for Thailand and Japan, most East Asian states passed under Western colonial domination in the late nineteenth century. The British took over Burma, the Malay Peninsula, and north Borneo. The French seized Vietnam, Cambodia, and Laos. The Dutch incorporated most of the Indonesian archipelago into the Netherlands East Indies. The Philippines passed from Spanish to American control. Thailand preserved its independence partly by deft diplomacy but mainly because of its position as a buffer between the British and French. The consolidation of Western rule over Southeast Asia eliminated any pretense of Beijing's suzerainty. Paradoxically, however, Chinese influence grew. Chinese immigrants streamed into the region, attracted by jobs in mines and plantations created by Western enterprise. Many of these "sojourners" stayed, particularly in British Malaya and the Netherlands East Indies. There they moved into business and the professions, becoming an economic elite that aroused the envy and resentment of indigenous Malays.

The most striking development in East Asia during the era of European ascendancy was China's replacement by Japan as the region's dominant power. An isolated feudal backwater in the 1860s, Japan transformed itself within a generation into a Western-style nation-state with a powerful military and a rapidly growing industrial base. A key driver of this transformation was the precocious development of nationalism, which inspired the Japanese to embrace all-out Westernization in pursuit of national wealth and power. Since Japan's rise coincided with the heyday of Western imperialism and colonialism, it sought to join the imperialist "club" by acquiring a colonial empire of its own. Korea and China were inviting targets for empire building; they were nearby, weak, and offered valuable resources and markets. Japan's victory over China in 1895 enabled it to make Taiwan its first colonial possession. Its defeat of Russia in the Russo-Japanese war of 1904–5 gave it control over southern Manchuria and a free hand in Korea, which it annexed in 1910.

Japan's emergence as an imperial power brought it equality with the West but earned it the enmity of Chinese and Korean nationalists, who viewed Japan as the most dangerous of the imperialist predators. The Japanese themselves regarded

their success as proof of their superiority to Asians in general and Chinese in particular. Pan-Asianists, among them many right-wing nationalists, argued that Japan had a mission to liberate Asia from Western dominance and to spread the blessings of its superior civilization. Through the 1920s, however, Japanese political leaders remained committed to cooperation with the Western powers, particularly the United States and Britain. After the First World War, the latter retreated from old-fashioned imperialism in favor of cooperative approaches to maintain international order. In East Asia, this meant freezing the colonial status quo; limiting naval armaments; replacing alliances with multilateral consultative arrangements; and respecting China's territorial and administrative integrity. Japan went along, as did China's weak central government. The new dispensation was codified in the Washington Treaty system of 1921–22.

The Washington Treaty system collapsed in the 1930s as Japan abandoned cooperation with the West and embarked on a new round of empire building that was rationalized by the Pan-Asianism it had earlier shied away from. The precipitants of this about-face were the Great Depression, which devastated Japan's economy, and the Chinese nationalist challenge to its position in Manchuria. These events discredited pro-Western liberals and gave the initiative to military ultra-nationalists whose agenda included turning East Asia into a Japanese-dominated bloc. Their first move was the conversion of Manchuria into the puppet state of Manchukuo in 1932–33. Emboldened by their success, they launched a full-scale invasion of China in 1937. This, however, became an unwinnable war of attrition as Chiang and Mao joined forces to resist—at enormous human cost to the Chinese people. Japan's leaders upped the ante in 1940–41 by allying with Nazi Germany and preparing to absorb colonial Southeast Asia into a Japanese-run “Greater East Asia Co-prosperity Sphere.” This brought them into confrontation with the United States, which imposed a crippling oil embargo on Japan in August 1941, triggering the Japanese strike at Pearl Harbor in December.

## CHINA REEMERGES

**T**he 1941–45 Pacific War had revolutionary effects in East Asia. One of these was the destruction of Imperial Japan and its replacement by the United States as the dominant regional power. Japanese leaders realized that they were unlikely to defeat the United States, whose economy was ten times larger than Japan's. Tokyo's only hope was to force Washington to accept its conquests as a *fait accompli*. But this hope faded as the tide of battle turned against Japan in 1943–44 and surrender or annihilation became its only options. The Japanese did, however, achieve their announced war aim of “liberating” Asia, although not in the way they anticipated. Their blitzkrieg victories in Southeast Asia in 1942 shattered the myth of European omnipotence. This, coupled with their patronage of Asian nationalists, gave a huge boost to Asian nationalism, making the postwar reconstruction of the colonial order impossible, and ensuring that a host of independent nation-states would arise from its ruins.

The Pacific War also cleared the way for China's reemergence as a major power. This began during the war when, at American insistence, Chiang Kai-shek was made one of the “Big Four” and given a permanent seat on the Security Council of the United Nations. However, Washington's hopes that Chiang's China

would become its principal Asian ally after the war were disappointed. The Chinese civil war was not over, and the Japanese invasion gave the advantage to the communists. Chiang's regime, driven from the richest parts of China, was plagued by corruption, incompetence and—after American intervention made Japan's defeat inevitable—complacency. Mao, on the other hand, grew stronger. His united front and peasant-based guerrilla tactics enabled him to attract broad support and wrap himself in the mantle of Chinese nationalism. Despite American mediation efforts, a postwar showdown was inevitable. When it came in 1946–49, Mao's forces easily defeated Chiang's overconfident and ill-led armies, and Chiang fled to Taiwan like other vanquished contenders for power in times past.

From Washington's perspective, the key question posed by Mao's victory was where his People's Republic of China (PRC) would figure in the U.S.-Soviet Cold War rivalry. This question was answered in 1950 when Mao allied the PRC with Moscow, joined Stalin in underwriting communist North Korea's attack on South Korea, and committed Chinese "volunteers" to roll back the U.S.-led counteroffensive on the Korean Peninsula. Concluding that it faced a Sino-Soviet conspiracy to communize East Asia by subversion or force of arms, the United States elected to "contain" China. It attempted to isolate Beijing diplomatically and economically. It deployed large military and naval forces in the region. And it set up a network of military alliances with anti-communist states, including South Korea and Chiang's Republic of China (ROC) on Taiwan. Japan was the linchpin. Although it was unwilling to "remilitarize" or participate in collective security arrangements, its reviving industrial economy was counted on to promote the growth and stability of non-communist Asia.

Southeast Asia was the weak link in the containment line and became the cockpit of Sino-American rivalry. PRC-backed Vietnamese communists ousted the French in 1954, set up a northern state, and threatened the non-communist south. Thailand and the Philippines aligned themselves with the United States, but both were beset by communist insurgencies. So, too, were Burma and Malaysia, and pro-PRC communists were major players in Indonesia's chaotic politics. Adding to the volatility were the uncertain loyalties of overseas Chinese and the neutralist proclivities of national leaders like Indonesia's Sukarno. Fishing for allies in Southeast Asia's troubled political waters was risky. A projected "Beijing-Hanoi-Jakarta alliance" came a cropper in 1965–66 with the massacre of Indonesian communists (and ethnic Chinese) and the installation of an anti-PRC military regime in Jakarta. The United States suffered an even more spectacular defeat in Vietnam where its attempt to create an anti-communist state in the south foundered on the communists' success in co-opting Vietnamese nationalism and resisting—with Soviet and Chinese aid—massive American military intervention.

The American debacle in Vietnam and the escalation of the long-simmering Sino-Soviet feud in the late 1960s led Washington and Beijing to conclude that they shared a common interest in checking Soviet "hegemonism" and curbing their own rivalry. The resulting Sino-American rapprochement of 1971–72 ended the Cold War as far as the United States and China were concerned. The American alliance system and forward deployed forces remained in place, but they were now focused against the Soviet threat. Containment gave way to cooperation in U.S. policy toward China. With Washington's acquiescence, the PRC took the

ROC's seat on the UN Security Council, and the ROC was expelled from the UN itself. Chiang's regime suffered the additional indignity of being "derecognized" by the United States and its allies, although it continued to receive American military assistance. The original strategic rationale of the U.S.-PRC reconciliation acquired new underpinnings after 1978 when Mao's successor, Deng Xiaoping, launched an economic modernization drive and opened China to Western trade and investment.

The attenuation of Sino-American rivalry in Southeast Asia was accompanied by significant realignments and policy shifts. The removal of the common American enemy brought to the surface latent Sino-Vietnamese tensions, which manifested themselves in rivalry over Cambodia and led to the PRC's 1979 punitive expedition against its former communist comrade-in-arms and protégé. Thailand, hitherto an American-backed anti-PRC frontline state, joined China in blocking Vietnamese expansion and drew its Association of Southeast Asian Nations (ASEAN) partners into this endeavor. Beijing, for its part, courted the ASEAN states, phasing out its earlier support of communist revolutionaries and dangling attractive trade deals. Despite wariness toward China on the part of Jakarta and Kuala Lumpur, all eventually normalized their relations with China. Burma was largely unaffected by these developments. Its xenophobic military regime sought to limit outside contacts and involvements. The only country of much importance to Rangoon was China, toward which it maintained a consistently deferential posture that reflected Burmese appreciation of Chinese military power.

North Korea remained in an early Cold War time warp. It played off Beijing against Moscow to sustain their support of its anachronistic Stalinist regime, faltering command economy, and unremitting hostility toward the United States. Japan and South Korea, however, crossed Cold War lines to embrace China. Tokyo, never happy with Washington's earlier insistence that it distance itself from the PRC, tried to build a "special relationship" with it based on economic complementarity and cultural affinities. But this relationship was shallow. Despite China's need of Japanese capital and technology, few Chinese were disposed to forgive and forget Japan's historical aggression, and many resented what they perceived to be its attitude of superiority as "Asia's new giant." South Korea's courtship, undertaken to weaken its North Korean rival, was more warmly received. Although Beijing was constrained by its ties with Pyongyang, neither it nor Seoul was troubled by the legacy of the Korean War in which China sustained 900,000 casualties and South Korea 300,000. Common suspicion and resentment of Japan lubricated their newfound cordiality.

## CONCLUSIONS

**A**mong the conclusions that can be drawn from the preceding review is the likelihood that Japan will contest any attempt by China to reassert its onetime regional dominance. As noted above, pre-modern Japan refused to accept subordination to Imperial China. Since the late nineteenth century, the Japanese have regarded their country as superior to China and the "natural" model for Asia. Japan's postwar rebirth as a democratic and pacifist economic superpower has

revived these attitudes, albeit shorn of their prewar chauvinism. Koreans, on the other hand, may be more comfortable with the notion of a resurgent Chinese “Middle Kingdom.” Historically, Korea looked to China as a mentor and protector. Given Koreans’ resentment of the humiliations inflicted on them by Imperial Japan, and their envy and distrust of postwar Japan, it is unsurprising that this traditional view of China should enjoy renewed appeal. Vietnam’s more wary attitude toward China is rooted in its pre-modern image of Imperial China as both a model and threat. This ambivalence has carried over into modern Vietnamese nationalism and helps explain Vietnamese emulation of Mao’s peasant-based guerrilla tactics in their struggle against the French and Americans, as well as their subsequent falling out with Beijing. Modern Burma, bereft of allies and beset by ethnic rebels, has perforce adopted an accommodative stance toward China reminiscent of its old tributary relationship. Thailand’s more supple diplomacy—its forte since the mid-nineteenth century—enables it to balance China with its ties to the United States and ASEAN. The dual legacies of the colonial-era Chinese diaspora and the PRC’s early Cold War encouragement of communist revolutionaries weigh on the relations of Indonesia and Malaysia with China. Malay antagonism toward ethnic Chinese simmers below the surface, creating the potential for anti-Chinese disturbances of the sort witnessed in Indonesia in 1998.

It bears reemphasizing that history is not determinative—historically rooted predispositions are only one of many variables that shape the behavior of nations and governments. In East Asia, none of these variables is more important than the influence of the United States, the region’s dominant power since it defeated Japan in the Pacific War. Whatever their inclinations to resist or accommodate China, every East Asian state has to take into account American wishes and priorities. The United States does not, of course, have an unlimited capacity to influence their interaction with China, but it has more leverage than any other power. Since the early twentieth century, it has pursued two overriding objectives in the region: preventing the rise of a threatening hegemon—be it Imperial Japan, Mao’s China, or the Soviet Union—and fostering the development of a stable, cooperative international order conducive to economic growth and “free trade.” (The Washington Treaty system of the 1920s was an early and now largely ignored step toward the creation of such an order.) As long as the United States is perceived to retain the power and resolve to shape the international environment in these directions, it will likely continue to enjoy considerable support in the region.

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**Asia-Pacific Center for Security Studies**

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949

tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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Jim Rolfe is a faculty member of the Asia-Pacific Center for Security Studies. He has previously taught international relations as an academic, analyzed security issues as a think-tank researcher and prepared policy advice on security matters as a government official. Dr. Rolfe's most recent book (edited with Eric Shibuya) is *Security in Oceania in the 21st Century* (Honolulu: APCSS, 2003).

# **Welcome in Asia: China's Multilateral Presence**

**J I M R O L F E**

## **Executive Summary**

- China is actively engaged in developing multilateral relationships in Asia. This approach to the region has developed since the 1990s and reflects an understanding by China that both it and the region gain through multilateral approaches to a wide range of issues.
- China's multilateralism is situational rather than conditional. That is, it tends to prefer multilateral approaches as a matter of policy and will shape its approach according to the situation, rather than to set conditions and then decide whether to act multilaterally, bilaterally or unilaterally. In Southeast Asia, for example, China prefers informal processes of cooperative dialogue, but in central Asia it is more institutionalized and rule-bound. The multilateralism is, however, always active; China attempts to shape the multilateral environment to meet its own interests.
- East Asian states generally welcome China's multilateral approaches as an indication that China wants to work with the region rather than impose its will on it and because of the stability this brings to the region.
- In the medium to long term, China is likely to emerge as the de facto "leader" of East Asia. This will be in part because of its economic and military strength, but also because it has spent considerable time and effort in developing relationships with the region.



## INTRODUCTION

At first China was the Middle Kingdom and much of Asia paid tribute to it. Then came the century of shame, internal chaos, eventual control by the Communist Party and decades of relative isolation and mutual suspicion between China and the rest of the region. Today that suspicion lingers but is being rapidly overcome as China participates actively in regional affairs and promotes itself as, in the words of Foreign Minister Li Zhaoxing, “being friendly and [a] good partner with neighbors.” Good neighborliness is manifest in part through increased multilateral cooperation with the international community.

China’s multilateral experiences are mixed. China had an early and unwelcome experience of multilateralism at work in the early 1930s when the League of Nations acquiesced in Japan’s invasion of Manchuria. In the 1940s and 1950s the Soviet Union, through the Communist International (COMINTERN) and the Soviet-controlled Council for Mutual Economic Assistance, attempted to control China for its own benefit. In the latter half of the century China believed, possibly with some justification, that the international community was using multilateral institutions to form blocs against it to thwart its legitimate ambitions.

Since its 1971 accession to the “China” seat in the United Nations, China has gradually put itself through a “learning process” to determine how the UN and other international organizations work and what benefit membership in those organizations gives China in pursuit of its own national ambitions. In 1966 China was a member of only one international organization; by 2000 it belonged to at least fifty, and more likely seventy to eighty if less prominent regional organizations are taken into consideration. China’s early suspicion of international organizations—and multilateral links generally—has been replaced by an understanding that they can be beneficial both to China itself and to the international community more widely. China’s multilateralism, though, is distinctive. Its practical preference is for the soft multilateralism of dialogue, consensus building and mutual cooperation rather than formal treaties and institutional mechanisms, although such a preference is not invariable and where it can dominate proceedings, as in central Asia, China is quite prepared to work through formal institutions.

Scholars of the subject recognize that China is now comfortable with multilateral approaches to international issues. Indeed, by the mid- to late-1990s China was sufficiently confident in its dealings with multilateral institutions to be prepared to, for example, chair meetings of the Association of Southeast Asian Nations (ASEAN) Regional Forum (ARF) confidence-building measures and processes, reflecting, as Gary Smith has noted, “a knowledge that the chairmanship conveys upon the incumbent the ability to determine the pace and the agenda ... so as to better protect its own interests.”

## CHINA’S MULTILATERAL ACTIVITIES

Many of the international and regional organizations to which China belongs are of little analytical interest. They are functional, most countries belong to them, and their procedures are standardized. There are others, however, that merit

further examination. This is because the situations are not routine, or because they demonstrate the way in which China is developing as an “international team player,” or because they show China becoming increasingly assertive through multilateral initiatives. In sum, China’s multilateral engagement with the region shows that scholarly and other criticisms of it as being, for example, only “conditionally” interested in multilateralism and interested only in dialogue rather than any “more institutionalized arrangement whose norms and rules may constrain Beijing’s freedom of action” are hard to sustain.

At the pan-regional level, China has become an active member of the ARF, a grouping of foreign ministers that emphasizes the soft multilateralism of dialogue and focuses on security issues at the level of confidence building and preventive diplomacy. China was a founding member of the ARF but was suspicious of it as potentially a ploy by the United States to use the institutional framework to restrict China from playing a significant role in the region. The ASEAN states were at first equally wary of China and its intentions toward the region, but, as Amitav Acharya notes, the peaceful incorporation of China into a system of regional order was “a leitmotif of the launching of the ARF.”

China began to play an active role in the ARF from the mid- to late-1990s, using it as a forum to promote its own views on regional security and the appropriate ways states should interact with each other. The ARF has also been useful as a venue for bilateral meetings on the sidelines of the main meeting. For example, during the June 2003 ARF Foreign Ministers’ meeting in Phnom Penh, Japan successfully lobbied China to be involved in the multiparty talks on security of the Korean Peninsula. China has now become a proponent of the ARF process and more active on issues of interest to itself, but does not, however, want to see the forum become more active, or more institutionalized, or more wide-ranging in the issues it addresses. This position is accepted by ASEAN commentators who now see the ARF as one more channel through which China can be engaged with the region to “create more fruitful and constructive relations.”

China also works multilaterally at the sub-regional level, although in different ways in each sub-region. In Southeast Asia China is active and informal in its activities. It has attempted to demonstrate that it is a good neighbor and has worked to develop close links with ASEAN. In central Asia, China has been instrumental in developing a sub-regional organization, the Shanghai Cooperation Organization (SCO) and, with Russia, is attempting to shape the regional environment to its own advantage. Here it is working actively through formal and institutionalized processes. A different model again is used in Northeast Asia where there is no political sub-regional organization and, in the short term at least, no likelihood of one developing. Instead, China works actively through formal but not yet institutionalized processes to resolve the situation on the Korean Peninsula, engaging all the interested participants, and has begun to develop a multilateral economic regime, which could (in conjunction with the economies of Southeast Asia) develop into an institutionalized East Asian economic bloc and in the longer term into a political community.

ASEAN was formed in 1967 as an attempt to develop Southeast Asia in ways that were relevant and appropriate for the region. The association has strong political, economic and social initiatives and has close dialogue relationships with a

number of countries including, since 1996, with China. In the early 1990s, ASEAN countries generally were reluctant to engage China, seeing it as a threat rather than an opportunity. Thailand challenged this mindset and encouraged its ASEAN counterparts to the view that China could not be ignored and had to be engaged rather than challenged. China first attended the opening session of the annual ASEAN Foreign Minister's meeting in July 1991 as a guest of the host, Malaysia. In July 1994, two joint committees (one on economic and trade cooperation and the other on cooperation on science and technology) were established. China's relationship with ASEAN since then has widened and deepened and has covered issues ranging from the easy and mutually beneficial to the potentially divisive.

The cooperative relationship may be seen as China has worked with ASEAN countries within the Asia-Pacific Economic Cooperation (APEC) to present a common line and resist what is seen as pressure from the APEC's Western members (led by the United States) for speedy and inappropriate liberalization of national economies and the dismantling of trade barriers. The countries have also worked together to resist introducing security issues into APEC deliberations and they share similar views on questions such as human rights and sovereignty. In 2002 China and ASEAN also issued a "Joint Declaration on Cooperation in the Field of Non-Traditional Security," which has widened areas of cooperation and has included cooperation in anti-terrorist activities. Most recently, in September 2003, the ASEAN states sided with China to block attempts by the United States to have APEC call for "flexible exchange rate systems."

Potentially divisive issues are brought into focus in the South China Sea, an area in which a number of ASEAN countries and China have competing territorial claims, and where in the 1990s there was a flurry of territorial claims as structures were built on reefs and outcrops in an attempt to bolster national presences. Until late 2002, China resisted moves to multilateralize the issues as it saw its interests best promoted bilaterally—a common approach for larger states as they can prevail more easily against smaller states individually rather than as part of a group. China has now come to the conclusion that its long-term regional interests are better served through cooperation with the other claimant states. In November 2002 it signed a "Declaration on the Actions of the Various Sides Related to the South China Seas," a code of conduct which stipulates that the countries of ASEAN and China restrain from any activities that would escalate or complicate relations between them.

Mutually beneficial cooperative activity between the ASEAN states and China is seen in the moves to develop economic links, the centerpiece of which will be a China-ASEAN Free Trade Area. Agreement for a free trade area was achieved in 2001 following the report of the ASEAN-China Expert Group, "Forging Closer ASEAN-China Economic Relations in the Twenty-first Century." In this report, a China-ASEAN free trade arrangement was seen by the parties as "an important move forward in terms of economic integration in East Asia," as well as "a foundation for the more ambitious vision of an East Asia Free Trade Area, encompassing ASEAN, China, Japan, and Korea." In November 2002, at the annual ASEAN-China summit meeting, a "Framework Agreement on ASEAN-China Economic Cooperation" was signed. This, both sides agree, will lead to a free trade area within ten years. As part of this process China is making

bilateral arrangements (within a multilateral policy framework) with individual ASEAN countries to open specific market sectors. Indonesia's director of regional cooperation at the Ministry of Industry and Trade predicted the country could raise some US\$110 million in revenue from the export of agricultural and fish products to China in 2003 when the agreement would begin.

All this activity between the ASEAN states and China has been seen as extremely positive by ASEAN. Secretary-General Rodolfo Severino noted in 2001 that

*when viewed and carried out in this light, the strengthening of the linkages, as well as the competition, between ASEAN and China bears enormous promise for the peoples of ASEAN and China and for the enterprises operating them. The dynamics between ASEAN and China as competitors and partners will then prove of tremendous benefit to all.*

China has a different and more institutionalized relationship with the countries of central Asia than that with the ASEAN states. China was central to the 1996 formation of the so-called Shanghai Five grouping, now formally the SCO, which groups China and Russia with four other central Asian states. The SCO has, under China's close guidance, agreed to take institutional form with the establishment of a secretariat, begun to develop a combined counter-terrorist capability and is moving to develop an economic program to broaden trade links in the region.

For China, the SCO institutionalizes its influence in central Asia (and thus to some extent counters the increased U.S. presence and influence since September 2001) and gives it stability on its borders. For the central Asian members of SCO, most of which are at least wary of a powerful China, China's multilateral approach to the region gives them both an alternative economic outlet to less than promising relationships to their west and also binds China formally to their security. For those reasons, if for no others, central Asian states have welcomed China's presence in the region. In mid-2003 the SCO held its first multilateral anti-terrorism exercise. For the partner states, according to a commentator on Kazakhstan television, "[all] the observers noted that during the exercises the Chinese side demonstrated openness and the wish to cooperate in the future. This will undoubtedly promote the SCO's reputation as an effective international structure."

In Northeast Asia, China's multilateralism has been manifest more through "traditional" formal diplomatic processes than through institutions. In late 2002 North Korea acknowledged that it had an active nuclear weapons program and accused the United States of bad faith implementation of the 1994 Agreed Framework, which had been designed to halt North Korea's nuclear weapons program. Beijing understood immediately that a policy of non-involvement could not work. To serve its own interests China has had to be engaged, and that engagement is welcome in the region.

The South Korean political establishment is almost unanimous in demanding China's active involvement in resolving the Korean Peninsula security situation. China's role has been to attempt to bring the parties together, which it did fol-

lowing intensive bilateral diplomacy with the United States and North Korea separately. In April 2003, China hosted three-party talks with North Korea and the United States. Although these did not produce substantive results they did set the groundwork for further initiatives. China supported widening the talks to include South Korea, Japan, and Russia and was able to persuade North Korea that a wider format would benefit all sides. Six-party talks were held in Beijing in late August 2003.

Russian officials have noted that the six-party format will facilitate the settlement of the crisis, and South Korea's President Roh Moo-Hyun has thanked China for its role in the process and expressed the hope that it would continue to play a constructive role in settling North Korean issues. Even Mongolia, not a party to the talks, has welcomed the process and "would support any further efforts and initiatives aimed at the establishment of a zone of peace, trust and international cooperation on the Korean Peninsula." By persuading North Korea to accept the format of multiparty talks, China has reinforced its central position in security affairs in Northeast Asia.

China is also active in regional economic processes. These processes in themselves represent a change from the multilateralism of the 1990s in that they focus self-consciously on East Asia through the ASEAN Plus Three grouping rather than any global or pan-Asian system. China's so-called "new security concept," developed progressively since 1997, has as one of its planks "expanded economic interaction" with the region through organizational "reforms and improvements." In the last few years China has attempted to demonstrate that it is more a partner with Southeast Asia than a competitor. Consequently, most states in Southeast Asia see China's regional economic interactions as being in their own best interests.

As part of this interaction China has supported the region following the monetary crisis of 1997. It has become an active participant in the Manila Framework Agreement and Chiang Mai Initiative, both designed to stabilize and mitigate future monetary crises. In another move toward regional integration, China and ten other Asia-Pacific countries, including five ASEAN members, agreed in June 2003 to establish an Asian Bond Fund, initially to be worth more than \$1 billion. The initial purpose of the fund is to promote regional bond markets that will channel Asian foreign exchange reserves back into the region, but it could also be used to bail out economies in crisis.

As well as developing its proposed free trade area with ASEAN, China is actively involved in the development of both a Northeast Asian and an East Asian economic area. Chinese authorities understand that only through active participation will China be able to benefit from the processes of regional economic cooperation.

Several processes are involved in the development of a regional economic bloc. The first, the formal government-to-government agreements establishing free trade areas, is a slow process that has been underway for some years as part of the ASEAN Plus Three arrangements and is only now at the detailed negotiation phase. The second is the development of "sub-regional economic zones" or "growth triangles." China has developed growth triangles since the late 1970s when special economic zones were established in South China. This experience

has flowed through to international growth triangles in Northeast Asia where, despite initial setbacks, China has continued to persevere. Japan, Russia, Mongolia and Korea (both North and South) have all followed China's lead by developing their own special economic zones or by attempting to cooperate with those already in existence. These processes have had only limited success, but their potential is high. One conclusion, by Dajin Peng, is that a "geo-economic chain reaction is taking place in East Asia in which China is playing a leading role" and that "this will change the configuration of the East Asian as well as the world's political economy."

Closer Chinese economic involvement will be mutually beneficial. In Northeast Asia, Japan, South Korea and China are already each other's first or second largest trading partner. These countries understand the potential benefits of closer economic integration. According to the Korean Institute for Economic Policy, a free trade agreement between these three nations would lift Korea's gross domestic product (GDP) by 3.2 percent, China's by 1.3 percent, and Japan's by 0.2 percent—translating to \$12.7 billion for Korea, \$820 million for China, and \$12.3 billion for Japan. A similar study on the effects of a China-ASEAN free trade area showed that it would result in a 48 percent increase in ASEAN's exports to China and would increase China's GDP by 0.3 percent. A report sponsored (but not endorsed) by the Japanese government favors the multilateral trade processes: So long as China's growth is achieved within the multilateral framework Japan "will receive new business opportunities." ASEAN also has appreciated China's economic involvement. At the 1999 ASEAN Post Ministerial Conference, ASEAN's China country coordinator stated that

*I would like to take this opportunity to reiterate ASEAN's appreciation to China ... [it has] contributed significantly to maintaining stability in the region's currencies and assisted ASEAN in its recovery efforts.... Also, China's stimulation of its economy through massive infrastructure development programmes will provide ample opportunities for ASEAN countries to benefit from trade with and investments in China....*

*There were concerns expressed about China's sincerity in assisting ASEAN. These concerns are baseless. As we have seen, China stood by ASEAN throughout the whole recent turbulent period.*

## CONCLUSION

China's multilateral engagement with the region is both broad and deep as it has become more integrated into—and cooperative with—the international community. Its multilateralism is situational rather than conditional. Engagement takes different forms according to the needs of the moment (and of China), but overall the processes seem to find favor with China's neighbors. ASEAN states especially have used these multilateral processes to develop new and closer relationships with China, and ASEAN states are pleased with the way China has worked in APEC, in the ARF and in the trans-regional processes linking East Asia

with Europe and Latin America, respectively. In Northeast, Southeast and central Asia, China's multilateral participation is seen as bringing stability and prosperity to the region. In the longer term these multilateral relationships will help China consolidate a leadership position in Asia.

In the near and medium-term future, although some states may continue to hold suspicions about China's longer-term intentions, it seems likely that China will maintain its policy of active and benign regional participation.

Are there residual doubts about China's increased interactions with the region? If so, they are well hidden. No country is going to risk alienating China by dismissing its efforts or asserting that they are misdirected. Indeed, as a matter of process, most of the region is happier with multilateral rather than unilateral or bilateral behavior, and thus China's approach works at that level. More specifically, there is no evidence that regional states are acting against China's increasing assertiveness by, for example, balancing with the United States against it. On the contrary, it seems more likely that Asia would like the United States to join them in cooperatively pursuing regional peace and prosperity with China.

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**Asia-Pacific Center for Security Studies**

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949  
tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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SPECIAL ASSESSMENT

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### Asia's China Debate

Dr. Yoichiro Sato is an Associate Professor in the Department of Regional Studies. His research interests are in international and comparative political economy of the Asia-Pacific region. Dr. Sato's most recent book (co-edited with Akitoshi Miyashita) is *Japanese Foreign Policy in Asia and the Pacific*.

# Mixed Feelings: East Asia's Debate about China's Economic Growth and Regional Integration

YOICHIRO SATO

## Executive Summary

- Despite China's sustained, rapid economic growth and the contrasting recession in Japan during the past decade, Japan still leads China in key economic indicators such as gross domestic product, outward investment, and trade volume. China's large and increasingly wealthy population provides an attractive market and base for exports, luring foreign direct investment away from other countries in Asia.
- China has started to reform its economic system to conform to WTO requirements, but implementation has been slow and considerable regulations on foreign investments and barriers against imports remain.
- Most of China's exponential trade growth during the past decade has resulted from trade with the United States and the European Union, whereas Japan and ASEAN's proportional shares of China's trade have remained largely unchanged. For the ASEAN countries, China remains a secondary trade partner behind the United States and Japan. South Korea and Japan are deepening their economic interdependence with China, but liberalization of trade among the three countries lags behind the ASEAN-China Free Trade Agreement (FTA).
- Despite the increasing competition from Chinese producers, most Asian countries share with China a fear about negative social and political consequences of rapid economic reforms and possible exclusion of their exports from the U.S. and EU markets.
- Asian incentives for regional integration are intended to form an enhanced negotiation bloc vis-à-vis the United States and the European Union. ASEAN countries see FTA negotiations with China as a catalyst to bring a reluctant Japan into FTA negotiations.
- Faced with the declining U.S. dollar, Asian countries with floating or loosely pegged rates see China's strict dollar peg as problematic because a declining RMB against their currencies diminishes their relative trade competitiveness with Chinese products.



## INTRODUCTION

Spectacular growth of China's economy during the past decade, combined with its ambition for political leadership, has pushed China onto the center stage of global and regional economic integration. East Asian countries respond differently to the challenges and opportunities that a growing China offers. Complex interactions among their diverse interests will shape future East Asian economic integration.

## CHINA'S ECONOMIC GROWTH

China's economy today, with a current gross domestic product (GDP) of \$1.1 trillion (2002), is the second largest in Asia after Japan. It is astonishing that this achievement took place in a rather short period of time, pushed by consistently high growth rates. (See Table 1.)

**Table 1.** GDP Growth (%)

	1995	1996	1997	1998	1999	2000	2001
China	10.5	9.6	8.8	7.8	7.1	8.0	7.3
Japan		3.5	1.8	-1.1	0.7	2.4	-0.2
South Korea	8.9	6.8	5.0	-6.7	10.9	8.8	3.0
Taiwan	6.4	6.1	6.7	4.6	5.4	6.0	-2.2
Singapore	8.0	7.5	8.5	0.1	5.9	9.9	-2.0
Southeast Asia*	8.4	7.4	3.5	-9.0	3.1	5.1	2.1

\* Excluding Singapore

Source: Asian Development Bank; APEC

China's dynamic domestic market and growing exports have also driven its rapid economic growth. (See Table 2.) China's export drive—at the same time as Japan increased its imports—has pushed the former to the unenviable status of number one source of America's trade deficit. China attracts more than half of global foreign direct investments (Table 3), creating a diversionary effect that has especially negative consequences for its Southeast Asian neighbors.

**Table 2.** Merchandise Trade/GDP, China (%)

Year	1990	1996	1997	1998	1999	2000	2001
	31.8	35.6	36.0	33.4	36.4	44.0	44.3

Source: Far Eastern Economic Review, Asia Yearbook

**Table 3.** Foreign Direct Investment (in U.S. million dollars)

	1994	1995	1996	1997	1998	1999
China	33787	35849	40180	44237	43751	38753
South Korea	810	1776	2326	2844	5415	9333
Singapore	8550	7206	8984	8085	5493	6984
Southeast Asia*	9662	12593	15889	17264	12717	6986
Global	54599	61993	72258	78893	72436	66928

\* Excluding Singapore

Source: Asian Development Bank

## CHINA'S ECONOMIC INTEGRATION EFFORTS

### Enhancing Global Linkages and WTO Obligations

Asian countries must contend with China's calculated efforts to integrate economically with the region. China is doing this through its World Trade Organization (WTO) membership that mandates state-owned enterprise (SOE) and financial sector reforms. China was admitted to the WTO in 2001, ending its long struggle for permanent most favored nation (MFN) status with its major trading partners, including the United States—China's single largest trade partner. Prior to China's WTO membership, MFN status had to be annually renewed by the U.S. Congress. To achieve WTO membership and subsequent permanent MFN status, however, China had to commit itself to major economic reforms, including liberalization of its financial sector, privatization of SOEs, general lowering of tariffs, and more rigorous enforcement of intellectual property protection. China's acceptance of these terms indicates that its leaders recognize the importance of continuous expansion of trade with the United States, Japan, and the European Union for its further development and social-political stability.

China's WTO entry mandated it to gradually privatize its SOEs. China clearly recognizes the fact that rapid growth is being led by new jobs created by private enterprises, as in Shanghai, and not by SOEs. However, such development has not spread evenly across the country, and dependence on SOEs continues in most of the country. While China has initiated plans to encourage the creation of a vibrant private small-and-medium enterprise (SME) sector and to improve the social safety net for those who lost their SOE jobs, the SOE reform must proceed cautiously to keep the unemployment rate (especially in the politically sensitive urban areas) in check. In 2000, the estimated urban unemployment rate in China stood around 7 percent. For the purpose of maintaining social stability, temporary delays are likely in the WTO-mandated reforms and use of import-inhibiting measures, which violate the spirit (if not the letter) of WTO rules.

WTO also mandated that China allow RMB-denominated financial transactions to be handled by foreign financial institutions by the end of 2006. China's four state-owned banks hold the bulk of the non-performing loans (NPLs), which is nearly 2 trillion in renminbi (RMB) (or US\$241 billion) as of September 2003. China's NPL problem poses a risk to its sustained economic growth. Asset management companies (AMCs) were set up to liquidate NPLs through debt-equity swaps. While banks could restructure their financial portfolio through these swaps, SOEs account for most of the NPLs, adding the balance to the remaining NPL account. AMC authority in management and operations of the indebted SOEs needs to be further enhanced, and more transparency needs to be brought into the valuation and disposal of state assets. Timely reform of the financial sector is essential for two reasons. First, liberalization will expose the financial sector to competition with foreign financial institutions. Second, a possible shift to the floating exchange rate (discussed below) would require strong and transparent financial institutions, if China wants to avoid a disaster similar to the Asian financial crisis of 1997–98.

The Chinese currency has been pegged to the U.S. dollar. Although floating RMB was not a part of the WTO-mandated reforms, the rapid growth of the Chinese economy and its exports has caused criticism from the major importing

countries—including Japan, the United States, and the European Union—that China unfairly uses the exchange rate for its trade advantage. Calls to upwardly revise or float RMB reached a new height during the G-7 Finance Ministers' meeting and the Asia-Pacific Economic Cooperation (APEC) summit in 2003. However, cautious views also prevailed, citing the possibility of inciting instability in the exchange market and regional economy due to the delays in the SOEs and financial sector reforms. Opposition to the rate revision also comes from American multinational corporations (MNCs) in China, who would suffer rising costs and shrinking profits. The Chinese government so far has refused to change the rate. As China's trade surplus with the United States grows, this issue has already been politicized on Capitol Hill. In the long term, RMB's floating is inevitable in order to integrate China into the global economy without giving China an unfair trade advantage. However, in the short term, China's focus will remain on the WTO-mandated SOE and financial sector reforms.

### **Regional Free Trade Initiatives as Part of Global Strategy**

As part of its focus on expansion of trade, China announced in 2002 its proposal to complete an FTA with ASEAN within ten years and partially implemented the opening of some agricultural product markets on a bilateral basis with select countries. Despite the fanfare surrounding the announcement of the China-ASEAN FTA, China's trade with ASEAN at present occupies only a small part of its overall trade. (See Table 4.)

**Table 4.** China's Trade Partners (%)

	U.S.	Japan	EU	SE Asia
1991	8.9	14.7	10.2	5.9
2001	24.8	15.0	18.6	5.9

Source: Asian Development Bank

For ASEAN, China also remains a rather minor trade partner. However, the reluctance of ASEAN's major trade partners (Japan and the United States) to form FTAs with ASEAN provided an opportunity for China to move ahead with its initiative.

China also entertains the idea of expanding free trade to Japan and South Korea. Among Japan, China, and South Korea, trade volumes are significant and FTAs between and among these three economic powers could have significant results. However, the process has gotten off to a slow start, and the only officially commissioned study of a free trade possibility is taking place between Japan and South Korea. Despite the rising volume of trade with China, Japan and South Korea have been very cautious in rewarding their potential economic and political rival. Also, for China, the utility of such a tripartite free trade area (or even that plus ASEAN) is that an enlarged and integrated Asian market offers a more attractive opportunity for the United States and the European Union. This works as an incentive to maintain free access to the Asian market, and in return keep their markets open to Asian exports. Unlike China's military-strategic calculations, in which China increasingly prefers exclusion of the United States from the region, China's economic interest is in keeping the United States and the European Union engaged.

## EAST ASIAN RESPONSES TO CHINA'S ECONOMIC GROWTH AND INTEGRATION EFFORTS

East Asian countries respond differently to China's rapid economic growth. Their relative market sizes and technological levels vis-à-vis China, differing product focuses, and bilateral security relations with China are some of the factors that account for this divergence. At the same time, most East Asian countries and China share interests in cautiously proceeding with economic integration so as not to disturb their sensitive domestic socio-economic balances.

### Japan

Japan's meta-historical and increasing geostrategic rivalry with China co-exists with increasing interdependence between the two economies. Japanese export manufacturers' need for cheap labor has led them to relocate to China, thereby de-industrializing Japan over the past fifteen years or so, while Japan continues to be an important source of investments and technology for China. Some of Japan's SMEs took advantage of the lower labor costs in China by relocating, but many that remain in Japan advocate protection of the domestic market from Chinese imports. Japanese farmers also take a protectionist stance. Japan has started reducing its Official Development Assistance (ODA) to China, but China continues to be among the three largest recipients. (See Table 5.) This reflects support of the Japanese MNCs to integrate the Chinese economy through improvement of the basic infrastructure.

**Table 5.** Major Recipients of Japanese ODA

	1	2	3
1997	China	Indonesia	India
1998	China	Indonesia	Thailand
1999	Indonesia	China	Thailand
2000	Indonesia	Vietnam	China
2001	Indonesia	China	India

Source: Japanese Ministry of Foreign Affairs

Japan is concerned about China catching up in manufacturing technologies, often through pirating. In addition to cooperating with other developed countries in pressing China to tighten its intellectual property rights (IPR) laws and enforcement, the government is assisting smaller Japanese firms in protecting their intellectual properties.

On the other hand, China is also viewed as a potential ally in the global financial competition. In the aftermath of the Asian financial crisis, Japan proposed an Asian Monetary Fund (AMF), modeled after the International Monetary Fund (IMF), in response to U.S. reluctance to commit IMF funds to Asia's liquidity crisis. China also opposed this initiative on the unspoken ground that in such an institution Japan would exercise dominant control due to its large subscription and the weighted voting system. Instead of establishing an AMF, Japan and China took part in the multilateral Chiang Mai Initiative, which created a regional mechanism for currency swaps. Japan and China together hold the great bulk of U.S. Treasury bonds in their reserves as a result of trade surpluses with the United

States and massive interventions to keep their currencies weak. Weakening of the U.S. dollar hurts their export performance. China's pegging of RMB to the U.S. dollar has resulted in a relative decline of Japanese producers' competitiveness vis-à-vis Chinese producers. The call to float the RMB by U.S. domestic manufacturing interests and Congress in the hope of RMB appreciation is shared by some of Japan's domestic manufacturers. However, on this issue, Japan's MNCs operating in China oppose RMB appreciation for the same reason U.S. MNCs oppose it. Japan's criticism of the Chinese peg is somewhat muted, because Japan's "dirty (managed) float" through heavy market interventions by the Bank of Japan is also a subject of U.S. criticism.

Different sectors in Japan react differently to China's integration into the global and regional economies. Though influential MNCs prefer further integration of Japan and China, smaller and sector-specific oppositions (such as SMEs and agriculture) yield considerable political clout. Lack of domestic consensus in Japan prevents it from solidifying any free trade initiative with China.

### **South Korea**

Korea's trade with China has rapidly increased over the past decade. However, Korea shares some of Japan's wariness about China. Korea's exports are more exposed than Japan's to competition against China because Korea's technology level generally falls behind that of Japan. Korea also competes against China in attracting foreign investment.

Korea's free trade with China has usually been discussed in the context of a multilateral framework that also includes Japan. Free trade with Japan has been officially studied, and a framework negotiation is likely to start within the next few years. Korea will be able to draw more concessions from China by borrowing the weight of the Japanese market. Hence, it is important for Seoul to negotiate an FTA first with Japan, and then pursue one with China.

Korea leads China and most ASEAN countries in financial reforms. The Kim Dae-Jung administration's decision to fully embrace the IMF prescriptions after the Asian financial crisis resulted in a drastic reform of the banking and financial service sectors as well as restructuring of the insolvent conglomerates (*chaebols*).

However, Korea also floated its currency (won) and has adopted a less interventionist exchange rate policy. Still, like many other Asian countries, Korea is concerned about foreign exchange instability and its damaging impact on trade. Therefore, it too has taken part in the Chiang Mai Initiative.

### **Southeast Asia**

China remains a minor trade partner for most ASEAN countries. Nevertheless, for each ASEAN country, China's large domestic market offers an attractive potential for trade growth. Even before China and Hong Kong concluded an FTA in June 2003, a considerable amount of ASEAN exports to Hong Kong was re-exported into China. ASEAN countries can expect further growth of trade from the FTA with China. China's FTA proposal with ASEAN was followed by similar proposals from Japan, the United States and India. Thus, the deal with China is expected to play a catalyst for ASEAN's free trade with other countries.

For the ASEAN countries, competition with China to attract global investments has been a losing proposition. China can offer not only cheap labor, but also

a huge domestic market. In contrast, individual ASEAN countries have much smaller domestic markets, and many of them have much higher wage levels. Free trade with China would at least partially allow ASEAN countries to piggyback on the attraction of China's domestic market and offset their disadvantage in luring foreign investors.

On the issue of foreign exchange stability, China's decision to not devalue RMB during the Asian financial crisis boosted its credibility among the ASEAN countries. ASEAN countries are also more comfortable with the multilateral structure of the Chiang Mai Initiative to manage currency exchange rates than a Japan-dominated AMF. For this reason, they are likely to side with China on the issue of regional currency values.

## IMPLICATIONS ON REGIONAL INTEGRATION

### Trade

China has played a major catalytic role for the formation of regional FTAs. ASEAN countries' desire to form FTAs with Japan and the United States has been hindered by both factors within ASEAN (such as non-implementation of the ASEAN Free Trade Agreement—AFTA—by some members and AFTA's deferred liberalization for Vietnam, Cambodia, Laos, and Myanmar) as well as the reluctance of the Japanese and Americans. Having assured MFN status in the U.S. and European markets through its WTO membership, China now eyes a leadership role in the process of Asian economic integration. China's agreement with ASEAN to achieve free trade within ten years was a catalyst for later free trade proposals from Japan and the United States to ASEAN and Japan's bilateral free trade proposals with individual ASEAN members.

Within ASEAN, Singapore has been in an anomalous position. Its unique entrepot economy status gave the country an early push to join all sorts of FTAs, including bilateral agreements with Japan and the United States. Singapore's FTAs with most liberal trade partners (e.g., Chile and New Zealand) and other relatively liberal traders (e.g., the United States, Canada, and Australia) are at odds with other Asian countries whose domestic agriculture market is protected for political reasons. Singapore, not having an agriculture market, has no worry on this score.

Within APEC, Japan has led the camp that prefers an incremental and voluntary approach to free trade. Japan dealt with legal and binding trade liberalization only at the WTO negotiations, thereby showing little interest in regional FTAs until 2001. However, the disastrous failure of the WTO meeting in Seattle and China's FTA offensive with ASEAN completely reversed Japan's strategy.

Also, for the ASEAN countries, FTAs with China and Japan will ease the political cost of complying with the AFTA obligations. China and Japan are major food importers, and FTAs with these countries will divert a large part of agricultural exports from intra-ASEAN trade, thereby making farm exports under free trade within ASEAN more costly and allowing more domestic farmers to survive.

On the other hand, it is still unclear what an ASEAN-China FTA would entail. Except some immediate bilateral liberalization measures on certain tropical agricultural products of ASEAN's interest, the content of China's liberalization is yet to be known. Many factors—including the pace of SOE reforms, unemployment,

and political stability inside China—will determine the extent of Chinese trade liberalization, which in turn would affect the content of Japanese proposals. If the Sino-Japanese rivalry works in a positive way toward a more open trade, ASEAN will gain most, and the resulting Asian FTAs will be more comprehensive (less excepted products and services) and consistent with the U.S. objective. Conversely, if Chinese reluctance gives the Japanese an excuse to go slowly and be less comprehensive, the United States would feel uncomfortable with the Asian FTAs. In the latter case, it is possible that protectionist forces in the United States will outweigh free traders, and APEC will be divided between East Asia and the Western Hemisphere, despite its original aim to bridge the Pacific.

### **Currency**

Despite the signs of regional currency cooperation, it is unlikely that Euro-like currency integration will happen in East Asia in the near future for several reasons. First, not all Asian currencies are floating (e.g., Chinese RMB, Hong Kong dollar, Malaysian ringgit), and those that are floating are still heavily managed by the central banks. In both types of currencies, the exchange rates are viewed as an important tool for export promotion. Internal rivalry between the pegged and floating Asian currencies and their external under-valuation against the U.S. dollar and Euro are likely to continue. Second, despite the increasing intra-Asian trade, the primary export market for many East Asian countries (including China) is the United States. Therefore, savings through the reduction of foreign exchange costs are relatively small. Third, currency integration requires a strong leadership that enforces fiscal austerity (e.g., Germany in the European Union) to control inflation in each member country. Neither Japan nor China can provide such leadership, and Asian countries are not likely to embrace such an assault on their sovereignty. Thus, currency cooperation in Asia will likely remain at the level of linking regional currencies by moderately revising the foreign reserve mix and implementing an enhanced emergency currency swap mechanism.

## **CONCLUSION**

**C**hina has staked its future on integration with the global economy, but its pace is contingent upon domestic social stability. Given Japan's passivity, the extent of trade liberalization by China will likely shape the content of East Asian FTAs. The diverse foreign exchange policies in East Asia following the Asian financial crisis—ranging from strict pegging to the U.S. dollar to managed float with differing ranges—will likely limit the scope of currency cooperation. Asia's debate about China's economic growth and regional economic integration is therefore still in its early stages. Options for the United States will largely depend on how Asians respond to evolving Chinese policies.

The views expressed in this publication are those of the author(s) and do not necessarily reflect the official policy or position of APCSS, U.S. Pacific Command, the U.S. Department of Defense, or the U.S. Government.

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### **Asia-Pacific Center for Security Studies**

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949

tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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## Asia-Pacific Center for Security Studies



SPECIAL ASSESSMENT

DECEMBER 2003

### Asia's China Debate

Christopher Jasparro is a transnational and environmental security specialist at the Asia-Pacific Center for Security Studies in Honolulu. He is a political and cultural geographer with additional training and professional experience in transportation systems management. Recent publications have appeared in *Regional Development Dialogue*, *Geopolitics*, and *Jane's Intelligence Review*.

# Paved with Good Intentions? China's Regional Road and Rail Connections

C H R I S T O P H E R J A S P A R R O

## Executive Summary

- China's road and rail corridor (RRC) development with Southeast Asia is motivated primarily by domestic development priorities and efforts to improve security in its troubled borderlands as well as in its "near abroad." China's involvement in RRC projects is generally taken as evidence that "China wants to work with the region rather than impose its will on it."
- China requires international funding and technical expertise to develop RRCs. Hence, neighbors may have additional confidence that China's willingness or ability to threaten force is constrained.
- Divergent national interests, geopolitical competition, and interstate mistrust regarding RRCs are not absent, however. India, for reasons similar to those of China, is also developing RRCs with Southeast Asian countries. Some analysts view Chinese and Indian RRC activity in Southeast Asia (and Burma in particular) as evidence of emerging Sino-Indian geopolitical competition; others note the prospect of cooperation between the two large states.
- In the long run, RRC development could help China craft a hybrid continental-maritime geostrategic posture. Direct land access to Europe, Central Asia, the Middle East, Southeast Asia and the Indian Ocean decreases Chinese vulnerability to closure, disruption or interdiction of South China Sea/Southeast Asian sea lines of communication (SLOCs) and U.S. or even Indian or Japanese containment.
- Competition could actually complement cooperation and integration. China and India have shown some interest in linking the Kunming Initiative and the Mekong-Ganges Cooperation plan.
- Denser, more efficient RRCs will intensify regional transnational threats. Failure by China to respond effectively and transparently to these threats will undermine internal stability, destabilize neighboring states, and erode regional trust and confidence in China. Common threats will also create opportunities for regional security cooperation.



## INTRODUCTION

The early 1990s witnessed a boom in Eurasian international and domestic projects designed to expand, improve, and integrate RRCs, as well as pipeline, canal, and air transport networks. This process started symbolically in 1990 when former Soviet and Chinese railways were joined at Alatau Pass, making a second Eurasian Continental Landbridge (the Trans-Siberian Railroad being the first) a reality. Eurasian RRC development was given a further impetus in 1993 when the European Union (EU) initiated the “Silk Road of the 21<sup>st</sup> Century” project. Eurasian projects are increasingly being matched by plans for RRCs in the Asia-Pacific, with the eventual goal of linking the two.

Given the size of its economy, military power, population and geographic presence in or proximity to East Asia, South Asia, Central Asia, and Southeast Asia, China will exert the most influence on and be most influenced by Asia-Pacific RRCs. RRCs could enhance economic development in peripheral areas, promote stability in neighboring countries, enhance regional cooperation and boost China’s image as a responsible and benign member of the regional community. However, RRCs may also increase the volume of transnational threats into China and neighboring countries and increase fears of Chinese domination. At present, the response of China’s Southeast Asian neighbors to its involvement in RRC developments runs the gamut of opportunism (cooperation), indifference (acceptance) and competition (mistrust). The fact that RRC development and integration are moving ahead throughout Southeast Asia suggests acceptance and opportunism are winning out over fear and, on balance, the rewards of RRC integration are perceived as greater than the risks. At a minimum, there is an acceptance of a geographic and economic reality that cannot be fought and is therefore considered better joined.

The burst in interest and activity in both international and domestic RRC development reflects the convergence of four factors. First, the end of the Cold War removed geopolitical barriers to the creation of pan-Asian and Eurasian land transport linkages while subsequent economic globalization provided impetus for more effective and integrated global and regional transport networks. The Trans-Asian Railroad (TAR), for instance, was first proposed during the 1960s but remained stillborn due to conflict, Cold War rivalries, and lack of economic rationale. Second, the dramatic growth of the Chinese, Indian, and Association of Southeast Asian Nations (ASEAN) economies has created an economic rationale for better transnational transport routes within Asia. Third, the need for China and India to economically develop peripheral areas for internal security reasons and ASEAN to integrate new but less developed members means these areas need better internal transport infrastructure as well as linkages to outside markets. Fourth, although at a global level the end of the Cold War gave way to a unipolar system, it has resulted in a degree of multipolarity at the regional and subregional levels and space for regional powers to compete for economic and political influence. Ultimately these factors reflect a reassertion of geographic realities that were artificially constrained by Cold War politics. The growing economies of China and India—with populations of more than one billion people each—and the expanding economies of ASEAN (with an additional 500 million people) make greater interaction and the revival of old land routes and other transport links virtually inevitable.

## CHINA'S MOTIVES FOR RRCS

According to China's 2000 "National Defense White Paper," "developing the economy and strengthening national defense are two strategic tasks in China's modernization efforts." These goals are especially relevant to the sometimes troubled western and southern borderlands. China's domestic RRC development has centered around dual-use infrastructure with complementary economic and defense goals. For instance, the White Paper notes, Chinese military forces have opened five military airports, two hundred railways and thirty oil pipelines for civilian use in western regions; they have also expanded and reconstructed eight airports, four highways and expressways. The People's Liberation Army (PLA) and Armed Forces Police have provided 1.5 million troops and 450,000 motor vehicles to support western regional development. The armed forces have also "encouraged or persuaded demobilized soldiers from densely populated areas to settle in the west." RRC development may serve both as a velvet glove and an iron fist, as it will facilitate regional economic growth as well as military access and Han migration into restive minority borderlands in western China.

To the south, Yunnan Province's internal lines of communications are also underdeveloped. The province lies at the terminus of the state train network (most lines are concentrated in the north). Only 2,800 kilometers of its 163,953 kilometers of roads are second-class or better, while bridges and other infrastructure need upgrading. Although improved provincial transport infrastructure and better integration with the national system is essential, external links are equally critical. Currently most bulk export cargo originating in Yunnan and Sichuan travels by rail or river to east coast ports such as Shanghai, Huangpu and others, and then via sea to Southeast Asian ports (adding four thousand kilometers and taking thirty-five days), thus placing inland southwest China at a competitive disadvantage for trade with the growing ASEAN economies not far to the south. Burma is particularly important to Yunnan; annual trade between the two has increased from \$15 million per year to more than \$800 million since the early 1990s.

Yunnan and Guizhou are attempting to develop tourism based on their climate, scenery, and ethnic diversity. The opening of land routes to Southeast Asia are seen as critical to improving the region's competitiveness as well as making southern China a stop on Southeast Asia's more well-established tourism circuit. Both national and provincial officials aim to transform Kunming into a regional transport hub and the Lancang into an economic corridor linking China with South and Southeast Asia.

The record of RRCs spurring economic development is mixed, and unintended negative consequences can result. For example, road building was integral to Thai development and crop substitution programs launched to counter insurgency and opium production in northern Thailand. Between 1965 and 2000 opium production fell from 245,000 kilograms to 4,000 kilograms while communist and ethnic insurgencies were virtually eliminated. However, unexpected counter-effects threaten the programs' viability and sustainability. For example, limited consumption of local opium has given way to a heroin and amphetamine epidemic. Roads also have facilitated the flow of poor rural women into Bangkok brothels (a 1993 survey showed almost 40 percent of females from 225 villages were involved in commercial sex), the diffusion of HIV/AIDS into the highlands, and Thailand's shift from a drug-producing nation to a transit nation. Thais living

in valley bottoms have benefited disproportionately, leading to localized economic disparities within the highlands; in-migration of other ethnic Thais has spurred ethnic tensions over land and water resources.

The impact of RRCs on China's internal security is undetermined. In Guizhou tourism is slowly increasing, providing alternative livelihoods and cultural revival among ethnic minority groups. Yet, rising drug use and HIV infection rates in southern and western areas threaten social and economic stability. In Xinjian, Han (now 40 percent of the population) are concentrated in settlements along the Xinjiang-Langzhou railway and along major roads between Urumchi and Karamay. Consequently, economic development will likely accrue to Han living along transport corridors, which could further fuel separatist sentiment. RRC development, in the near term, should strengthen the security forces' hold on the area. But should their grip weaken, the experience of other Asian transmigration schemes might be repeated and RRCs could end up as escape routes for Han fleeing back east.

The efficacy of RRC improvements internally is limited if corresponding improvements are not made in the neighboring countries with which internal transport networks will be connected. Therefore, China has been supportive of both bilateral and multilateral RRC development in Southeast Asia. Increased integration may bring increased market access and will increase competitiveness, but it can also introduce politically challenging forces. In China there is some recognition that its most glorious episodes occurred in periods of openness, particularly during the Sung and Ming dynasties, when China was most integrated into the Silk Road-Indian Ocean system, home to foreign merchants and experts, and open to outside cultural innovations and styles. And yet there remains considerable concern that outside influences and compromises on sovereignty are required for effective integration into regional transport networks. Central Asia's mountains and deserts have historically buffered China from outside forces and influences. Greater contact between Chinese Uighurs, Kazaks and other minority groups with kinsmen across borders may increase the flow of democratic ideas, Islamic extremism and other cultural and political influences whose effects may be beyond the Chinese government's ability to manage. External links also may weaken central authority in the provinces while granting non-state actors greater influence within China. For instance, Bao Youxiang, head of the United Wa States Army, has extensive business ventures in Yunnan, fostered by strong ties to local officials. The current regime faces a major conundrum in balancing growing openness with its usual opacity and desire for control. RRCs may ultimately be a blessing to China but a curse to its current rulers.

## CHINA'S NEIGHBORHOOD RRCs

China's current involvement in both bilateral and multilateral RRC development in Southeast Asia is largely a function of three trends. The first is the previously discussed impetus to economically develop peripheral areas (such as Yunnan) that border important neighbors. Second, China has "actively engaged" in developing multilateral relationships since the 1990s, which reflects an appreciation that both it and the region gain through multilateral cooperation. Third, China desires to maintain stability in and prevent encroachment on its "near abroad" (especially Burma, where ethnic unrest, drug trafficking and HIV/AIDS directly threaten China).

Because much of the impetus behind RRC development is multilateral, the interests of individual actors such as China are tempered. RRC development is a critical prerequisite to Chinese-proposed multilateral economic initiatives in Southeast Asia, such as the creation of a China-ASEAN free trade area. Thus, China's involvement in both bilateral and multilateral RRC projects may be seen by some countries as further evidence that "China wants to work with the region rather than impose its will on it." China, in fact, does not have the capacity to unilaterally develop and improve RRCs, either internally or externally. Limited capital and expertise also increases the influence of bilateral and multilateral aid donors (especially the European Union, World Bank, Asian Development Bank [ADB], and UN) on both internal and transnational RRC development. For example, the ADB recently approved \$250 million to build feeder roads in Yunnan. Sovereign priorities therefore must accommodate outside norms and interests if transport initiatives are to mature. Reliance on external sources of funding and technical expertise makes cooperative and multilateral approaches—rather than isolation and aggression—pragmatic policy alternatives in China's self-interest. Hence, neighbors may have additional confidence that China's willingness or ability to threaten force will be constrained.

This does not mean national interests, geopolitical competition, and interstate mistrust are absent. Multilateral goodwill and cooperation will be constrained in some cases by historical suspicions and the fear of stronger neighbors or rival powers. Hanoi, for example, recently stalled on opening new trade routes from China through Vietnam into Southeast Asia.

RRC development may enable China to increase its political and economic influence in Southeast Asia. The bulk of China's bilateral assistance in the transportation sector has been to Burma. Many observers (particularly from India) view this aid as part of a greater plan to dominate Burma and outflank India. China is now Burma's primary arms supplier and the country's third-largest trading partner—with bilateral trade of more than \$600 million in 2000. Despite Burma's growing dependence on China, historic mistrust and xenophobia have led the Burmese government to keep a tight leash on Chinese advisors and personnel. Burma has also sought Indian military and transport development assistance partly to counterbalance China.

RRC development will help China craft a hybrid continental-maritime geostrategic posture. Direct land access to Europe, Central Asia, the Middle East, Southeast Asia, and the Indian Ocean decreases Chinese vulnerability to closure, disruption or interdiction of Southeast Asian/South China Sea SLOCs and U.S. or Indian containment. RRC and port development in Tibet, Pakistan, and Burma provide China a means of flanking and containing India. Chinese road and rail building efforts in Burma and Southeast Asia, combined with development of port facilities in Hanggyi, Coco Islands, Mergui and Thilawa, create land lines of communication (LLOCs) to Southeast Asia and additional access to the eastern Indian Ocean.

India, however, is also providing infrastructure and military assistance to Burma. As with China, this has much to do with internal security and development concerns. The most feasible routes between the bulk of India and its restive northeastern states traverse Bangladesh. Partition and current sour relations have left the Kolkata-Sunderban-Brahmaputra water route nearly void of trans-border traffic. India's narrow Siliguri Corridor provides only a fragile LLOC to the northeast. During the monsoons, air transport is often impossible while flooding disrupts

road and rail movement. Meanwhile, insurgent attacks in the corridor have increased. The resulting vulnerability and unreliability present a major strategic and logistical challenge to India's Eastern Command.

To obtain better access into its northeast, India is helping develop road, rail, and water transport infrastructure in Burma. Indian engineers have helped build a 160-kilometer road from Moreh—a town in India's northeastern state of Manipur—to Kalyemyo and Kalewa, providing an alternate land route into the northeast via Burma. The proposed "Kaladan Project" could revive Burma's port of Sittwe, creating a river-land corridor to Mizoram, another of India's small northeastern states. India, Thailand and Burma have agreed on a trilateral highway project to connect India and Thailand with Dawei, a Burmese port. RRCs through Burma would give India an alternative line of communication to the Malacca Straits, as well as land access to the South China Sea. India, therefore, could pursue its own land-sea strategy, simultaneously asserting greater control over its northeast while countering Chinese influence.

Some analysts view Chinese and Indian transport involvement in RRC development in Southeast Asia (and Burma in particular) as a series of unilateral and adversarial geostrategic chess moves. However, given the overall multilateral context in which regional transport initiatives are occurring—as well as both countries' internal security priorities—it is more likely that their actions reflect primarily domestic concerns and a willingness to engage with the region via multilateral and "soft" means. In other words, geostrategic advantages sought or obtained are opportunistic rather than by grand design.

Competition will also naturally arise over contracts for construction, routes, and financing. For instance, in July 2003 certain memoranda of understanding (MOUs) between India's International Railway Construction Company (IRCON) and the China Railway Engineering Corporation had stalled over Malaysian "haggling" over the price of palm oil (in which the multibillion-dollar contracts will be paid). Ultimately, however, competition could actually complement cooperation and integration. China and India have shown some interest in linking the Kunming Initiative (a Chinese proposal to rebuild the Stilwell Road linking northeast India with southern China via Burma, which was announced at a 1999 conference sponsored by China and attended by Burma, India, and Bangladesh) and the Mekong-Ganges Cooperation plan (an Indian plan to create an economic grid linking the Greater Mekong and Ganges region including India, Thailand, Laos, Vietnam, Cambodia, and Burma, of which developing RRCs and river transport is an integral part. One of the plan's centerpieces is a proposed extension of the recently completed Moreh-Kalewa Road from India's northeast into Burma to Thailand and other Southeast Asian destinations). In this case, Burma, because of its location between East, Southeast, and South Asia, may become a convergence zone (as opposed to a shatterbelt) characterized by Sino-Indian cooperation and integration as well as competition. Increased maritime access and alternative LLOCs to narrow SLOCs may not just offer geostrategic advantage but could paradoxically help increase security by making countries less vulnerable to SLOC disruption and therefore less fearful of interdiction and containment by rivals.

RRC development also has a transnational aspect that poses simultaneous threats and opportunities. Diffusion paths for drugs, illegal migrants, infectious disease and small arms have undergone a process of expansion and diversification

throughout Asia during the last fifteen years. Denser, more efficient, interconnected transport networks will continue to intensify this process. Rampant corruption and the likelihood that increasing legitimate traffic will overwhelm states' capacity to monitor and inspect trans-border movements will further exacerbate transnational threats along new RRCs. For instance, journalists report that small traders crossing the Burma-Chinese border squeezed for cash are sometimes delayed for days while trucks owned by organized criminals are waved through after cursory inspections (with the collusion of Burmese border forces, Chinese businessmen and provincial officials).

In the 1980s smuggling routes began diversifying and multiplying with the use of the Burma road as an important trafficking corridor. In the 1990s a Burma-Northeast India pathway emerged while new routes through Thailand, Laos, Cambodia, and Vietnam to China and beyond have recently opened. China is now the main transit conduit for Burmese heroin, an important heroin user nation, and a precursor chemical supplier. Between 1999 and 2003, Yunnan drug police arrested 32,926 suspects and confiscated 42.1 tons of heroin. Chinese officials acknowledge that transportation is a major vulnerability; anti-trafficking efforts on roads, waterways and railroads plus border control are major priorities for 2003. Roads and truck stops are major conduits for drug smuggling and prostitution and hence diffusion of intravenous drug use, trafficked women, and HIV/AIDS, especially in India, China, and Burma. Improved RRCs will likely deepen Asia's looming HIV/AIDS crisis. RRCs may also help speed diffusion of emerging infectious diseases. Severe acute respiratory syndrome (SARS) will not be the last or worst infection to strike the region.

Historically, integration has presented China with transnational challenges both as it extended its hegemony and toward the end of its dynasties. During the early fifteenth to mid-sixteenth centuries, China-Japan trade expanded under the guise of tribute, yet Japanese pirates increasingly raided southeastern China. Foreign penetration—and what we now call transnational or non-traditional threats, such as opium, drought, terrorism (Muslim separatists, Taipings, Boxers) and infectious disease (plague)—combined to hasten the end of the Manchu Dynasty.

China's location in the center of growing land transport webs makes it especially vulnerable to transnational threats. According to Zhou Yongkang, director of China's Narcotics Control Commission, the "... harm which illegal drugs cause to society is becoming more severe all the time [impacting] development, crime, social stability, and public order." Failure to respond effectively and transparently to these threats will undermine internal stability, destabilize neighboring states, and erode international confidence in China. Beijing's reluctance to admit to its HIV/AIDS problem and its initially inept, evasive approach to the SARS epidemic have damaged its international credibility. Meanwhile, a torrent of illegal Chinese immigrants seeking land fans ethnic tensions in northeastern Burma (some estimates suggest more than twenty thousand Chinese per year were settling in Mandalay, facilitated by corruption and identity fraud, during the early to mid-1990s) and reinforces Burmese suspicion of Chinese intentions.

Common threats also create opportunities for greater regional security cooperation and for China to exert leadership. The Shanghai Cooperation Organization (whose secretariat will be located in Beijing) is a notable example. Bilateral and multilateral cooperation to combat transnational threats is increasing regionally.

For instance, the Yunnan Police has signed drug enforcement MOUs with Burmese, Vietnamese, Laotian, and Thai counterparts. China and ASEAN agreed to establish a special fund and develop a cooperative framework to combat SARS. India and Burma reached a counterdrug agreement in September 2002. In 2001, China sponsored a ministerial-level drug enforcement meeting with Burma, Laos, Thailand, and Vietnam.

## IMPLICATIONS FOR THE UNITED STATES

U.S. policymakers should not overreact to RRC developments because despite recent improvements and initiatives it is, at this time, far from certain that many of the ongoing and proposed RRC developments will live up to expectations. In the short term the most significant impacts will be at the local, not strategic level. Truck drivers will have better roads, many communities will be integrated into national and regional economies, and tourists (and drugs and diseases) will spread further afield more easily. In the long run, slowly but surely as geography asserts itself, road and rail infrastructure and integration will improve and the region's land transport system should continue to grow in capacity and integration. This will allow time for careful and judicious policy responses.

Containment or attempting to prevent RRC development is not a sustainable or feasible policy option. Since RRC development poses benefits to numerous states, any interference would likely sour relations with states well or neutrally disposed to the United States while exacerbating tensions with others. On the other hand, RRC developments offer several opportunities for the United States. First, RRC development and related infrastructure projects provide business opportunities for U.S. firms. U.S. engagement in RRC development would provide opportunities to increase its own influence in the region. Second, the United States and allies such as Japan will also gain from the creation of alternatives to narrow SLOCs. Third, the United States has a common interest with China, India, and ASEAN in minimizing transnational threats (particularly the movement of terrorists and drugs) across RRCs. This provides openings for promoting confidence building and bilateral and multilateral security assistance and cooperation. Fourth, economic development facilitated by RRCs may (in the long term) help to reduce transnational threats such as terrorism, drug trafficking, and the emergence of infectious disease. Fifth, as China becomes economically and culturally linked with the international community, internal pressure and rationale for political change consistent with free markets and global economic interdependence will increase. Thus, the United States should support—if not actively assist in—RRC development in Southeast Asia while seeking cooperative ways to minimize potential related negative transnational impacts.

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### Asia-Pacific Center for Security Studies

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949  
tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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## Asia-Pacific Center for Security Studies



SPECIAL ASSESSMENT

DECEMBER 2003

### Asia's China Debate

Anthony L. Smith is a Senior Research Fellow in the Research Division of the Asia-Pacific Center for Security Studies who focuses on Southeast Asia. His most recent co-edited volume is *Governance in Indonesia: Challenges Facing the Megawati Presidency* (2003).

# Banking on a Constructive China: Australia's China Debate

ANTHONY L. SMITH

## Executive Summary

- China is probably less controversial and provokes less heated discussion in Australia now than at any time since the Chinese Revolution in 1949. This is due to the establishment of a bilateral dialogue to handle diplomatic, military and economic issues, the perception of China as both an emerging market economy and a responsible player in the Asia-Pacific, and the post-September 11 improvement in U.S.-China relations.
- U.S. policies vis-à-vis China are a major driver of Australia's debate about China. Australia has consistently made it clear that the United States remains the key to its security, and that Canberra finds U.S. hegemony in the Asia-Pacific desirable. Yet Australia has tried to carefully manage its substantial diplomatic and economic links with the People's Republic of China (PRC) even during low points in the China-U.S. relationship.
- Other drivers in Australia's debate about China include human rights, especially in Tibet, and the best way to handle human rights differences in the overall bilateral relationship, as well as rapidly expanding economic ties. Within Australia, the link between human rights and economic objectives has been a controversial aspect of the debate about China. In 1997 the Howard government agreed to withdraw from an annual UN censure of China on human rights issues and instead conduct a bilateral dialogue with China—including human rights.
- Australia's debate about China is also driven by the view that China is a critical player in helping to settle some of the instability problems in the Asia-Pacific, from the Korean Peninsula to South China Sea disputes to non-proliferation. China even supported at the UN Security Council level the Australian-led intervention in East Timor in 1999.
- Australia's debate about China does encompass concerns. In particular, China's position regarding Taiwan—another important trading partner for Australia—is a source of worry, and cross-Strait relations are mentioned in recent government documents as having the potential for mismanagement.



## THE IMPACT OF THE PAST

The issue of China is probably less controversial and provokes less heated discussion in Australia now than at any time since the Chinese Revolution in 1949. There are three reasons for this: (1) since the establishment of the 1997 bilateral dialogue to address an array of diplomatic, military and economic issues, the relationship with China has reached its zenith; (2) the overall direction of China, as both an emerging market economy and a responsible player in the Asia-Pacific—at least in the eyes of most Australian officials and commentators—and; (3) the post-September 11 environment in which U.S.-China relations have improved.

It is also the case that since diplomatic relations were normalized in 1972, a large degree of bipartisanship concerning the approach to China has emerged between the two major political factions (Labor and Liberal-National), although how to handle China has been the subject of rhetorical debate from time to time. Nonetheless, key policy shifts in the past have achieved bipartisan accord and survived changes of government.

When Gough Whitlam's Labor government established relations with the PRC in 1972, the move enjoyed multi-partisan support across the Australian political spectrum. Many have claimed this moment as one of "independence" from U.S. foreign policy, and the left wing of the Labor Party (including Whitlam himself) had wanted to recognize Beijing for a number of years. Yet this decision was not as "independent" from wider developments in U.S. foreign policy as many Australian commentators have claimed. In fact, pro-U.S. conservatives, including the main opposition party, who were aware that the Nixon administration was attempting to enlist China's help in the containment of the Soviet Union, also supported the decision. By the early 1970s, China had ceased to be regarded as the threat that many had perceived in the 1950s, when Australia and its allies had made military preparations for a potential People's Liberation Army (PLA) incursion into Southeast Asia—a fear that occupied the South-East Asia Treaty Organization (1954) signatories for a time.

While the Australia-China relationship has had its ups and downs, there is little doubt that relations between the two countries have entered their most productive phase since the establishment of the 1997 bilateral dialogue. After the massacre at Tiananmen Square in June 1989, Australia suspended economic relations for two years and engaged in the annual UN debate about human rights conditions in China. Relations between Canberra and Beijing dramatically improved in 1997 when Australia opted to establish a bilateral human rights dialogue in return for Australia dropping its support for annual moves in the United Nations to censure China over its human rights record. (The United States continued with the UN process.) The Howard administration argued that moving to a bilateral dialogue would improve relations while giving Australia more influence. This decision, which Senator Bob Brown (Green Party) labeled "unacceptable" and "a farce," has paid off handsomely for Australia in diplomatic and economic terms. The Australian Labor Party—as the leading opposition party—opposed the dialogue initially, but party conferences have now endorsed the process. The current dialogue is set to continue and will survive changes in government.

There have been a number of high level visits since the bilateral dialogue was established, including the first ever visit by a Chinese head of state—Jiang Zemin

in September 1999. Military-to-military relations, including a regular security dialogue, have also taken place since 1997. There have also been regular exchanges of defense officials and the resumption of naval ship visits. The visit that *most* highlights the warmth of the Australia-China relationship was when Chinese President Hu Jintao addressed the Australian Parliament on 24 October 2003. Not only was this the first time an Asian leader had addressed the Australian House of Representatives, but it also came one day after a similar address by American President George W. Bush. In Hu's speech he referred to China wanting to be Australia's "long-term partner." The address received a standing ovation from the representatives on both sides of the House—the handful of maverick Members of Parliament (MPs) who had planned to disrupt the proceedings was barred from Parliament for disrupting Bush's speech the day before.

The overriding theme of Australia's approach to China is to remain on good terms with the PRC, while at the same time making it clear that Australia remains America's "unsinkable aircraft carrier" and major alliance partner in the region. Successive Australian governments have made no secret of the fact that they prefer an Asia-Pacific where the United States is pre-eminent, but Australia equally realizes that it has little role to play in China-U.S. relations.

How to deal with China plugs into a wider debate in Australia—a debate that is largely semantic—about the nature and extent of Australia's engagement with Asia. While former Prime Minister Paul Keating called Australia an "Asian country," his successor, John Howard, has been accused of focusing more on "traditional" allies—namely the United States. Much of this debate assumes that relations with Asia and the United States are mutually exclusive. While this cannot possibly be the case with regards to America's key allies in East Asia, Australia has had to carefully manage its foreign policy vis-à-vis China. This may be the one relationship Australia could potentially upset if it is deemed by Beijing to be drawing too close to Washington in the event of strategic competition between the United States and China in the future.

## THE RECENT DEBATE OVER CHINA

**D**espite a subdued China "debate" among Australia's pundits, there are evident stakeholders. The Department of Foreign Affairs and Trade obviously works toward constructive relations with China, while the Department of Defence has a different focus in planning for contingencies—and fears remain of China's involvement in future regional crises. The business lobby, including the influential Australia-China Council, has argued for regarding China as an opportunity, while academic commentators overwhelmingly downplay China as any kind of threat. The human rights lobby has also entered the debate—the key players being the Green Party and the Trade Unions. Human rights concerns, not high on official considerations of the China policy, have made an impact on the debate.

In Australian national elections in 2001, the main political parties expressed nuanced differences regarding China. Incumbent Prime Minister John Howard emphasized that relations with China were at their zenith under his tenure. The Liberal Party platform spoke of supporting China's "integration into the world community." Howard maintained his promise of the previous election that human rights issues would still be raised, but on a bilateral basis. Labor, reflecting the

concerns of its membership, tends to emphasize human rights concerns more than the Liberal–National Coalition government; in office there has been little difference from the Liberal Party in how it engages China.

All the political parties recognize that the people of Tibet have a unique culture and identity and that Tibet was an independent nation prior to 1949. Labor has publicly called on China to improve human rights, as well as bring in international investigators and foreign journalists, and to cease population transfers into Tibet. The Labor Party has urged the PRC to consider the Dalai Lama's proposed solution of autonomy within China. Of the two main parties, it is the Labor party rank and file that has traditionally pushed Tibet onto its party's agenda. Many resolutions have been passed at national conferences—as well as at lower levels—of the Labor Party. Tibet has been second only to East Timor in terms of grassroots support for its plight.

Accusations of the Government of Australia's silence on human rights issues in China have emerged during the Dalai Lama's visits to Australia—including one in mid-2002 around the time when Australia was negotiating a major liquefied natural gas (LNG) deal with China. The Dalai Lama, on this particular trip, was able to meet with members of the Greens, the Democrats, backbench MPs from the Labor and Liberal parties, and the opposition spokesman for foreign affairs (from Labor), but was not met by any serving ministers from the Australian government. Australia's trade unions have also voiced their criticism of China's human rights record, supporting striking Chinese workers (many of whom have been arrested) and Hong Kong trade unions over the introduction of anti-subversion laws. Yet all evidence points to this having a marginal impact. Only fifty demonstrators protested outside President Hu's address to the Australian parliament—far less than the turnout for President Bush.

While the Howard administration is frequently chastised for not doing enough about human rights, this issue remains a subject of discussion and is openly mentioned in Australian official documents. The current Australian government claims to continue to raise the issue of Tibet and the lack of religious freedoms in China as a whole. But it is obvious that the Australian government feels the imperative to tread softly on human rights when other issues are at stake, especially economic linkages.

Australia's trade with China is growing rapidly and cannot be overlooked in discussions on the PRC. Total two-way trade with China for FY 2002 was A\$22.5 billion, making it Australia's fourth-largest trading partner (albeit imbalanced—with China chalking up a A\$5 billion surplus in 2002), coming in behind the United States, Japan and South Korea. Australian exports to China are, in order of importance, iron ore, wool, crude petroleum, coal and aluminum. While bulk commodities form the backbone of this trade, high-technology manufacturing and the service sector are growth areas in Australian exports. Australia is also increasingly a popular destination for Chinese tourists and China is now the single largest source of foreign students. Australia imports from China clothing, computers, toys, sporting goods, footwear and telecommunications equipment. As China now completely dominates the market share in clothing, this industry—and others operating in labor-intensive manufacturing industries now threatened by Chinese imports—is unlikely to be sanguine about its prospects. The Australian Council of Trade Unions (ACTU) has reacted to manufacturing trade with China, arguing

that there is not a level playing field for Australian industry. The ACTU has criticized the Australian government for not paying attention to China's ban on trade unions and the inadequate conditions of Chinese workers that unfairly discriminate against Australian industries and workers.

Investment lags behind the rapidly improving trade returns, with Chinese investments in Australia at almost A\$3 billion by 2002, and Australian investment in the PRC at A\$1.5 billion.

But none of this has dampened the spirits of Australian officials. It is not just the total volume of trade, but also the enormous economic potential of the Chinese market that has Australian diplomats and the bulk of the Australian business community in an upbeat mood about what it means for Australia's economic future. Australia's economy is largely complementary to that of China's, and since FY 2000, trade has nearly doubled in size. Australia also picked up a major windfall with the announcement of a A\$25 billion LNG contract to Guangdong Province. Critics from minor parties have alleged that Australia has sold out on human rights concerns in order to capitalize on this and other economic deals. (Hong Kong, for trade statistics purposes, is not included in the figures above but is Australia's ninth-largest trading partner with A\$5.4 billion in two-way trade in FY 2001.)

One of Australia's most important businessmen, Rupert Murdoch, chairman of News Corporation, has been accused by many Australian commentators of drawing close to the Chinese government to gain access to China's emerging market. Murdoch controversially dropped BBC coverage in 1994 from his Asian Star satellite television feed after it was critical of China's leadership and ordered his subsidiary publisher, HarperCollins, to drop plans to publish the memoirs of Chris Patten, a former British appointed Hong Kong governor. Murdoch angered human rights activists in 1999 when he dismissed the Dalai Lama as "a very political old monk shuffling around in Gucci shoes" and pre-invasion Tibet as an "authoritarian medieval society."

Murdoch's views are perhaps extreme, but they are probably the only actions—or words—by an Australian businessman to elicit strong public debate. In a sense, Murdoch's sentiments are indicative of the fact that much of the Australian business community wants stability in the relationship with China. While many, or most, would not so openly support the Chinese government or its policies, few would want Australia to jeopardize the economic relationship through concern over Tibet or excessive lecturing on the human rights problem—not that any of this is on the horizon for the current Howard administration.

## THE OUTCOMES

Since the establishment of diplomatic relations with the PRC in 1972—or Australia's switch in recognition from Taipei to Beijing—there has been no debate in Australia about the One China policy; nor has the decision to recognize the PRC ever been criticized. Successive Australian governments have taken care to emphasize that the PRC is the "sole legal government of China." Trade relations with Taiwan (at a respectable A\$8 billion in FY 2002), as well as other economic linkages, are still highly prized, but contact with the Republic of China is done in a manner "consistent with a One China policy." Tibet remains a prominent issue

for some smaller Australian political parties and some backbench MPs in major parties, but the stress has been on an improvement of human rights, while advocacy of full independence for Tibet remains the domain of a handful of small non-governmental organizations (NGOs).

The Howard government's response to China's intimidation of Taiwan has, however, been in accordance with the U.S. response. In March 1996, Howard publicly condemned China's attempts to bully Taiwan ahead of its presidential elections and supported the dispatch of U.S. aircraft carriers in response to China's missile tests. China protested the passage of Australian warships through the Taiwan Strait, as China holds a different interpretation of the Law of the Sea. Australia, arguing it had the international right of passage, was, nonetheless, making a show of solidarity with Taiwan (and, by extension, with the United States)—but in no way supports independence for Taiwan. Naked threats against Taiwan in the future would elicit renewed concern by Australia.

Another source of bilateral tension has been over non-proliferation. In fact, Australia has publicly condemned China's role in the proliferation of nuclear materials. Australia's growing concern over North Korea has also led Australia to urge that China play a leading role in defusing the situation. For its part, China has been alarmed by Australia's stance on the National Missile Defense (NMD). The Howard administration has not only supported the development of Bush's NMD but also expressed interest in purchasing its own system. The interest of the Howard administration reflects growing concerns over nuclear proliferation in Asia—notably the alarming situation on the Korean Peninsula—and is not primarily aimed at China.

Dovetailing with Australia's debate about China has been a discussion about the direction of Australia's defense policy. Paul Dibb, who penned the 1987 White Paper entitled *The Defence of Australia*, advocated that Australia develop its own domestic resilience to deal with threats emanating from, or through, Indonesia, which might potentially threaten the "sea-air gap" to the north of Australia. Other analysts, such as Alan Dupont, have emphasized the importance of operational ties with allies, particularly the United States, to confront an array of threats likely to challenge Australian interests at home and abroad (especially after September 11 and the Bali blast). As Paul Monk argues, the Dibb hypothesis overlooks that currently China (or Indonesia for that matter) has neither the capacity nor the will to act aggressively toward Australia. Any threat to Australia, to paraphrase Monk, would be telegraphed well in advance, presumably with either a breakdown of China's regime or a massive military buildup, and thwarting China would require U.S. assistance in any event.

The Australian Department of Defence's recently released White Paper entitled *Australia's National Security: A Defence Update (2003)* notes the dramatically improved China-U.S. relationship, but warns that competition between the two will continue over the next decade, while the possibility of "miscalculation" persists over Taiwan. Although the report notes the problems that the economic rise of China poses for the Asia-Pacific, it also concludes that "the consequences for regional stability could be greater if growth stalled or there was social breakdown within China." Even though China's economic rise will be a mixed blessing for Australian business (largely an opportunity, but with some costs),

Australia's strategic point of view outweighs this consideration as Australia fears even more a collapse, or weakening, of China.

A counterpart document from the Department of Foreign Affairs and Trade (DFAT), *Advancing the National Interest: Australia's Foreign and Trade Policy White Paper (2003)*, mirrors closely the sentiments in the *Defence Update*. It makes plain that the future of Australia rests in its alliance with the United States, and that U.S. dominance in the Asia-Pacific is both a welcome development and likely to last into the foreseeable future. The report also notes that the other great powers of the Asia-Pacific—China, Russia, India, Europe and Japan—are “all focused more on their economic and strategic relationships with the United States than on contentious issues that remain between them.” However, China's growing power and influence cannot go unnoticed: “... China's growing economic, political and strategic weight is the single most important trend in the region.” Therefore, Australia has an important objective in strengthening its partnership with China. Key areas of interest, outside mutual economic gain, are China's membership in the World Trade Organization (WTO), China's support for the war on terrorism, and China's overall (growing) influence within the Asian region. The report does make mention of human rights and proliferation concerns as areas of future discussion, but clearly these contentious issues will be dealt with under the framework of “engagement.”

The outcome of the China debate in Australia has been for the government to steer a pragmatic course between the “China as threat” and the “China as benign power” schools of thought. Australia now places great hope in binding China to formal multilateral arrangements and, perhaps more importantly, the interdependency of the international marketplace (which has historically reinforced the behavior of enlightened self-interest).

In the post-September 11 environment it seems that Australian pundits are more sanguine about China and its emergence, yet there is clearly an uncomfortable element to all of this. Fundamentally Australia is happier to reside in a Pacific Ocean presided over by American military power. China, on the other hand, grudgingly accepts this situation for the time being but has aspirations of regional and global leadership. As the official documents reveal, Australia highly values its military, diplomatic and economic linkages with China but remains reserved about some of the existing tensions that remain in Northeast Asia—tensions in which China may yet play a role that Australia finds unpalatable. Australia places great hopes in China, in terms of the region's economic and strategic stability, and hopes, in particular, that China will continue to play a constructive role in defusing the North Korean nuclear crisis—an issue that resonates more with the Australian public than do the events in the Middle East.

## IMPLICATIONS FOR U.S. FOREIGN POLICY

Australia's increasingly close-knit relationship with China should in no way be construed as a threat to U.S. interests—on the contrary, it is precisely this kind of interdependency that Washington ought to applaud. In particular, the emerging Australia-China economic partnership will be an important component in linking the PRC to the world's marketplace. Equally, there can be no question that in the event of a crisis, or the re-emergence of strategic competition between

China and the United States, Australia will either be sympathetic to the United States or openly take the U.S. side. That said, Australia is clearly loath to make these types of choices, and while it values its alliance with the United States above all other relationships, a healthy relationship with China is wholly desirable from Canberra's standpoint. In some senses, this may impede the types of support Canberra is willing to offer.

Together, Australia and New Zealand have played the dominant role in maintaining stability in the South Pacific. Throughout the Cold War, Australia was instrumental in ensuring that the South Pacific remain both free of superpower competition, and a pro-Western "lake" of conservative regimes. China is now paying closer attention to the Pacific Island Countries (PICs), and this could emerge as an area of competition if there is wider strategic competition between China and the United States. Although Chinese aid, for example, is a welcome supplement to the incomes of PICs—often extracted when South Pacific states play a double game with Beijing and Taipei—Australia may have a critical role to play in ensuring that the South Pacific remains a pro-Western lake in the future. Australia's enhanced role in the South Pacific, in the aftermath of the Solomon Islands crisis, is in part motivated to avoid the possible meddling of outside powers.

The views expressed in this publication are those of the author(s) and do not necessarily reflect the official policy or position of APCSS, U.S. Pacific Command, the U.S. Department of Defense, or the U.S. Government.

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**Asia-Pacific Center for Security Studies**

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949

tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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## Asia-Pacific Center for Security Studies



**SPECIAL ASSESSMENT**

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### Asia's China Debate

Mohan Malik is Professor of Security Studies at the Asia-Pacific Center for Security Studies in Honolulu. He obtained his Ph.D. from the Australian National University, M.Phil. from Delhi University and Diploma in Chinese language from Beijing University. He has lectured and published widely on Asia-Pacific security issues.

# Eyeing the Dragon: India's China Debate

M O H A N M A L I K

## Executive Summary

- Just as the Indian sub-continental plate constantly rubs and pushes against the Eurasian tectonic plate and causes friction and volatility in the entire Himalayan mountain range, India's relations with China also remain volatile and friction-ridden because of past experience, war, territorial disputes, unparallel interests, conflicting worldviews and divergent geopolitical interests.
- Today India and China are engaged in a competition for supremacy in overlapping areas of influence in Asia.
- The key players in India's debate about China are the Prime Minister's Office, the military and intelligence community, the Ministry of External Affairs, political parties, and business lobbies.
- The Indian government's current approach signals a shift from confrontation to cooperation. New Delhi prefers to steer a pragmatic course ("balanced engagement") between the "concirclement" ("China as threat") and appeasement ("China as benign power") schools of thought.
- Simultaneously, India's evolving Asia policy reflects a desire to build an arc of strategic partnerships with the United States and "China-wary" Asian countries, which would neutralize continuing Chinese military assistance and activity around India.
- India prefers a U.S.-led unipolar world to a China-dominated Asia—but ultimately seeks a multipolar world with itself as a constituent pole. New Delhi also has a degree of interest in U.S.-China competition because it makes India the object of courtship and wooing by both the United States and China. The chances of an India-China united front (or Russia-China-India axis) against the United States are nil.



## THE BURDEN OF HISTORY

India and China coexisted peacefully for millennia—mainly because the mighty Himalayas separated the two empires. However, as post-colonial nation-states, with the exception of a very short period of bonhomie (the “*Hindi-Chini bhai bhai*” era) in the early 1950s, relations have been marked by conflict, mutual suspicion, distrust, estrangement, encirclement, containment and rivalry.

The Chinese occupation of Tibet in 1950 brought the two nations in close physical contact for the first time, culminating in Chinese victory during an armed clash in 1962 over disputed boundaries. In 1988, one year after China and India came close to fighting another war, relations began to warm after a Deng Xiaoping-Rajiv Gandhi handshake. Relations weathered another serious downturn over India’s 1998 nuclear tests when the Indian government cited the “China threat” as the main reason for going nuclear. Agreements on maintaining peace and tranquillity were signed in 1993 and 1996, but talks over the last twenty-three years have failed to resolve the border dispute. Today, Beijing’s nuclear and missile assistance to Pakistan overshadows the territorial dispute. Nor has China lost its geopolitical motivations to prop up South Asia’s smaller states against India. Beijing has its own India concerns, for example, India’s hosting of the Tibetan-government-in-exile. China has recently elevated its ties with Burma, Bangladesh, Nepal and the Maldives both to counter India’s “Look East” policy—which is bringing Indian economic and military interests into China’s claimed sphere of influence in Southeast and East Asia—and to gain access to naval bases in the Indian Ocean.

Since 1998, a number of measures to strengthen trade, political and military ties between the world’s two most populous nations have been taken. A regular security dialogue has been initiated and the Indian and Chinese navies conducted their first naval exercise in November 2003. Despite a dramatic increase in bilateral exchanges, the burden of history still weighs heavily on India’s policy-making elite, and India-China relations remain poor.

## PRINCIPAL DRIVERS IN INDIA’S CHINA DEBATE

In India’s policy circles and media, the debate over the China threat is more active than at any time since the 1962 Sino-Indian War. Though bitterness over the war lingers, the principal driver shaping India’s policies and attitudes toward China is the territorial dispute. Other factors that contribute to the fractious relationship include power asymmetry; Beijing’s military alliances with Pakistan and Burma; Beijing’s support to insurgents in northeastern India; nuclear proliferation and terrorism issues; differences over the status of Tibet, Kashmir and Sikkim; multipolarity and China’s opposition to an Indian permanent seat in the UN Security Council; Chinese encroachments into what India sees as its “sphere of influence,” as evident in Beijing’s plans for a naval presence in the Indian Ocean; and India’s counter-moves to establish closer strategic ties with “China-wary nations” (such as Tajikistan, Kyrgyzstan, Mongolia, Japan, Vietnam, Taiwan, the Philippines, Indonesia and Australia), and with the sole superpower, the United States.

Furthermore, the traditional India-China rivalry is augmented by China’s groundwork for a naval presence along maritime chokepoints in the South China Sea, the Malacca Straits, the Indian Ocean and the Strait of Hormuz in the Persian

Gulf to protect its long-term economic security interests. India has countered by improving military relations with Iran, Oman, and Israel in the west while upgrading military ties with Burma, Singapore, Vietnam, Taiwan, Japan and the United States in the east. Both India and China remain suspicious of each other's intentions and are attempting to fill any perceived power vacuum or block the other from doing so.

Indian and Chinese economies are competitive rather than complementary. Both look to the West and Japan for advanced technology, machinery, capital and investment. China has long regarded India as a large potential market and has shown interest in India's information technology (IT) prowess. But Indians see China as a trade predator and fear being left behind China's robust growth rates. Over the last twenty years, China's gross domestic product (GDP) has grown at about 10 percent a year, compared with India's 6 percent growth rate.

On the positive side, India and China have begun to allow trade and investment and promote people-to-people contact. Bilateral trade flows are rising rapidly (from a paltry \$350 million in 1993 to nearly \$7 billion in 2003) and could touch \$10 billion in 2004 and double again by 2010. In 1994, India displaced Pakistan to become China's largest trading partner in South Asia, and in 2003 China displaced Japan as India's largest trading partner in East Asia. The rapidly expanding bilateral engagement provides a different template for addressing the boundary dispute. The relative weight of economic factors vis-à-vis military security concerns is increasing. Both India and China desire a peaceful security environment and comprehensive national strength underpinned by a solid economic-technological base.

Nonetheless, the forces impelling India and China toward suspicion and competition are powerful and deeply rooted in domestic political systems, competing interests, and historical positioning in the international system. Competitive tendencies rooted in geopolitics cannot be easily offset or overcome, even by growing economic links. Both countries suffer from mutual distrust and a siege mentality borne out of Indian and Chinese elites' acute consciousness of the fissiparous tendencies that make their countries' present political unity so fragile.

China is a reference point for India's economic, security and diplomatic policies, and India's strategic planners have always emphasized the need to keep up militarily with China. Both countries are non-*status-quoist* powers: China in terms of *territory*, power and influence; India in terms of *status*, power and influence. The fact that China has advanced further than India in achieving its goals largely explains the competitive relationship between India and China. Their self-images as centers of civilization and culture continue to drive them to support different countries and causes. The combination of internal uncertainties and external overlapping spheres of influence forestall the chances for a genuine Sino-Indian rapprochement.

## INTERESTS AND AGENDAS OF STAKEHOLDERS AND ACTORS

India's major stakeholders regarding China are the Prime Minister's Office (PMO), the military and intelligence community and the Ministry of Defense (MOD), the Ministry of External Affairs (MEA), political parties, academia, and the hitherto non-existent but increasingly influential business lobby. Political (and increasingly, economic) considerations prevail over the cautious assessments of the national security bureaucracy, as evidenced during Prime Minister Vajpayee's China visit in June 2003.

There are also sharp differences of opinion on China within the policy establishment. The MEA oscillates between the official political line and its own instincts, which are to mistrust China. The MOD favors a hawkish policy vis-à-vis China, recognizing that the People's Liberation Army (PLA) remains a bastion of anti-Indian sentiment in the Middle Kingdom's ruling apparatus. The military establishment cautions against lowering its guard so as to avoid a repeat of the 1962 defeat. The MOD contends that China's new policy of détente is intended to lull India into a false sense of security. The MOD's 2003 Annual Report noted the nuclear asymmetry between India and China, China's continued close defense ties with Pakistan, and the threat of Chinese nuclear missiles to Indian cities. India's navy chiefs routinely express concern about the Chinese navy's close interaction with Indian Ocean states. Believing that "China respects power and competition, not weakness and cooperation," the intelligence community laments successive governments' attempts to soft-pedal differences with China and favors finding a powerful lever against China (e.g., playing "the Taiwan card" to counter China's "Pakistan card"). The Indian Planning Commission's "Vision 2020" document contends that "India will be growingly threatened by the rising economic and military strength of China," and calls on the leadership to "join regional or global defence pacts."

Since the late 1990s, a degree of bipartisanship has emerged in the approach to China between the Bharatiya Janata Party (BJP) and India's Congress, although how to handle China remains the subject of political point scoring. The BJP-led coalition's attempts since 1999 to improve ties with China have received multi-partisan support across the Indian political spectrum.

The ruling nationalist BJP ardently covets great power status. The BJP was critical of the successive governments for fine-tuning Sino-Indian bilateral relations by playing second fiddle to an assertive China. It was not a coincidence that Sino-Indian relations deteriorated sharply after the BJP-led coalition came to power in 1998. Though the BJP has moved toward more cooperative relations with China, it believes that only a firm policy based on comprehensive strength, strategic alliances and proactive containment of China will force the Chinese to abandon their hostility toward India. Incidentally, the BJP's slogan of "prosperous and powerful country" bears remarkable resemblance to the Chinese Communist Party's (CCP) national goal of "rich country, strong military" (*fuguo qiangbing*).

Since the mid-1990s, the Indian business lobby has also started influencing India's China policy, pushing for closer economic ties. Initially, there were alarmist cries in India Inc. of the Chinese flooding Indians out of their own market through large-scale dumping of Chinese consumer goods. Over time, however, with the trade balance in India's favor, envy and awe have given way to new confidence in both cooperating with and even besting the dragon. Several joint ventures in power generation, consumer goods, chemicals, minerals, mining, transport, IT and telecommunication sectors are in the pipeline.

## ENGAGEMENT, CONCIRCLEMENT AND APPEASEMENT

The chasm in India's China debate divides those who want to proceed on the basis of Beijing's words and those who want policy to be founded on Chinese deeds. The three main views based on this divide are described below.

**Pragmatists: "Engage but Balance China"**

Pragmatists, who represent India's dominant school of thought on China, hold that China is a long-term threat and that the Sino-Pakistan nuclear/missile nexus is of greater immediate concern. Economics should be the key factor in bilateral relations because intensifying trade and commerce would eventually raise the stakes for China in its relationship with India and thus bear on Beijing's ties to Pakistan and the rest of South Asia. A desire for stability on its southwestern flank and fears of an India-U.S. alliance have already caused Beijing to take a more even-handed approach, while still favoring Islamabad. Pragmatists acknowledge the huge gap between China's rhetoric and reality and see the need for robust defenses to guard against future power projection once China reaches the pinnacle of its economic and military power. However, with its current focus on economic progress, China is likely to be a restrained power interested in managing, if not resolving, conflict. Therefore, it is in India's interests to promote peace and tranquility on disputed borders, resolve the border issue realistically and promote cooperation with China on issues of mutual interest.

Pragmatists do not deny that India and China are competitors but believe their aspirations are manageable. Just as the United States and the Soviet Union did not go to war to counter each other's power or spheres of influence, India and China can learn to co-exist with each other's aspirations. The Asia-Pacific region is big enough to accommodate both India and China. Both share common interests in maintaining regional stability (e.g., combating Islamic fundamentalists), exploiting economic opportunities, and maintaining access to energy sources, capital, and markets. On economic, environmental and cultural issues, it is argued that China and India may have far more reason to cooperate than to collide. Besides, cooperation could allow them to balance U.S. influence and increase their negotiating positions with the sole superpower.

Interestingly, the "engage China" school also emphasizes the need to "emulate China." Much like China, India should have a long-term "calculative strategy" that allows accumulation of economic-technological-military power while sidestepping difficult issues. Like China, India should pursue mutual economic dependencies among Asian nations to temper Chinese ambitions and countervail Chinese power. Like China, India too should pursue the goal of achieving the status of an autonomous, self-reliant power in the international system. In short, "India must emulate China to be secure against its neighbour in the decades to come, and more importantly, to manage its relations with other great powers as Beijing does."

This strategy of "balanced engagement" or *interim entente* with China has many takers in official circles, especially with the business lobby rooting for such a path. Even India's defense minister, an avid China baiter, now pursues a chastened moderate tone as a consequence of the official "China policy consensus" since 1999, which lies somewhere between the "balanced engagement" and "concirclement" schools.

**Hyperrealists: "Contain and Encircle China"**

Hyperrealists are China-hawks who view China as a "clear and present danger" to India. They draw attention to the vast gap between Beijing's declaratory and operational policies vis-à-vis India and argue that "China will never be territorially satiated." They maintain that only Indian military power and a containment-

cum-encirclement strategy (or “concirclement of China”) by a ring of Asian powers will hold Beijing in check. India must take the lead in forming an alliance of China-wary countries along China’s periphery. Put simply, “India must do to China what China has done to India,” i.e., containment and encirclement. In the 1950s, China occupied Tibet. In the 1960s, it attacked India and befriended Pakistan. In the 1970s and 1980s, Beijing transformed Pakistan into its surrogate and transferred Chinese nuclear-armed missiles to Pakistan to target Indian cities. In the 1990s, Beijing moved into Burma. Presently, China is wooing Bangladesh and the strategically located Indian Ocean island nation of the Maldives. In addition to arming India’s neighbors, Beijing has also pressured New Delhi by supporting insurgency movements in India’s minority regions. As Defense Minister George Fernandes recently noted, “China has encouraged or endorsed a revisionist agenda on the Indian periphery and this causes deep anxiety—more so when this heightens state-sponsored terrorism.”

While supporting *interim détente*, the concirclement school of thought cautions against rushing into a border settlement with China from a position of weakness. Says one China-watcher:

*India should be buying time. Another decade of strong economic reforms and growing cooperation with the United States could give India the necessary leverage and self-confidence to deal with China. Given the unsustainable contradiction between China’s communist autocracy and market capitalism, time is on India’s side.*

Hyperrealists cannot conceive of friendly relations with Beijing, because given its Middle Kingdom complex and hubris of Han superiority, China will always undercut India militarily or economically. Though still very small and on the margins, the ranks of the concirclement school of thought swelled during the 1990s with the emergence of “baby hawks”—a new generation of young nationalists who oppose any accommodation with China except on equal terms because of what they perceive to be “the second betrayal” (the War of 1962 being the first) of their country by China in the form of Chinese transfers of nuclear-armed missiles to Pakistan and Beijing’s concerted efforts to turn Burma and Bangladesh into China’s surrogates. As Brahma Chellaney contends:

*New Delhi has to engage China on equal terms, which would mean that Beijing could no longer be allowed to one-sidedly pursue a strategy of engagement with containment. Nobody is suggesting India adopt an aggressive posture. But India can surely nuance its position on Tibet and Taiwan to help checkmate Chinese designs and gain leverage.*

Hyperrealists argue it is time for India to take a leaf out of China’s book and counter China’s alliances with “India-wary countries.” New Delhi must take the lead in establishing an anti-China alliance system with Tajikistan, Kyrgyzstan, Mongolia, Japan, Taiwan, Vietnam, the Philippines, Australia, Indonesia, Thailand and Burma. Hyperrealists also favor an Indian naval presence in the South China Sea to counter Chinese naval presence in the Indian Ocean. The PLA’s incursions into Arunachal Pradesh during Prime Minister Vajpayee’s June 2003 China visit and his failure to wrest Chinese recognition of Sikkim as Indian

territory in return for India's concessions on Tibet emboldened the hyperrealists to demand upgrading of ties with Taiwan to "force moderation in China's position vis-à-vis India." As one commentary noted:

*The more you give, the more it takes. China only understands competition....Philosophically, India is more attuned to Taiwan than China, and they have complementary strengths. Taiwan has huge capital and high-tech in IT, electronics...while India has cheap labour, top professionals, and a massive market. A little friendliness to Taiwan will rattle China, and that is not a bad beginning.*

Hyperrealists decry pragmatists' belief in "trade over security" as irrational. They ridicule the notion of joint Sino-Indian management of Asian security as illusion. They note that growing India-China interaction has not made Beijing abandon its "contain India" policy. Hyperrealists believe that India and China are likely to come into conflict as their capabilities, ambitions and influence grow. Therefore, India needs to ensure that the overall military balance of power does not tilt in China's favor, especially in air, naval, nuclear and space capabilities.

For hyperrealists, an anti-China alliance with the United States is welcome in the near term, but over the long term India must emerge as the linchpin of a new alliance system, stretching from Turkey and Israel in the west to Taiwan and Japan in the east, to combat the twin threats of the twenty-first century: Chinese expansionism and Islamic fundamentalism. In short, hyperrealists prefer a down-to-earth, result-oriented, business-like balance-of-power-based concirclement strategy toward China.

### **Appeasers: "China Is No Threat"**

India's pro-China lobby (consisting of Communists, left-leaning academics, journalists, pacifists, anti-nuclear, anti-U.S. elements and idealists) has historically exercised far greater influence on policymaking than their small numbers would warrant. Appeasers support whatever China says and does 100 percent. To them, China is not an irredentist, aggressive power that threatens or bullies its neighbors. Rather, China is a developing country seeking to improve the lives of its billion-plus people, much like India. The problem, in their view, is India, not China.

China apologists have a ready explanation to justify any Chinese action. The War of 1962 is attributed to New Delhi's own mistakes and the Cold War dynamics. The border dispute is of India's making, and the key to building a durable India-China partnership is to "de-territorialize their bilateral relations." They mouth platitudes and maintain that China and India share the same perspective on the need for a stronger UN, a multipolar world, WTO and other issues. To end the U.S. hegemony, appeasers want India to think what it can do to make China strong and powerful, not what China can do for India. They hold that engagement with China will modify Chinese policies more than concirclement. They support minimalist and non-provocative defense and favor constructing a bilateral relationship based on common security concerns. Appeasers were very critical of the Vajpayee government's citing of the China threat to justify nuclear tests in 1998 but have since supported the general thrust of Vajpayee's non-confrontational diplomacy with China.

Of the three schools of thought, most mainstream Indian strategic analysts share some hyperrealist positions to some extent. For both pragmatists and hyperrealists, the adage "Do unto others as you would have them do unto you" provides

a solid foundation for Sino-Indian amity. The bottom line of India's China debate thus tends more toward the China-skeptic position. Overall, the Indian government's approach has been to steer a pragmatic course ("balanced engagement") between the hyperrealist ("China as threat") and appeasement ("China as benign power") schools of thought.

## IMPLICATIONS FOR U.S. FOREIGN POLICY

**W**hile India and China may share similar international goals, India foresees a longer term potential for China to impinge on its strategic interests as their spheres of influence overlap in Asia. Acknowledging this reality of this competition, India and China have taken measures to stabilize their relationship so as to move away from confrontation and conflict mode. Interestingly, both are courting the United States to help balance the relationship until they are strong enough to do so on their own. Chances of an India-China united front (or Russia-China-India axis) against the United States are nil because both countries value their ties with the United States more than with each other.

Notwithstanding India's desire to remain an independent power, which sometimes results in India's taking policy decisions contrary to the United States (e.g., on Iraq), India prefers a U.S.-led unipolar world to a China-dominated Asia. New Delhi sees the U.S. military presence as a factor of stability in Asia and has also been an enthusiastic supporter of the U.S. missile defense plan. New Delhi also has an interest in the growing U.S.-China competition as it makes India the object of courtship and wooing by both the United States and China. At a minimum, New Delhi would use its strategic ties with Washington to bolster its position in dealing with Beijing.

India is taking counter-measures to balance China's growing economic and military power by increasing its defense spending and by forging closer military ties with "China-wary countries" in Asia. Some Indian strategic thinkers even see in the emerging U.S.-India quasi-alliance an opportunity for "payback" to China for Beijing's alignment with Washington from 1971 to 1989. India also welcomes a greater Japanese role in maintaining Asian security. The growing *entente cordiale* between India and Japan is based on the understanding that united they contain China and divided they are contained by China and its allies. As India comes under strategic pressure from China, it will play the Taiwan card, which will have implications for the U.S.-China ties. That the India-China rivalry in Southeast Asia has now effectively replaced the Sino-Soviet rivalry of the Cold War era became evident in November 2002 when India offered to set up a Free Trade Area (FTA) with ASEAN one day after the signing of a China-ASEAN FTA in Phnom Penh. In the short term, India and China will jockey for economic and political influence in the region. In the long term, neither Indian nor Chinese defense planners can rule out the possibility of a renewed confrontation either over their disputed frontiers, Tibet, Burma or over a naval incident in the Indian Ocean or the South China Sea.

The views expressed in this publication are those of the author(s) and do not necessarily reflect the official policy or position of APCSS, U.S. Pacific Command, the U.S. Department of Defense, or the U.S. Government.

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### Asia-Pacific Center for Security Studies

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949  
tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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## Asia-Pacific Center for Security Studies



SPECIAL ASSESSMENT

DECEMBER 2003

### Asia's China Debate

Anthony L. Smith is a Senior Research Fellow in the Research Division of the Asia-Pacific Center for Security Studies who focuses on Southeast Asia. His most recent co-edited volume is *Governance in Indonesia: Challenges Facing the Megawati Presidency* (2003).

# From Latent Threat to Possible Partner: Indonesia's China Debate

ANTHONY L. SMITH

## Executive Summary

- China has played a major—and at times controversial—role in Indonesia's post-independence history. While founding President Sukarno viewed China as a role model, the emerging power of Indonesia's Communist Party (PKI) greatly alarmed the military. Following Soeharto's emergence to power after 1965, China and domestic communists were viewed as the principal threats to Indonesia's cohesion. Indonesia's civilian and military elite, obsessed by fears of national disunity, refused, from 1967 to 1990, to engage in normalized relations with China on the grounds that the People's Republic of China (PRC) had fostered internal rebellion and remained a military threat.
- Since the 1980s a debate has been waged in Indonesia between the military (TNI) and the Department of Foreign Affairs (Deplu). The TNI, which viewed China as a threat, urged Soeharto not to restore the relationship, while Deplu argued that failure to normalize would hold Indonesia back diplomatically and economically. Deplu won the debate, but Indonesia's military establishment is still wary of an emerging China.
- China's growing economic power poses an immense challenge for Indonesia's growth. Currently Indonesia has a healthy trade surplus with China, but the structure of trade—with Indonesia providing raw materials while China exports manufactured goods—could be the death knell for an array of Indonesian firms.
- Fear of the Chinese market could conceivably become fused to the indigenous Indonesian community's (imagined) fear of the economic dominance of Indonesian Chinese. Indonesians fear China's possible involvement in behalf of domestic ethnic Chinese.
- While a skepticism of China's intentions is alive and well in Indonesia, the relationship has grown in terms of substance and warmth over the last decade. In particular, Western criticism of Indonesia's questionable human rights record and U.S. sanctions on military-to-military contact, have pushed Indonesia to look to its other options. In attempting to deflect Western pressure concerning human rights, Indonesia finds it has an ally in China at international forums.



## THE BACKDROP

Assessing Indonesia's "China debate" is like an exercise in "examining Javanese tea-leaves," to modify an old saying. China has played a major role in Indonesia's political development, as Indonesia's first two presidents, Sukarno and Soeharto, used China to their own domestic political ends.

Sukarno, as founding president, saw in China a role model to be emulated. China also continued to support Sukarno, including his withdrawal from the United Nations during his increasing belligerence toward Malaysia. With formal relations established in July 1950, soon after Indonesian independence, the relationship reached such intensity between the years 1963 and 1965—during Indonesia's war against Malaysia—that it alarmed foreign governments. As Indonesian foreign policy specialist Rizal Sukma puts it in *Indonesia and China: The Politics of a Troubled Relationship*: "Indonesia and China enjoyed a relatively close relationship when the two governments forged a diplomatic liaison which in some capitals appeared to pose a threat not only to stability within South-East Asia but also to world peace." Sukarno had grown close to the PKI in these years and justified his war against Malaysia as an anti-imperialist crusade. These views of China were by no means shared by other elements in Indonesian society. The Indonesian military continued to view China, and the PKI, as major threats to Indonesia. A China threat to Indonesian sovereignty has been imagined in the following terms over the years: (1) a conventional assault by the PLA (People's Liberation Army) from the north; (2) Chinese pressure over sea boundaries in the South China Sea, which affect the status of Indonesia's Natuna Island; and (3) China's role in causing, or sustaining, domestic instability in Indonesia.

When the military seized power in 1965, it did so in part because of discontent with Sukarno about China and the PKI. Soeharto, Sukarno's successor, used China as a "whipping boy," blaming the PRC for aiding and abetting a communist plot in 1965 to overthrow the government. The Indonesian government suspended relations with the PRC in October 1967, and insisted on an apology for meddling in Indonesian affairs. China refused to make the apology on the grounds that it was not responsible for the coup attempt.

Another point of contention within Indonesia about China emerged in the context of the Cambodia situation, which exposed one of many splits between Deplu and the TNI. Although Indonesia supported the Thai position (and ASEAN's official position) opposing Vietnam's occupation of Cambodia from 1979, the Indonesian government demonstrated real reluctance. Although Deplu's encouragement of adhering to the ASEAN line carried the day, the TNI established high-level contacts with Vietnamese counterparts who were regarded as natural allies against Chinese influence.

Although evidence of the PRC's involvement in the 1965 coup attempt is scant, Soeharto based the legitimacy of his earlier years in power on saving Indonesia from the communist threat—a threat posed by China, the PKI and Indonesia's ethnic Chinese population. Once Soeharto's propaganda on the China threat was accepted by the general population, it was not easy to reverse, and Soeharto was unable to restore relations with China until 1990. The rapprochement

between China and Indonesia came quite late. It occurred nearly two decades after a similar rapprochement between China and most Western countries, as well as other members of ASEAN (Thailand in particular). Although Indonesia under Soeharto is often regarded by commentators as a U.S. partner, Indonesia was well out of step with U.S. policy with regards to China from the Nixon administration onward. In fact, Sino-Indonesian relations during these years were not shaped by international events but by Indonesia's own domestic political decisions and needs.

The restoration of relations in August 1990 was the result of a number of factors converging. The end of the Cold War had made talk of a "communist threat" less relevant. Also, the Soeharto regime, by 1990, had switched its claim to legitimacy. Soeharto, dubbing himself the "Father of Development," now staked his reputation on economic progress. Not only was the anti-communist theme no longer needed, but China's economic potential was also attractive—and potentially helpful to underscore the development basis of Soeharto's "new" legitimacy. Indirect trade links with China had already been restored in 1985. But of great importance was Soeharto's desire to put Indonesia's foreign policy onto a more active footing. Both the President and his diplomatic corps had an eye on the role Indonesia should play on the world stage. The absence of ties with China was a major anomaly for the foreign policy activism of Soeharto's latter years, particularly as it was out of step with the rest of ASEAN and the Non-Aligned Movement. Finally, China—though it continued its refusal to apologize for the events of 1965, in which it was most likely not involved—promised not to get involved in Indonesia's domestic affairs.

The normalization was also a demonstration of Soeharto's ability to override his own military machine—a step that may not have been possible earlier. At the time of normalization Soeharto faced opposition from his own military, which saw this as a dangerous step. There were still lingering suspicions that China might somehow use its links to the ethnic Chinese community and/or the remnants of the PKI to undermine Indonesian cohesion. Another event reinforced, for the military, the view that China was a threat. Indonesia was not a claimant in the South China Sea dispute over the Spratly Island chain, but Indonesia's Natuna Island has an overlapping sea boundary claim with China's claim. A similar potential problem emerged between Indonesia and Vietnam's South China Sea claim, but this was resolved through negotiation, while China appeared to be aggressively increasing its presence in the South China Sea region. Indonesia, initially seeing itself as not party to the South China Sea dispute, brokered a series of ASEAN-China discussions on the Spratly Islands. These talks resulted in claimants agreeing to freeze their claims. However, from the TNI's perspective, China's extensive line of claims by the late 1980s posed a possible threat to the edge of Indonesia's territorial sea—a fear that continues to this day.

## THE CHINA DEBATE AFTER SOEHARTO

The end of the Soeharto era in Indonesia saw relations with China, and therefore the debate on China, move to a new footing. The reformasi era that was ushered in by Soeharto's departure from office in 1998 has so changed the situation

that Abdurrahman Wahid, president from 1999 to 2001, could talk openly of forging a bloc with China—without committing political suicide—although fears of Chinese-inspired communism had apparently not completely gone away. Wahid's first official trip as head of state was to China, while his successor, President Megawati, who chose to make her first official outing a traditional tour of the ASEAN capitals, made a state visit to China in March 2002.

Abdurrahman Wahid announced a “Look towards Asia” policy soon after coming to office. Wahid during his time as head of state, literally made foreign policy initiatives in the midst of speeches. Amid idle talk about the recognition of Israel, playing peace broker in the Middle East and so forth, Wahid proposed various kinds of political and/or trade blocs (the details were never clear) that involved China, with varying combinations of India, Russia, Japan and Singapore. Despite the lack of substance, Wahid captured the zeitgeist of the times. China, although still considered a domestic and foreign threat in certain Indonesian circles, would be a useful counter to the United States, with whom relations have deteriorated since around the time of the 1997 financial crisis.

Even after relations with China were restored in 1990, the Soeharto regime had remained noticeably paranoid about the communist threat to society. Wahid proposed legalizing the PKI. This did not have any impact on China-Indonesia relations, as many foreign media sources had assumed, but it did demonstrate that Wahid's administration no longer feared communist infiltration, aided and abetted by China. Not all agreed and a massive debate ensued. Among those to publicly condemn communism—despite the fact that any attempt to revive the PKI would struggle to fill an auditorium—were leaders of some of the Muslim parties. Amien Rias, speaker of the upper house, and Hamzah Haz, current Vice President, were among those to speak of communism as the leading threat to the fabric of Indonesian society. Soeharto-era suspicions of communism, often linked to Beijing, continued to find fertile ground within elements of the elite, even among critics of the Soeharto regime.

On the “one-China” policy there has been no debate. Indonesia reaffirmed many times its view that Beijing is the sole representative of China (it is notable that Soeharto ended ties with Beijing but never switched recognition to Taipei). In return, China's recognition of Indonesia's sovereign territory is ironclad. The Megawati regime recently made a gaffe when the Vice President of Taiwan went to Indonesia on a “vacation” visit. Indonesia was forced to issue a statement that Annette Lu (or Lu Hsiu Lien) was not on a pre-arranged visit, nor was she in her “supposed capacity” as vice president of “an entity” known as the “Republic of China.” The reaction to this blunder indicates that Indonesia is firmly behind a one-China policy.

Among Indonesian foreign policy and security specialists there is still the question of China's future role. Jusuf Wanandi, a well-known Indonesian commentator on foreign affairs, has asked whether China will be a “revolutionary” or “status quo” power. In answering his own question he has written in the *Jakarta Post*: “Given this uncertainty [of China's direction], it would be wise for East Asia to commit China to the web of rules and institution[s] in the region.” This view coincides with the strategy of Deplu—which is to bind China into

multilateralism and market interdependency. The fears of the TNI, which may continue to inform military planning, are dormant in the formation of Indonesian foreign policy.

With economic ties a major factor in the earlier restoration of relations, trade has been a major factor in the ongoing relationship. The predominant view today about economic relations is not positive. During the 1980s, two-way trade was worth around US\$500 million per annum but by the year 2000 reached around \$7.5 billion. Trade figures for 2000 were more than double that of the previous year. A slowdown in the world economy saw a decline in 2001 to \$6.7 billion. Trade for 2002 is about \$7.3 billion. China is now officially listed as Indonesia's fifth largest trading partner, while Indonesia ranks number seventeen for China. These rankings need to be placed in context, as the lion's share of Indonesia's trade goes to Japan and the United States, and to a lesser extent the European Union, so China is at best a useful supplement at this point. There is also growing Chinese investment in Indonesia. There are now more than 800 Chinese-owned businesses in Indonesia, worth nearly \$2 billion—roughly double that of Indonesian investment in China. During a 2002 state visit to China, the key feature was Megawati's attempt to hawk liquefied natural gas (LNG) sales to China's Guangdong province. Indonesia has now successfully signed LNG deals to supply China into the future.

In commodity trade Indonesia has actually enjoyed a surplus with China, but the structure of this bilateral trade has changed—and it is this point that causes so much angst. In contrast to when the commercial relationship began, now it is Indonesia that exports raw materials and primary products to China (namely, crude oil, paper pulp, logs, veneer and palm oil), while imports from China are now largely manufactured goods (machinery, electronics, textiles and motorcycles). This, according to noted Indonesian economist Hadi Soesastro, is threatening to many local manufacturers who fear being wiped out by Chinese imports: "China is real. Its development is awesome and at the same time scary." Indonesia's once massive footwear industry is already in steep decline, in large part due to competition from China. Other low-tech industries will go the same way. Wanandi warns, "The economic weight of North East Asia threatens to make ASEAN a sideshow." He believes the only way Indonesia—and the rest of Southeast Asia—can survive is to reform its markets and concentrate on resource-based products and niche consumer goods. Indonesia's inability to reform its sluggish economy in recent years means that the prospects for harnessing China's economic rise are minimal on present trends.

Fear of losing out economically to China exacerbates an unfortunate problem within Indonesia: prejudice against ethnic Chinese. While official restrictions and bans on expressions of Chinese culture are now removed, and ethnic Chinese are now a regular feature in the Indonesian cabinet and in parliament, China's economic prowess has a real danger of becoming conflated with economic jealousy within Indonesia of the relative prosperity of the ethnic Chinese community. Hadi Soesastro notes that the economic emergence of China will be a challenge to Indonesian businessmen of Chinese descent "since there are among the public those who harbor suspicions and old sentiments." While resolving this "suspicion" and hostility toward ethnic Chinese will be a major factor in Indonesia's

attempt to revive its domestic economy, there is an international dimension to all this: How will China react to anti-Chinese pogroms in the future?

China's relationship to Indonesians of ethnic Chinese ancestry has not been as close as members of the TNI have suggested. The ethnic Chinese are not a natural extension of China's reach, and China has made it clear that overseas Chinese in Southeast Asia are citizens of the countries in which they reside. Nonetheless, China, a staunch advocate of the primacy of sovereignty, has made a sole exception to this doctrine in expressing concern over the rights of the Indonesian Chinese from time to time. During the anti-Chinese riots in 1998, the Chinese Foreign Ministry issued statements that Indonesia should protect ethnic Chinese—although China quickly backed away from these statements soon after they were made. Some international commentators interpreted this as a “maturing” of Chinese foreign policy to accommodate human rights concerns, but the statement seems like little more than a reflex reaction based on ethnic solidarity. The message went down hard in Jakarta and has raised fears of a China that may not stand by in the future if ethnic Chinese are threatened.

## THE FOREIGN POLICY OUTCOMES

Megawati has been far more reliant on the advice of Deplu to shape foreign policy than her immediate predecessor was. However, major aspects of Indonesia's China policy remain the same. In particular, drawing closer to China—a refrain in Wahid's pronouncements—is also a feature of the Megawati administration. Megawati has demonstrated, since around 2002, a greater foreign policy activism in the mold of some of her predecessors. Officials often describe Indonesia's foreign policy as being based on “concentric circles” of importance. While ASEAN occupies the first “circle,” East Asia (including China) is in the second, yet still important, rung. Megawati, in early 2002, visited both North and South Korea in what seems to have been an unsuccessful attempt to broker a deal on the Korean Peninsula.

Interest in Northeast Asia, and in world affairs generally, means for Indonesia a strong relationship with China. But other interests overlap, notably in the field of military matériel. Indonesia is busy trying to secure alternative sources of military equipment outside the preferred traditional sources of the United States and the UK—both of whom have made uncomfortable human rights demands. The Indonesian Air Force—which is currently taking possession of Russian fighters—has contacted counterparts in the Chinese Air Force to discuss aircraft maintenance. Other avenues for cooperation are being investigated. In one sense the U.S. embargo on military-to-military contact against Indonesia has played into China's hands. As China seeks to improve its influence, presumably to counter any future U.S. “containment,” and make money for its defense industry, there is scope for cooperation with Indonesia. So far China and Indonesia have had bilateral high-level visits and military training exercises. However, the poor reputation of Chinese defense equipment may give Russia the edge as an alternative to the United States and Britain.

China is a useful political balance, but TNI's wary eye on China remains. High-level Indonesian military officers privately concede that China remains the

most likely source of a future threat. The TNI strategy is to defend its land (more than 13,000 scattered islands) and intervening sea, as part of one territory—the doctrine is called *wawasan nusantara*. The TNI defense strategy is still based on defending Indonesia from a northern threat, allowing the invaders to penetrate the archipelago, while the TNI organizes a rearguard guerrilla war (a strategy unchanged since a conflict was fought like this against the Dutch). No one in the TNI seriously imagines that an old colonial power would attempt this, but China is the country that might just do so, according to some Indonesian officers.

As noted, in order to normalize relations, China gave assurances to Indonesia in 1990 that it would not interfere with Indonesia's domestic affairs. And China had abandoned support of communist insurgencies in the region from the 1970s. In fact, in modern times China has become an ultra-conservative stalwart of non-interference. China was only satisfied with the East Timor intervention in 1999 when Jakarta issued an invitation (and therefore, in Beijing's eyes, it was not technically an "intervention"). China has issued and reissued numerous statements supporting Indonesia's territorial integrity, including a May 2001 announcement to distance China from Papuan independence activists who visited China and claimed they had China's sympathy. Alwi Shihab, foreign minister with the Wahid government, according to a Chinese Ministry of Foreign Affairs press release, when meeting with Foreign Minister Tang Jiaxuan, expressed gratitude to China for supporting Indonesia in international affairs—a polite way of saying that China is not involved in the pressure applied by Western countries against Indonesia. Alwi Shihab on other occasions mentioned that China supported Indonesia on human rights and East Timor issues. Short of a reoccurrence of violence against ethnic Chinese in Indonesia, Indonesia can expect the support of China at international forums in the face of Western pressure.

Indonesia is very keen to imbed China in multilateral frameworks; a theme common throughout the Asia-Pacific. Indonesia has been an enthusiastic supporter of ASEAN Plus Three (APT) and the China-ASEAN Free Trade Agreement that is currently in the pipeline. China remains a possible threat in the eyes of the TNI, and also within the civilian elite, but the Deplu approach of engaging China bilaterally, and now bringing it into a web of multilateral frameworks, has determined Indonesian foreign policy outcomes.

## IMPLICATIONS FOR U.S. FOREIGN POLICY

The most obvious implication for the United States is that China and Indonesia, while being far from close allies, have drawn closer together in areas of mutual interest. For Indonesia, China could be an alternative source of military equipment, without America's scruples. A growing friendship between China and Indonesia need not be a threatening prospect to the United States because the United States still is important to Indonesia, there are limits to Sino-Indonesian cooperation, and the post-September 11 world is one in which the Bush administration also seeks cooperative relations with China. If competition resumes between China and the United States, it would be a quantum leap in logic to suggest that Indonesia might go China's way. It is far too soon to start sounding alarm bells given the natural suspicion that Indonesia still has of China. There are still

significant barriers to a China-Indonesia “alliance,” even if Indonesia has found a comforting friend in China as Jakarta tries to bat away pressure to hold trials on East Timor and clean up its act in Aceh and Papua.

The United States has a strong interest in a cohesive Indonesia. A vibrant Indonesian economy is a critical part of this. Although Indonesia’s economic problems relate to its own domestic mismanagement, China’s emergence as an economic powerhouse will not only divert needed investment away from ASEAN but will put serious pressure on Indonesia’s manufacturing industries in the international marketplace. The prospects are not bright for Indonesian exports. Indonesia’s only hope lies in the reform of its distorted economy—the record to date for such reform is not strong. The sometimes heated debate over China in Indonesia has culminated in a foreign policy outcome of embedding China into a lattice of solid bilateral and multilateral relationships in order for China to emerge as a constructive great power in the Asia-Pacific region. Indonesia has reached a point in its debate over China whereby constructive engagement with Beijing is no longer regarded as controversial, and is therefore set to continue into the future.

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**Asia-Pacific Center for Security Studies**

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949

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## Asia-Pacific Center for Security Studies



**SPECIAL ASSESSMENT**

DECEMBER 2003

### **Asia's China Debate**

Dr. David Fouse is an Assistant Research Professor at the Asia-Pacific Center for Security Studies. Dr. Fouse holds doctorates from The Graduate University for Advanced Studies in Tokyo and the University of Hawaii. His research interests are in Northeast Asian security issues with a special focus on Japan.

# **History as a Mirror, the Future as a Window: Japan's China Debate**

**DAVID FOUSE**

## **Executive Summary**

- A great deal of the positive public sentiment toward China that developed in Japan following the signing of the Treaty of Peace and Friendship has eroded over the past fifteen years. Generational change has diluted the Japanese war guilt complex toward China, leading to a more contentious debate on bilateral relations.
- China's military modernization program, its intimidation of Taiwan and a series of incidents involving Chinese encroachment on Japanese territory have raised the specter of a Chinese "military threat" in certain quarters of Tokyo. While many Japanese see such behavior as a sufficient basis for cutting Official Development Assistance (ODA), few see military conflict as inevitable.
- China's accession to the World Trade Organization (WTO) in 2001 stimulated a national debate on whether China's emerging industries constitute an "economic threat" to Japan. After a brief, unsuccessful effort at punitive trade restrictions against certain products, discussion has tended to focus on Japan's own need for completing structural reforms rather than the threat coming from Chinese economic development.
- Recent indications from both Japan and China show an increased willingness to take prompt diplomatic action to resolve bilateral conflicts as they arise. Many obstacles to a smoother relationship do, however, remain.
- Japan's leaders now find themselves caught between the need for increased economic integration with China and their desire to strengthen the alliance with the United States to offset China's growing political and military power.



## INTRODUCTION

The negativity of Japanese opinions about China has grown substantially in recent years. The frustration that Japanese people feel as economic stagnation in their country passes the ten-year mark has been magnified by China's ability to maintain high rates of economic growth over the same period. A tendency for the Japanese to want to reevaluate their relationship with China springs largely from this contrast, though several other factors have contributed to the intensity of the debate. Among these, a shift in the generational makeup of the Japanese public is important. Older generations saddled with guilt related to Japan's invasion of China in the 1930s have been slowly passing from the scene, leaving a public much less receptive to Chinese criticism of Japan on historical grounds. This has been reflected in the Diet, where younger members of both the dominant Liberal Democratic Party (LDP) and the main opposition Democratic Party (DP) have accepted the need for greater "realism" in Japan's approach to China. Older pro-China members of the LDP have been effectively marginalized in recent years, and the Social Democratic Party (SDP)—a long-time advocate of better relations with both China and North Korea—has been nearly extinguished. The mass media have also reflected this generational shift, now showing a greater willingness to be openly critical of China than at any time in the postwar period.

A new hard-nosed sense of pragmatism toward China has replaced the psychology of appeasement that pervaded Japanese society following the signing of the Japan-China Peace and Friendship Treaty in 1978. Where this new dynamic will lead Sino-Japanese relations in the future will be determined to a great extent by whether China is redefined as a threat to Japanese prosperity and security, or whether an emerging China is perceived to be compatible with the renewal of Japanese economic and political power. Despite the long-term trends that suggest future difficulties in Sino-Japanese relations, the balance of the current Japanese debate continues to favor constructive engagement for mutual economic benefit, while relying on the U.S.-Japan alliance to manage possible security problems emanating from China.

## THE MILITARY-STRATEGIC DEBATE

Debate in Japan over military-strategic issues is still in its infancy. Discussion of these issues has been traditionally limited to the Japanese Defense Agency (JDA), a handful of the JDA's allies inside the LDP and a few prominent academic and media commentators. The bulk of Japan's new defense debate has taken place in the aftermath of criticism Japan received during the Persian Gulf War of 1991. Lampooned for its mere financial contribution to the coalition effort, Japan began to reconsider its policy of postwar pacifism and entertained the possibility of becoming a "normal nation." Those opposed to such a transformation have argued that Japan has been quite successful as a global "civilian power" and that Japan's Asian neighbors are not ready to see Japan expand beyond its postwar policy of strictly "defensive defense." A number of events—including the North Korean nuclear crisis of 1994, China's nuclear testing in 1995, the Taiwan cross-strait crisis of 1996 and especially the North Korean test firing of a Taepodong rocket over Japan in 1998—have given legitimacy to those who favor a more robust defense capability for Japan. It is within this context that a debate over China as

a “military threat” has taken shape in the past several years. Advocates of Japan as a “normal state” have focused on double-digit growth rates in Chinese defense budgets, a buildup of short- and mid-range missiles and a series of encroachments by Chinese oceanologic research vessels into areas around Okinawa to lobby against ODA for China.

Leading advocates of this position are Hisahiko Okazaki, a former high-ranking Ministry of Foreign Affairs (MOFA) official and Yoshihisa Komori, editor-at-large of the conservative *Sankei Shimbun* newspaper. Both Okazaki and Komori have highlighted the long-term Chinese military buildup, growing Chinese nationalism and especially the threat that Chinese annexation of Taiwan might pose to Japanese national interests. According to Okazaki, not only could China's annexation of Taiwan compromise the vital sea lanes through which Japan imports most of its oil from the Middle East, it could also provide China with extreme leverage over the other nations of Southeast Asia, which could in turn have a severe impact on Japan's economic interests in the region.

Japan's military-strategic debate regarding China may in the end boil down to a debate over its Taiwan policy. Japan has long held to a “one-China” policy that advocates a peaceful resolution of the Taiwan issue. However, beginning with the announcement of the revised Guidelines for U.S.-Japan Defense Cooperation in September of 1997, in which Japan committed to supporting United States military operations in “areas surrounding Japan,” the Japanese government has shown a growing interest in the cross-Strait issue. Just prior to the announcement of the new guidelines, then Chief Cabinet Secretary Seiroku Kajiyama stated publicly that the alliance would not survive if Japan did not assist U.S. forces should they get involved in an armed conflict between China and Taiwan. Liberal Party leader Ichiro Ozawa, another outspoken critic of China, echoed this sentiment in January of 1999. Lee Teng-hui's visit to Japan in April of 2001, though justified on medical grounds, further raised suspicion in Beijing that ties between Japan and Taiwan are becoming closer. For the time being the Japanese government's official position is to neither deny nor confirm that defending Taiwan lies within the scope of the alliance. Advocates of the “China threat” nevertheless continue to lobby for less ambiguity in Japanese policy.

The wild card in the Taiwan issue may be the Japanese public, which remains hesitant to see Japan embroiled in strategic conflicts not directly involving its own defense. For the Japanese public, symbolic issues of history and territorial sovereignty may be the most important. Faced with the declining prominence of their country as an economic power, the Japanese have become increasingly touchy where issues of national sovereignty are concerned. An example of this is the May 2002 Shenyang Refugee Incident. The forcible removal of five North Korean refugees by Chinese police officers from the Japanese consulate in Shenyang, captured on television for the Japanese public, was interpreted as an infringement of national sovereignty and a breach of international law. Tokyo demanded an apology and the return of the five refugees from the Chinese government. Meanwhile, the Chinese government claimed that their police officers had been invited into the consulate and emphasized that they were there to protect the safety of the consulate. Although the asylum seekers were eventually allowed to go to South Korea, the incident left lingering ill will in Japan. All four of Japan's major newspapers editorialized that the Japanese government should continue to pursue

the violation of national sovereignty despite the release of the refugees. Media criticism, in the meantime, turned toward the purported incompetence of the Japanese MOFA in its handling of the Shenyang affair.

## JAPAN'S ODA FOR CHINA QUESTIONED

Following the Shenyang Incident in May 2002, MOFA's "China Hands" were widely portrayed in the media as Sinophiles incapable of defending Japan's national interests. This added fuel to an ongoing debate over Japan's ODA to China, a policy which MOFA has more control over than does any other ministry in the Japanese government. Many Japanese were outraged that while Japan had contributed billions of dollars to Chinese economic development since 1979, the Chinese government refused to recognize the sovereignty of Japan's consulate under international law. Some felt that recent changes in Japan's ODA policy to China had not sent a strong enough message and that a complete cessation of funds was in order.

Previously, MOFA had already stopped supplying aid in multiyear packages to complement China's five-year economic plans and instead targeted funds more narrowly for environmental and humanitarian purposes. The latter was done in 2001 to reassure the Japanese public that the funds were not being used to contribute to a Chinese military buildup. Due to growing domestic economic concerns, overall Japanese ODA had already been cut by 10 percent twice in the past four years. Nevertheless, souring public sentiment led to a 25 percent cut to ODA for China (FY 2002) with the possibility of more cuts to come. Whether or not Japan continues to supply China with aid remains an open question, as many inside Japan now feel that China's growing economy no longer meets the requirements for development assistance.

## THE ECONOMIC-STRATEGIC DEBATE

Even prior to China's formal accession into the WTO in December 2001, concern in Japan's agricultural and small and medium business sectors about China's economic competition was on the rise. Already reeling from a decade of economic stagnation, businesses too small or otherwise unable to relocate to take advantage of low Chinese labor costs began to fear an onslaught of cheap goods flowing into Japan. Bracing for a political backlash, Keidanren, the largest and most powerful business organization in Japan, published a policy paper entitled "Japan-China Relations in the 21<sup>st</sup> Century: Recommendations for Building a Relationship of Trust and Expanding Economic Exchanges between Japan and China" in February of 2001. Highlighting increasing bilateral economic interdependence, the paper argued for deepening mutual trust and broadening economic contacts in order to dampen the growing perception of rivalry between the two countries. Painting a balanced picture of both China's remarkable economic development and the many problems China faces in the future, Keidanren cautioned against letting nationalist sentiments on both sides interfere with economic integration. According to the report, Japan's interests would be best served by working with China to facilitate smooth entry into the global trade system, enhancing cooperation in multilateral efforts such as the Asia-Pacific Economic

Cooperation (APEC), the ASEAN Plus Three forum and the ASEAN Regional Forum (ARF) and exploring the possibility of setting up an East Asia free trade area. Notably, Keidanren, which has long been a powerful force in Japanese policymaking, did not hesitate to weigh in on foreign policy issues such as Taiwan. Keidanren stated that Japan should respect its former commitments to a one-China policy and that “basically, we regard relations between China and Taiwan as a Chinese internal affair.” The report did raise one cautionary note, arguing that Japan must keep a close eye on the Chinese manufacturing industry as it sharpens its competitiveness and give serious consideration to the proactive steps Japan will need to take in the future.

In April of 2001 the Ministry of Economy, Trade and Industry (METI) released a draft of the “White Paper on Trade,” which stressed the need for Japan to cooperate rather than to compete with China in international trade. The report emphasized that Japan should seek to create a new system that would divide economic roles with China and other countries in East Asia to improve efficiency amid increasing economic competition. The White Paper referred to China as “the world’s manufacturing base” and portrayed China as having enhanced its competitiveness in a broad variety of industries, from textiles and other labor-intensive activities to cutting-edge information technology. On May 3 the conservative *Yomiuri Shimbun* interpreted the report as a wake-up call for Japan, stating that “the era in which Japan led the Asian economies has come to an end and that a period of fierce competition among nations has begun.”

LDP politicians, long buoyed by their agricultural and small business constituencies, took advantage of the newly hyped “economic threat” to push, in May of 2001, for a 256 percent import tariff on a range of Chinese agricultural exports, including shiitake mushrooms, leeks and rushes used for making tatami mats. Though Japan justified the tariffs under WTO safeguard regulations (designed to protect domestic producers from temporary import surges), China retaliated in June with 100 percent tariffs on sixty varieties of products from three categories of Japanese goods—mobile phones, automobiles and air conditioners. The retaliation brought strong protests from the Japanese government, which refused to relinquish the agricultural tariffs for a period of eight months. As both governments held tightly to their respective positions, Toyota Motor Corporation President Fujio Cho called for an immediate resolution to the trade dispute, as most of Toyota’s export orders from China had been canceled because of the high tariffs imposed.

When the trade row was finally resolved in December, analysts inside Japan were highly critical of the Japanese government’s policy. As Keio University scholar Kokubun Ryosei would have it, “in the end, Tokyo backed away from a full-scale imposition of safeguards, and in retrospect it seems clear that invoking them to begin with was not in Japan’s best interests.” The *Mainichi Shimbun* saw it as “a classic example of how protectionist measures for uncompetitive industries had adversely affected industries that had made great efforts to enhance their competitiveness.” Thus contrary to its originators intent, the trade row of 2001 has led to a growing realization that Japan can no longer afford to protect its agricultural sector if it wants to compete in a globalizing economy. For Tokyo’s policy elite, the implications also pointed to the increasing vulnerability of the Japanese economy to China’s huge market.

In the aftermath of the trade row there has been an attempt among both officials and scholars to penetrate the emotional cloud that has formed around the bilateral trade issue. In a speech to the Foreign Press Center on January 17, 2002, Atsuo Kuroda, director of the financial cooperation division at METI, derided the media's fixation on the threat posed by China's industrial sector, stating that it had been "blown all out of proportion." Kuroda's view is that Japan, like the ASEAN countries, has become obsessed with the so-called Chinese threat because domestic structural reforms have made little headway. Toyoo Gohten, President of the International Institute for Monetary Affairs, has likewise indicated that the highly charged issue of the "hollowing out" of Japan's industry has been overstated. According to Gohten, Japan's overseas production ratio is still around 15 percent, lower than that of Germany (at about 20 percent) and far below that of the United States (which is close to 25 percent). The real issue is that Japan must lower its internal cost structure if it hopes to retain its own manufacturing base and attract greater foreign investment.

Beginning with Prime Minister Koizumi's January 14, 2002 speech in Singapore, Japan began making a more clear-cut effort to defuse the rising bilateral economic tensions. During this speech Prime Minister Koizumi praised the active role China has been willing to play in regional cooperation. Previously, China's efforts to form a free trade agreement with the ASEAN countries had been widely portrayed as an attempt by the Chinese to usurp regional economic leadership from Japan. Koizumi confirmed that Japan, China and South Korea had resolved to improve trilateral cooperation and promote the ASEAN Plus Three forum, with the long-term hopes of building an East Asian Community. Koizumi's downplaying of the "China threat" was welcomed in Beijing and led to a meeting between Prime Minister Koizumi and Premier Zhu Rhongji at the Boao Forum of April 2002, in which both parties agreed to the establishment of the Japan-China Economic Partnership Consultations, a mechanism for overcoming bilateral trade conflicts. In September 2002 the Chinese and Japanese foreign ministers reached a consensus on how to establish the consultation mechanism.

Pressure to iron out differences in bilateral economic ties is immense. In 2002 China outstripped the United States as top exporter to Japan, while Japanese exports to China jumped 32 percent. Under these circumstances Japanese policy-makers have struggled to form a consensus from which to engage China. The most thorough attempt at this is reflected in the policy recommendations presented to the prime minister by the Task Force on Foreign Relations in November 2002. The document, entitled "Basic Strategies for Japan's Foreign Policy in the 21<sup>st</sup> Century: New Era, New Vision, New Diplomacy," presented a resurgent China as Japan's biggest political and economic challenge. Aiming for a middle path between the "China as threat" and "China as partner" schools of thought, "Basic Strategies" characterized the relationship as one of "cooperation and coexistence interwoven with competition and friction." The task force's recommendations included following up on the East Asian Community initiative (referred to in Koizumi's Singapore speech) to balance China's growing economic influence in the region, as well as pushing forward with domestic structural reforms so that Japan can become an attractive, high-value added manufacturing economy capable of competing with China for investment. The task force also recommended that Japan demand transparency from China on its military budget,

define ODA narrowly in accordance with Japan's national interests, and urge China to liberate itself from "an enchantment with history" to form a more future-oriented relationship. On the sensitive issue of Taiwan, the report does not balk, arguing that "since the normalization of the relationship between the People's Republic of China and Japan, tremendous changes have taken place on Taiwan. It is natural that the Japan-Taiwan relationship should undergo certain change as well." Not coincidentally, the same report favors strengthening the alliance with the United States, even while Japan pursues a more independent role in that relationship.

## TAKING HISTORY AS A MIRROR

A number of positive signals over the past year give hope that Asia's two greatest powers may yet come to a more productive accommodation. Reports that a planned landing of Chinese activists on the Senkaku (Diaoyudai) Islands had been thwarted on June 24 by Japanese naval vessels were followed by a quick flurry of diplomatic activity on both sides that prevented any further difficulties from arising. In August a Chinese man was killed and a number of other Chinese injured when their digging accidentally broke open a barrel containing mustard gas left by the Japanese military during World War II. This time, unlike in the past, the Japanese government made an almost immediate apology over the tragedy and sent medical experts to help deal with the victims. On the military-strategic front JDA chief Shigeru Ishiba made a visit to China on September 1, 2003—the first such trip by a Japanese defense minister since May 1998.

Other positive steps in bilateral relations include Japanese financial and medical contributions to China's recent battle with the deadly Severe Acute Respiratory Syndrome (SARS) virus, as well as Chinese support for Prime Minister's Koizumi's trip to Pyongyang in September 2002. In April 2003 China's foreign minister Tang Jiaxuan broadened this point by informing SDP leader Takako Doi that China accepts Japan enhancing its political influence in the international community. A summit meeting between Prime Minister Koizumi and China's new President Hu Jintao in St. Petersburg, Russia on May 31, 2003 emphasized many of these new positive developments. At the meeting, Hu Jintao broke with his predecessor by stating that Japan-China relations in the new century should "take history as a mirror, look toward the future, take a long-term perspective and give consideration to a broad picture."

The idea of "taking history as a mirror and looking forward to the future" was carried to Japan again by new Chinese foreign minister Li Zhaoxing on August 11, and appears to be the new catchphrase in Sino-Japanese relations. Many obstacles to a more harmonious relationship remain, however. China's economic development has brought an unprecedented level of friction with Japan, and nationalist impulses are rising on both sides. Despite this fact—or perhaps because of it—there has also been an unprecedented level of political resolve in both countries to stop bilateral tensions from derailing the benefits of positive engagement. Japan's new tough-minded approach toward China, symbolized by its revised ODA policy, has yet to turn into an all-out struggle for influence in the region.

China's dynamic economic growth, its huge market and abundant supply of low-cost labor cannot help but force Japan to accelerate efforts toward greater cooperation and integration with China. This will place Japanese policymakers in an increasingly precarious position as they attempt to balance economic integration with China and a continued desire to enhance military ties with the United States to offset China's growing military power. The venue for this Japanese high-wire act will most likely be regional multilateral forums, where all three countries struggle for influence. Should trouble in the U.S.-China relationship emerge in the near future, it is doubtful that Japan would be sympathetic to Chinese interests, though the amount of cooperation Japan would lend to the United States in a military conflict remains uncertain.

The views expressed in this publication are those of the author(s) and do not necessarily reflect the official policy or position of APCSS, U.S. Pacific Command, the U.S. Department of Defense, or the U.S. Government.

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**Asia-Pacific Center for Security Studies**

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949

tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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## Asia-Pacific Center for Security Studies



**SPECIAL ASSESSMENT**

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### Asia's China Debate

Dr. Alexandre Y. Mansourov is an Associate Professor at the Asia-Pacific Center for Security Studies. He is a specialist in Northeast Asian security, politics, and economics, focusing primarily on the Korean Peninsula. Dr. Mansourov received his Ph.D. in Political Science from Columbia University. He co-edited a book titled *The North Korean Nuclear Program: Security, Strategy, and New Perspectives from Russia* and has published numerous book chapters and academic articles on Korean and Northeast Asian affairs.

# Giving Lip Service with an Attitude: North Korea's China Debate

ALEXANDRE Y. MANSOUROV

## Executive Summary

- China's influence in North Korea is grossly misrepresented and exaggerated. In the past five years, Beijing's economic assistance to Pyongyang and the latter's economic dependence on China in terms of food, fuel, fertilizers, and monetary remittances declined in both absolute and relative terms.
- China's military-technical assistance is sporadic and of questionable value. The DPRK-PRC mutual defense alliance is hollow and on paper only. Controversial cross-border contacts aggravate tensions and increase uncertainty in the overall stressful bilateral relationship.
- North Korean elite perceptions and popular images of China grow increasingly ambiguous and negative. Strategic interaction on international security issues is self-interested, with very few common interests and shared approaches. Despite calendar exchanges of standard reverences, political relations are frosty.
- Revolutionary traditions have faded away, and personal loyalties and leadership bonds have already dissolved. The North Korean breed of resurgent neo-traditionalist and isolationist nationalism is hardly compatible with the hegemonic ideology of the revisionist Chinese pseudo-Marxist internationalism. Pragmatism and rational calculation of national interests prevail in both capitals.
- The United States should not count on China's perceived ability "to deliver the DPRK"—it hardly can. Although Beijing may be able to bring Pyongyang to "the party" occasionally, it definitely cannot make North Korea dance to its music, let alone to the tunes emanating from Washington. North Korea would rather spoil the multinational party than give the spoils to its Chinese "benefactor" or American "villain," if its concerns are not satisfied "in a just and appropriate manner."



## THE ECONOMIC DIMENSION: NATIONAL DEVELOPMENT, "STEALTHY" ASSISTANCE, AND THE FUTURE OF REFORMS

Throughout history, Korean rulers looked at China as a source of political and ideological legitimacy for their regimes, as a reliable military shield, and as an applicable model of socio-economic development, cultural traditions, and moral values for Korean states. The Democratic People's Republic of Korea (DPRK) was no different.

DPRK founder Kim Il Sung turned to his former comrades-in-arms from the days of the joint anti-Japanese struggle in Manchuria—the Chinese Communist Party (CCP) leaders led by Mao Zedong—for military assistance in his zealous drive to unify the Korean Peninsula in 1950–53. He also relied heavily on the economic aid of the People's Republic of China (PRC) and the free labor of several hundred thousand Chinese People's Volunteers (CPVs) in the post-war reconstruction of Korea. During the socialist construction in the 1960s and 1970s, protected by the Chinese military umbrella, the DPRK's leadership tended to follow the CCP's ideological lead and copied Chinese methods of labor mobilization, e.g., the Ch'ollima ("Flying Horse") movement modeled after the Maoist Great Leap Forward and the Soktojon ("speed battle"). North Korea also adopted some Chinese-like forms of organization of industrial and agricultural production processes known as the Taean system. Even after Deng Xiaoping launched economic reforms in China in 1978, Kim Il Sung attempted to imitate the Chinese example by introducing the Joint Venture Law and a new self-accounting system in the mid-1980s. But, that is where emulation stopped.

In the beginning of the 1990s, the developmental paths of North Korea and China began to diverge rapidly. Following the cutoff of allied assistance, the collapse of the world communist economic system, and the death of its founder, North Korea fell deeply into economic depression and political coma, which disrupted the decades-old social-economic fabric and shook the political foundations of the North Korean regime, whereas China accelerated market-oriented economic reforms and experienced one of the most dynamic growth spurts in its modern history, increasing the political legitimacy of the CCP's rule at home and strengthening China's influence abroad.

The public in the impoverished and stagnant North Korea has rather ambiguous views and mixed feelings about prosperous and dynamic China. These days in Pyongyang, it is hard to find anyone who would view China as altruistic, fraternal, or friendly. There is little sense of close cultural ties, personal bonds, political affinities, or of China being a reliable ally ready to help out its smaller loyal neighbor in times of need.

Increasingly, people question whether China is a friend or a foe. Some fundamental questions hang in the air in the power halls of Pyongyang: Does the internal transformation and greater assertiveness in the external behavior of China pose a threat to the DPRK's national security or create opportunities and expand options for its diplomatic maneuvers and economic experimentation? Is China a part of the fundamental solution for some or all the North Korean problems, or is it a part and a source of these problems? Does the Chinese path of national development present a model to emulate or a hidden trap to avoid? Is the DPRK's geopolitical relationship with the PRC a strategic asset to be cherished—especially at the

time of escalated international tensions on the Korean Peninsula—or a long-term liability to be eventually discarded to prevent possible Chinese betrayal? Will the new fourth-generation leadership in China support and continue to assist Kim Jong Il's government or gradually withdraw its sponsorship and terminate its material assistance? In the Western language, people wonder whether China is a regime enabler or regime terminator for Kim Jong Il.

When many ordinary North Koreans are quietly pondering what went wrong during the lost decade of the 1990s, they hear the shallow official explanations pointing fingers at the tightening noose of the U.S.-led imperialist blockade and stressing the catastrophic impact of frequent natural calamities. But, the informed elites cannot help making unfavorable comparisons between their miserable and lethargic homeland and rich and vibrant China; they keep wondering why the communist leadership in China succeeded in its socialist modernization drive whereas their own leaders are unable to boost economic performance, improve public welfare, and maintain political stability.

Significant portions of the North Korean economic and military elites appear to admire and envy Chinese economic accomplishments. They quietly wonder why their own leaders seem to be reluctant to emulate the triumphant examples of Chinese reforms, despite the obvious lesson of the past twenty years that Beijing did succeed in moving a previously isolated, over-centralized, and heavily militarized command-and-control economy toward the state-regulated quasi-private markets, relatively open to the global economy, without undermining the political monopoly of the ruling communist party or disturbing social peace and internal stability. Even when the path of the Chinese-style economic reforms is clear—denationalize agriculture first, privatize light industry and liberalize foreign trade and investment next, restructure the state-owned enterprises in the heavy industries and banking system last—North Korean leaders appear to be adamant about ignoring the advice coming from all levels of the Chinese government and positive Chinese experiences.

Kim Jong Il must be well aware of the latent pro-Chinese sentiments among some members of the economic and military elites. He, too, likely appreciates Chinese economic accomplishments, which he witnessed during his two recent trips to the PRC. He likes the Chinese model of combining a “hard state” and a “soft economy” as a recipe for economic recovery and further progress. But, he resents Chinese “lecturing” about the direction of economic rehabilitation and restructuring in the North and resists Beijing's indirect attempts to “interfere” with Korean domestic affairs.

To reduce the influence of pro-Chinese sentiments around the country, Kim Jong Il's coterie is on the propaganda counter-offensive, accusing the reformist China of greed and lack of allied solidarity. Ordinary North Koreans are told that if China were still truly a fraternal socialist power, then why would the communist leaders of the second-largest economy in the world be so reluctant to share the benefits from its miraculous economic growth of the past two decades with its weak and impoverished neighbor, especially given the latter's tremendous misfortunes caused by natural disasters? North Korean officials are quick to point out that the prosperous Chinese are not as generous as the DPRK government used to be in the late 1960s when Pyongyang offered considerable food aid to starving Chinese peasants in the wake of the dreadful famine in the PRC caused by the excesses of the Cultural Revolution.

Overall, North Korean officials consider the sporadic trickle of economic aid from China to be pathetic. They say every time Beijing offers a grant-in-aid to Pyongyang, it is accompanied with numerous political conditions (which, to be fair, are rarely implemented). For comparison, they often refer to the Asian financial crisis and say that when an American ally, South Korea, found itself in deep trouble in 1998, Washington provided Seoul with US\$57 billion in international financial assistance without many reservations or pressure, thereby saving the ROK's economy from financial meltdown.

Moreover, Kim's regime seems to support the widely held popular belief that during the arduous 1990s, Chinese merchants actually took advantage of the North Korean economic difficulties by plundering the DPRK's natural resources, including its timber saw mills, coal mines, and ore deposits, as well as collecting its idle factory machinery and inoperable plant equipment such as iron and metal scrap, in exchange for the daily necessities and consumer goods of questionable quality and second-hand nature. Official grumbles and local public complaints both stress that "the Chinese can do more to help us, but they don't; and what they give us is of dubious value and low quality, especially the expired medicines, rotten food, worn-out clothes, poorly distilled hard liqueur, and very bad cigarettes."

Furthermore, some North Korean bureaucrats argue that "we tried to follow the Chinese example in the development of special economic zones (SEZ) by establishing the SEZ in Sinuiju, but the Chinese stabbed us in the back and almost derailed the process by arresting its first Governor-designate Yang Bin, even despite his Chinese origin." They go as far as to imply that the Chinese leadership may not be interested in any fundamental reforms in North Korea because the latter are allegedly against Chinese national interests.

In particular, if economic reforms succeed in the DPRK, they could spur economic recovery, further reduce Pyongyang's dependence on Beijing's economic largesse and political benevolence, and increase North Korea's sovereignty and independence in foreign affairs. Alternatively, if reforms fail, they could further undermine social stability and political status quo in Pyongyang, threaten the regime's future in the North, and bring about an early Korean reunification undesirable to the Chinese. Hence, Pyongyang seems to believe that Beijing prefers the preservation of the status quo in the North and, therefore, desires neither a success nor failure for the North Korean reforms.

## **SINO-KOREAN BORDER AND THE MANCHURIAN CONUNDRUM**

Cross-border relations constitute another major driver in the DPRK's debate about China. Historically, the ever porous Sino-Korean border has always been "an area of exile, escape, and experimentation." The remnants of the Koguryo elites, defeated and bludgeoned by the victorious Silla rulers in the mid-seventh century, fled northward and founded a state of Parhae on the modern territory of Northeast China. In the wake of the farmland devastation caused by the Japanese invasions during the Imjin wars in 1592–98, thousands of Korean peasants fled across the Yalu River in search of shelter and livelihood. Social dislocation, general impoverishment, and famines in the mid-nineteenth century led not only to nationwide vagrancy and frequent rural rebellions, but also caused mass migration of displaced Korean peasants primarily from Hamgyong provinces in search

of food and income to Manchuria. The Japanese takeover of Korea in 1910 squeezed the anti-Japanese nationalists and communists into political exile in Northeast China. It should not be a surprise that among deprived peasants were thousands of bandits, wanted criminals, petty capitalists, vagabonds, exiles, self-made men and all sorts of opportunists. In brief, throughout Korea's two thousand-year-old history, Koreans—in particular many residents of the northern provinces—were drawn to Manchuria by the opportunity to improve their living standards and escape economic distress and criminal or political prosecution at home.

Since the mid-1990s, for many North Koreans, Northeast China has become associated with the land of opportunity and tragedy. A trip across the spottily guarded Sino-Korean border, a personal challenge and sacrifice in its own right, becomes their first encounter with the frontier capitalism, the Chinese-style Wild Wild West. Often-repeated fables about the Manchurian El Dorado generate high expectations and misguided hopes but also provoke many associated fears and high anxiety. These heroic endeavors are costly, physically and mentally challenging, and rarely produce lasting or repeated success. Instead, these opportunistic border crossings, after initial moments of joy and excitement, often tear families apart, put human lives in danger and outside the law, and tend to result in a drama of personal disappointment, abuse, and loss.

Most of the reported several hundred thousand North Korean migrants in Manchuria obviously try to escape from starvation and economic misery back in the DPRK. Some refugees are alleged to flee from criminal and administrative prosecution at home. Certain defectors clearly seek political asylum. Still, others opportunistically attempt to enrich themselves through repeated interactions with China by exploiting the growing inefficiencies of North Korea's collapsing economic system and ubiquitous corruption at all levels of the DPRK's administrative system and law enforcement organs.

Cross-border human trafficking, polygamy, underage sex slavery, illegal opium production in the mountains, drug smuggling from Manchuria to the North, commercialization of political asylum-seeking, contraband trade, black marketeering, local corruption, physical abuse, and violent crime all constitute part and parcel of the tragic North Korean refugee life in the Manchurian underground, organized by a seamless web of sly and ferocious intermediaries of Chinese-Korean descent in the Yanbian Korean autonomous region in China and their North Korean contacts of Chinese origin in the North.

The DPRK's authorities must be well aware of the tense criminal situation along the Sino-Korean border and miserable predicament of North Korean migrants. But, they do nothing to remedy the situation because it suits their parochial interests just fine. On a national level, underground human traffic to China offers a manageable safety valve relieving the socio-economic pressures from the discontented public on the malfunctioning regime institutions. Money remittances from migrant laborers and family members in Manchuria help liquefy the economy. Cross-border Korean shuttle traders help satisfy consumer demand outside the broken, state-run public distribution system. Locally, frightening stories from the returnees about the horrors accompanying the escape and dangers of life under the unbridled Chinese capitalism help deter and discipline new potential opportunists. Local law enforcement and their benefactors in higher

places on both sides of the border closely monitor and levy heavy duties on all aspects of cross-border interactions: everything has a price in these exchanges; it is all about money, not ideals or principles.

This notwithstanding, Kim Jong Il cannot ignore a plethora of potentially explosive downside risks stemming from the Manchurian entanglement. When almost 2 percent of the total national population—predominantly of younger ages and female gender—leave the country, he has a real problem: it diminishes the most productive cohort of the labor force; it disrupts families as the primary unit of social life; it affects the population reproduction rate amidst persistent demographic decline; it reduces the pool of potential military conscripts; and it creates a conducive environment for intellectual brain drain. Drug trafficking between Manchuria, Japan, and Russia via North Korea corrupts local law enforcement and national security apparatus, destroys local economies, and adversely affects public health and morals.

In addition, when desperate North Koreans storm foreign embassies and consulate offices in Beijing, Shenyang, and Shanghai, it creates unnecessary diplomatic complications with the Chinese central leadership and directs unwanted attention of the international community to the human rights situation in the DPRK. Moreover, people who cross the border back and forth, in whatever capacity or manner, spread discontent, create more expectations and dissent, disturb social peace, and undermine political stability in the periphery.

Furthermore, multi-layered and multi-faceted espionage activities and mutually subversive operations run by the North and South Korean intelligence services against each other in Manchuria, contentious interaction between the North Korean and Chinese security services in the area, xenophobic local policies and anti-DPRK propaganda campaigns among the general population in Yanbian, frequent Chinese police raids against the known refugee concentration areas, and periodic troop redeployments along the border only add to the sense of tension and uncertainty along the DPRK-PRC border and put more stress on the overall bilateral relationship.

But the ultimate risk for Kim Jong Il is that of China-sponsored forced dethronement. He can never be personally secure as long as there is a latent threat of the so-called “pro-Chinese fifth column” inside the DPRK that can move against his regime at Beijing’s beck and call, let alone spy on his government from the inside at will. As a reflection of his regime’s vulnerability, Kim’s unyielding paranoia at the perceived Chinese creeping internal subversion is partly responsible for periodic purges of the so-called “pro-Chinese elements” and “China sympathizers” within the senior ranks of the Korean People’s Army, WPK Central Committee, central economic bureaucracy, and among the Korean population of Chinese origin nationwide. Kim’s clan that rose to power in North Korea through the anti-Japanese guerrilla struggle in the hinterland of Manchuria in the 1930s and 1940s must ensure that Beijing not allow any kind of local autonomous groups with anti-North Korean political agendas, self-government, and anti-DPRK resistance to form among the North Korean refugees in Northeast China. No matter how much bilateral relations between the DPRK and PRC may deteriorate in the future, Kim Jong Il will continue to give “lip service” to the “traditional Korean-Chinese friendship” and to “serve the great”—albeit with an

attitude—to prevent Beijing from choosing and sponsoring another Manchurian candidate to replace Kim's dynasty in Pyongyang.

## THE SECURITY DIMENSION: AMERICAN CHALLENGE AND NUCLEAR GAMBIT

Strategic security considerations play an important part in the DPRK's China debates. DPRK leaders perceive the Bush administration policy toward their country as extremely hostile, belligerent, and aimed at the eventual forceful overthrow of the existing political system and Kim Jong Il's government. Pyongyang's "peaceful offensive" of the 1990s, including the policy of "nuclear freeze" instituted under the terms of the 1994 Geneva Agreed Framework and its attempts to normalize diplomatic relations with the Western countries, was checkmated by the Bush strategy of "neo-conservative rollback." Against the background of renewed international hostility, the intensified U.S.-led blockade, and deteriorating domestic economic conditions, Kim Jong Il seems to have decided to play a nuclear card in his strategic maneuvering between China and the United States to deter what he perceives as the rising "threat of the U.S. pre-emptive nuclear strike."

The experience of the past decade must have taught Kim Jong Il that he could get very little mileage from "ideological (Marxist-Leninist) solidarity" and "traditional bonds" with the revisionist Chinese "comrades-in-arms." The fourth-generation communist leaders in Beijing, headed by Hu Jintao, seem to be very pragmatic, increasingly nationalistic, and harbor no personal feelings, sense of remorse, or attachment to their North Korean counterparts. Therefore, Kim toned down the lyrics and emotions and adopted a cool-headed, pragmatic approach in his pursuit of national self-interest in his dealings with China.

At present, mutual trust between the leaders of the two countries is badly shaken. The North Korean leaders harbor serious doubts about the PRC's security commitment to the military defense of the DPRK and the credibility of China's nuclear umbrella, despite the ironclad mutual obligations under the 1961 DPRK-PRC Mutual Defense Treaty, which officially remains in legal force. But, due to the enormous complexity and strategic significance of the overall DPRK-PRC relationship, the "special bonds" that exist between the Korean People's Army and the Chinese People's Liberation Army, as well as multi-faceted daily interactions between various government bureaucracies of the two countries, it would be imprudent, short-sighted, and virtually impossible for Kim Jong Il to single-handedly write China off in his strategic calculations in the national security area. He does not want to be abandoned by China. Hence, the North Korean manipulations of Chinese sensitivities, which are designed to make China recommit itself to the security and sovereignty of North Korea at the expense of Beijing's "strategic cooperation" with Washington. Pyongyang skillfully uses the American card and the nuclear card to leave Beijing with no options other than facing either the dreaded six-headed monster of American Scylla or the engulfing terror of nuclear Charybdis.

Kim's tough message to Hu is nothing short of nuclear blackmail: "Americans threaten us, so you either guarantee our security against the U.S. encroachments, or we will do it by ourselves by going nuclear." Beijing repeatedly stated its principled opposition to the nuclearization of the Korean Peninsula.

But, Pyongyang is adamant about its “sovereign right to possess a nuclear deterrent force.” Kim’s gamble is that China does not want to see its strategic backyard in Northern Korea be transformed into an open-ended frontline and a bleeding wound in its looming global confrontation with the U.S. hegemon in the long run. Consequently, Kim may expect that Chinese leaders will neither call his nuclear bluff nor sell him out to the “ugly Americans,” but instead will push Washington to a normalization settlement, delivering him an olive branch of détente with the United States without war. Perhaps, ardent Chinese intermediation may deliver the Second Opening of Korea to the West, similar to events in the late nineteenth century when the Shufeldt Treaty of Peace, Amity, and Navigation was concluded between the United States and China-dependent, isolated Korea.

In the meantime, Kim seems determined to maintain a degree of strategic ambiguity regarding his nuclear intentions and capabilities to keep China in the game and on his side. Kim also seems keenly interested in pushing for a negotiated solution at the on-again, off-again six-party talks in Beijing.

## **THE NATIONALISM DRIVER: COPING WITH THE GROWING ROK-PRC STRATEGIC PARTNERSHIP AND PROSPECTS FOR KOREAN UNIFICATION**

**K**orean nationalism is another significant driver in the DPRK’s China debates. Kim Jong Il’s ultimate nightmare is that Beijing may strike a separatist strategic deal with Seoul behind the scenes at the expense of Pyongyang. Korean history is merciless: China can make or break any Korean state. As a rule, China’s approach to the Korean Peninsula has been relatively benign and passive. However, whenever the peninsula is divided, China’s role as the final arbiter of Korean unification becomes indispensable. North Korean leaders are well aware that to be victorious in any unification drive, an ascending Korean power must align itself with China, because of China’s enormous political, economic, and military potential, huge stakes, and a high degree of sensitivity to geopolitical developments on the Korean Peninsula.

As a realist, Kim Jong Il understands that he cannot stall or slow down the mammoth growth of Chinese-South Korean annual trade and meteoric rise in mutual cumulative investment (nearly US\$35 billion and more than US\$10 billion, respectively). Nor can he probably frustrate an all-out intensification of their political and military exchanges, which undermines the credibility of the DPRK-PRC mutual alliance treaty.

Kim’s game seems to be to promote “national cooperation” between the North and South, play up historical anti-Chinese nationalist sentiments across the DMZ, and gradually, albeit reluctantly, increase his reliance on the ROK for economic assistance, diplomatic support, and military guarantees, thereby reducing the DPRK’s lop-sided dependence on and strategic vulnerability to China, giving a stake to Seoul in the survival of his regime, and, in the long run, using the South as a leverage in his own bargaining with the Chinese, or even forging a common North-South front in dealings with the PRC. In other words, if worse comes to worst, a Chinese blessing for the gradually expanding South Korean protectorate over the Kim clan-run North Korea is better than a Beijing-sponsored military coup in Pyongyang or the PRC-sanctioned, avalanche-style, outright absorption of the DPRK by the ROK.

## CONCLUSION

China's dramatic rise to economic superpower status has sent shockwaves throughout East Asia and the world. Paradoxically, its closest neighbor and most traditional ally, North Korea, benefited the least from China's booming economy, new power capabilities, and greater influence in international affairs. Having missed the Chinese juggernaut in the past two decades, Pyongyang feels betrayed, abused, and abandoned by China. North Koreans still "serve the great" (*sadaejui*), as they have been practicing for centuries, but they do it with an attitude. Admiration is mixed with envy—at times even enmity. Attempts to emulate the Chinese economic model are thwarted by anti-Chinese nationalism. Cooperation is obstructed by fear and lack of trust. "Lip service" for "the teeth" resembles conditional accommodation. Although most North Koreans naively view China in a benign light and believe that Beijing harbors no sinister motives vis-à-vis their government and the Korean Peninsula, Kim Jong Il personally seems to be quite suspicious of Beijing's ulterior motivation and will continue to second-guess and hedge any dealings with China as long as he stays in power.



The views expressed in this publication are those of the author(s) and do not necessarily reflect the official policy or position of APCSS, U.S. Pacific Command, the U.S. Department of Defense, or the U.S. Government.

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**Asia-Pacific Center for Security Studies**

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949

tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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## Asia-Pacific Center for Security Studies



**SPECIAL ASSESSMENT**

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### Asia's China Debate

Robert G. Wirsing is a South Asia area specialist at the Asia-Pacific Center for Security Studies in Honolulu. He has made more than thirty research trips to the South Asian region since 1965. Dr. Wirsing's latest book is *Kashmir in the Shadow of War* (M.E. Sharpe, 2003).

# "The Enemy of My Enemy": Pakistan's China Debate

ROBERT G. WIRSING

## Executive Summary

- In current circumstances of U.S. global dominance and shifting strategic alignments in Asia, Pakistani leaders have been compelled to reexamine their four-decades-long alliance with China and to consider the possibility that China, lured by alternative alignments in the course of its progress toward greater global power, may lose interest in Pakistan.
- A long-standing consensus persists among Pakistanis, nevertheless, that the alliance with China is not only indispensable but also more than likely to endure. The consensus is driven by Pakistan's increasing dependence on China's massive and sustained military aid and by the Pakistani conviction that Pakistan and China share major strategic interests.
- The most important strategic interest shared by China and Pakistan is the containment of India.
- Pakistan's principal stakeholders in an enduring China connection are its armed forces and their civilian allies both in the federal bureaucracy and in the country's sprawling defense community.
- These same stakeholders have an equal, or even greater, interest in sustaining Pakistan's present alliance with the United States; but such an alliance is up against formidable obstacles, foremost among them the Pakistanis' deep-seated mistrust of American intentions in South Asia. In the best of all worlds, Pakistanis would choose to have close and enduring relations with *both* China and the United States.
- Whether Pakistanis continue indefinitely to look to China to meet their military and strategic needs will depend, in the end, on momentous strategic decisions yet to be made not only in Islamabad and Beijing but also in Washington and possibly New Delhi.

For four decades, the Sino-Pakistan strategic alliance has benefited both China and Pakistan. Pakistan was China's only reliable Free World diplomatic partner during the years of China's international isolation; and it remains today, as always, a useful gateway for Chinese penetration of the energy-rich Islamic Middle East. China, for its part, has supplied the Pakistanis with an abundance of relatively inexpensive conventional arms, as well as strategically vital nuclear weapon and ballistic missile know-how. Each party to the alliance has served the other as a muscular counterweight to India and hedge against Indian adventurism.

In an era of U.S. global dominance and shifting strategic alignments in Asia, Pakistanis have been reexamining the pros and cons of continuing alliance with China. Their reassessment has taken account of China's relentless economic march and potential for forcing an eventual redistribution of power in Asia—one that might work in Pakistan's favor—but it has also had to consider the possibility that China, in the course of its progress toward greater global power, might lose interest in Pakistan. Equally, the reassessment has had to reckon with Washington's persistent military and economic primacy, its post-9/11 redefinition of America's national security imperatives, as well as its emerging and very likely competitive relationship with Beijing. Meanwhile, how New Delhi plays its relations with Pakistan, as well as with Beijing and Washington, has also had to be factored into Pakistani calculations.

There is relatively little *public* debate in Pakistan about its alliance with China. This is explained in part by the extreme sensitivity of the issue and the Pakistanis' understandable reticence to publicize any reservations they may have about an alliance that has proven of such inestimable value to them. It is explained in larger part, however, by the long-standing consensus among Pakistanis—of whatever political or ideological leaning—that the alliance is not only indispensable but also more than likely to endure. As they see it, the endurance of the alliance will owe its greatest debt to the probable persistence of a common Sino-Pakistani interest in the containment of India, an interest captured in the old adage: "The enemy of my enemy is my friend." This interest could well expand in the future. At least implicit in Pakistan's China debate, then, is the possibility that the alliance with China may yet prove even more advantageous to Pakistan than it has been in the past.

## PAKISTAN'S CHINA CONNECTION: POLICY DRIVERS

The 1963 Sino-Pakistan Border Agreement, following quickly upon the Sino-Indian border war of 1962, eliminated whatever grounds for dispute might have developed between China and Pakistan over the ill-defined international boundary that wound its way between them in the lofty peaks of the Karakoram mountain range. Accompanying the Border Agreement, which rewarded Pakistan with more terrain than it could unequivocally claim title to (including the prestige-rich southern face of Mount Godwin Austen, or K-2, the earth's second highest peak), was an accord sanctioning the establishment of commercial air traffic between the two countries. This was China's first such accord and an early sign of the reciprocity that has always underpinned the Sino-Pakistan relationship. It was not long before these understandings blossomed into a multifaceted partnership, which the Chinese describe as an "all-weather friendship." This

has left a deep Chinese imprint not only upon Pakistan's military forces but upon its strategic planning as well.

### **Military aid**

Among Pakistan's armed forces there are plentiful signs of China's past and future importance to Pakistan as an arms supplier. The supply relationship began in the mid-1960s with China's provision of interest-free loans and relatively inferior but free military hardware. In the 1980s, the relationship shifted to arms production cooperation; Pakistan was asked to pay for the hardware, and the loans carried interest. Cash-strapped Pakistan had to rely increasingly on Chinese arms and forego the superior and more expensive Western arms. As a result, the bulk of the army's striking power today is overwhelmingly of Chinese manufacture. Even Pakistan's still very small navy shows the ever-increasing importance of China's aid. In October 2003, China and Pakistan conducted joint naval exercises—the first ever undertaken by China's navy—off the coast of Shanghai.

Clandestine Chinese supply of sensitive nuclear technologies to Pakistan—allegedly ranging all the way from the supply of weapons-grade uranium, ring magnets, Chinese scientists, and high-tech diagnostic equipment for nuclear weapons testing to the provision of a design for Pakistan's nuclear bombs—has all along been indispensable to Pakistan's nuclear weapons program. Pakistan's expanding nuclear-capable fleet of short- and medium-range surface-to-surface ballistic missiles is also heavily in China's debt. In its latest semi-annual report to Congress on the proliferation of weapons of mass destruction, the U.S. Central Intelligence Agency (CIA) stated: "Chinese entities continued to work with Pakistan and Iran on ballistic missile-related projects during the first half of 2003. Chinese entity assistance has helped Pakistan move toward domestic serial production of solid-propellant SRBMs and supported Pakistan's development of solid-propellant MRBMs."

Pakistan may even be benefiting from China's rapidly advancing satellite imaging and navigational capabilities. According to an Indian analyst, these capabilities "have serious security implications for India. Not only do they enhance surveillance cover over Indian territorial space, they also provide a greater degree of precision and control to Pakistani missiles, improving their circular error of probability (CEP) substantially."

It would, of course, be a serious error to view Pakistan as the sole or even principal beneficiary of its military relationship with China. As one of the biggest of very few foreign customers for Chinese armaments, Pakistan has been a major source of revenue for China's struggling arms industries. Pakistan has also been an extremely important surreptitious source of superior Western weapons (especially aircraft) technology. It is to be doubted, moreover, whether Pakistan—after decades of formal collaboration with China in co-production of ground and air weaponry—has achieved any greater genuine arms independence than it had when the relationship began.

### **Strategic complementarities**

Apart from the military assistance rendered by China over the decades, Pakistanis attach at least equal weight in their assessments of the China-Pakistan connection to the seeming complementarity or overlap in the two states' *strategic* interests.

This apparent closeness of strategic fit between them, hailed unreservedly in public pronouncements by both sides for many years, has without doubt been unashamedly inflated. In a public speech in Beijing during his early November 2003 visit to China, for instance, Musharraf described the partnership as “deeper than the oceans, higher than the mountains”—mirroring the rhapsodic language that both he and the Chinese had employed during earlier official visits. There is, it is usually claimed, “total unanimity of views on all global and regional issues” between Pakistan and China. Some Chinese have gone so far as to speak of Pakistan as “China’s Israel.” Clearly, a pinch of salt is needed here. Nevertheless, the fact of complementarity is plain to see.

Beijing and Islamabad, both faced with existing or imminent colossal dependence on Gulf energy supplies, have an obvious common interest both in sustaining friendly relations with the oil and gas supplier states in the Gulf, Saudi Arabia in particular, but also in guarding routes of transit to those supplies through the Indian Ocean. Both also have a common interest in developing—and ensuring access to—the energy resources of the Central Asian Energy Corridor. This means they share an interest in building friendly ties with the now independent Muslim-majority Central Asian republics and, by the same token, in preventing their rivals’ ties with these republics from getting too close. In the joint Sino-Pakistan development currently underway of new port facilities at Gwadar, as also in the earlier jointly engineered and constructed trans-mountain Karakoram Highway in northern Pakistan, these interests and a related general interest in the expansion of trade and commerce are served.

Far and away the most readily visible strategic complementarity, however, is their shared interest in the containment of India—or, as China-scholar John Garver puts it, in the prevention of “Indian hegemony” over the subcontinent. In Pakistan’s case, this interest has dominated all others from the moment independence was secured in 1947. It has helped inspire four wars with India and seems almost inseparable from the idea of Pakistan itself.

In China’s case, the actual extent of shared interest with Pakistan in the containment of India is less easily measured; indeed, Pakistanis have recently been displaying more than a little anxiety in regard to the seemingly robust growth in Sino-Indian relations—including even military-to-military relations.

Pakistanis take comfort in the arguments of those who contend that China’s rivalry with India is deep and lasting—hence, Pakistan’s importance to China will persist. As John Garver sees it, the alliance with Pakistan was always largely intra-regional in focus, prompted mainly by Beijing’s wish to prevent India’s emergence as a serious rival and, in particular, to block India from any role in China’s encirclement. At the forefront of their rivalry, Garver explains, “are Chinese efforts to establish and expand political and security relations with the countries of the South Asia-Indian Ocean region (SA-IOR) on the one hand, and Indian efforts to thwart the establishment of such links, on the other.” From the Indian perspective, China’s “aggressive” stance in the SA-IOR, according to Garver, covers a broad swath of activities, to include not only continuing nuclear, missile, and conventional arms assistance to Pakistan, but also the development of a military *cum* intelligence relationship with Nepal; increasingly dense military relations with Myanmar; mounting People’s Liberation Army activities in the

Indian Ocean; burgeoning military relations with Bangladesh; and efforts to establish normal diplomatic relations with Bhutan.

From the Chinese perspective, these activities, according to Garver, are fully warranted by two more or less permanent Chinese security vulnerabilities to which India is already or could become a substantial contributor. One is the stability of China's control over Tibet; the second is the safety of China's sea lines of communication across the Indian Ocean. India's close cooperation with the CIA's efforts to penetrate Communist-held Tibet in the 1950s, documented in a recent study, underscores for Beijing the inherently perishable character of New Delhi's present hands-off policy toward Tibet. By the same token, India's mid-2001 decision to create a Far Eastern Strategic Command at Port Blair for the Andaman and Nicobar island archipelagos, significantly enhancing India's capacity to monitor and potentially to threaten key chokepoints in the Indian Ocean, had to be looked upon apprehensively by Beijing, which was busily expanding its own military activities on islands off the coast of Myanmar. Compounding Chinese suspicions was India's "Look East Policy," launched in 1995 under Prime Minister Narasimha Rao, a mix of economic and military rationales aimed at expanding India's security ties with states neighboring China in the Pacific Ocean. Alarming to Beijing, in particular, were New Delhi's efforts to deepen security dialogue and cooperation with Vietnam and Japan, both of which have long historical records of bitter enmity with China. As the Chinese saw it, the "Look East Policy" more than anything had the earmarks of a counter-encirclement policy aimed against China. Fundamental to China's security, viewed in the light of the foregoing, has long been the restraint of India—an objective that translates, in general terms, into a broadly based power-balancing strategy in the SA-IOR, and, of direct pertinence to the present discussion, into China's desire for both "a strong Pakistan, and a solid strategic partnership between China and Pakistan."

Pakistanis have to consider the more troubling possibility, however, that economic pragmatism, awakened by the opportunity for joint pursuit by India and China of economic modernization, may increasingly drive China's policies in South Asia. In his most recent book, the respected Indian journalist C. Raja Mohan, for instance, disputes Garver's view, arguing not only that the rapid expansion of economic relations between India and China is likely to play an increasingly larger role, driving them inexorably toward increasingly cooperative interaction, but that "a confident India could in fact leverage China's growing economic presence to achieve its own objective of regional integration in South Asia." It is true that two-way bilateral trade between Pakistan and China nearly doubled in value between 1996 and 2002; but in 2002, after almost forty years of Pakistan's "special relationship" with China, the trade was still valued unimpressively at less than \$2 billion—a figure even less impressive when set against the more than \$7 billion trade volume recorded in the same year between China and India.

In fact, virtually all analysts of China's strategic relationships with the states of South Asia, including Garver, acknowledge not only the powerful economic and other incentives for building a closer and more cooperative relationship between the world's two most populous states, but also the existence of "strains"

in China's alliance with Pakistan. Common to most of these analysts, nevertheless, is the belief that the pattern most likely to prevail in the relationship between China and India is one of continuing—even if somewhat muted—conflict. The reasons given for this likely persistence of Sino-Indian rivalry vary. The factor most often cited, however, is the strong and interdependent relationship that exists between the Sino-Indian and the Indo-Pakistani rivalries. The Indians' inevitable anxiety about China and the nightmare of Sino-Pakistani collusion, on the one hand, and China's huge incentive to take advantage of India's implacable rivalry with Pakistan, on the other, are powerful security strategy drivers. They go far to explain the Pakistanis' confidence that, all things considered, their China connection is most likely to endure.

### PAKISTAN'S CHINA CONNECTION: LOOK EAST OR WEST?

When it comes to China, Pakistan can boast only one substantial stakeholder—one “vested interest,” so to speak, or committed lobby—prepared to act as a forceful advocate of the China connection. That stakeholder is, of course, the Pakistan armed forces. For forty years, they (and their civilian allies in the country's sprawling and diverse defense community) have been the principal beneficiaries of material Chinese assistance; they have also been the principal beneficiaries of its strategic weight. Any major change in Pakistan's China policies would impact most directly and profoundly upon Pakistan's armed forces. In the intimacy, depth, value, and duration of linkages with China, no other element of Pakistani society comes even close to the military. Pakistan's trading class is oriented overwhelmingly toward Europe, the United States, and Japan. There is no Chinese diaspora in Pakistan of any size to exert influence on behalf of Beijing. Neither is there any indigenous ethnic or religious group in Pakistan with significant historical or cultural ties with China. Pakistan's educated elites, its literati, are grounded overwhelmingly in the English tradition and habitually look to the West for intellectual nourishment. Neither Marxism nor Maoism has ever had a sizeable following in Pakistan. While Pakistan's increasingly powerful Islamist political groups—such as the six-party Muttahida Majlis-i-Amal (MMA) or United Action Forum that successfully contested the October 2002 national and provincial elections—obviously have strong political grounds for favoring China over either India or the United States, their religious orientation clearly is an impediment to unqualified endorsement of China, which has its own repressive anti-Islamist (“counter-terrorist”) campaign underway in Xinjiang.

Already hinted at in the foregoing is that there are at least as many—and most likely far more—Pakistani stakeholders with strong interest in Pakistan's *American* connection as there are those prepared to stand up for China. This statement would hold up just as well among Pakistan's *military* classes as it would in the country's commercial and intellectual sectors. This is true in spite of the tremendous wave of anti-Americanism that has been showing up with regularity in opinion polls in Pakistan. The problem is that Pakistan's cultivation of its American connection faces two fundamental obstacles. The lesser of the two is that Islamabad's Chinese ally is bound to scrutinize closely any measure aimed at

building a strengthened U.S.-Pakistan relationship—and to let it be known in Islamabad whenever a measure seems to conflict with China's interests. The second and much more formidable obstacle is that, notwithstanding Islamabad's post-9/11 counter-terrorist alliance with Washington, the durability of Pakistan's relationship with the United States is far from assured. Pakistan's reputation in the American media *since* 9/11 seems worse than it was *before*. And, if the recommendations of a Council on Foreign Relations/Asia Society report (*New Priorities in South Asia: U.S. Policy Toward India, Pakistan, and Afghanistan*) released in November 2003 are taken seriously by Bush administration officials, then a noticeable (and likely negative) change in Washington's policy toward Pakistan could not be long in coming. "Pakistan," said the report's authors in the Executive Summary,

*presents one of the most complex and difficult challenges facing U.S. diplomacy. Its political instability, entrenched Islamist extremism, economic and social weaknesses, and dangerous hostility with India have cast dark shadows over this nuclear-armed nation. Even though Pakistan offers valuable help in rooting out the remnants of al-Qaeda, it has failed to prevent the use of its territory by Islamist terrorists as a base for armed attacks on Kashmir and Afghanistan.*

Pakistan looks east (to China), in other words, not merely because there are powerful incentives to do so, but because there are at least equally powerful disincentives against looking west. Besides its general dissatisfaction with Pakistan, Washington has launched a major effort to bolster its ties with India, and that effort has all the symptoms of permanence. To Pakistanis, this is far more serious—and threatening—than the parallel efforts by Beijing to foster friendlier ties with New Delhi. Pakistanis expect little to come of efforts underway in late 2003 to foster Pakistan's reconciliation with India. On the contrary, they expect the India-Pakistan confrontation to go on indefinitely. In this environment, it is not surprising that Pakistanis—the great majority of them, anyway—continue to look east.

## CONCLUSION: "THE ENEMY OF MY ENEMY"

There is nothing especially odd about a strategic perspective grounded in enmity with one's neighbor. Throughout history, most wars have been fought between geographic neighbors. Pakistan has fought four with India; and India has fought one with China. So the fact that Pakistan's friendship with China is based on their joint enmity toward India ("the enemy of my enemy") is not an occasion for surprise.

Also not surprising is that Pakistan's China debate, though earnest in policy circles, is largely curtailed off from public view. In spite of its life-and-death importance to Pakistanis, the China debate makes its way into print fairly infrequently and is not a major focus of public discussion. This is not because Pakistanis entertain no doubts about the future of their country's bond with



China. It is that Pakistan has no good alternatives and is thus reluctant to take unnecessary risks.

What is most noteworthy, perhaps, is that the strategic debate about Pakistan's American connection does receive a lot of public attention in Pakistan. The American connection has historically been the most volatile of Pakistan's foreign ties and is the one Pakistanis would most like to retain and bolster, if they could. However, it is the one they most expect to perish and whose eventual fate will have enormous impact on the direction taken in coming years by the Sino-Pakistan alliance. If India's ties with the United States mature in a manner understood in both Beijing and Islamabad as inimical to their long-range interests, then the Sino-Pakistan alliance may grow even stronger than it is now. And if China's relationship with the United States grows yet more strained—as some observers believe it is bound to—then that too might reinforce Pakistan's China connection. Obviously, circumstances do not permit definitive judgments on the evolving pattern of alliances and counter-alliances now taking shape in Asia. Neither do they rule out major changes in the pattern of Pakistan's China debate. Clearly, much depends on momentous decisions yet to be made not only in Islamabad and Beijing but also in Washington and less so in New Delhi.

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tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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## Asia-Pacific Center for Security Studies



**SPECIAL ASSESSMENT**

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### **Asia's China Debate**

Rouben Azizian came to the Asia-Pacific Center for Security Studies from the University of Auckland, New Zealand. Prior to that he spent twenty-two years as a Soviet and Russian diplomat. Dr. Azizian has numerous publications on politics of Russia and CIS as well as Asian security.

# **The Optimists Have the Lead, for Now: Russia's China Debate**

**R O U B E N   A Z I Z I A N**

## **Executive Summary**

- Despite their differing approaches to postcommunist transition, Russia and China have established close political, military and economic relations. The two countries basically share the same views on principles governing international relations, emphasizing in particular their preference for a multipolar world.
- However, for Russia, China represents not only an opportunity for retaining global and regional influence but also a potential security threat as a rising great power, undergoing impressive military modernization and economic expansion, overpopulated and sitting astride the wide expanses of Russia's underpopulated Far East, where energy and other natural resources abound.
- The dissonance between the positive that has been achieved between Moscow and Beijing and the unpredictability of what lies ahead in the relationship between the two has triggered a lively debate in Russia's political, diplomatic, military and academic circles.
- There are several schools of thought in Russia regarding its relations with China. The optimists see China as a strategic ally against the West, while the pessimists believe China is Russia's largest threat. The differences of opinion on China can be drawn along ideological lines, strategic perspectives, geographic location or practical gains or losses of particular actors. The most controversial areas of Russo-Chinese relations are border issues, migration, arms sales, and energy cooperation.
- The intensity of Russia's China debate depends on the evolving correlation of national power between Russia and China, the fluctuating level of understanding between Moscow and the Russian Far East but also on the state of Russia's and China's uneasy relations with the United States.
- At the moment, the optimists prevail in the debate, which can be explained by the huge commercial benefits of cooperation with China as well as Beijing's reluctance to challenge Russia's global and regional interests, in contrast to the United States' more ambitious role in the world including the former Soviet republics.

## RUSSIA AND CHINA: PRIORITY PARTNERS

After two decades of bitter confrontation Russia and China entered a period of normalization in the eighties, followed in the nineties by dramatic improvements in bilateral political and economic relations. According to the China-Russia Treaty of Friendship and Cooperation signed on July 16, 2001, both countries pledge to develop a long-term strategic and cooperative partnership based on good neighborliness, friendship, cooperation, equality and trust. The treaty states that the two sides have no claims to each other's territory. Russia is the only country with which China has such a treaty, and this is a reflection of China's foreign policy doctrine, which calls for "relying on the North (Russia), stabilizing the West (India), and concentrating on the East (Taiwan) and the South (Spratly Islands)." Russia also needs China as a geostrategic partner and a vast market for Russian weapons, oil and gas, and manufactured goods.

President Putin was the first leader of a major foreign state to visit China after its historic Sixteenth Communist Party Congress, which brought to power the fourth generation of Chinese leadership. Russia was the first destination for an official visit by China's new leader Hu Jintao. China is Russia's major arms buyer. The bilateral trade, still relatively modest, has however increased from \$7 billion to \$14 billion in the last five years. Sino-Russian relations are not limited to a bilateral sphere, but have global and regional significance. The two countries basically share the same views on principles governing international relations, emphasizing in particular their preference for a multipolar world. Russia and China have been elevating their regional security cooperation through the Shanghai Cooperation Organization, which vies for strategic preeminence in Central Asia.

Following several decades of hostility with Beijing, official Moscow understandably considers improved relations with China as a major achievement in its foreign policy. Against the background of continuing geopolitical rivalry with the United States, frequent frictions with the new independent states (former Soviet republics), and frustrating impasse in Russo-Japanese territorial dispute, Russian-Chinese ties appear to be a model of stability, complementarity and mutual respect. In an exclusive 30 May 2002 interview for Chinese media, President Putin said that despite Russia's recent strengthening of ties with the United States and NATO, "our relations with China are by nature higher than those with the United States."

However, for Russia, China represents not only an opportunity for retaining global and regional influence but also a potential security threat: a rising great power, undergoing impressive military modernization and economic expansion, overpopulated and sitting astride the wide expanses of Russia's underpopulated Far East, where energy and other natural resources abound.

## SOURCES AND DRIVERS OF THE DEBATE

This dissonance between the positive that has been achieved between Moscow and Beijing and the unpredictability of what lies ahead in the relationship between the two has naturally triggered a lively debate in Russia's political, diplomatic, military and academic circles. The intensity of the debate depends on the evolving correlation of national power between Russia and China, the fluctuating

level of understanding between Moscow and the Russian Far East but also on the state of Russia's and China's uneasy relations with the United States. When Moscow leans toward Washington, as was the case after September 11, 2001, demands from Russia's foreign policy community for more attention to China grow. On the other hand, Moscow's attempt to engage China in an anti-U.S. campaign after events in Kosovo in 1999 or to form a strategic triangle between Russia, China and India provoked criticism at home.

Historically, Russia's China debate goes back to the nineteenth century when China became a symbol of a distinctly different society, and proponents of various ideologies who debated Russia's future, such as the Westernizers and Slavophiles, began to use this symbol in their heated discussions. This debate was of course silenced during the Soviet era but quickly reemerged after Russia's liberation from Soviet ideology. In the late eighties there seemed to be a consensus that the bilateral relations had to be normalized. Interestingly, the Tiananmen drama of 1989 did not lead to a major debate in Russia. Firstly, there was general fear of upsetting the fragile state of Russo-Chinese relations. Secondly, Moscow was focusing on its relations with the West, and China was not a prominent factor in its foreign policy. Thirdly, Russia's communist forces were discredited, demoralized and weakened and therefore unable to defend China's image. However, soon after that, China reappeared in Russia's foreign policy debate. The internal driver for this was the enormous social deprivation of the Russian population as a result of the radical economic reform. Even some of the democratic reformers started contrasting unfavorably Russia's radical approach with China's economic gradualism. The communist forces quickly reemerged on the political scene and initiated a campaign for closer relations with China and emulation of China's developmental model. Geopolitically, Russia's loss of influence, despite close relations with the West, prompted an urge to diversify its foreign policy and balance its European and Asian vectors. Russia's Foreign Ministry, despite its traditional U.S. and Eurocentrism, made necessary corrections in its policy priorities.

Pressure from other interested groups added to the urgency of advancing relations with China. Among these groups was the military-industrial complex of Russia, which viewed China as a major commercial partner. Exports became the most attractive source of income for Russian military producers and China became one of their major clients. According to Russia's main arms exporting agency, proceeds from arms exports finance more than 50 percent of Russia's military production, and the largest part of the payments comes from China. Russia's scientific community is increasingly interested in forging relationships with China and capitalizing on Beijing's growing scientific and technological ambitions. Russia's space agency, for example, takes some credit for the successful launch of China's first manned space mission. Some of this cooperation is, however, unauthorized. A number of Russian scientists have been brought to trial for alleged passing of secret information to the Chinese. The Ministry of Defense of Russia seems to be still more apprehensive of the United States than of China. Russia's military doctrine, including its amended post-September 11 version, views China as a friend but continues to be suspicious of the West. The powerful oil and gas companies of Russia—who recognize China's growing energy appetite and see the limits of continuing dependence on the European market—are new, powerful proponents of closer relations with China.

Among the alarmists with regard to China, the leaders of some border regions, especially the Maritime and Khabarovsk Regions, are particularly vociferous. They warn against unrestricted Russian-Chinese border trade and opposed the demarcation treaty. While generally not resistant to trade relations, these leaders lobby for a strictly controlled border and tough measures against Chinese immigration. It was their influence that led to the abolition of the visa-free border crossing system. Russia's Westernizers and liberal reformers, primarily represented by the party Union of Rightist Forces, caution about relying too much on China, a country they see as undemocratic and unlikely to become a stable and prosperous market economy. They contend that Russia's main Asian ally should be Japan. Even among nationalists who are traditionally anti-American, there is growing acceptance that Russia's strategic over-dependence on China is fraught with future dangers for Russia. Vladimir Zhirinovskiy, leader of the ultranationalist Liberal Democratic Party of Russia, sees China as an adversary along with the United States.

While differences of opinion on China can be drawn along ideological lines, strategic perspectives and practical gains of particular actors, it is important to analyze some specific areas of Russo-Chinese relations that are particularly controversial and hotly debated in Russia. These areas include, but are not limited to, border issues, Chinese migration, arms sales, and energy cooperation.

## BORDER ISSUES

The intensive political dialogue between Moscow and Beijing during the Boris Yeltsin era paved the way for agreements on border issues. For the first time in the history of Russo-Chinese relations, the common border is becoming clearly delineated on the ground. Compromise solutions have been found for certain disputed islands in border rivers, and the signing of an agreement on the joint economic utilization of these islands has become possible.

However, the border problems have not been resolved completely and continue to cause concern in Russia. Some believe the Chinese have only temporarily agreed to the border status quo and have not relinquished their territorial claim for about 1.5 million square kilometers in Siberia and the Russian Far East. They believe China's agreement to the current border arrangement is tactical and that Beijing may "return" to this question at a more appropriate time in the future—perhaps when China is in a stronger position. China skeptics also refer to the tendency of the border being pushed more and more to the north since the border negotiations started at the end of the 1980s. There are doubts whether the Chinese will abide by their promise to allow joint economic activity in the areas acquired from the Russians as a result of the agreements.

The border issue has revealed two distinct attitudes in Russia toward dealing with China. The optimists have been justifying Russia's compromises on the basis that it is better to seal the border while China has not yet reached superpower status. The pessimists accuse the government of ignoring the Chinese mentality, which takes concessions as a sign of weakness. Regional critics of the November 1997 border demarcation agreement claim that Russia has ceded 9,700 hectares of land rich in flora and fauna. The border agreement on the eastern section defers the decision on two islands near Khabarovsk on the river Amur and one on the river Argun. This could rekindle tension in the future.

President Putin told the meeting of the State Council of Russia in January 2003 that the issue of border delimitation between Russia and China would be resolved in the near future. Vladimir Putin informed the members of the Council that talks on the issue were underway but noted that both sides still needed to make compromises. Khabarovsk Region's Governor Viktor Ishaev, speaking after Putin, warned however that China was carrying out a policy of active expansion in his region. "The political and business elite of China believes that Russia has annexed 1.5 million square kilometers of [Chinese] territory," Ishaev was quoted as saying. Ishaev claimed that the border-delimitation process is linked with Chinese domestic problems, including the fact that the number of unemployed people in China exceeds the entire population of Russia.

## CHINESE MIGRATION

The expansion of trade and economic links between Russia and China, particularly between the border regions, has led to considerable growth in the size of the Chinese diaspora in Russia and provoked an alarmist mood in Russia over what is perceived to be "creeping Chinese expansion." Russian newspapers have often written on the subject of illegal Chinese immigration to Russia, putting the aggregate number of Chinese people in the Russian Federation at up to two million, of whom between 0.3 million and one million have settled down in the Russian Far East. There are concerns in Russia that Moscow's control will snap under the pressure of demography. Russia's population east of Lake Baikal is less than eight million. China's northern provinces that border the Russian Far East are home to 110 million people. Combined with the Russians' atavistic fear that a "yellow peril" could overwhelm them—just as the Mongols did in the thirteenth century—this insecurity manifests itself as outright racism. The authorities of the Maritime Region passed laws forbidding Chinese citizens from owning or renting property and evicting illegal Chinese residents.

Alarmists in Russia perceive Chinese immigrants as Beijing's "fifth column," which could be used by China in the future for purposes of territorial expansion. Vladimir Myasnikov, one of Russia's leading China experts, believes that "whatever the Chinese do in Russia they are always conscious of historic injustices by Russia which took from China the Maritime and Amur regions." Others see the Chinese presence as more of a cultural challenge from an "alien" Chinese civilization. The Chinese nationals that have immigrated into Russia are blamed for the worsening crime rate in the Far East. It is reported that a growing number of Chinese criminal syndicates have been operating in the border areas. Chinese are also seen as taking over the local economy. For example, the former mayor of Vladivostok, Viktor Cherepkov, estimates that Chinese businessmen control 30 to 40 percent of the economy in the Far East and 100 percent of its light industry. Russians are particularly concerned over the emergence of compact Chinese settlements on Russian territory. "Foreigners who obtain residence status get the right to vote. It is easy to guess who they will elect if they live in a compact ethnic community of 3,000 or 10,000," notes the head of Russia's Federal Migration Service, Andrei Chernenko, describing such communities as a "ticking time bomb."

Experts, however, point out that it is not Chinese immigration as such, but de-industrialization and progressive depopulation that threaten Russia's hold on

Eastern Siberia and the Far East. "The matter isn't one of someone causing a military threat to Russia in this region, though under certain circumstances this could happen," says the well-known political analyst, Andrei Piontkovsky. "The problem is that if current trends continue, these territories will drift away of their own accord first economically and then demographically ... The main security issue today, and perhaps the key to Russia's survival in the first half of the 21st century, is whether Russia can hold on to its territory in Siberia and the Far East."

There are indications that the Federal Government is finally awakening to the problem. It has drawn up a program of economic reconstruction of the region to be driven by the development of rich energy and mineral resources and the building of a rail transport corridor from Eastern Asia to Europe. During a visit to the Far East in 2002, Russian President Vladimir Putin urged local authorities to do more to revive the economy. "If people here will not regenerate their region and economy, they will all be speaking Chinese or some other Asian language," President Putin warned. Russian officials also concede that the region needs Chinese workers to compensate for a shrinking local population. "We face a bad shortage of manpower as Russians are leaving the Far East by the millions," complains the presidential representative in the Far East, Konstantin Pulikovskiy.

## ARMS SALES

Russia and China have developed close defense cooperation over the last decade, with China buying Russian conventional weapons systems, including major fighter aircraft such as the Su-27 and Su-30, Sovremenny-class destroyers, Kilo-class submarines and S-300 air defense missiles. Russia has also granted licenses allowing China to assemble Su-27s itself. China is the leading purchaser of Russian arms, spending about \$1 billion per year and accounting for up to 40 percent of Russia's annual arms exports. Arms account for about 20 percent of the trade between the two countries. On 3 May 2003, Russia's state arms export agency, Rosoboroneksport, signed a \$1.5 billion deal to supply China with eight Project 636 submarines equipped with Club missile systems.

Many Russian analysts believe, however, that Russia could someday be threatened by these weapons, as China is the only country likely to pose a real military threat to Russia in the foreseeable future. Political commentator Stanislav Kucher notes, for example, that while Russia is selling state-of-the-art weaponry to China and Malaysia, it cannot find funding to purchase advanced equipment for its own military. According to Kucher, in 2002 the Russian Army purchased only two new airplanes and just six hundred new Kalashnikov automatic rifles. Some Russian military analysts and Foreign Ministry officials are concerned that the defense industry's quest to earn hard currency has relegated security considerations to a secondary priority. They are worried that while Moscow's military presence in the Asia-Pacific region has considerably shrunk, Russian arms transfers are helping China to enhance its power-projection capability in the region.

Optimists in Moscow, however, believe that China's defense capabilities are still modest. In this situation, it can seem better to sell arms to China than to not sell them, according to Yevgeny Bazhanov, deputy director of the Russian Diplomatic Academy. There are also hopes of "domesticating" the Chinese military, making it dependent on Russia for spare parts and ammunition, and creating

within that key constituency a kind of positive psychological predisposition toward Russia. Even in case of a downturn in the relationship, Russia will feel doubly confident—the Chinese will have arms, which can hold no secrets to the Russians. Even though China, like India, is officially rated as Russia's "strategic partner," it does not have unrestricted access to the top-of-the-line Russian weapons, as does India.

In response to a somewhat heated debate regarding China in December 2002, First Deputy Chief of Russia's General Staff Yuri Baluyevsky, who had just returned from a trip to China for consultations with the Chinese military, warned publicly that if Russia changed its Chinese policy it might face a neighbor that "can threaten us by virtue of its quantitative and qualitative potential." "Do we need this?" asked the senior military officer. "I believe that today the most correct policy is to have a good neighbor, true friend, and strategic partner, and never an enemy."

## ENERGY COOPERATION

China has been increasingly interested in the rich gas and oil imports from Russia. Its reserves are thirty to forty times smaller than those of Russia. At the Yeltsin-Jiang summit in November 1997 the two sides initiated an estimated US\$12 billion gas-pipeline project to transport Russian natural gas to the growing Chinese energy market. It was decided to concentrate on two gas projects: a pipeline from the Kovytkinskii gas field in the Irkutsk Region to China (the so-called Eastern Project) and a gas pipeline to China from Western Siberia (the so-called Western Project). In May 2003, YUKOS (Russia's largest oil producer) and the China National Petroleum Corporation (CNPC) signed a \$150 billion deal involving the latter's purchase of up to 5.13 billion barrels of oil (600,000 bpd) between 2005 and 2030, using the Daqing pipeline. (A separate deal to supply 6 million tons of crude oil by rail until the pipeline was up and running was also agreed on.) However, the construction of the oil pipeline remains unresolved after almost nine years of negotiations between Russia and China. The project was first proposed by Russia in 1994. In 2000, Russia and China signed an intergovernmental agreement on the oil pipeline and China spent several million dollars on a feasibility study of the project. Yet in late 2002, newfound enthusiasm and promises of financial support from the Japanese for a pipeline to Russia's Pacific coast seemed to leave Russia unable to decide to which Asian nation—Japan or China—the Russian pipeline would go.

Russia's indecisiveness whether to choose the "pro-China" Angarsk-Daqing line or a "pro-Japan" Angarsk-Nakhodka route can be explained by a number of reasons, including competing domestic economic requirements. But the indecision also stems from growing pressure inside Russia of groups worried about Russia's energy over-dependence on China. These groups see China's growing assertiveness in Russia's oil and gas market as a potential strategic risk. Russia's State Duma adopted on 15 December 2002 a non-binding resolution calling upon the government to ban CNPC from participating in the Slavneft oil company auction. The lawmakers argued that allowing CNPC to buy Slavneft would harm Russia's economic interests, as the company might then ship crude oil directly to China, bypassing Russian refineries. The liberal Union of Rightist Forces (SPS) leader Boris Nemtsov supported the resolution and said that selling such a vitally



important national asset to China would be a political mistake. After negotiations behind closed doors with Russian authorities—and reportedly under their pressure—the CNPC withdrew its bid from the auction.

## CONCLUSION

Russia's perceptions of China are not homogeneous. There are several schools of thought in Russia regarding its relations with China. Optimists see China as a strategic ally against the West, while pessimists believe China is Russia's largest threat. However, the two schools of thought do have certain things in common. Both recognize the importance of good relations with Russia's largest neighbor. At the same time, most of them have not really appreciated the changing strategic importance of China's growing economy. Being more used to seeing economics as only a means of enhancing political and military status, both sides fail to recognize the fact that economic power is becoming an autonomous and significant element of national strength. Comforting themselves by hopes that it will take China a long time to transform its economic strength into military strength, Russian strategists have missed China's arrival at regional leadership by virtue of its enormous importance in maintaining economic and political stability in the region, and indeed the world. Even if China's growing economic importance for Russia is recognized, it is done in a rather simplistic way and is seen as a possible "quick solution" to Russia's problems, reminiscent of Russia's earlier hopes of the West rescuing Russia "overnight" from its economic troubles.

Russia's perceptions of China depend to a great extent on U.S.-Russia relations and the United States' willingness to appreciate Russia's national interests. Russia-China relations are unlikely to turn into an anti-U.S. alliance because both Moscow and Beijing still need Washington more than they need each other. Short of becoming allies, Russia and China will continue to accommodate each other through global, regional and bilateral cooperation to cement their interdependence not only as an obvious practicality between two neighbors, but also as a leverage against the United States' preeminence in world affairs. In Russia, China will continue to be compared with the United States in this respect. As long as Beijing is unwilling to openly challenge Russia's interests, in the former Soviet republics, China will be viewed predominantly positively. As long as China professes a multipolar world, it is suitable for Russia as a strategic partner. If and when China switches to a bipolar (U.S.-China) vision of the world, Moscow's allegiance to China will be questionable and questioned harder by voices at home. Subsequently, the current debate on border issues, Chinese migration and arms sales to China would probably witness a much higher level of concern regarding Russia's eastern challenge.

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### Asia-Pacific Center for Security Studies

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949

tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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## Asia-Pacific Center for Security Studies



**SPECIAL ASSESSMENT**

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### Asia's China Debate

Dr. Seongho Sheen is an Assistant Research Professor at the Asia-Pacific Center for Security Studies. He focuses on East Asian politics and security issues, particularly those involving the Korean Peninsula. Dr. Sheen's recent contribution to the Center's Occasional Paper series is "Japan-South Korea Relations: Slowly Lifting the Burden of History?" (October 2003).

# Tilting toward the Dragon: South Korea's China Debate

S E O N G H O S H E E N

## Executive Summary

- Since diplomatic normalization in 1992, after a half century of animosity, South Korea's debate about China has become increasingly favorable. Historical and cultural affinities, as well as recent burgeoning trade, are important drivers in this phase of South Korea's China debate. North Korea's nuclear provocation also drives Seoul's favorable view of China as Seoul looks to Beijing to play an important mediating role between North Korea and the United States.
- In South Korea's China debate, China's economic rise is viewed as largely a positive factor. China has emerged as the principal trading partner of South Korea, whose export-oriented economy has become increasingly dependent on the fast-growing China market. Notwithstanding the fear of growing Chinese competition, Korean industries tend to see the rise of China as a business opportunity rather than a threat.
- Burgeoning trade has improved political relations between the two former enemies. As South Korean public opinion toward China grows favorable with expanding exchange between the two societies, South Korea's politicians and government officials today praise China as a new partner in building peace and stability in Northeast Asia.
- Growing China-South Korea ties lead to an emerging debate on whether South Korea should consider forging a new strategic alliance with China at the expense of the U.S.-ROK alliance. Despite the public's largely favorable perception of China, the South Korean foreign policy elite, especially the military, seems to be less optimistic about China's intention and thus prefers the status quo of maintaining a strong alliance with the United States.
- The United States will likely remain South Korea's most important partner as long as the United States provides security against the North Korean threat, high technology, and a large export market.

## INTRODUCTION

Despite a half century of antagonism during the Cold War, South Korea's view about China since normalization in 1992 has become increasingly favorable. Most Koreans tend to see relations with China in terms of thousands of years of friendly bilateral exchanges involving cultural, economic and political activities that preceded Korea's modern history. Compared to public indignation against perceived American arrogance in the half-century alliance with the United States, South Koreans seem to be relatively accepting of Korea's long history of tributary relations with China acting as a superior "Middle Kingdom." And despite the fact that Korea has suffered numerous aggressions from Mainland China, including the Chinese intervention against the U.S.-ROK coalition during the Korean War, most South Koreans appear to be comfortable with the prospect of sharing a border with China after unification, although the genuine intentions of China remain unclear.

This is in direct contrast to the deep mistrust of and resentment toward Japan after five decades of virtual alliance based on bilateral treaties with the United States against the North Korean threat. The positive view of China by the public—probably a reaction to anti-American sentiment and Japan's colonial past—has contributed to a favorable debate about China in South Korea. Most Koreans believe China will emerge as the next hegemon and that Sino-Korean ties are destined to grow. The emerging debate deals with how far South Korea or a unified Korea should pursue a partnership with China at the possible expense of the U.S.-ROK alliance, given the underlying rivalry between Washington and Beijing.

## BURGEONING TRADE

Since the two countries ended their Cold War enmity and established diplomatic relations in 1992, China has emerged as the leading trade partner for South Korea—with trade growing at an annual rate of more than 20 percent and exceeding \$40 billion in 2002. Increasing numbers of South Korean companies and businesspeople see new economic opportunities in the fast-growing Chinese economy. South Korea's export-oriented economy is becoming more dependent on China than ever. China's rapidly growing economy increasingly overshadows the prominence of the U.S. market for the South Korean economy. China became the number one export market for Korean products in 2002. According to a South Korean government report, 20.9 percent of Korea's total exports went to China, while the United States, ranking second, imported 20.2 percent.

Increasing numbers of South Korean companies find China a favorite destination for overseas investment. China's fast-growing economy, with cheap labor and low product cost, has created a rush of South Korean companies establishing a local product line. Since 1992, South Korean businesses have poured \$30.31 billion in direct investment in China, making South Korea China's sixth-largest overseas investor. In 2002, China became the top investment destination for South Korean companies, replacing the United States. Thousands of small- and medium-sized firms have been leading Korean foreign direct investment in China, primarily focusing on northeastern China, including Shandong, Heilongjing, Jilin, and Liaoning.

Manufacturing a wide array of products—including textiles, information and telecommunication equipment, electronics, automobiles, machinery components,

and chemical/petroleum products—South Korean companies, recently joined by big conglomerates, are expanding their market share in China as the middle class in cities grows. South Korea's largest conglomerate, the Samsung Group, has invested about \$2.7 billion in China and employs more than forty-one thousand people in the country. It has built twenty-six factories to manufacture everything from color televisions and cell phones to flat-panel displays and notebook computers. Encouraged by China's World Trade Organization (WTO) membership and the 2008 Beijing Olympic Games, the South Korean business community expects its investment will most likely continue to grow.

After a state visit to Beijing in July 2003, the South Korean president, Roh Moo-Hyun, proudly told reporters that bilateral trade would reach \$100 billion within five years. Although the overall two-way trade between Korea and China (16.8 percent) still lags behind that of Korea and the United States (17.7 percent), it seems only a matter of time before China becomes South Korea's largest trading partner. The rapid growth of China trade looks even more convincing given China's geographic proximity to South Korea. South Korea envisions building a Northeast Asian economic bloc by establishing a China-Korea-Japan Free Trade Agreement (FTA) in which Korea would play the role of a regional hub. The South Korean government expects a bilateral or a regional FTA will create synergy between the two most dynamic economies of the world by combining South Korea's advanced management and technology with China's abundant labor, low manufacturing costs and huge potential market.

There are concerns of growing Chinese competition in the world market and trade disputes, especially over Chinese agricultural products. However, South Korea's business communities tend to see China's economic rise as a business opportunity rather than a threat. Unlike the United States and Japan, South Korea runs a large trade surplus with China. South Korea's trade surplus with China is expected to reach a record high of \$6.3 billion in 2003. The perceived economic interest in China's booming economy is the foremost driver for South Korea to pursue a strong partnership with China.

## **GROWING POLITICAL TIES**

**O**n the back of robust economic ties, China and South Korea are building political bonds that make for one of Asia's most friendly bilateral relationships. The growing ties were well exhibited during President Roh's July 2003 visit to Beijing where he received a red-carpet welcome. The newly elected Roh had close consultations with China's new leader, President Hu Jintao, on issues ranging from North Korea's nuclear crisis to business and environmental cooperation. After the summit, Roh emphatically called for unity with China in efforts to usher in a new era of peace and prosperity in Northeast Asia, saying, "the age of Northeast Asia is arriving. On center stage are China and Korea." Hu responded with a commitment to build a "full-scale partnership" with South Korea. In his meeting with a delegation of South Korean politicians, Hu said the bilateral cooperative partnership had continued to grow under the joint efforts of the governments, political parties, and other sectors, and that friendship between the two countries had contributed to regional peace, stability and development.

As government officials shuttle frequently between Seoul and Beijing, ties at the public level have expanded as well. In 2002 more than 1.7 million South Koreans traveled to China, and the Korean tourism industry expects that China will replace Japan as its biggest customer. Presently some thirty-six thousand South Koreans (compared to fifty thousand in the United States) are studying in Chinese schools, making them the single largest group of foreign students in the country. Korean students see more opportunities for jobs and business in China and choose China as the place to study over Canada or the United States.

At the same time, Chinese teenagers reciprocate the interest and identify more closely with South Korea. Where a generation ago Chinese used to enjoy North Korean movies celebrating the communist struggle in the Korean War, they are now watching South Korean music videos and soap operas. The boom of the so-called "*Han-Ryu*" (Korean wave) is creating huge fan fever over South Korean pop culture and entertainers. South Korean pop groups, television shows, design, clothes, new art and culture are prized by Chinese youth.

As both societies exchange favorable views of one another, South Korea's political leadership has become more active in embracing China as an important regional partner. During his meeting with Hu, Roh emphasized that the objective of close bilateral cooperation—to build a peace structure in the Northeast Asia region, as well as economic cooperation—is the most important factor of the twenty-first century Asian order.

## MANAGING NORTH KOREA

**N**orth Korea's nuclear provocation provides another important driver for South Korea to cooperate closely with China. South Korea appears to find more common ground with China than the United States in its policy objectives toward North Korea. During the Roh-Hu summit, the two leaders agreed to solve the North Korean issue through close cooperation. South Korea increasingly has looked to China to help broker a reduction of tensions between North Korea and the United States as Seoul and Washington exhibit different views on how to deal with Pyongyang's nuclear provocation. China has been taking an unusually vigorous and public step in trying to solve the nuclear crisis.

South Korea wants China to use its influence to encourage North Korea to change its confrontational course and adopt Chinese-style economic reform. Beijing appears to share a common interest with Seoul in preventing Washington from provoking Pyongyang into military confrontation on the Korean Peninsula. Although both Washington and Seoul pledged to cooperate closely to dismantle North Korea's nuclear program, different emphases—Seoul's focus on diplomatic engagement versus Washington's "no reward for bad behavior" position—have strained the U.S.-ROK alliance, coupled with rising anti-American sentiment among the South Korean public. While Seoul and Beijing agree that Pyongyang's nuclear development is unacceptable, they emphasize a negotiated settlement between Washington and Pyongyang, toward which Washington remains skeptical.

Amid Pyongyang's continuing nuclear brinkmanship, Chinese diplomats engaged in active and well-publicized diplomacy in August 2003, shuttling back and forth between Pyongyang, Washington, Moscow and Seoul, to get North Korea to join the six-party talks (two Koreas, the United States, China, Japan, and

Russia) held in Beijing. Although the talks did not produce any breakthrough—both Washington and Pyongyang repeated their demands—the talks underscored the importance of Beijing as an active mediator between the United States and North Korea.

Should Beijing play a prominent role in solving the nuclear crisis, it will significantly enhance China's stature as an important party to the Korean issue and deepen the already growing political ties between Beijing and Seoul. Roh acknowledged China's emerging role saying, "the Chinese government has been playing a positive, constructive role in the process of resolving issues concerning Pyongyang's nuclear program as well as peace on the Korean Peninsula." In response, Hu expressed the Chinese government's support for inter-Korean reconciliation and cooperation—as well as support for an independent and peaceful reunification—and reaffirmed the constructive role China would play toward this end as it has in the past. South Korea and China appear to share a broad consensus on the policy of "no war, no regime collapse" with regard to North Korea.

## **ROOTING FOR THE DRAGON OVER THE EAGLE?**

**T**he U.S.-ROK alliance may pose serious questions about South Korea's drive for a strong partnership with China. Many South Koreans tend to take growing ties with China for granted given their cultural, geographical, and historical affinity, as well as the booming trade relationship. One could raise the question of whether the growth of China-South Korea relations would inevitably lead to a weakening of the U.S.-ROK relationship. Although the pressure is not there yet, there is a growing debate over how far South Korea should pursue a partnership with China vis-à-vis the United States. Will China replace the United States as the most important military and economic partner of South Korea? Or, should a unified Korea seek an option of allying with China as a new security arrangement?

The answer depends not only on improving China-South Korea relations but also—perhaps more importantly—on worsening U.S.-South Korea relations. Recent surges of anti-Americanism and tension over how to deal with North Korea's nuclear crisis have made many Koreans question the future of the U.S.-ROK alliance. They believe that the Bush administration's strong view on the Kim Jong-II regime and its skepticism about engaging North Korea have contributed to an escalating crisis with North Korea. The South Korean public increasingly perceives the United States as "either an obstacle to, or irrelevant for," the process of inter-Korean reconciliation and unification, while China is viewed as supportive and helpful. A recent poll shows that in a battle over the hearts and minds of South Koreans, the United States is losing badly to China. South Koreans see the United States as the second most serious threat (32 percent) to Korean security after North Korea (58 percent) while China came in at a distant fourth (2 percent) following Japan (5 percent). China's growing political clout over South Korea came partly as a reaction to increasing anti-American sentiment among Koreans.

Meanwhile, many analysts worry that a possible decrease or dissolution of the North Korean threat will drive a reconciled/reunified Korea to reconsider its alliance with the United States and seek more neutral and independent relations. Some even argue that a reconciled/reunified Korea might try to form a new strategic partnership with other powers in the region. Given Korea's historic

antagonism toward Japan and geographical distance from Moscow, the alternative would most likely be China. The prospect of a new China-Korea alliance is gaining popularity among the South Korean public based on two assumptions. First, most Koreans believe China's economic development will continue and China will emerge as a superpower in this century. Second, Koreans also tend to believe that a hegemonic China would not pose a security threat to Korea and would be more benevolent and friendly than the United States. From the South Korean perspective, it is in their national interest to build good relations with a powerful neighbor—especially one that might be the region's next hegemon.

## NOT SO FAST

However, South Korea's almost blind euphoria over China's future and the prospect of China-Korea relations requires careful scrutiny. First, such optimistic views on China's future ignore the fact that despite its remarkable economic growth, China still faces serious challenges in political, social and economic development. Many experts are uncertain that China will sustain high-speed economic growth while making a smooth political transition to a stable democracy. Second, even if China manages to achieve economic development and emerge as the next hegemon, there is no guarantee it will act more friendly toward its neighbors. Indeed, as Roh noted, the history of Northeast Asia shows repeated confrontations and conflicts among countries in the region, and the Korean Peninsula has often been subjected to Chinese military intervention. Even in a period of relative peace during the Yi Dynasty from the fourteenth to the nineteenth century in Korea, the bilateral relationship was not on an equal footing, as China played more of a big brother role and demanded kowtow from Korea as a tributary state. The perception of a similar imbalance in the current U.S.-ROK relationship is the source of resentment among Koreans. For complex reasons, South Koreans appear more tolerant of historical unequal relations with China than what they view as unequal relations with the United States today.

A unified Korea would face an 800-mile long frontier with its giant neighbor. Whether it is a powerful China with continuing economic development or an unstable one with domestic political disruption—as often was the case in China's long history—a unified Korea may well perceive China as a new security concern and might seek enhanced security measures. Indeed, despite the widespread euphoria of promoting partnerships, as well as the favorable public perception of future relations with China, the South Korean foreign policy elite seems less optimistic about the rise of China. The military especially tends to be more cautious of China's intentions and prefers keeping a strong alliance with the United States. Members of South Korea's foreign policy and military elite are more likely to see an emerging China as potentially destabilizing and thus prefer the status quo. In his personal interview with twenty influential Korean elites, professor Jae Ho Chung, a China expert at Seoul National University, found that all twenty interviewees regarded the U.S. role in maintaining regional security as absolutely necessary.

South Korea may not see relations with China and the United States as a zero-sum game. Despite growing ties with China, as long as the United States

maintains its interest and commitment in the region, South Korea cannot simply ignore the most powerful nation in the world and an important provider of its own security. From the South Korean perspective, the best scenario would be to keep good relations with both China and the United States. However, this will largely depend on U.S.-China relations. As long as the United States and China maintain an amicable relationship, Korea will be happy to cooperate with both of them. It is encouraging that Beijing wants a stable economic partnership with the United States while the latter expects Beijing's cooperation in dealing with the North Korea issue. Yet, should there be a crisis between the two countries (e.g., over the Taiwan Strait), Korea will have a serious dilemma in choosing between two important partners. As an old Korean proverb goes, Korea may well find itself "a crushed prawn between two fighting whales."

## IMPLICATIONS

**I**t is inevitable that South Korea and China would build a closer relationship as they find growing common interest in political and economic cooperation. However, despite their burgeoning bilateral ties, it is unlikely that China will replace the United States as the most important partner of South Korea in the near future.

The United States will remain the most important provider of security for South Korea as long as the North Korean threat persists. Despite widespread anti-American sentiment, a recent poll shows that more than 80 percent of South Koreans said the U.S. military presence is necessary for Korean security. More importantly, it is likely that any unification process, especially in case of a sudden collapse of the North Korean regime, would require strong U.S. involvement in both the early period of securing stability on the peninsula and the ensuing economic reconstruction of North Korea. This could strengthen the U.S. position vis-à-vis a unified Korea.

The United States will also remain an important export market and high-technology resource as South Korea strives to compete in the international market. South Korea has been the main beneficiary of two-way trade with the United States. In 2002 alone, South Korea had a \$9.8 billion surplus out of \$55.8 billion in trade with the United States. South Korea will continue to develop economic relations with the United States by fostering strategic alliances between core businesses and ultimately pursuing a free trade agreement.

Meanwhile, one could expect that an overly optimistic view of China among Koreans would become more realistic and balanced as the two sides get to know each other. Although the experience of the past ten years has proved to be remarkably friendly, there is always potential for conflict. The South Korean public became angry when the Chinese news media and commentators downplayed South Korea's surprising semifinal performance during the 2002 World Cup Soccer Tournament. Despite a common approach on North Korea's nuclear issue between the two governments, many South Koreans question Beijing's harsh treatment of North Korean refugees. During the July 2003 summit between Roh and Hu, the Chinese strongly urged steps to help curb its expanding trade deficit with South Korea. As much as South Korea sees China as an economic partner,



there is also growing concern over increasing Chinese competition for the world market as Chinese companies catch up to their Korean counterparts. China's trade retaliation against South Korea's sanction on its agricultural exports in early 2003 and ongoing disputes over fishing rights on the Yellow Sea are other reminders of potential conflict between Seoul and Beijing.

Once a unified Korea has to face China directly over the northern border, it might consider the United States an important counterforce to a potential China threat. A decreasing North Korean threat, along with efforts to build a more self-reliant defense capability, might increase pressure to reduce U.S. military presence on the Korean Peninsula. Yet, many in South Korea also acknowledge the need for a continuing U.S. presence as a balancer of regional stability even after reunification of the Korean Peninsula. The United States should therefore remain committed to the stability of the Korean Peninsula and promote an equal partnership with South Korea to prepare for a long-term alliance in a changing security environment.

The views expressed in this publication are those of the author(s) and do not necessarily reflect the official policy or position of APCSS, U.S. Pacific Command, the U.S. Department of Defense, or the U.S. Government.

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**Asia-Pacific Center for Security Studies**

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949

tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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## Asia-Pacific Center for Security Studies



**SPECIAL ASSESSMENT**

DECEMBER 2003

### **Asia's China Debate**

Denny Roy is a Senior Research Fellow in the Research Division of the Asia-Pacific Center for Security Studies. He is the author of *Taiwan: A Political History* (Cornell University Press, 2003).

# **Returning Home or Selling Out? Taiwan's China Debate**

**D E N N Y R O Y**

## **Executive Summary**

- The stakes in Taiwan's debate about China are extraordinarily high. Not only does Taiwan's continued prosperity depend largely on how it positions itself relative to China, but China is also Taiwan's chief security threat.
- The political aspect of Taiwan's China debate involves the question of whether or not Taiwan is part of China. Positions on this issue closely follow the ethnic breakdown between long-standing "Taiwanese" residents and more recently arrived "Mainlanders."
- Taiwan's people also disagree on the extent to which Taiwan should economically integrate with China, but opinions on this question do not necessarily conform with ethnic differences. Like many Mainlanders, the largely Taiwanese business community favors accelerating direct trade and travel links across the Strait.
- Taiwan's lack of consensus regarding the relationship with China adds to the potential instability that could contribute to a cross-Strait military conflict.
- Nevertheless, the preference of most of Taiwan's people for the status quo and the power of shared economic interests to transcend ethnic and political divisions raise hopes that stability will persist until future conditions alleviate the possibility of armed conflict.
- The sharp debate in Taiwan about China complicates the delicate three-way relationship and requires careful monitoring by Chinese, Taiwan and U.S. leaders.

China is an important issue for all countries in the Asia-Pacific region, but the debate about China in Taiwan is uniquely intense. For Taiwan's people, their relationship with China is a life-and-death issue. China potentially may hold the keys to Taiwan's wealth or impoverishment, peace or war, and the survival or extinction of the institutions that comprise the Republic of China (ROC). China treats its relationship with Taiwan (in Beijing's view an "internal matter") differently than its bilateral relations with the rest of the region, in which the Chinese generally emphasize the principles of sovereign equality of all states and the peaceful resolution of disputes. In contrast to its generally friendly diplomacy toward other governments in Asia, China maintains an open threat to use force against Taiwan under specified conditions and insists that Taiwan's leaders accept subordinate status to the Beijing regime (which argues that Taiwan properly belongs as a province of the People's Republic of China [PRC]).

An underlying theme of Taiwan's discourse about China is a profound disagreement among Taiwan's people about their desired future relationship with their huge neighbor, which is at once their largest potential market and their chief security threat.

## CHINA AND CROSS-STRAIT POLITICS

The debate about Taiwan's political relations with China largely follows ethnic lines. Comprehending the ethnic divide requires a bit of historical background. Taiwan's people may be divided broadly into two groups: "Taiwanese," who are mainly the descendants of ethnic Chinese who settled in Taiwan generations ago; and "Mainlanders," Chinese who have settled in Taiwan since the end of World War II, plus their Taiwan-born offspring. Before that time, the Taiwanese had developed a sense of political and national identity distinct from China, especially after fifty years of Japanese rule from 1895 to 1945. They were aware that Taiwan was both economically and politically more developed than any province in mainland China. By contrast, the Mainlanders, including the two million adherents of Chiang Kai-shek's ROC government who fled to Taiwan after defeat by Chinese Communist Party (CCP) forces in 1949, viewed Taiwan as a province of China and a place of temporary sojourn before their return to the mainland. The Taiwanese community consists mostly of people who originated in China's Fujian Province. Taiwan is also home to sizable Hakka and Malayo-Polynesian aborigine minorities. These latter two groups tend to take positions on the issue of Taiwan's relationship with China that are closer to those of the Mainlanders, largely out of fear of domination by the majority Fujianese.

Although most Taiwanese welcomed reversion from Japanese to Chinese rule, relations between them and their new Mainlander administration quickly deteriorated. The Taiwanese-Mainlander rift culminated in 1947 in the infamous February 28 Incident, an island-wide rebellion, and a retaliatory massacre by ROC troops that killed thousands of Taiwanese. The "2-28 Incident" remains a touchstone of Taiwanese anger toward Mainlanders today. This ethnic divide is gradually blurring due to intermarriage between Mainlanders and Taiwanese. Eventually the Mainlander-Taiwanese divide may cease to be relevant, but it will remain a powerful political force for at least another generation.

This historical background strongly conditions the discussion of China in contemporary Taiwan. The mainstream Mainlander position is that Taiwan's people

are inescapably Chinese by culture and ethnicity, that Taiwan is historically and geographically part of China, and that Taiwan and China must eventually reunify. The two major political parties that reflect Mainlander sentiments (“Blue” parties) are the Kuomintang (KMT), which ruled Taiwan until it lost both the presidency and leadership of the legislature in 2000, and the People First Party (PFP), led by former KMT member James Soong. Mainlanders also dominate Taiwan’s bureaucracy and high-ranking positions in the military. Taiwanese, on the other hand, generally support the view that Taiwan is not only more advanced than China, it also has a separate identity, cannot trust China to protect its interests, and should have the right to choose its own destiny, including possible formal independence from China. The two main “Green” parties, which cater to Taiwanese attitudes, are the Democratic Progressive Party (DPP) and the Taiwan Solidarity Union.

Taiwan’s people have reached a consensus on several important issues involving their relationship with China. The first is that Taiwan has no interest in becoming a province of the PRC. When Mainlanders speak of Taiwan belonging to “China,” they mean the ROC or the Chinese nation. Similarly, China’s proposed formula for peaceful unification, “one country, two systems,” is rejected by both Greens and Blues. Taiwanese politicians call the proposal a “trap” that would leave the island unable to protect its autonomy and hard-earned prosperity. The KMT has opposed “one country, two systems” since the idea’s inception, and both Taipei’s KMT Mayor Ma Ying-jeou and KMT Chairman Lien Chan recently reaffirmed that they could “never accept” it. Protests by thousands of Hong Kong residents in the summer of 2003 over the proposed Article 23 of Hong Kong’s Basic Law, widely condemned as an attempt by Beijing to restrict the former British colony’s civil liberties despite the promise to leave the political system unchanged for fifty years after its return to Chinese rule, only reaffirmed Taiwan’s suspicions. Editorials in the *Taipei Times* said the episode demonstrated that one country, two systems “has clearly been exposed as a crude fraud” and that “the ‘one country’ stands for China and the ‘two systems’ stand for ‘dictatorship’ and ‘oppression.’”

There is general enmity in Taiwan toward the CCP government—considered undemocratic and untrustworthy—and resentment over Beijing’s attempts to isolate Taiwan. Most Taiwan people believe that while claiming to be concerned with the welfare of “Taiwan compatriots,” China has worked diligently to suppress Taiwan’s opportunities for international engagement as a means of maintaining pressure on Taipei to accept the PRC’s unification proposal. Beijing continued to oppose Taiwan’s membership in the World Health Organization (WHO), for example, through the SARS crisis even though Taiwan was one of the areas most severely affected by the disease. China tried unsuccessfully to block the dispatch of WHO officials to Taiwan. Many Taiwan people concluded that during the SARS crisis that China harmed Taiwan not only in Beijing’s obstinacy on Taiwan-WHO cooperation, but also in its poor handling of the epidemic inside China (which increased the chance of infected people carrying the disease across the Strait).

Finally, although the Fujianese comprise 70 percent of Taiwan’s population, most of Taiwan’s public wants to maintain the status quo of de facto but not de jure independence. Taiwan’s Mainland Affairs Commission sponsors regular opinion polls on the views of Taiwan people toward relations with China. For several years running, between 50 and 60 percent of poll respondents have said they prefer neither unification nor formal independence now. A minority of about 6 percent favors immediate formal independence. Another small group favoring

immediate unification has in past years included as many as 4 percent of respondents, but between late 2002 and mid-2003 this group fell to less than 1 percent of respondents. These polls are taken within the context of Beijing's threat to use force in the event of a formal declaration of Taiwan independence. The majority of Taiwan's people have evidently concluded that the additional possible benefits of independence are not worth the risk of war. Most members of the Blue camp, which favors *eventual* unification, believe it cannot occur until China becomes more wealthy and democratic, thus reducing the differences between Taiwan and the mainland. "It will take at least fifty years for the two sides to unite," Taipei Mayor Ma has said.

However, the basic question of whether Taiwan is politically part of China or not remains unresolved. From this uncertainty stem heated debates about several related issues. Is China, for example, Taiwan's mother country or its archenemy? Both the Mainlander politicians who promote cooperation and harmony with China and the Taiwanese politicians who urge aloofness from China see themselves as defenders of the national interest and their opponents as "traitors" who are "selling out the country." Both sides are arguably correct, given their points of view. A steady stream of KMT and other conservative politicians have visited China and even met with CCP officials since the DPP's Chen won the presidency in 2000, leading to bitter complaints from Taiwanese commentators that Beijing is practicing the historical Maoist principle of the "united front," allying with a lesser enemy (anti-communist Chinese conservatives) to defeat the greater enemy (Taiwan separatists). To counter charges of Blue politicians "selling out" ahead of the next presidential election, the opposition announced in July 2003 plans to draft a law that would prohibit activities such as Taiwan officials and lawmakers doing business with China.

Mainlanders emphasize the racial and cultural links between China and Taiwan—they are "close cousins." Many Taiwanese counter that their island is not Chinese but cosmopolitan, combining influence from its aboriginal inhabitants, Japan, and former Western colonists with that from China. Vice President Annette Lu famously quipped that Taiwan and China are "close neighbors" but only "distant cousins." Chen's government has promoted greater awareness of aboriginal culture as one means of reinforcing the point that Taiwan is distinct from China.

There is little question in Taiwan that China poses a serious potential military threat to Taiwan. China's military modernization, deployment of short-range ballistic missiles (now numbering about 450 and increasing annually), and interest in information warfare have raised worries of a Peoples' Liberation Army (PLA) attack designed to intimidate Taiwan into surrendering according to Beijing's terms. If China seems ill-prepared to conquer Taiwan through an amphibious invasion, analysts on Taiwan fear China could attempt a surprise "decapitation" strike that targets vital defense infrastructure—such as the island's airfields, radar stations and command and control facilities—with missiles, air raids and cyberwar. Many Taiwanese see this as "terrorism" by a foreign government attempting to impose its will upon a self-governing people. Mainlanders, however, would tend to see China's military threats as a nationalistic reaction to provocations by would-be Taiwan separatists. From this standpoint, these separatists are largely to blame for the threat of a cross-Strait military conflict.

A related dispute, both across the Strait and within Taiwan, centers on the "one-China" principle. While this often strikes outsiders as an overreaction to an

apparently minor question of semantics, the wording at issue involves no less than Taiwan's decision to ultimately unify with the mainland or to seek political independence. Beijing has long maintained that if Taiwan's people accept the premise that Taiwan's destiny is to be part of China, then, as the 2000 PRC White Paper put it, "any matter can be negotiated." Conversely, in Beijing's view, if Taiwan rejects this premise there is nothing to discuss. Hence, China suspended semi-official cross-Strait negotiations over President Lee Teng-hui's 1999 remark that Taiwan and China have a "special state-to-state relationship." Beijing asserted that Lee's statement was tantamount to a rejection of the one-China principle. After Chen's election in 2000 Beijing demanded that he reaffirm the one-China principle as a precondition for resuming cross-Strait talks. Chen's government refused, saying this would fatally compromise Taiwan's sovereignty and security. Conversely, the Blue camp would reinstitute the one-China policy. KMT presidential candidate Lien Chan said if he wins the presidency in 2004 his government will reopen negotiations with Beijing under the principle of "one China with different interpretations." This compromise, to which China has hinted assent, would allow the two parties to shelve the difficult issue of whether "China" means the ROC, the PRC, or some larger entity of which both are parts. PFP Chairman Soong further smoothes over the potential contention with his formulation "one roof, two seats." The KMT argues that such a "consensus" on leaving this problematic area vaguely defined made possible the ground-breaking 1992 meeting between Chinese and Taiwan negotiators. Yet even "one China with different interpretations" has been unacceptable to Chen's government. Many of Chen's supporters take the position that all is lost once Taiwan agrees it is part of even an abstract "China."

## CHINA AND CROSS-STRAIT ECONOMICS

The other major aspect of Taiwan's debate about China concerns the cross-Strait economic relationship. The Chinese market is extremely attractive to Taiwan business people, offering immense size, lower production costs, disciplined labor, and the advantages of common language and cultural background. Public opinion and a proliferation of illegal trade have forced Taipei to assent to a gradual reduction of the tight restrictions against trading with China imposed after the Chinese Civil War. With the economy presently in a serious recession, many in Taiwan have argued that a stronger economic relationship with China is the key to regaining Taiwan's prosperity. The question, therefore, is whether Taiwan should accelerate its economic integration with China or maintain limits on cross-Strait interaction and commerce out of concern for national security. Not surprisingly, the economic side of the China debate has very strong political overtones.

The fault line in the discussion of economic integration with China does not neatly follow the Taiwanese-Mainlander divide. The principal proponents of dropping the restrictions on cross-Strait trade and travel are Taiwan's business people, most of whom are ethnic Fujianese. The Mainlander-dominated military emphasizes the risks of close integration, but perhaps the most vocal and sustained proponents of continued restraint are Taiwanese activists and politicians, including some members of Chen's government.

Taiwan's business community argues that maintaining and increasing the island's standard of living requires both taking advantage of economic opportunities in China and preserving a peaceful environment that will facilitate cross-Strait trade and investment. Therefore, Taiwan should be more accommodating to China (e.g., accept the one-China principle) and ease travel restrictions. The interest of this largely Taiwanese business sector helps moderate what might otherwise be stronger demands for political independence.

Taipei currently does not allow direct transportation links between Taiwan and China except for a few strictly limited exceptions. This imposes great additional costs on Taiwan business people. Travelers between Taipei and Shanghai, where several hundred thousand Taiwanese reside, cannot fly directly but must first stop over in Hong Kong, adding hours to the trip. Lien Chan has said if he is elected president his government will move immediately to implement the "three links" (direct cross-Strait trade, transportation and postal service).

Opponents of deep economic interdependence between Taiwan and China fear creating vulnerabilities China could later exploit for political purposes. China might, for example, threaten to cut off Taiwan's access to Chinese supplies or markets upon which the island had become dependent unless Taipei agreed to unify on Beijing's terms. Commentators in Taiwan have suggested China might even seize Taiwan citizens residing in China as hostages.

The PRC has long welcomed greater economic and social interaction with Taiwan as part of Beijing's strategy for unification. China has even tolerated a trade deficit with Taiwan. The Chinese hope that as more Taiwan people visit and reside in China, their apprehension about China will fade, their identity with China will increase, and a constituency for closer cross-Strait relations will grow within Taiwan. Many in Taiwan believe China's strategy is working. Some commentators complain that Taiwan business people who relocate to mainland China become effectual mouthpieces for the PRC government, arguing in favor of Chinese positions such as affirming the one-China principle and speeding up integration. This phenomenon of a pro-PRC constituency in Taiwan could intensify with growing numbers of Taiwan children being raised and educated in China while their parents are working on the mainland, and with Taiwan business people marrying PRC nationals and bringing them to Taiwan. Some in Taiwan also express worry that agents of the PRC government are infiltrating amidst the growing numbers of Chinese coming to Taiwan for work or as spouses of Taiwan residents. China is allegedly trying to steal technological secrets from Taiwan, targeting in particular facilities such as the Chung Shan Institute of Science and Technology and the Hsinchu hi-tech industrial park. In August 2003 a group of DPP legislators warned of the danger of Chinese female spies working as bar hostesses seducing Taiwan's computer engineers and fighter pilots.

Some Taiwan commentators see a joint KMT-Beijing propaganda battle attempting to discourage Taiwan business people from investing at home and instead persuade them that China is the economic wave of the future, goading them to bring pressure on the Chen government to hasten integration. China has a huge advantage in this battle for investor confidence because its authoritarian political system and relative lack of transparency allow the Chinese government to exaggerate the health and success of China's economy. Some Taiwanese

commentators charge that this campaign is a manifestation of the old Mainlander desire to use Taiwan's wealth and resources to build up China.

Several of Chen's appointees have argued that the potential benefits to Taiwan of direct transportation links are exaggerated by proponents. The overall effect, they say, could be negative, with a transfer of Taiwan's talent, resources and capital to China and marginalization of Taiwan's economy within the global trading system. In a July 2003 editorial in the *Taipei Times*, Huang Tien-lin, a national policy advisor to Chen, called direct links and a Beijing-sponsored proposal for a Taiwan-China free trade area "strategies aimed at making Taiwan quench its thirst with poisoned drinks." He decried "China's evil plan to bait Taiwan businesspeople" with "lures that make you lose reason and resistance...to make you fall into its trap to be slaughtered." Taiwanese political activists such as former President Lee Teng-hui argue that further cross-Strait economic integration would benefit a few Taiwan business people but harm the majority of the island's population. In August 2003 Lee warned of Taiwan's people losing jobs to Chinese migrants and a drop in salaries and real estate prices in Taiwan to levels that prevail in China.

## CONCLUSIONS

The debate about China among Taiwan's people reflects a lack of consensus on several important issues, the most important being Taiwan's ultimate political relationship with the mainland. That there is a lively debate is a testament to Taiwan's progress in instituting a liberal democratic political system over the last two decades. That there are differing views about China among different sectors of Taiwan society is wholly understandable. Many thoughtful people in Taiwan lament, however, that the acrimony, shallowness and ethnic enmity evident in debates about China and other issues demonstrate a weakness and immaturity in Taiwan's democracy.

With the strong likelihood that a conflict in the Taiwan Strait would draw in the United States, Washington has a strong interest in preventing China and Taiwan from coming to blows, while simultaneously maintaining a constructive relationship with China and honoring its legal (the Taiwan Relations Act) and sentimental commitments to Taiwan. Yet the effect of Taiwan's ambivalent feelings toward China on cross-Strait stability is uncertain. On one hand, the persistence of support among some of Taiwan's people for the one-China principle and for stronger economic links with China gives Beijing a basis for believing Taiwan will eventually choose to reunify with China. This makes China less likely to conclude that only military force will succeed in preventing Taiwan independence. On the other hand, if Taiwan were united behind the idea of political independence, the enhanced political and social cohesion that would result might strengthen Taiwan's capability to defend itself and thus help deter a potential Chinese attack. Adding to the uncertainty is the complexity involved in "detering" China, given that domestic political considerations in China might prompt the PRC to launch a military campaign in the event of a declaration of formal independence by Taiwan even if Beijing did not expect the attack to succeed. In any case, this division among Taiwan's people would seem to ensure that whatever form of cross-Strait relationship outside countries such as the United States prefer, a



substantial proportion of Taiwan's people will disagree. The sharp debate in Taiwan about China complicates the delicate three-way relationship and requires careful monitoring by Chinese, Taiwan and U.S. leaders.

The sense of political and national separateness among the Taiwanese is generations-old and will grow deeper over time unless effectively counter-acted by China's attempts to cultivate warm feelings toward the mainland. Yet the Blue parties that favor a one-China policy remain a powerful political force and could win the presidency in 2004. The line drawn in the sand for much of the Green camp—rejection of the premise that Taiwan is part of China—is directly and seemingly irreconcilably at odds with the Blue camp's (and Beijing's) bottom line. The end of this sharp divergence over China, and all that comes with it, is not foreseeable. Nevertheless, there is hope for continued stability in the Taiwan Strait in that so much of the island, including many who see themselves as more "Taiwanese" than "Chinese," prefer to carry on with the status quo and cross-Strait business as usual rather than put Beijing's threats to the test.

The views expressed in this publication are those of the author(s) and do not necessarily reflect the official policy or position of APCSS, U.S. Pacific Command, the U.S. Department of Defense, or the U.S. Government.

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**Asia-Pacific Center for Security Studies**

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949

tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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## Asia-Pacific Center for Security Studies



**SPECIAL ASSESSMENT**

DECEMBER 2003

## Asia's China Debate

Captain Bradley Mathews is the Center Judge Advocate at the Asia-Pacific Center for Security Studies. He holds a master's degree from Bangkok University and a law degree from the University of San Francisco.

# Bangkok's Fine Balance: Thailand's China Debate

**B R A D L E Y M A T H E W S**

## Executive Summary

- Thailand's debate about China tends to be both positive and relaxed because cooperative relations with China are perceived to be in the national interest and no significant bilateral disputes exist. This Thai debate reflects geopolitical factors, including the absence of either a territorial claim in the South China Sea or domestic tensions regarding its own ethnic Chinese population. Thailand's strong relationship with the United States allows it to pursue cordial relations with China without becoming over-dependent.
- Economic considerations are fundamental to Thailand's China debate particularly as Thailand seeks sustained economic security in the shadow of an increasingly powerful China. China's economic importance drives Thai policymakers to pursue good relations with the People's Republic of China (PRC).
- Thailand is generally open to seeing China contribute toward regional security, though lurking questions remain regarding China's long-term ambitions and its transparency. Thailand will monitor Chinese cooperation on nontraditional security issues such as the drug trade and severe acute respiratory syndrome (SARS) to evaluate Chinese resolve in this area.
- The U.S.-China bilateral relationship will continue to be an influential but not controlling variable in Thailand's China debate. Thailand will accord influence and respect to both countries without sacrificing national interests or diplomatic flexibility.
- Thailand manages its strong relationship with the United States in a manner that facilitates closer ties with China. A primary mission of Thai foreign policy will be to position the Kingdom where it will not have to choose strategically between the United States and China yet remain important and relevant to both.

## INTRODUCTION

As state leaders arrived in Bangkok for the October 2003 Asia-Pacific Economic Cooperation meeting, an important dynamic of Thailand's policy debate regarding the PRC was evident: managing good relations with both the PRC and the United States without losing the favor of either. Of the two powers, Chinese President Hu Jintao arrived first on October 17, 2003 with warm praise for the flourishing relations between the PRC and Thailand. While still enjoying the success of China's first space launch, Hu used the occasion to convey to Thai leaders the symbolism of making Thailand the first country of the Association of Southeast Asian Nations (ASEAN) he visited since becoming president. China sees its relationship with Thailand as a model for the region, with strong personal ties, military and civilian exchanges, and booming trade relations. President Bush arrived in Bangkok a day later with strong praise for the U.S.-Thailand bilateral relationship, statements of appreciation for support in the war on terrorism, a pledge to move forward on a free trade agreement, and an announcement of Thailand's elevation to the status of a major non-Nato ally.

Thailand's apparent success in handling the two most influential nations in the region presents an attractive scenario as Thai policymakers debate the implications of China's rise in tandem with U.S. dominance: that Thailand may not have to choose strategically between an increasingly powerful China and a superpower ally.

Thailand's positive disposition toward China stems from several factors. With an ethnic Chinese population that has assimilated into the social, economic, and political life of the nation, Thailand is not constrained by divisive ethnic and religious tensions that underlie anti-Chinese sentiment in Indonesia. Neither is the Thai debate shadowed by a territorial dispute in the South China Sea as in Malaysia, the Philippines, and Vietnam. Even the historical distrust forged in opposition to Beijing's one-time support for a domestic insurgency has long faded as a consideration for Thai policymakers. Perhaps most significantly, a substantial security and economic relationship with the United States has not been a roadblock to good relations with China, particularly when Thailand is willing to manage the the relationship to avoid threatening China. The result is a political platform from which Thai policymakers are free to seek the benefits that flow from harmonious relations with the Middle Kingdom. While the drivers of Thailand's China debate may change, Thailand's skillful diplomacy, strategic location, and resilient economy have allowed it to remain flexible, yet valuable, to both China and the United States.

## FROM DISTRUST TO SECURITY COOPERATION

Thailand's debate on China has always included a pragmatic consideration of China's size and proximity. But, in the early days of the PRC, China was perceived as a threat. Chinese communist ideology was expansionist and irreconcilable with important components of Thai national cohesion—Buddhism and the monarchy. Beijing's support for North Korea, North Vietnam and, most directly, an insurgency in Thailand, validated the distrust. For nearly two decades, Thailand stood on the front line of the cold war in Southeast Asia—wary of China's intentions.

But by the 1970s, Thai policymakers recognized the changing international landscape. The United States had been unable to curb the communists in Vietnam

and the Nixon Doctrine raised questions regarding the U.S. commitment in Southeast Asia. Thai policymakers, who had tied their country's security to America, sought diversification. The U.S.-China détente provided an opening for Thai diplomats to approach China. China, fearing encirclement by a Soviet-Vietnamese alliance, welcomed Thai proposals. Although notably not a Chinese demand, Thai officials pursued the domestic political conditions perceived as necessary for normalization, including the eventual withdrawal of the U.S. military from Thailand. After nearly two years of discussions, Thailand and China normalized relations in 1975.

The security interests of Thailand and China converged soon thereafter with the Vietnamese invasion of Cambodia in late 1978. Chinese support for the Communist Party of Thailand quickly gave way to the more pressing concern of countering the Vietnamese. While Thailand received defense assurances from the United States, China also expressed its commitment to the security of Thailand. China demonstrated its resolve by attacking Vietnam's northern border in 1979.

Throughout the 1980s, the bilateral relationship progressed and eventually encompassed strategic consultations and military sales. China's commitment to Thailand's security during the Cambodian conflict laid a foundation for good relations that continues to resonate within Thailand's China debate.

## THAILAND AS ECONOMIC "HUB"

Vietnam's withdrawal from Cambodia ushered in a transitional period in the drivers of Thai foreign policy. The removal of the immediate threat, the end of the cold war, and the discredited military crackdown in Thailand in May 1992, served to decrease the influence of the Thai military in policy formation as well as the importance of traditional military alliances with the United States and China.

Thailand focused attention on economic prosperity and the positioning of the Kingdom as a "hub" for the economic opportunities of the sub-region. Thai foreign policy, which had earlier viewed Indochina as a threat, adapted to a political ambition to turn the former battlefields of Southeast Asia into a marketplace. Economic interests continued to gain influence in national policy during the 1990s. However, the 1997 financial crisis heightened sensitivity to economic considerations within policy circles with implications for Thailand's China debate.

The 1997 financial crisis threatened the political and social hierarchy and brought home the threat posed by globalization and economic mismanagement. As a result, the health of the economy has since been Thailand's highest priority. Even nontraditional threats such as drug trafficking, AIDS, terrorism, and SARS are viewed contextually as threats to the economic stability of the nation. Thai Prime Minister Thaksin Shinawatra expressed this view in September 2003: "Terrorism, in particular, has become a reality that we are all faced with, but we must not let this problem detract us from our primary objective of creating greater prosperity for our people."

The financial crisis caused some in Thailand to view China with added significance. While the West was perceived as hesitating on the sidelines, China stepped in to pledge US\$1 billion to Thailand's relief. Chinese leaders also gave assurances to not devalue their currency, which gained the appreciation of Thai officials.

China's goodwill, along with its apparent resilience to the crisis itself, encouraged policymakers to give a higher priority to relations with the mainland. As a

prominent Thai journalist observed in 1998: “China’s new-found influence in the financial sector, in addition to its traditional clout in the political and security areas, has already prompted some Thai policymakers to call for a revision of our foreign policy, perhaps elevating China as the region’s most prominent player.” According to one report, in the two years following the onslaught of the crisis, more than 1,500 exchanges took place between Thailand and China at all levels of government—the highest number of exchanges between Thailand and any one country. In February 1999, the two states signed a “Plan of Action for the 21<sup>st</sup> Century” outlining bilateral aspirations for cooperation across broad sectors and in a nod to China’s New Security Concept, the document stated, “the two sides have realized that the trend towards a multi-polar world is gaining momentum.”

## THAILAND’S SINO-THAI BUSINESS ELITE

**I**n the fallout of the financial crisis, Thailand’s Sino-Thai business community was among those who advocated prioritizing China relations. They remain an important stakeholder in Thailand’s China debate and impact policy formulation in two ways. First, Sino-Thais bring cultural, familial, and business ties with the mainland and act as a source of advice for domestic leaders. Second, the Sino-Thai community periodically exerts political influence to support a positive relationship with the PRC.

Ethnic Chinese constitute an estimated 10 to 15 percent of the national population of Thailand. However, the Chinese have melded into the national identity: they have married into Thai families, taken Thai surnames, and often speak only the Thai language. While, at one time, some questioned the loyalty and disproportionate economic power of the Chinese, today there is little controversy regarding Thai-Chinese who maintain a Thai identity. In fact, several Thai politicians, including the current prime minister, are of partial Chinese descent. These cultural and familial ties provide perspective when evaluating increasing Chinese influence in the region.

The Chinese-Thai business community periodically influences the political agenda to support good relations with the mainland. In a somewhat unusual move for Thai politics, prominent members of the Chinese-Thai business community endorsed the candidacy of Dr. Thaksin Shinawatra during the 2001 election. The motivations were objectively business. “This is an age of economic war,” Dhanin Chearavanont of the Charoen Pokphand (CP) Group told *Asiaweek* in the weeks leading up to the election. “It is crucial that we have a prime minister who understands business and the economy.” But, it is difficult to separate a pro-business sentiment without acknowledging potential implications on China policy. Dhanin’s CP Group, like other Thai businesses, are significant investors in the PRC. In fact, according to its website, the CP Group is the largest single foreign investor in China. Good relations with China allow Thai businesses to take advantage of long-standing personal relations with officials on the mainland. The Thai prime minister, a former CEO of a telecommunications empire, needs no lessons on the importance of the Chinese market.

Thailand’s Chinese community has also helped persuade authorities to consider Chinese interests in domestic policy. In 2001, the Sino-Thai community expressed sharp criticism toward a proposed international Falungong meeting in Bangkok and

helped pressure Falungong to abandon the idea. After such public displays of support, it is not surprising that Chinese officials commend the contribution of Thailand's Chinese community in promoting relations between the two countries.

While once constrained, Chinese cultural influence appears to be growing in Bangkok. "China-chic" is in, and increasing numbers of Thai students are heading to the mainland for their education. While the Thai government once pressured Chinese language schools to close, the General Education Department now encourages the study of Chinese at state-run secondary schools. Such policies are better understood as a pragmatic recognition of the important business skills needed to compete in the twenty-first century rather than as a Chinese cultural renaissance in Thailand. Nevertheless, the trend reflects a cultural willingness to adapt to an increasingly influential China.

### **ECONOMIC NECESSITY: FORCING A TILT TOWARD CHINA?**

**I**n January 2001, Thaksin Shinawatra was ushered into office with the largest electoral margin of victory ever received by a Thai prime minister. His mandate was clear: revitalize the economy and put it on a sustainable footing. The prime minister promised to pursue a progressive foreign policy supportive of important domestic concerns. "Foreign policy," the new foreign minister told *Far Eastern Economic Review*, "must reflect the country's need for economic recovery." Some analysts suggest this policy focus has resulted in a favorable tilt toward China.

The cozy relationship appears valued by leaders in both nations, with the Thai prime minister describing his country as "China's most sincere friend" and Chinese leaders referring to Thais in terms of "kinship." Even discounting such statements as diplomatic excess, the current administration and its business backers posit that good relations with China are important, particularly as Thailand seeks sustained economic security.

For the most part, Thai media have encouraged the pursuit of good relations with China, suggesting it is wholly appropriate for the prime minister to "play the China card" because, as a local columnist put it, "China is set to become the number one economic power in Asia."

China appears to fit into Thailand's economic plan in two broad ways. First, China is a growth engine that may offset the cyclical downturns of traditional markets. Thus far, the results are encouraging with China playing a role in Thailand's continued economic recovery. Thai exports to China grew by 23 percent in 2002 and by 70 percent in the first half of 2003. Some analysts expect China to quickly become Thailand's third-largest export destination after the United States and Japan.

Second, China fits into Thaksin's ambition to see an alternative financial architecture in Asia that is more responsive to regional needs. An outgrowth of the financial crisis, the idea of a financial system sensitive to Asian concerns carries substantial weight with some policymakers. Speaking before the Communist Party of China, one influential Thaksin advisor called capital management "the most strategic issue in the world today." China is a potential partner on Thai-led initiatives, such as an Asian Bond Fund, as they serve to lessen dependence on the West.

But not all Thais are convinced about the utility of tilting toward China, particularly if relations with traditional markets suffer. Critics argue that while

exports to China are growing, they are still a fraction of what goes to the United States and Japan. Further, some have expressed concern that relations with China should not compromise economic activities with Taiwan, where an estimated 130,000 Thai laborers work and send home nearly half of all remittances by overseas Thai workers.

More significantly, China has the potential to compete economically with Thailand and to undermine Thai competitiveness. In 2002 for example, the World Bank found Chinese competition evident in the U.S. market, where Chinese exports grew by 29 percent while Thai exports grew by a mere 2 percent.

While China presents a daunting challenge for Thailand's economy, Thais do not perceive a solution in the West or Japan. Bangkok tempers such expectations after seeing the limits of goodwill reflected in a perceived hesitation to come to Thailand's aid at the height of the financial crisis and other seemingly unsympathetic economic practices. Rather, for Thai policymakers, managing China's economic impact appears to lie in a "dual track" restructuring of the domestic economy, aggressively seeking access to new markets, and periodically leveraging good relations with Beijing along the way for tariff concessions, market access, and time to allow domestic industries to adjust.

Thai officials have communicated the Kingdom's economic concerns to China and, at least historically, China has considered these concerns. For example, during the 1973 OPEC oil crisis, China provided fuel shipments to Thailand at "friendship prices." Likewise, in late 1986, China purchased excess rice from Thailand, even though China was a rice exporter. Such sweetheart deals will be harder to come by in a future market economy. Nevertheless, in the context of Thailand's China debate, an important variable hinges on what Chinese leaders have assured their Thai counterparts: that China's economic rise will not come at the expense of Thailand.

## MANAGING NONTRADITIONAL THREATS

**W**hile the economy is the primary focus of Thai policymakers, security concerns remain. Thai officials are particularly concerned about nontraditional threats and their ability to disrupt the economy. Several nontraditional security threats flow through Burma, and Thailand looks to China for assistance in managing them.

Beijing has become the isolated Burmese regime's primary sponsor. While China has been reluctant to pressure Burma on "internal affairs," China is also trying to assure the region that it can be a constructive force for regional security. From the Thai perspective, a good test case would be Chinese cooperation against the drug trade.

China potentially brings several strategic tools to Thailand's war on drugs. First, China is a source for precursor elements in the production of Amphetamine Type Stimulants (ATS). Thailand has imposed strict controls on precursor chemicals and needs China to enforce the same. Second, as the major sponsor of the Burmese regime, China is capable of spurring Burmese enforcement efforts within their territory. Third, the Chinese may be capable of exerting pressure on the powerful United Wa State Army, which dominates the lucrative ATS manufacturing and smuggling trade. Finally, in the long term, if the drug region is to transition to a legal economy, Chinese investment will need to play a role.

China has pledged to do more in the war on drugs, but progress is difficult to assess. PRC advisors have reportedly been using their influence to bring the Burmese junta, Thai military, and the Wa together to address not only the drug issue but also to prevent border conflicts. Whether China will assume a role as a powerbroker among its southern neighbors remains to be seen.

While some view an increased role for China as a potentially positive force, others are skeptical. Thai officials may recall disappointment that the Chinese could not, or would not, control the Khmer Rouge in a manner that could have prevented the Vietnamese invasion of Cambodia. In a similar fashion, some question the Chinese readiness to control the Burmese or the Wa.

Further, Thailand has its own ambition for influence among its neighbors that may compete with Chinese desires. For example, after nationalistic riots in January 2003 resulted in the torching of the Thai embassy and businesses in Phnom Penh, Beijing reportedly summoned the Thai and Cambodian ambassadors. Phone calls also went out to the foreign ministers of both nations. While Chinese inquiries were reportedly for an update on the situation, a Thai senator felt obliged to insist that both governments treat the incident as a bilateral dispute and not allow China to be drawn into the matter.

Nevertheless, the prevailing trend in Bangkok is that Chinese cooperation is a component of handling security matters with Burma. Thai policymakers will likely monitor Chinese assistance with Burma both as a measurement of the Chinese commitment to Thailand's security as well as Chinese resolve to be a positive force in the region.

## RECONCILING FUTURE ECONOMIC AND SECURITY CONCERNS

Ultimately, Thailand's China debate is constrained by the same uncertainties as those encountered across the region. In the economic arena, Thailand recognizes the limits of tying its economic fortunes to any nation. Hence, the Thaksin administration has aggressively sought free trade agreements not only with China but also with the United States, Japan, and even India. While such trade agreements mitigate economic dependence on China, they do not seriously discount Chinese influence. Thailand clearly recognizes that the nation's economic future is intertwined with China.

In the military-security arena, matters are even more uncertain. While not fearing a direct military threat from China, particularly in the near term, some Thais remain unsure of China's long-term intentions. Thailand will likely seek to exercise its traditional diplomatic acumen and maintain good relations with all major powers as it evaluates whether China can exercise its power responsibly. In this regard, Chinese transparency will be a consideration, particularly after the SARS epidemic—an inherent threat to Thailand's tourist economy—was exacerbated by an initial cover-up regarding the disease.

While unwilling to fall under a Chinese sphere of influence, a consensus exists that good relations with China are a strategic asset. Accordingly, Thailand, driven by both economic and security concerns, remains willing to accord China the respect it craves and to serve as an example of the positive benefits that flow from a cooperative relationship with the Middle Kingdom. As one Thai policy officer put it: "We want China to want us to succeed."



## IMPLICATIONS FOR THE UNITED STATES

Thailand's China debate has four implications for the United States. First, Thailand joins other U.S. allies who are not only currently benefiting from China's economic growth but are also evaluating the long-term implications of an economically powerful, and potentially highly competitive, China. The PRC's influence with Thailand will hinge, in part, on Thailand's vulnerability to Chinese economic policy. However, for the foreseeable future, there is little chance that increased economic ties between China and Thailand will undermine Thailand's substantial security relations with the United States. America's position as Thailand's most important export market, as well as the Thai military's preference for U.S. equipment and doctrine, undoubtedly reinforce this position.

Second, the bilateral relationship between the United States and China will continue to be an influential, but not determinative, variable shaping bilateral relations between Thailand and China. Significant developments in Thailand-China relations, particularly in the strategic arena, have generally been in accordance with U.S. interests. But a falling out in the U.S.-China relationship, while discomfiting, would not necessarily undermine the Thailand-China relationship, which has progressed smoothly through the 1989 Tiananmen massacre and the 2001 downing of a U.S. spy plane.

Third, Thailand's efforts to economically and politically integrate the PRC with the region are a positive force for stability. Likewise, seeking increased Chinese cooperation with nontraditional security matters emanating from isolated regimes such as Burma (or North Korea) is both pragmatically and symbolically important.

Finally, Thailand's ability to accord significant roles to both the United States and China while maintaining diplomatic flexibility is noteworthy. Thailand's course may reveal that nations can, in fact, avoid having to "choose" between the United States and China and instead maintain constructive relations with both powers. Thailand's unique geostrategic environment allows it to be exceptional in this regard. Historically, Thailand has been one of only a handful of nations to concurrently receive military equipment from both China and the United States. Nevertheless, in the event of direct strategic competition between China and the United States, Thailand's instinct would be to avoid direct entanglement. Hence, presently—and into the future—a primary mission of Thai foreign policy will be to position the Kingdom where it will not have to choose strategically between the United States and China yet remain important and relevant to both.



## Asia-Pacific Center for Security Studies



SPECIAL ASSESSMENT

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### Asia's China Debate

Richard A. Bitzinger joined the Asia-Pacific Center for Security Studies as a Senior Research Fellow in August 2003. His work focuses on security and defense economic issues relating to the Asia-Pacific region. He is the author of *Towards a Brave New Arms Industry?* (Oxford University Press, 2003).

# A Paper Tiger No More? The U.S. Debate over China's Military Modernization

R I C H A R D   A .   B I T Z I N G E R

## Executive Summary

- There appears to be a consensus among U.S. Chinawatchers that Beijing is engaged in a determined effort to modernize the People's Liberation Army (PLA) to fight and win "limited wars under high-tech conditions."
- Most U.S. assessments of the PLA accept the view that China's official defense budget greatly under-represents actual military expenditures by a factor of two to three. These estimates are only informed guesses, and it is nearly impossible to determine how Chinese military expenditures are directly affecting various aspects of PLA modernization.
- There is general agreement that the PLA has been engaged since the early 1990s in a concerted effort to replace and upgrade its military hardware, including the increased acquisition of foreign weapons systems, primarily from Russia. China is devoting increasing attention to the acquisition of weapons for asymmetric warfare.
- There are still major differences of opinion when it comes to interpreting the significance of China's force modernization efforts. Some analysts argue that the PLA is still at least two decades behind the United States in terms of defense capabilities and technology. Others, however, view China's recent military acquisitions and current research and development (R&D) efforts as marking a definite improvement of its warfighting capabilities.
- U.S. assessments of Chinese military modernization also tend to differ with regard to China's ability to develop or obtain advanced technologies and to effectively incorporate these in next-generation weapons systems and military equipment.
- The U.S. debate over China's military modernization efforts and its implications for U.S. security remains far from settled. There is still little concern that the PRC will soon constitute a global military challenge or a direct threat to the U.S. homeland. Nevertheless, assessments will continue to differ as to the impact and implications of growing Chinese military power on U.S. security interests in the Asia-Pacific.

## AMERICA'S DEBATE ABOUT CHINESE MILITARY MODERNIZATION: STILL ALIVE AFTER 9/11

While terrorism has displaced the People's Republic of China (PRC) as the prevailing national security concern for most Americans, the U.S. debate over China's military buildup and its implications for U.S. security policy has hardly abated. Indeed, since the 1996 Taiwan Straits missile crisis, through the Lockheed/Loral affair (in which these companies allegedly passed restricted space-launch technology on to China), and up until the April 2001 EP-3 spyplane incident, the "China Threat" debate has, if anything, continued to grow. In recent years, this debate has resulted in a number of authoritative studies of China's military modernization efforts, including the annual report by the U.S. Department of Defense, the most recent of which was released in July 2003 (hereafter referred to as the DoD Report), the July 2002 report by the congressionally chartered U.S.-China Security Review Commission (hereafter, the USCC Report), and the 2003 report by an independent task force comprised of leading U.S. Chinawatchers, sponsored by the Council on Foreign Relations (hereafter, the CFR Report).

Drawing primarily from these three documents, plus other recent publications on the PLA, there appears to be a consensus among most U.S. assessments that the PRC is engaged in a determined effort to modernize its armed forces to fight and win "limited wars under high-tech conditions." This doctrine revolves around short-duration, high-intensity conflicts characterized by mobility, speed, and long-range attack, employing joint operations fought simultaneously throughout the entire air, land, sea, space, and electromagnetic battlespace, and relying heavily upon extremely lethal high-technology weapons. PLA operational doctrine also emphasizes preemption, surprise, and "shock value," given that the earliest stages of conflict may be crucial to the outcome of a war.

According to the 2003 DoD Report, the PLA has been particularly influenced by the emerging revolution in military affairs (RMA). PLA thinking on the RMA sees considerable potential for force multipliers in such areas as information warfare, digitization of the battlefield, and networked systems. At the same time, adversaries who are highly dependent upon advanced technology—such as the United States—are seen as susceptible to low-tech countermeasures or attacks on their C4ISR (command, control, communications, computerization, intelligence, surveillance, and reconnaissance) capabilities. Consequently, the PLA has put a high priority on developing asymmetric capabilities aimed at enabling "the inferior to defeat the superior."

The PLA's modernization efforts, most U.S. analysts agree, are primarily intended to meet the needs of preparing for a potential conflict in the Taiwan Strait. The PLA wants to develop the capability to carry out offensive operations against Taiwan—including air and missile attacks, a naval blockade, or even an outright invasion of the island—and also to deter, delay, and complicate U.S. efforts to intervene on behalf of Taiwan.

## CHINESE DEFENSE SPENDING

China's official 2003 defense budget is RMB185.3 billion, or US\$22.4 billion—a 9.6 percent increase over the previous year and a continuation of a decade-long pattern of real increases in Chinese military spending (and the seventh

straight year of double-digit or near double-digit real growth). As a result, Chinese defense expenditures have more than doubled in real terms since the mid-1990s, and the DoD Report expects the Chinese defense budget to continue to grow at a double-digit rate at least through the Tenth Five-Year Plan (2001–2005).

In addition, most U.S. assessments of the PLA accept the view that China's official defense budget greatly under-reports actual military expenditures. Off-budget items include weapons R&D and program start-up costs, arms imports—which are financed by separate hard-currency allocations and which in recent years have run as high as \$2 billion a year—support to the paramilitary People's Armed Police, and operations and maintenance costs shared by local and provincial governments. In addition, the PLA is believed to be still benefiting financially from operating many kinds of commercial ventures—mainly farms and services such as construction—even after it was ordered in the late 1990s to divest itself of most of its civilian enterprises.

Consequently, the DoD Report estimates that actual Chinese military spending could total as much as \$65 billion, or approximately three times the official budgetary figures. The CFR Report asserts that Chinese defense expenditures likely range between two and three times higher than official figures, or \$44 billion to \$67 billion. At the high end, China would have the second largest defense budget in the world after the United States and would be the largest defense spender in Asia.

At the same time, most U.S. assessments acknowledge that there are many unknowns and uncertainties—compounded by the lack of transparency on the part of the Chinese—that complicate defense budget calculations. Beyond a few highly aggregated spending figures for personnel, operations, and equipment, there is an absence of further detail as to how Chinese military expenditures are distributed, i.e., among which particular weapons programs, or which of the three services, or such categories as training or logistics, or toward improving soldiers' living standards. Moreover, the exact level of extrabudgetary expenditures that should be included in the Chinese defense budget can be only roughly estimated—and these estimates are complicated by the fact that some U.S. China analysts argue that many formerly extrabudgetary items, such as the actual costs of PLA operations and maintenance, are now being carried on the official budget (at the same time, big-ticket expenditures such as R&D and foreign arms purchases are likely to remain off the books). Finally, since many goods and services in the Chinese defense spending “basket” cost much less than they would in the West, it makes sense to apply some kind of purchasing power parity (PPP) multiplier to any budget figure, in order to more accurately reflect its true value in terms of relative spending power; unfortunately, PPPs for China vary widely, minimizing their usefulness. Perhaps as a result of conceding these growing uncertainties, the 2003 DoD Report backs away from earlier assessments that stated that Chinese military expenditures could be as much as *four* times the official budget.

Consequently, it is nearly impossible to determine how Chinese military expenditures are directly affecting various aspects of PLA modernization, such as power projection capabilities, training, R&D, and the procurement of high-tech weaponry. For the most part, all Western estimates of actual Chinese defense spending are basically “guesstimates”—extrapolation, inference, and conjecture—with a wide margin of error.

Finally, there exists considerable uncertainty as to the long-term sustainability of Chinese defense budget increases. The CFR Report notes that military modernization is only one of several competing claims for government revenues, and that pressures to put more funds into such areas as social security, education, healthcare, and bank reform will likely grow over the next few years, crowding out possible new rises in military expenditures. Growing central government budget deficits could also dampen Beijing's enthusiasm for increasing defense spending. Some analysts argue that this could already be occurring, as the 2003 increase of 9.6 percent was considerably less than the 17.4 percent increase in 2002 and the 16.5 percent increase in 2001. Moreover, U.S. assessments of the PLA acknowledge that it is difficult to make long-term projections of Chinese economic growth, which would likely have an impact on future defense expenditures.

## MODERNIZATION OF PLA EQUIPMENT

There is general agreement within the U.S. China-watching community that the PLA has been engaged since the early 1990s in a concerted effort to replace and upgrade its military hardware. Even if only the official defense budget is considered, funding for the procurement of new military equipment rose nearly 125 percent between 1997 and 2002, from \$3.1 billion to \$6.9 billion per year. Moreover, arms purchases from abroad—mostly Russian—have at least doubled in recent years, to around \$1.5 billion to \$2 billion per year. While the PLA has for the past decade relied heavily on Russian (and to a lesser extent, Israeli) defense firms to meet its immediate requirements for advanced armaments, China's defense industry is beginning to deliver new indigenous weapons systems to the PLA.

China's strategic missile forces, for example, have been upgraded in recent years by the deployment of the new CSS-4/DF-5 Mod 2 intercontinental ballistic missile (ICBM). In addition, the Chinese are developing a solid-propellant, road-mobile ICBM, designated the CSS-X-10/DF-31, which will likely be deployed in the next few years; an improved, longer-range DF-31, as well as a submarine-launched version, designated the JL-2, could be operational by 2010. The DoD Report estimates the number of Chinese ICBMs capable of hitting the United States could rise to sixty missiles by 2010—from a current level of twenty missiles—some of which could be fitted with multiple warheads.

The U.S. Defense Department estimates that up to 450 short-range ballistic missiles (SRBMs)—mostly CSS-6/DF-15s and CSS-7/DF-11s—are now deployed opposite Taiwan. The DoD Report also states that China is deploying such missiles at a rate of seventy-five per year—up substantially from previous estimates of fifty missiles per year.

China is also acquiring considerable numbers of new fighter aircraft, including 272 air-defense Su-27s (200 of which will be locally produced) and approximately eighty ground-attack Su-30s. The PLA Air Force (PLAAF) has also purchased AA-12 active-radar guided air-to-air missiles for its Su-27s, while some Su-30s will be equipped with the Russian-made Kh-31 supersonic antiship cruise missile (ASCM). In addition, China is working on an improved version of its FB-7 fighter-bomber, while the F-10, China's long-awaited, indigenously developed fourth-generation-plus fighter aircraft, will likely become operational within the next few years.

For its part, the PLA Navy (PLAN) is buying two new Sovremenny-class guided-missile destroyers, in addition to the two Sovremennys it acquired in the 1990s, as well as eight new Kilo-class diesel-powered submarines, besides the four Kilos already operational in the PLAN. The new Kilos will be armed with the 3M-54E Novator Alpha ASCM and the 53-65KE wake-homing torpedo. In 2002 China launched the first ship in a new class of domestically developed, 9,000-ton guided-missile destroyer, the Type 052B; the Type 052B destroyer is equipped with a long-range air-defense missile system and incorporates low-observable features into its design. A further refinement of this destroyer, equipped with a rudimentary Aegis-type phased-array radar and designated the Type-052C, is currently under construction. China has also launched at least three Song-class diesel-electric submarines, the first indigenous submarine to have a skewed propeller (for improved quieting) and to carry an encapsulated ASCM capable of being launch from a submerged submarine.

The PLAN has finally begun to replace its small and aging fleet of nuclear-powered submarines. The first in a new class of nuclear attack boats (SSNs), the Type-093 was launched in 2002 and could be operational as early as late 2004; three more Type-093 SSNs could enter service by 2010. In addition, a ballistic missile-carrying (SSBN) variant of this submarine, designated the Type-094, is currently under development; the Type-094 will carry the JL-2 SLBM.

Other major weapons systems currently under development or in production include the HQ-9 long-range surface-to-air missile and the Type-96 main battle tank (which the CFR Report refers to as the Type-98); the DoD Report states that some 1,500 Type-96 tanks could be deployed by 2005.

Recent studies of Chinese military modernization pay considerable attention to the PLA's efforts to expand and improve its C4ISR and information operations/information warfare capabilities. The DoD Report states that developing an advanced joint C4ISR system is a high priority for the Chinese military. Accordingly, the PLA has reportedly created a separate military communications network, using fiber-optic cable, satellites, microwave relays, and long-range high-frequency radio; PLA C4I capabilities have also benefited from leveraging advances and improvements in China's commercial information technology (IT) sector. The USCC Report states that China already possesses a rudimentary satellite navigation system, and that it will launch several new space platforms over the next several years, including high-resolution imagery satellites and signals intelligence-gathering satellites.

Information warfare (IW) is also seen as a potentially critical new development in the PLA's warfighting capabilities. The PLA is reportedly experimenting with IW operations and has established special information warfare units to carry out attacks on enemy computer networks to blind and disrupt an adversary's C4I systems. As with the PLA's emerging C4I capabilities, much of the hardware and skill base for conducting IW is dual-use in nature, and therefore the military is benefiting from piggy-backing on developments and growth in the country's commercial IT industry.

Recent U.S. writings on the PLA have increasingly devoted considerable attention to China's pursuit of weapons for asymmetric warfare weapons—sometimes called “assassin's mace” or “trump card” weapons. Some assassin's mace weapons are intended to attack an enemy's vulnerabilities, such as the

aforementioned computer-network attacks. Other assassin's mace weapons are basically "old wine in new bottles": already existing programs—such as fighter-bombers, ballistic and antiship missiles, submarines, torpedoes, and mines to destroy enemy aircraft carriers—that are seen as the most effective weapons in the PLA's arsenal and whose development or deployment has therefore been accelerated. Finally, this category of trump card weapons also includes so-called "new concept" arms, such as kinetic energy weapons (e.g., railguns), lasers, radiofrequency and high-powered microwave weapons, and antisatellite (ASAT) systems.

The PRC is combining these force modernization efforts with actions intended to increase professionalization and jointness within the PLA. The DoD reports that PLA officers and NCOs are receiving increased training and education, while recent military exercises have emphasized amphibious warfare with "limited multi-service participation." PLAAF and PLAN Air Force training devote more time to supporting amphibious operations, while PLA ground forces are increasingly integrating training and exercises with maritime, airborne, and special operations forces.

Overall, most U.S. assessments agree that the PLA has made considerable progress over the past decade in adding new weapons to its arsenal, and that China has noticeably improved its military capabilities in several specific areas—particularly missile attack, power projection over sea and in the air, and information warfare. At the same time, however, striking differences of opinion still exist when it comes to interpreting the significance of these hardware developments. Many U.S. analysts assert that the PLA continues to suffer from considerable deficiencies and weaknesses that limit its ability to constitute a major military threat. In particular, the PLA still lacks the logistical and lift capacity—both by sea and by air—for projecting force much beyond its borders. China also lags far behind the West in areas such as C4I architectures and surveillance and reconnaissance capabilities. Consequently, this school of thought argues that China's current rearmament program is an incremental and long-term modernization process that must be viewed in the context of competing force modernization activities taking place among China's likely rivals. The CFR Report, for example, asserts that China, despite a "deliberate and focused course of military modernization," is still at least two decades behind the United States in terms of defense capabilities and technology. On the other hand, both the DoD and USCC Reports, while conceding the PLA's many problems and impediments, generally interpret China's recent military acquisitions and current R&D efforts—particularly its emphasis on trump card weapons for asymmetric warfare—as critical developments in the improvement of its warfighting capabilities. Therefore, the Chinese military power relative to its likely competitors in the Asia-Pacific region—and especially to Taiwan—and subsequently to the United States, will increase significantly over the next ten to twenty years.

## **CHINESE TECHNOLOGY ACQUISITION, R&D, AND THE DEFENSE INDUSTRY**

**C**hina's long-term military modernization plans depend heavily on its continued ability to develop or obtain advanced technologies and to effectively incorporate these in next-generation weapons systems and military equipment.

Both the DoD and USCC Reports note China's considerable technology acquisition programs, particularly its efforts to access advanced foreign technologies through licensed production and technology transfer, including training, technical skills, and manufacturing know-how; the targeted purchase of dual-use technologies, such as telecommunications, computers, and semiconductors; reverse-engineering; and the exploitation of overseas ethnic Chinese and Chinese students studying abroad. The USCC Report asserts that over the next decade "China will acquire a modernized industrial capability to build advanced conventional and strategic weapons."

Other assessments of the PLA, however, argue that China's capabilities to develop, design, develop and manufacture advanced weapons systems will remain limited for quite some time, and that foreign assistance will not fully compensate for these domestic deficiencies. The CFR Report notes that the Chinese arms industry has overall demonstrated a poor record of delivering to the PLA the types of advanced weapons it wants, when it wants them, and that the continued reliance upon foreign suppliers is "symptomatic of the weakness of China's own defense industrial base." These weaknesses include: (1) the continued inability to transfer promising civilian technologies into military R&D; (2) overcapacity and duplication of effort, which saps scarce resources; (3) weak management and systems integration skills; and (4) a state-owned enterprise system of development and production that is reluctant to innovate and take risks.

Consequently, when it comes to domestic acquisitions, Chinese military modernization will likely continue to center on "pockets of excellence" in its defense technology and industrial base, most notably its ballistic and cruise missile programs, and perhaps IW operations. At the same time, it should be noted that the Chinese are continuing to upgrade production facilities—particularly shipyards and aviation and aerospace factories—and are importing and incorporating considerable quantities of foreign technology into their defense and dual-use industries. Increased spending on defense R&D and procurement will doubtless have a positive impact on China's defense technology and industrial base. Therefore, some U.S. assessments increasingly argue that the PRC military-industrial complex, along with selective foreign arms acquisitions, could at the very least be sufficient to permit the PLA to successfully engage technologically superior adversaries.

## CONCLUSIONS

The U.S. debate over China's military modernization efforts remains far from settled. Most assessments agree on the basics, i.e., the PLA's current operational doctrine of limited, high-tech war, its likely range of actual defense expenditures, and recent and future likely Chinese acquisitions of military equipment. Certainly the PRC is making *absolute* gains in terms of military capabilities, adding more and better military equipment to its arsenal, improving troop training and professionalization, and attempting to lay the groundwork for a long-term improvement in its defense technology and industrial base.

Beyond these points, however, recent U.S. assessments continue to differ as to the significance of these developments when it comes to increasing *relative* Chinese military power and its implications for U.S. security. There is still little



concern that the PRC will soon constitute a global military challenge to the United States or a direct threat to the U.S. homeland. The potential impact of growing Chinese military power for U.S. security interests in the Asia-Pacific region is a quite different matter, however. China's readiness to confront the United States politically, economically, and militarily in Asia—over Taiwan, in the East and South China Seas, and elsewhere in the region—could rise as its military strength increases. A stronger and more assertive China would greatly complicate the U.S. security calculus in the region. At the same time, this process of advance and confrontation could take years, even decades, to play out. Gauging the pace and critical determinants of Chinese military modernization, therefore, will continue to be as contentious as agreeing upon its implications.

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**Asia-Pacific Center for Security Studies**

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949

tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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## Asia-Pacific Center for Security Studies



**SPECIAL ASSESSMENT**

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### **Asia's China Debate**

Satu P. Limaye is Director of Research at the Asia-Pacific Center for Security Studies. He specializes in U.S. relations with Asia. He received his B.S. from the School of Foreign Service, Georgetown University and his Ph.D. from Magdalen College, Oxford University where he was a Marshall Scholar.

# **Weighting for China, Counting on the United States: Asia's China Debate and U.S. Interests**

**S A T U P . L I M A Y E**

## **Executive Summary**

- Asian countries are according a rising China greater weight, but also waiting to see how China and its policies evolve. Within Asian countries and regionally, general agreement favors engaging China.
- Today's "stakeholders" of Asian countries' China debate are more numerous—complicating policymaking and implementation.
- Asian anxieties center on how China's increasing power will impinge on territorial and border disputes and sovereign prerogatives. Some worry persists about China's ability to sustain economic growth and political stability. Unease exists about ethnic Chinese migration and diasporas and the possible reassertion of China's historical dominance.
- The United States has a prime opportunity to influence Asia's China debate because the debate is ongoing, and the United States remains regarded as fundamental to national and regional calculations—including about China.
- Extreme U.S.-China tensions and possible pressures by either to "choose sides" are unwelcome. No Asian country expects or desires China to supplant U.S. regional pre-eminence. At worst, some favor a "balance of great powers" or a "multi-polar" order. Having more stakeholders in Asia's China debate benefits the United States because Beijing has to work harder at making a coherent, consistent Asia policy and the United States can exploit inconsistencies.
- Asia's decisions on issues ranging from missile defenses to trade will consider Chinese positions, but for the foreseeable future are unlikely to be determined by them. Indeed, Asia's China debate might well evolve to facilitate closer ties to the United States.

## THE CHARACTER OF ASIA'S CHINA DEBATE

China's geographical proximity, cultural influence (both traditional and contemporary *China chic*), awesome economic growth, increasing diplomatic activity and military improvements make it a formidable factor for Asian countries to weigh in their pursuit of prosperity and security. After the role of the United States, China's role today is undoubtedly the second most prominent feature in the Asia-Pacific security landscape. Regional countries understandably have responded by according China greater attention and interaction. Emblematic of the emerging dynamic between China and the region is Chinese President Hu Jintao's arrival a day earlier than President Bush in Bangkok for the October 2003 Asia-Pacific Economic Cooperation summit conference, his warmly received address to the Australian parliament—the first by an Asian leader—a day after President Bush, and China's emergence as South Korea's number one export partner in just a decade. China's part in the six-party talks regarding North Korea also indicates China's mounting influence.

Though currently focused on its economic development and social and political stability, China is increasingly averse to a U.S. presence in the region. The underlying messages of China's so-called New Security Concept (NSC) oppose American pre-eminence, alliances, and development of ballistic missile defense, and signal Beijing's long-term intentions counter to American policies. The combination of China's rise, its goals contrary to U.S. interests, and the emerging Asian responses to China, has a number of implications for U.S. interests. Considerable attention has been given to the implications for the United States of China's rise and its intentions. These subjects have been a matter of at times heated debate within the United States. Less attention has been paid to the related topic of Asia's China debate and its implications for U.S. interests.

Asia's China debate has several notable characteristics. First, the "debate" as such is relatively recent—dating from the post-Cold War era. And even during this decade and a half there have been substantial shifts in regional attitudes about China, reflecting among other things China's behavior, U.S. actions and regional developments. Just a few years ago, Asian anxiety about China was substantial. Beijing was then regarded as inflexible about disputes in the South China Sea—and belligerent when it occupied Mischief Reef in 1995, reticent about the region's emerging multilateralism, and a potential economic problem given its ability to swamp the region with cheap products produced by cheaper labor, compete for exports and divert foreign direct investment. Beijing's confrontational behavior in the 1996 Cross-Straits crisis provoked many to wonder how China would act when its military modernization had advanced further. However, mostly in the aftermath of the Asian financial crisis that began in 1997, China has taken a number of steps to alleviate Asian anxieties. These included swift economic assistance to affected countries in the wake of the crisis and refraining from devaluing its currency. China has also made considerable rhetorical and tangible assurances that Asian prosperity is in Chinese interests. Beijing has offered trade arrangements such as the ASEAN-China Free Trade Area to alleviate concerns about losses to regional neighbors from China's entry into the World Trade Organization (WTO). On the political front, China has been considerably more amenable to participation in multilateral fora and has desisted from pressing its

South China Sea claims while signing a code of conduct on handling competing claims. It has also signed the Treaty of Amity and Cooperation (TAC) with the Association of Southeast Asian Nations (ASEAN). Even its handling of Taiwan has been less ham-fisted than usual. Given the relative quick volte-face in Chinese behavior, Asia's debate is still evolving and waiting to see what trajectory China takes domestically and regionally.

Another important characteristic of Asia's China debate is complexity. The different currents in China's development and behavior, transformations in other Asian countries, shifting geo-politics, the impacts of globalization, the growth of multilateral institutions, the spread of transnational challenges and America's regional role all complicate the picture surrounding China's rise—and hence the debate. This complexity also makes China's rise stand out rather starkly today—more than it might have a decade ago. For Asia's current China debate is taking place as the fortunes of the People's Republic of China (PRC) have risen while those of many countries in the region have become cloudy. Southeast Asia has weathered the worst of the 1997 financial crisis, but now faces challenges emanating from terrorism. Japan meanwhile continues to struggle economically and renewed tensions and uncertainty prevail on the Korean Peninsula. Russia is troubled, and India is preoccupied with Pakistan and domestic difficulties. The United States is presently focused on the Middle East. This context makes China's role in the region appear more intense and prominent than it might otherwise seem.

This complexity is exacerbated because today there are more stakeholders in Asian countries' China debate than in the past. As a result of China's booming economy, its active regional diplomacy (including participation in multilateral organizations) and gradually opening society, an increasing number of constituencies have been involved in the Asian debate about China. This change also is made possible by a parallel expansion of economies, polities and civil societies across Asia. As a result, today it is not just politicians, bureaucrats and soldiers who are affected by China, but also publics, business groups, labor unions, media and nongovernmental organizations. Each has differing stakes, interests and approaches in dealing with China. Inevitably, Asian countries will have difficulties in deciding and carrying out policy toward China and vice versa. A similar trend has long been evident in the United States, and to some extent in Japan.

Third, a working agreement *within* Asian countries favors engagement and accommodation with, but not appeasement of China. It also favors cooperating with the United States and China in parallel, and abhors the prospect of either Washington or Beijing pressing their country to make a choice between them. No country favors supplanting the United States with China in ensuring regional peace and prosperity. The existence of these main points of accord also means China is unlikely to be an issue that divides ruling elites (as it did in Indonesia during the tussle for power between Sukarno and Suharto) or publics and governments in the region. It is worth noting that the dissonance between Asian governments and publics regarding China is less pronounced than regarding the United States. This degree of domestic consensus does not preclude China becoming the equivalent of a "policy football," booted, passed and handed-off to score points at the expense of opponents. This game might especially be prevalent in countries where open politics are more pronounced—such as Japan and India. Nor does it preclude a different debate in the future if developments warrant. In

some sense, debate about China within Asian countries has less resonance and is less pronounced than debate about the United States—which partially speaks to the relative weight of the two countries in Asian calculations as well as the perceptions of the two countries' policies.

As *within* regional countries, across Asia a broad concurrence about the need to engage China has developed—though certainly there exist divergences. In some—most notably North Korea—internal debates are at best opaque to outsiders. In Pakistan, China (which has been a major provider of weapons, including allegedly weapons of mass destruction) is simply too sensitive a topic to openly discuss though discussion does occur within small pockets of the military and bureaucracy. In this stakeholder group, worries about China's reliability exist, but so too does a consensus about its indispensability. On the other hand, in Japan, where concerns about China have grown, the debate about China is very active, and most closely resembles in scope, actors and complexity that of the United States. In Russia there is an active debate within the government and between Moscow and the Russian Far East, but less so among the public. The prevailing consensus in Russia is to cooperate with China, but a number of issues have the potential to make that cooperation very difficult. In India too the debate tends to be more salient in the policy community than among the mass public—for which the dispute with Pakistan has more immediate resonance. Delhi's debate about China has moved toward greater cooperation with China, but a reservoir of suspicion, enmity and envy about China persists. In both Indonesia and Australia, China has become a less controversial issue than at other points in their contemporary history and cooperation is on the upswing. Thailand's debate about China is described as "positive and relaxed."

Fourth, not all is positive in Asia's China debate. Asian anxieties about China also exist. Some fear that Beijing might revive now quiescent territorial and border disputes as its power grows. Other Asians worry that China's expanding influence will tempt it to veto their sovereign decisions—or at a minimum exert considerable pressures toward one decision over another. The flip side of concerns about China's strength is worries about its ability to sustain economic growth and political stability. The prevailing view in Asia is that China's new leadership will navigate the challenges of economic growth and social and political stability mostly successfully. However, there is at least a notable minority opinion that points out that China still faces daunting challenges, and that the contradictions within China ultimately cannot be managed. New ethnic Chinese migration and old diasporas raise suspicions of unstoppable influx and fifth columns, though these tend to be focused in just a couple of countries. Finally, there are concerns that China's historically dominant position in Asia will be reasserted by Beijing. The components of this role could range from cultural to political hegemony.

There are two main explanations for the current character of Asia's China debate. First, trends within China such as a smooth leadership change, continued strong economic growth, political stability and China's regional behavior cause little alarm. The United States also frames the character of Asia's China debate. Asia's relaxed, optimistic China debate is a sign of confidence that the United States will remain a major security guarantor and economic actor in the region—thus blunting fears of China's rise. A recognition of and satisfaction with

America's vital and necessary role in the region today mainly explains the relatively relaxed view in Asia about China's military modernization. On the other hand, some of the positive sentiment about China in Asia reflects Asian concerns about the United States. This should not be taken too far, however. Just as China makes economic and diplomatic inroads into Asia, many Asian countries are renewing, buttressing or building closer relations with the United States.

## **ASIA'S CHINA DEBATE AND U.S. INTERESTS**

**T**he characteristics of Asia's China debate, including its stakeholders and drivers, help to explain why the region is giving greater weight to China, but continues to count on the United States. In other words, the very nature of Asia's China debate has positive aspects for U.S. interests and constrains China in ways not usually recognized.

First, because Asia's China debate is still evolving, the United States has a timely opportunity to influence the debate. Asia has not come to any unshakable conclusions about China, is not required to make any immediate decisions about it, and is not confronted with a compelling, specific policy challenge from Beijing. The United States therefore can calibrate its role in the region consonant with the character of Asia's China debate. That Asia's current positive views of China are of recent provenance and that China's "smile diplomacy" has its gaps, as demonstrated in Beijing's handling of the SARS episode, should also give the United States confidence that Asia's attitudes about China are still open to influence. This is also possible because the United States remains regarded as fundamental to national and regional calculations—including about China. Through security cooperation, constructive participation to make multilateral institutions accountable, and mutually beneficial trade and investment, the United States can strengthen existing relationships and build the basis for new ones. The cautious consensus favoring cooperation with China that prevails within and across Asian countries is in America's interest because it does not require the United States to get mired in divisive domestic or regional disagreements about China. At the same time, the United States can take comfort that countries warier about China are mostly American allies and friends or could be. Hence a more negative Asian debate about China could help buttress or build American relationships with "allies and friends"—should interests and developments necessitate.

Second, in considering U.S. interests it should be noted that the desire among Asian countries for cooperative relations with China does not equate with a willingness to capitulate to China. Indeed, in the medium term no Asian country expects or desires China to supplant U.S. regional pre-eminence. At worst, from the U.S. perspective, some Asian countries favor a "balance of great powers" or a "multi-polar" order in Asia that includes China, but again does not exclude the United States. This aspect of Asia's China debate reinforces the idea that there is room for the United States to create an environment that further strengthens confidence in U.S. policies and relationships in the region. But it also suggests the United States will have to take into account Asians' desire to avoid "choosing sides" between the United States and China or engaging in "pre-emptive containment."

Third, the existence of Asian anxieties about China also speaks to American advantages. Asians fear that territorial and border disputes involving China—quiescent now—might be revived by Beijing as its power increases. It is true that China has signed a number of border settlements with neighbors, but in other important cases these disputes remain unresolved, only partially resolved or resolved unsatisfactorily. A case in point is border disputes between India and China. While most of the border and territorial issues between Beijing and New Delhi remain unresolved, even the progress that has occurred has been somewhat ambiguous as the status of Sikkim suggests. New ethnic Chinese migration (into the Russian Far East for example) and old diasporas (e.g., in Indonesia) raise suspicions of unstoppable influx and fifth columns. Asians worry that China's expanding influence will tempt it to veto others' sovereign decisions. The flip side of Asian concerns about a strong China is worries about China's ability to maintain rapid economic growth and political stability. Finally, there remain worries that with China's rising power will come a temptation to reassert its traditional and historical forms of dominance—ranging from the cultural to the political. To some degree these fears speak to the lack of regional consensus and clarity about China's own future. Asian anxieties about China should assure Americans that not all is going "China's way" in the region.

Fourth, from the point of view of American interests, the constraints on China's Asian relations are inadequately appreciated. Today the stakeholders of China's Asian countries' China debate extend beyond politicians, bureaucrats and soldiers to encompass Asian publics, business groups, labor unions, journalists and non-governmental organizations. This resembles a trend in the United States. The expansion of stakeholders indicates China's economic boom, diplomatic activism, military rise and opening society as well as the parallel development of economies, politics and civil societies across Asia. More stakeholders within Asian countries reflects China's enhanced regional role, but also its limitations. It means policy coordination is more complex and contentious—making sudden policy changes difficult to decide or implement. China therefore must also work harder, wider, more subtly, and at times in contradictory ways to achieve its objectives—making a coherent, consistent Asia policy a challenge. This constraint on China reinforces the United States' ability to pursue a regional strategy that shapes the debate. More stakeholders also means more avenues through which to channel American influence.

Finally, Asia's China debate has some "built-in" advantages to U.S. interests. First, just as Asia's largely relaxed and positive debate about China could lead to decisions counter to American interests out of deference to China, China's continued rise could also drive regional countries to adopt policies in line with American objectives—such as signing on to missile defense or enhancing security cooperation with the United States. Recent developments in relations with India, Vietnam, Singapore and Japan are signs that this trend is already underway. Second, Asia's China debate has raised enormous expectations of China. If China meets them it would be "socialized" in ways compatible with Asian, and American, interests. If it does not meet Asian expectations of cooperative behavior, Asians are likely to turn further to the United States to offset China. Third, despite occasional Asian policy disagreements with Washington, the United States, not China, remains the preferred model in Asia.

## CONCLUSIONS

**W**hile the actions Beijing takes at home regarding its economy, society and polity, and regionally on issues ranging from multilateral participation to trade agreements to border and territorial disputes will be a major factor in how Asia continues to respond to China, as important will be how the United States plays its regional role. The United States has the power and the influence to help shape Asia's debate about China in ways consistent with American interests, and Asia's. And the Asia-Pacific region is largely receptive to the United States taking such a role. Indeed, if current trends in China's regional role persist, Asia might be even more receptive to American presence and cooperation.

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2058 Maluhia Road, Honolulu, Hawaii, 96815-1949  
tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

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