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Aims and Scope

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A Proactive Approach to Global Governance Is China's Historic Choice

He Yafei

Abstract: As the world moves from “governance by the West” to “co-governance by both the West and East,” the inherent deficiency in current global governance architecture becomes obvious to all of us. The author, through his own experiences as both a practitioner and student of global governance, has highlighted where the deficiency is and how to remedy it. By explaining China's recent moves in proposing the Chinese dream and building “one belt and one road,” the author suggests that China continue on this proactive approach in dealing with global governance and offers some ideas from Chinese cultural heritage on how to reform the global governance architecture, with an emphasis on the G20, as well as on what China and the United States can do together to achieve better global governance.

Keywords: Global governance; Chinese approach; win-win cooperation; Chinese Dream; international organization.

The year 2015 marks the seventieth anniversary of the founding of the United Nations. At this historical juncture, it is imperative to review the modern history of global governance and explore the right path to its reform.

National governance is a concept familiar to most people. The modernization of China's national governance capability and system is explicitly

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mentioned as part of the comprehensive reform measures adopted by the Third Plenum of the 18th National Congress of the Communist Party of China (CPC). Good governance is needed at both national and global levels. Governance is certainly more complex and challenging globally for the simple reason that it is not even remotely possible to have a “world government.”

As China has grown to be a global power riding waves of globalization in the last few decades, global governance has coalesced into an issue gaining attention from top leaders down to the man-on-the-street. It is mainly about what role China should play and what responsibilities it should assume as a global power, albeit a developing one.

China's Role in Global Governance

First of all, it is imperative to understand what is meant by global governance. It is a global system mainly composed of international organizations — both governmental and non-governmental, treaties and agreements — both bilateral and multilateral, universally accepted international laws, and norms of international practices. Nation-states accept and are part and parcel of this system.

The current system was built by American-led Western nations at the end of the Second World War. It has served the international community well for seven decades but it is evident that this system is increasingly inadequate in addressing challenges in the twenty-first century. With the shifting geopolitical landscape, global governance needs new direction and momentum for reform and readjustment to better suit the evolving global balance of power, both politically and economically. With China and other emerging powers gaining global influence, they involve themselves more deeply and substantially in global governance.

The Contest of the Century by Geoff A. Dyer about competition between China and the U.S. in the new century raises an interesting question: Will the twenty-first century continue to be an era of Pax Americana or one “co-ruled” by China and the U.S.? The author explains that China's economic model has been an astounding success while America's “Washington Consensus” has been a dismal failure, especially after the 2008 financial crisis. Should the U.S. fail to incorporate China fully into the global

governance system, China may shape global governance in a totally different fashion from that of the West.

The current narrative of global governance has been dominated by pundits from the U.S. and other Western nations. To talk about philosophy, one refers to Greece. In global governance, it is all about America. The U.S. and other Western powers have defined the value system, rules, players, and objectives of global governance to cover every aspect of the international system. With the onslaught of the worst financial crisis, the West lost its grip on global governance, resulting in a change from "governance by the West" to "co-governance by the West and East," with a greater voice for developing nations. There are universal expectations for China to play a greater role befitting its growing power globally. It is China's historic choice and destiny to fulfill that role as China moves deeply into global governance, especially as it is going to assume the rotating Chair of the Group of Twenty (G20) in 2016.

"History is a mirror." In the history of global governance in modern times, China has morphed from "forced entrant into global governance" as a semi-colony to being a "passive player" and now a "leading player" as evidenced in recent practices of the G20. There were both painful and useful lessons in the last century, and the new horizon looms large for China to lead the reform of the global governance architecture in the twenty-first century.

As the second largest economy and a permanent member of the United Nations Security Council, China is definitely a global power to reckon with. As China moves to the center of the world stage, nobody doubts the central role China plays in global governance. Is the international community, China in particular, comfortable with this? The process of the G20 in recent years may serve as an example to illustrate pitfalls we have to avoid and opportunities to explore on our way forward to better global governance.

China is bound to play a constructive and leading role in global governance.

Ever since the 1990s, the world has witnessed the most fundamental transformations in global governance and international relations, demonstrated in ever-expanding multi-polarization, economic globalization, cultural diversification, internet-led

information-revolution as well as rapid industrialization and urbanization. Mankind has engaged in exploring ever so deeply and broadly such “new frontiers” as the outer space and cyberspace. These changes have brought about a totally different world and reconfiguration of balance of power as exemplified by the emerging powers represented by China, India, Brazil, Indonesia, South Africa, Turkey, and others. This “great convergence” as defined by historians has, in turn, fed the rapid advance of globalization all over the world.

Global governance has been so impacted head-on by these changes that its deficiencies are glaringly exposed, clearly showing that the current system is ill-suited to address global issues given the changing world political and economic realities. Developing countries in particular are calling for reforms in global governance. As a result, after the 2008 financial crisis, the Group of Seven (G7) had to give up the “driving seat” in global governance to the G20.

These challenges posed by geopolitical and civilization conflicts, financial and economic crises, food and water safety, energy security, environmental degradation, climate change, and global immigration have been put into sharp relief. Global summits have mushroomed trying to find global solutions to these problems, but without much success, except what was achieved by the G20 in arresting the global financial crisis during the first few years after 2008.

Ironically, we may have to credit the financial crisis for providing a “mirror” for us to see how much damage “greedy capital” could do to the world. The crisis broke out in the heart of the capitalist world and pushed the world’s economy and finances to the brink of total collapse. The unfolding of the crisis took the lid off the gaping hole in global governance, revealing the impotence of Western powers as well as the global system (underpinned by neo-liberalism) to cope with such a crisis.

The most important and epoch-making decision by the G20 was made at the Pittsburgh Summit in Autumn 2009 to have the G20 replace G8+5 (G7+Russia and five developing nations of China, Brazil, India, South Africa, and Mexico) as the “primary platform for global economic governance” as expressed in the Summit Leaders Declaration.

Since the beginning of the twenty-first century, China has played an ever more important leadership role in global affairs, including global governance. Under the leadership of the Communist Party, the Chinese

people have created a miracle in history by turning China from a poverty-stricken country with 1.3 billion people into the second largest economy of the world in the past three decades. China's rise is in lock-step with globalization by integrating into the global governance system while simultaneously influencing its evolution. On one hand, China firmly adheres to the path of socialism with Chinese characteristics. On the other, China has become part of the global chain of production, the center of global manufacturing, a major member of the world trade system, and thus a key part of global governance.

Many academics have summed up China's growth model as the "Beijing Consensus" and "China Model" versus the American "Washington Consensus." Though China has shied away from the terms of "Beijing Consensus" and "China Model," its success in adhering to socialism with its own characteristics, both in theory and practice, has challenged the existing global governance architecture, offering new options for other developing countries.

Another example of a global governance failure is evidenced in the loosening foundation and inadequacy of the International Nuclear Non-proliferation Regime. The tortuous route taken by the 6+1 (Permanent Five plus Germany) in their negotiations with Iran on its nuclear program has had sobering effects, clearly showing that the existing non-proliferation regime is pretty fragile. Since coming into effect in the 1980s, the Non-proliferation Treaty (NPT) regime has been weakened rather than strengthened, with more countries "joining the nuclear club."

The fast pace of change is so dazzling that the world is becoming "a global village" with complex problems multiplying and crossing geographical boundaries, sectors, and space. No country can handle global governance issues single-handedly. We are witnessing financial and economic crises, terrorist attacks, energy security, and infectious diseases one after another. Even natural disasters seem to have become increasingly severe and frequent. All of these make people wonder what is happening to our world. How can we confront ever more complicated and severe global challenges? What major reforms must we undertake to improve global governance or should we simply replace it with something totally new?

Karl Marx's greatest contribution to the concept of global governance was his prescient prediction that globalization would follow the yearning for profit by monopoly capital and eventually lead to global economic

crisis. The 2008 financial crisis that brought the world economy to its knees once again proved the vitality and relevance of his prediction.¹

It is paradoxical that the current global governance system has to be maintained despite its flaws and while necessary reforms are being made, in the hope that it may become more pertinent to the changing geopolitical landscape. China is at a critical juncture in global governance and its future will shape the contours of the international environment for China's own continuous growth. There are four areas where China shall pay particular attention, in order to enhance global governance.

Championing the Chinese Dream for More Democratic International Relations

Safeguarding the global governance system while improving it through forward-looking reforms shall be China's priority in foreign policy as well as that of the international community. The Chinese Dream and China's efforts at democratization of international relations have contributed to a redesigning of global governance in a fundamental fashion.

Guided by President Xi Jinping's diplomatic strategy, China stresses the importance of ten principles promulgated at the Bandung Conference in 1955 in addressing global issues and dealing with international relations on the basis of justice, fairness, and a win-win approach through cooperation. These ideas are part and parcel of Chinese philosophy and culture or what is termed "Chinese Wisdom."

Take the "Chinese Dream" as an example. It is a concept raised by President Xi as he took office representing the hundred-year aspiration of China and the Chinese people to rejuvenate the nation. What is equally important is the connectivity between the Chinese Dream and the dreams of other nations as emphasized by Chinese leaders repeatedly.

The Chinese Dream and China's appeal for more democratic international relations are among China's biggest contributions to global governance.

¹Marx's *Capital* became so popular again after 2008 that it was out of print repeatedly. To understand global governance, this book by Marx is a must read.

The Chinese Dream and its symbiosis with other national dreams have been accepted widely. The Chinese Dream is rooted in China's traditional philosophy and culture. It finds expression in China's diplomacy as peace, cooperation and development as well as democratization of international relations. The Chinese Dream and better global governance both aim to improve the security and living standards of people of China. Global governance on Western terms cannot function properly without reform should we wish to avoid the mistakes of the 2008 financial crisis.

Western global governance requires a uniformed architecture based on universal values defined by the West. This approach is definitely unrealistic as nations can only agree to the lowest common denominators. The long years in the UN-led negotiation on climate change is a case in point as it has dragged on for decades without much success.

At the 2009 United Nations Climate Change Conference in Copenhagen where I was involved in the negotiation, frustration was written on the faces of all delegations as they were unable to achieve even minimal consensus on an accord. Finally out of desperation, some 20-odd countries including China got together at the last moment to negotiate the accord throughout the night and were able to manage a compromise, only to be met with resistance the next day when the draft was put to the General Conference for adoption. The "Copenhagen Accord" was reached through such tortuous routes and was adopted only as an addendum to a brief resolution of the Conference that "note[d] the Accord." The upcoming Paris Conference at the end of 2015 will not be very different as shown by difficult negotiations so far.

It is clear to all that the key to success in global governance does not lie in building a universal value system. Rather, there is the need to find solutions based on global or regional consensus wherever possible to specific challenges facing the world through patient negotiations and consultations. The Chinese Dream and building a harmonious world may sound bland as compared to high-flying Western theories of global governance, but it is certainly more down to earth and tangible in seeking common understanding while recognizing differences, a traditional concept of "agreeing to disagree" in Chinese philosophy. The late Premier Zhou Enlai while attending the Bandung Conference in Indonesia in 1955 famously addressed on the cacophony of participating states: "China is here to seek unity and not to ask for quarrelling, to seek common ground and

not to highlight differences." These words still echo in the conference hall at Bandung and elsewhere.

The Chinese Dream and China's call for democratization of international relations should be viewed as China's contribution to global governance reform.

President Xi Jinping put forward the concept of Chinese Dream to provide a tangible target for Chinese people to feel and hope for. It is compatible with the two "centennial goals" for China to be rich and powerful with people living happier lives. The rejuvenation of China is the essence of the Dream that dovetails with other national dreams of peace and prosperity and with better global governance. As far as international relations are concerned, the Chinese Dream is inseparable from peaceful development and democratization of international relations. China is determined to pursue such a path while expecting others to follow suit. President Xi further explains peaceful development as the concept of "win-win approach through cooperation" rooted in China's "five principles of peaceful coexistence" pronounced in the 1950s in contrast with the "zero-sum game" mentality.

The concept of "win-win approach through cooperation" does not advocate idealistic regional and global integration; instead, it seeks to build global governance architecture with nation-states as the cornerstone. When compared with the global governance architecture promoted by Western nations, the differences are obvious as outlined below:

First, from a global viewpoint, the Chinese Dream stresses the symbiosis and connectivity between China's developmental strategy and those of other nations, as well as their mutual cultural enrichment. The interests of states and their people are aligned with one another. On the other hand, global governance defined by the West sets NGOs, businesses, and individuals against states, downgrading the role of states. Moreover, it creates a system where North and South or West and East as often understood in international relations are divided, with the North playing a dominant role. That is termed "governance by the West."

Second, the Chinese Dream favors democratization of international relations while safeguarding sovereignty and national independence. Western global governance tries to address issues essentially falling under nations'

China's approach to global governance offers a different, "softer" alternative from the Western one.

domestic affairs. The Trans-Pacific Partnership (TPP) still under negotiation is an example that it goes well beyond borders to address such issues as labor and environmental standards. For developing nations or small countries, it is more likely to mean “you do what I say,” rather than an opportunity to jointly construct a system based on mutual benefit and respect for national sovereignty.

Third, in pursuit of the Chinese Dream, China hopes to find solutions to issues and even conflicts in international relations through dialogue and negotiation by political and peaceful means. “Do not impose on others what you yourself do not desire.” This is the essence of Chinese wisdom or philosophy. On the other hand, Western global governance does not wish to be bound by peaceful means. “Humanitarian intervention,” “human rights above sovereignty,” and the “responsibility to protect (R2P)” are a few examples whereby global governance got mixed up within national boundaries with terrible consequences.

The final objective of the Chinese Dream and other national dreams requires us to address common challenges so as to create an international environment conducive to finding workable solutions. The most recent example is the idea of building a “new type of major-power relationship” characterized by “non-confrontation, non-conflict, mutual respect, and win-win through cooperation” between China and the U.S., an initiative proposed by President Xi Jinping and accepted by President Obama. On the other hand, global governance as enunciated by the West seeks governance architecture and corresponding institutions that manage global affairs mainly under the auspices of the U.S. and other Western powers. In the final analysis, what China proposes in the Chinese Dream and democratization of international relations is “defensive” in nature, as a strategy to ensure stability of national structure and relations among states, while “global governance” as such is “offensive” in essence, trying to maintain a dominant position for the West in the global governance system and institutions.

Providing More Global Public Goods

As a global power, China should undoubtedly provide global public goods in line with its historical responsibility and its status of a developing nation.

President Xi Jinping has promulgated the concept of “Great Power Diplomacy with Chinese Characteristics” that shall guide us in taking up a

leadership position in global governance. China needs to take the opportunity offered by history to play a constructive and leadership role in global governance reform. Chinese national rejuvenation is close at hand now that its interest has been aligned with that of the world as a whole.

To understand what global governance means for China and what public goods China has provided and shall supply, we need to delve deeply into the history of global governance. It has a great deal to do with Chinese philosophy and wisdom that are so deeply embedded in Chinese cultural heritage.

For the original concept of global governance, one has to become familiar with the emergence and evolution of the concept of globalization. The framework concept of globalization was first proposed by the Trilateral Commission on American National Security headed by David Rockefeller and Zbigniew Brzezinski. This Commission is a close-knit club of international monopoly capitalists with the sole purpose of ensuring profits garnered by global capital through exploitation and management of global markets being kept in the hands of a few countries.

The most popular explanation of globalization probably comes from the book *The World Is Flat* by Thomas Friedman, a famous *New York Times* columnist. Mr. Friedman said quite insightfully that the core of globalization is the free movement of capital which will level the playing fields all over the world and allow the world economy to achieve equilibrium on its own. Though common understanding of globalization is free movement of productive factors, its key remains free movement of capital.

The new concept of global governance originated toward the end of the Cold War. In fact, it was formulated in the report by the Commission on Global Governance set up around the same time.

China was not unaware of its responsibilities even at that time. In 1974, the "chief architect" of China's Reform and Opening-up strategy, Mr. Deng Xiaoping, stood on the podium of the United Nations General Assembly appealing for the creation of a new international political, economic order that contained well-considered cultural and ideological thinking of China on global governance. The question is whether the global governance system created

China had been aware of its responsibilities in the world long before the concept of global governance was propagated at the end of the Cold War.

within the framework of unequal, unjust, and unreasonable international order can really serve the interests of developing countries. Why is it so onerous to solve global issues? As is popularly understood, the fundamental problem that lies in that global order is not good enough or well developed. Advanced nations wish to have their monopoly capital running the world while developing nations want to establish an economic foundation for sustainable development in a stable global financial environment and under a sound economic order. The developed and developing nations have different agenda. What should we do about global governance and how can we readjust the existing world order to adapt to the changed reality?

It takes a long time to build a political, economic, and cultural world order that is fair, legitimate, and just, because the endeavor needs constant readjustment of interests and accommodation among nations in their pursuit of better global governance. The reverse is also true that better global governance will promote the formation and growth of a new world political and economic order. As an old saying goes, "one bite will not make you fat." Historical processes such as those mentioned above cannot be rushed.

The Chinese civilization has contributed to the concept and ideas of global governance since its inception. First and foremost is the concept of peace. The book *Lao Tzu* said,

All things leave behind them the Obscurity (out of which they have come), and go forward to embrace the Brightness (into which they have emerged), while they are harmonized by the Breath of Vacancy.

Confucius said in his *Analects*, "The gentleman aims at harmony but not at uniformity. The mean man aims at uniformity but not at harmony." The two ancient Chinese scholars thus explained the interdependent relationships among everything under the sun and between men. The idea of harmony between man and nature in the Chinese civilization is highly applicable in today's endeavor to tackle global governance issues like climate change.

Inclusiveness and openness is another contribution to human progress from the Chinese civilization and it becomes an inalienable part of the global governance concept. *The Book of Historical Records (Shangshu)* contains

the idea that “inclusiveness is great.” It is also said in *Lao Tzu* that “[Whoever accepts nature’s flow becomes all-cherishing;] Being all-cherishing he becomes impartial; Being impartial he becomes magnanimous; being magnanimous he becomes natural; being natural he becomes one with the Way; being one with the Way he becomes immortal: Though his body will decay, the Way will not.” In short, that “all rivers run into the sea” expresses the character of the Chinese civilization.

From the perspective of inclusiveness, examples abound in the Chinese history from the Warring States Period when Confucianism, Mohism, Taoism, Legalism, Naturalism, and other schools of thought co-existed and freely competed with one another, to the Yuan Dynasty established by the Mongols that opened up sea routes from south to north, and on to the Qing Dynasty established by the Manchurians when China peaked in its wealth and regional influence in history.

From the perspective of openness, the core idea of governance is always human and people first. “Water carries boats but also capsizes them.” “Listen to both sides and you will be enlightened; heed only one side and you will be benighted.” These examples are self-explanatory.

Innovation and openness are an important historical lesson in the Chinese civilization and the key to its uninterrupted history. This is of empowering significance to reforming global governance to adapt to today’s changing world.

The ability of self-renewability in the Chinese civilization comes from the concept of “change.” The famous *Book of Changes* asserts that daily renewal is essential to greatness and life after life derives from changes. The most fundamental idea in Chinese philosophy is that the universe is like a great river that constantly changes. Chinese civilization has lasted over several thousand years during which reform has been a constant, bringing about civilization progress each time, such as replacing fiefdom with an administrative system based on “counties” and replacing selection of officials only through recommendation by that of uniformed examinations.

Openness created the great Han and Tang dynasties where the Chinese civilization reached unprecedented levels. During the Han Dynasty,

As core values of the Chinese civilization, inclusiveness and openness are crucial to today’s global governance.

communication routes were opened to the West through Central and West Asia which enriched the Chinese civilization. Buddhism came to China in 2 A.D. and had great and lasting impact on Chinese culture from thinking and lifestyles to arts and literature. During the Tang Dynasty the Silk Road was opened up, leading to increasing cultural exchanges between China and the rest of the world. Those cultural exchanges promoted a close relationship between China and other countries, involving China deeply in the process of globalization and, by extension, in global governance.

It is obvious that economic globalization and global governance is not new to China. For China, globalization has promoted economic exchanges among nations and contributed to the reduction of differences among them through cultural integration and plurality of human civilization. With regard to global governance, balance must be found between national and global culture because a national culture in isolation is extremely difficult to maintain while a uniformed global culture is also impossible to achieve.

The Communist Party of China believes in communism and its final triumph. Since 1921 when the CPC was founded, it has fought generation after generation for its ideals. Through decades of efforts to achieve its ideals in combining Marxism with Chinese characteristics, the CPC has begun to appreciate that China is still at the preliminary stage of socialism and that it will take generations to complete socialism. By the same token, it will be some time before the international community can build up a more just, legitimate, and fairer global governance system.

Encouraging Win-Win Results through Cooperation

Over the past years, China has been more firmly committed to building a network of global partnerships by a win-win approach while trying to construct a new type of major power relations with the United States.

A most recent example in this regard is the concept of building a "Silk Road Economic Belt" and a "Maritime Silk Road" (termed the "one-belt and one-road initiatives" in short) aimed at regional integration and co-prosperity, which is promulgated as China's answer to the key challenge of fragmentation in global governance to address the inherent deficiency of the global governance architecture.

The inherent deficiency in global governance came into view early, but the urgency to reform global governance did not gather much momentum until the 2008 global financial crisis. The crisis wiped out trillions of dollars in global wealth in one sweep, revealing glaring failures of the global governance system and its institutions. It was also an eye opener to the inherent deficiency of the U.S. dollar-centered international monetary system.

When Lehman Brothers collapsed on September 15, 2008, it triggered the double bubble bursts of the American real estate and financial derivatives markets, leading to an almost total global financial meltdown. The dark clouds of economic recession shadowed over the U.S. first, quickly engulfed EU countries and then hit emerging markets with shock waves still being felt in many nations.

The rise of the Tea Party within the Republican Party in the U.S. and the result of the EU Parliament election in 2014 clearly show that such populist parties as the French National Front, the Dutch Freedom Party, the United Kingdom Independent Party (UKIP), and the American Tea Party are in the ascendant. Global governance has kissed good-bye to economic stability and entered an era of further fragmentation and reform.

The 2008 financial crisis was a watershed event for global governance, signaling the total defeat of the "Washington Consensus" and unmistakable failure of the Western-dominated global governance system. Heated debates are raging everywhere about what to do next and the development models that would be better suited to changing realities on the ground. The passions surrounding these debates are not just about which development model is better, such as China's or America's. They are about the crucial question that people all over the world are asking: what should be the direction for future global governance? It is safe to say that this is not only about global governance but more about different ideologies undergirding global governance architecture.

Renowned Chinese economist Lin Yifu, once Chief Economist of the World Bank, says that many Western economists insist on a democratic political system being essential to sustainable economic development. Their assertion has been smashed to pieces by facts which show that countries like the Philippines, Pakistan, India, and Bangladesh plus quite a few African nations that inherited either American or British political systems after decolonization have all fallen without exception into the

“middle income or low income traps.” American political scientist Francis Fukuyama in his essay “What is Governance” also pointed out that constitutional democracy is neither the necessary condition nor a sound basis for “good governance.”

Since reform and opening up in the late 1970s, China has tenaciously taken the path of socialism with Chinese characteristics and, through repeated practices, has built up its own model of development and corresponding institutions amid continuous mudslinging by the West. By following its own development model, China has managed to achieve astonishing economic progress unheard of in human history that is attractive to many developing nations. China receives dozens of heads of state or government each year from Asia, Africa, and Latin America. China has established high-level dialogue forums and summit mechanisms with them. Officials from developing nations say that what is more important to them is not China's financial assistance, but developmental experiences China shares with them. China for that matter always believes that it is more important to help others “how to fish” in order to help aid recipient countries build up their foundation for sustainable economic growth.

That does not mean that China offers more words than action. Latest statistics show that from 2010 to 2012, China's foreign aid amounted to 89.34 billion RMB/Yuan, and the accumulated amount of aid since the founding of the PRC in 1949 has totaled 345.63 billion RMB/Yuan.

As the UN reviews the past 15 years of Millennium Development Goals (MDGs) and ponders Sustainable Development Goals (SDGs) for the next 15 years, China has a great deal to offer in regard to its development experiences. Take poverty reduction for example. China takes the lead in success of reducing poverty — the last three decades witnessed more than 600 million people in China being lifted out of poverty according to the World Bank criteria of under 1.25 dollar per day, taking up over 70 percent of the world total. China's success in poverty reduction provides roadmaps for other developing nations engaged in the same endeavor.

China has integrated economic development in its foreign assistance as China's contribution to global governance. The Ministry of Commerce trains over 20,000 officials from developing nations annually, mainly on national economic development strategy; poverty reduction strategy; rural development strategy, etc. At the same time, China cautions that its model of economic development should not be blindly copied as each country

should formulate its own development and poverty reduction strategy based on its own national conditions.

China holds dear in its diplomacy and global governance the idea of win-win results through cooperation, believing in what Mencius said: "In dire straits the pioneers could only develop their own goodness. Successful, they could share their goodness with the whole world." China hopes that the dividends of its economic growth will benefit other countries to expand South-South cooperation and promote South-North collaboration as proposed by President Xi at Bandung in April 2015.

In 2014, President Xi Jinping stressed in his speech to the Mongolian Parliament that China welcomed others to free-ride on China's "express train" of development. In its cooperation with other countries, China will not engage in "I win and you lose" or "I win more and you win less" type of cooperation. China's win-win approach stands in sharp contrast to complaints by U.S. officials of China "free riding" on the global governance system.

China's foreign aid has never had any political strings attached because China upholds the principle of non-interference in others' internal affairs, fully respects diversification of civilizations and development models, and respects the right of recipient countries to freely choose their own model and path of development. These ideas come from the Chinese cultural tradition of "An exemplary person (*junzi*) aims at harmony but not at uniformity. Roads can be parallel but do not have to be identical" and "things can grow together but do not have to harm one another." Another anchor for China's idea of diversity is deeply rooted in the five principles of peaceful coexistence as pronounced in the 1950s that formed the foundation for the 10 principles of the Bandung Conference in dealing with inter-state relations.

In the last few decades, China, alongside many other developing nations, has followed the economic model of manufacturing goods with large amounts of inputs of labor and resources for consumption in the West

China's win-win approach and concrete contribution stand in sharp contrast to the assumption that it is a "free-rider" of the global governance system.

at the expense of the environment. The foreign exchanges thus earned are perpetually recycled back to the U.S. in the form of U.S. Treasury bonds. This global governance system cultivates an international economic and financial cycle with the U.S. dollar at the core, a typical example of “the rich feeding on the poor.”

It is well known that global imbalance appeared right after humans created metal money with credit and debt. The present global imbalance is between countries with trade surplus and deficits with the U.S./West and China/East Asia as major players. From the perspective of global interdependence, China and the U.S. are really “twins.” The global imbalance at current level is mainly a result of the inherent deficiency of the U.S. Dollar-centered world monetary system. Because of the dollar's major reserve currency status, the U.S. is in principle the only country where the Federal Reserve is able to print money at will and American consumers are able to spend at will because other countries like China with reserves in dollar-denominated assets will foot the bill in the end. Since the financial crisis, the Fed has engaged in several rounds of “quantitative easing (QE),” the source of global financial bubble and trouble. Conditions are not yet present for the Special Drawing Rights (SDR) of the IMF or any supranational currency to replace the U.S. Dollar as the international reserve currency. What should be done now is to limit the supranational power of the U.S. to use the dollar's “exorbitant privileges” whenever it sees fit. Measures should be taken through the IMF, G20 and other institutions or institutional arrangements to make it possible for countries with large foreign exchange reserves to reduce their dollar assets.

Enhancing Reform of the Global Governance System

Better global governance entails building a better governance architecture by reforming institutions like the IMF and the World Bank while making better use of the G20 and other upcoming mechanisms to help developing nations gain a louder voice in global governance.

The IMF and the World Bank are important parts of the Bretton Woods structure whose mandate is to ensure stability of the global economic and financial system so as to avoid repetition of what had happened during the

1930s. In reality, however, from the 1970s onwards, the IMF and the World Bank have adhered to the market fundamentalism of the West in their ideology.

The IMF is mandated to maintain stability of interest rates and the global monetary system. Yet any major decision must have 85 percent of weighted votes and the U.S. has 16.75 percent. It is crystal-clear that the U.S. has nearly total control of the organization. Each year the IMF engages member states in economic and monetary policy dialogues. Representatives of the IMF are treated as emissaries of God. Trepidation and fear is the hallmark for governments of small countries who are hard pressed to heed and accept "guidance" from the IMF. With its structural deficiency, the IMF is powerless in dealing with the U.S. and Europe and as well as their exchange rates policies. On the other hand, the IMF has become an instrument on behalf of the West to promote the "Washington Consensus" in developing countries. Any country that needs assistance from the IMF has to accept economic and monetary policy "prescriptions" of total privatization and market freedom no matter what effects they would induce.

The World Bank is mandated to provide aid to developing countries for infrastructure and reduction of poverty. It has done more in terms of the latter than the former. It also became part of the unbalanced infrastructure in the promotion of neo-liberalism with its aid allocated on the basis of recipients meeting the criteria set by the West. Nevertheless, the World Bank has indeed done a great deal in helping developing nations in their economic growth. China itself has benefited from the World Bank's aid and development experiences.

As far as the WTO is concerned, its predecessor GATT successfully concluded the Uruguay Round in 1994 that started in 1986 and reduced tariffs in international trade, with tariffs on industrial goods from developed countries dropping from 40 percent to 4.7 percent and that from developing countries to below 13 percent. But the Doha Round has been confronted with a different fate ever since it began in 2001. Advanced nations have been dragging their collective feet. Urged on by the new Director-General from Brazil it managed to achieve something at the end of 2013 in Bali, Indonesia. Even then, such mediocre progress was stalled in mid-2014 by India on agriculture subsidy. In fact, developed nations seem to have given up on engaging in the WTO mainly because developing nations have grown stronger within it. The U.S. and other developed

nations have turned their attention to trans-regional FTAs that they can better control such as TPP and TTIP.

**Effective global
governance entails
new consensuses,
new mechanisms and
new frameworks
of cooperation.**

As we enter the twenty-first century, global governance needs new consensuses, new mechanisms, and new frameworks of cooperation. Under the shadow of slow economic recovery, countries developed or not are all trying their utmost in seeking economic transformation and new growth points so as to achieve global rebalance.

There are some key global governance issues that need to be addressed now, including the widening gap between the rich and poor, both within and among nations, and reform of the global financial regulatory system.

It is worth noting that with growing economic power, major developing nations (especially BRICS) are fast becoming primary movers in reforming global governance. They want the system to be stable because they have benefited from it, but at the same time they feel the urgency in reforming the system as they have from time to time been victimized by the unfairness and injustice inherent in the system.

The U.S. and other Western nations also want to change the system but for a different purpose. They believe that China and other major developing nations are "free riders" in the global governance system. This does not hold water. China started to open up and reform in the late 1970s and joined the WTO in 2001. During the whole time, China has integrated itself into the global governance system, including the global trading and investment system. China not only produces huge numbers of consumer goods but also "recycles" a large part of its foreign exchange earnings back to the United States to purchase U.S. Treasury bonds. Unfortunately, many Western commentators simply turn a blind eye to these contributions while criticizing China as a "free rider."

Global governance by the West has in recent years deviated from the beaten path toward "co-governance by both the West and the East" which motivates the U.S. and other Western nations to change the "rules of the game." It is exactly for that reason that the U.S. is pressing ahead with negotiations of the TPP and TTIP as well as the Service Trade Agreement with 20-odd members. Unfortunately, all the three "big

negotiations" exclude China. It can be seen that China and other developing nations are not exempt from the duality of conservatism and progress revealing the complexity, multiplicity, and procrastination in global governance reform.

In terms of economic policy, many developing countries with painful lessons from their past adoption of neo-liberalism have abandoned the "Washington Consensus." Brazilian economist Dos Santos once branded Reaganomics as "disaster political economy," believing that Latin American countries had fallen into the "neo-liberalist trap." The critique of neo-liberalism is not limited to developing nations. It also has the support of leaders from advanced nations. Former British Prime Minister Gordon Brown expressly pronounced the death of the "Washington Consensus" at his press conference of the G20 London Summit in 2009. Such conflicting views have led to further fragmentation of the global governance system.

Developing countries now choose to have economic policies that are better suited to their own conditions by focusing on comprehensive development with the belief that infrastructure building and investments in industry and manufacturing are essential to their sustainable economic development. In global and regional governance, developing nations wish to break down the unjust and unfair economic order and achieve trade and investment liberalization through "interdependence with win-win and mutually beneficial approach." This is also why developing nations wish to learn from China's success in economic development and find their own growth models.

Looking Ahead...

The BRICS countries, urged by China, have taken the lead in providing a top-down design for reforming global and regional governance. On March 20, 2012, leaders from BRICS countries issued the "New Delhi Declaration" calling for the establishment of a new global financial system. One year later, the BRICS summit in South Africa laid out a "roadmap" for setting up its own development bank. In July 2014, BRICS leaders announced in Brazil the official establishment of its Development Bank with an initial paid-in fund of 50 billion dollars and with its headquarters in Shanghai. Meanwhile, the Emergency Reserve Arrangement was also set up with 100 billion

dollars. China embraces its responsibility bravely and by its own actions has broadened cooperation in international finance, thus contributing its share in redesigning financial global governance. The establishment of the Bank and the Fund by BRICS countries is not meant to replace but to supplement the IMF and World Bank.

China has become the second largest economy and largest trading country in goods, with a foreign exchange reserve around 4 trillion dollars, but these achievements have not been translated into a greater voice in the international financial and monetary system. Recent years have witnessed greater uses of the RMB (Yuan) as a global currency of trade settlement and rapid pace of its internationalization, but not much has changed as far as the dollar-centered global financial system is concerned. Fluctuations in prices of bulk commodities and other financial risks have increased rather than decreased. Other developing nations face similar challenges and are thinking hard on ways in which global and regional financial governance systems may be reformed for the better.

Proceeding from the interests of Asia and other developing nations, China has taken the lead and proposed building new "silk roads" both on land westward and on the sea southward, including setting up the Asian Infrastructure Investment Bank (AIIB), now with 57 initial members from all over the world. This proposal of China proceeds from the spirit of "win-win results through cooperation" at the core of President Xi's big power diplomatic thinking which is China's guide in dealing with both regional and global governance.

On one hand, there is a wide gap between what Asian countries need in infrastructure finance and how much capital is available from the World Bank and the Asian Development Bank. The gap could be as big as 730 billion dollars each year with 11 trillion dollars for the next 15 years. On the other hand, many Asian nations have come to the conclusion that it is not advisable for Asia (East Asia in particular), — the world's fastest growing region — to be hijacked in its finance by the U.S. Dollar-centered system. Asian nations have accumulated huge amounts of foreign reserves simply to serve as cushions or "wave-breakers" against possible financial upheavals.

The establishment of the BRICS Emergency Reserve Arrangement is a self-rescue measure warranted from painful experiences of developing

nations both in the Asian and global financial crises. Asian countries remember vividly even today, that during the Asian financial crisis in the late 1990s, Thailand and other Asian nations were forced to seek emergency aid from the IMF with suicidal package deals. The BRICS Emergency Fund belongs to the developing world and will provide assistance to developing nations. The Fund with 100 billion dollars is expected to increase in scope later on, which will greatly increase the authority and attractiveness of the BRICS countries and currencies. All the above-mentioned financial arrangements are solid contributions by China and developing nations to global governance reform.

To the vast developing world, lasting economic growth serves as a necessary foundation of progress in the political, social, cultural and other fields. The G20 has been moving forward in a zigzag fashion after the first few years of success in combating the financial crisis. As the imminent danger of the global financial meltdown fades, the spirit of "being in the same boat" dissipates too. As China becomes part of the triage in the G20 leadership and is poised to host the G20 summit in 2016, it shall again take the lead to offer its ideas and suggestions for the reform of global governance architecture. China, as a major global power and a permanent member of the United Nations Security Council, shall play a more active role in seeking solutions to global security issues too, including the fractured nuclear non-proliferation framework, to beef up the Security Council-led collective security system. The world can rest assured that China will by no means shirk its responsibilities.

China in the Post-World War II International Legal System

Sheng Hongsheng

Abstract: Dramatic changes have taken place in the international legal system since the end of World War II, such as the expanding arenas for application of international law, the emergence of a series of new legal institutions, and the parallel extension of both rights and obligations of states. In recent years, new developments have been arising in the international legal system, manifested by three important sets of transition, that is, from a “sovereign priority” to a “human rights priority”; from “consent-orientation” to “coercion-orientation”; and from “integrity” to “fragmentation.” The rise of China and the evolution of international law are closely related: while China’s ascent has been achieved within the parameters of the international legal system, a more prosperous and stronger China will certainly influence the future trajectory of the evolving system. China should and can be a positive force in constructing a contemporary international legal order through promoting domestic justice and international rule of law. In this process, China needs to take a more proactive role and

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evolve from being a recipient to a rule-maker, in order to modify the outdated principles and rules in international law.

Keywords: International legal system; rise of China; international legal order; transformation.

The seventy years after World War II have witnessed tremendous progress in the evolution of the international legal system. It is both necessary and conducive, for both theoretical and practical purposes, to trace the general trends as well as the major elements of the systemic transition, so as to discover the dynamics of interaction between a rising China and the evolving international legal system.

Post-World War II International Law and Beyond

A series of important international conferences convened in the concluding years of World War II put up a post-war order in political, economic, military, and legal terms.¹ As a component of the post-war international regime, the international legal system has undergone great changes, exerting great impact on the development of the international order.

Above all, both the subjects and objects of international law have increased. Especially in recent years, international organizations, non-governmental organizations, and even individuals have been playing more and more significant roles in international politics. The subjects of international law have never been so pluralistic and so difficult to define, particularly with the rise of non-state actors like Al-Qaeda and the Islamic State of Iraq and al-Sham (ISIS). Accordingly, the objects of international law have also expanded gradually, from acts of states and activities in the traditional domains of international law to those in the outer space, the seabed and ocean floor, polar areas, and even cyberspace. When Ebola broke out on a large scale in West Africa in December 2013, the United Nations Security Council convened consecutive meetings to discuss critical threats to

¹For a detailed description of such conferences and their achievements in establishing the post-World War II international legal order, see Gong Xiangqian, "The United Nations and Development of International Legal Order," *Politics and Law*, No. 1 (January/February 2004), and Antje Weiner *et al.*, "Global Constitutionalism: Human Rights, Democracy and the Rule of Law," *Global Constitutionalism*, Vol. 1, No. 1 (March 2012), p. 1.

international peace and security such as epidemics and feasible counter-measures to be taken by the international community. Indeed, it was unprecedented for the Security Council (with a chief mandate to uphold international peace and security) to organize specialized meetings on issues related to diseases, hygiene, and public health.

The post-World War II international legal order has undergone major changes, focusing more on human rights and human security.

Next, new institutions of international law have come into being one after another, and both the rights and obligations of states have expanded on a parallel level. In contemporary international law, there are many new sub-areas such as international administrative law, international tourist law, nuclear law, polar law and so on, in comparison to fewer than a dozen institutions of traditional international law several decades ago. Over the past few years, the hazards of climate change have triggered the opening of

new shipping routes in the Arctic region and a number of non-Arctic states have claimed rights to the region based on different arguments. The boundary between states' jurisdiction over internal and external affairs has been blurred and issues previously within domestic jurisdiction have increasingly expanded to a point that require international jurisdiction, such as human rights protection, health issues, environmental protection, anti-terrorism, and crackdown on trans-boundary crimes. It is now more difficult for states to use "internal affairs" as justification for rejecting international jurisdiction. In other words, the sphere of "state reservation" has diminished dramatically.²

Furthermore, the international human rights law and international humanitarian law have imposed restrictions on the use of violence, and no matter what new means and methods of warfare come into being, the "principle of humanity" always prevails. Even if new military technologies are developed to influence the means and methods of warfare, such means

²Liang Xi, ed., *International Law* (Wuhan: Wuhan University Press, 2000), p. 31.

and methods remain subject to “the Martens Clause.”³ Some scholars point out that “the reason why the Martens Clause is so critical is just because it stresses the importance of customary rules regulating armed conflict via customary law.”⁴ Some other Western scholars hold that

even the most perfect legal rules cannot exhaust all of the possibilities. The more detailed circumstances legal rules stipulate, the more risks of leakage there will be. So in this case, if no concrete provisions for the Geneva Conventions of 1949 can be invoked, the Martens Clause will function as a ‘safety valve’.⁵

In the meantime, the nature of “weak law” in international law has been changed to some extent through the enhancement of sanctions in international law and the resurrection and rapid development of international criminal justice.⁶

With regard to the above changes and based on the emerging theories and norms in international law in recent years, it is reasonable to predict the medium- and long-term trends in the international legal system.

Firstly, issues covered by international law will keep on proliferating to include affairs not only in “high politics” but also in “low politics.” In

³In the Preamble of *Laws and Customs of War on Land (Hague IV)*, it reads “Until a more complete code of the laws of war has been issued, the High Contracting Parties deem it expedient to declare that, in cases not included in the Regulations adopted by them, the inhabitants and the belligerents remain under the protection and the rule of the principles of the law of nations, as they result from the usages established among civilized peoples, from the laws of humanity, and the dictates of the public conscience.” This is called the Martens Clause by legal scholars.

⁴Rupert Ticehurst, “The Martens Clause and the Laws of Armed Conflict,” *International Review of the Red Cross*, No. 317 (April 1997), pp. 125–134.

⁵Stanislav E. Nahlik, “A Brief Outline of International Humanitarian Law,” *International Review of the Red Cross* (July/August 1984), pp. 36–37.

⁶Under the terms of a resolution unanimously adopted by the United Nations Security Council on February 24, 2015, members decided to extend the mandate of the group of four experts on Yemen, which was established to oversee sanction measures employed against individuals and entities designated as threatening peace, security or stability in the country. See United Nations News Center, “Security Council Renews Yemen Sanctions Panel for 13 Months to Promote Political Transition,” February 24, 2015, <http://www.un.org/apps/news/story.asp?NewsID=50166#.VRYHddLLp1A>.

fact, international law is shifting its past focus on “international peace and security” to the current focus on “security and socio-economic development.”

Secondly, the value basis for international law will undergo significant changes, namely, from a “sovereignty priority” to a “human rights priority.” Under the guidance of “human rights supremacy,” international criminal law uses its sharp swords to pierce through the “last layer of armor” that is state sovereignty, and by resorting to universal jurisdiction and circumvention of judicial independence, diplomatic immunities and privileges, it attempts to impose obligations on individuals (including government officials entitled to privileges and immunities), so as to subdue the so-called “impunity” and be able to punish grave violations of human rights. At the same time, it is controversial that the Rome Statute applies to non-contracting states and this breaches an important principle in the law of treaty in international law *pacta tertiis nec nocent nec prosunt* (Treaties do not impose any obligations, nor confer any rights, on third States).

Thirdly, international law will transform from being “consent-based” to being “coercion-based,” which stresses “norms” instead of “wills.” Take United Nations peacekeeping operations as an example. Their traditional mandate is to keep peace, but “peace-enforcement” emerged promptly as a term in the 1990s when the United Nations peacekeeping forces simultaneously resorted to force to suppress one of the warring parties or to enforce ceasefire by coercion. It was permissible for United Nations peacekeepers to use minimum force for self-defense only. However, in a guideline for the United Nations peacekeeping operations issued by the Peacekeeping Department of the United Nations in 2008, no use of force unless for self-defense became “no use of force for self-defense and implementing mandate.”⁷ Besides, the well-known Brahimi Report⁸ has made a consequential change by stipulating that in United Nations peacekeeping operations, “Impartiality does not necessarily mean neutrality.”⁹ All the phenomena mentioned above imply that there is a

⁷Qi Sanping *et al.*, eds., *International Humanitarian Law in Peace Operations* (Beijing: Military Science Press, 2012), p. 225.

⁸Report of the Panel on United Nations Peacekeeping (A/55/305-S/2000/809).

⁹See Sheng Hongsheng, *The United Nations Peace-Keeping Operations: Legal Aspects* (Beijing: Current Affairs Press, 2006), p. 146.

tendency for international law to transform from a “consent-based” to a “coercion-based” approach.

Fourthly, more and more conflicts will take place between different departments of international law, reflecting a shift from “integrity” to “fragmentation” of the international law regime. This is embodied prominently by clashes between several pair issues, for instance, individual culpability and diplomatic privileges, responsibility to protect and non-intervention in domestic affairs, and international jurisdiction and internal jurisdiction, just to name a few.

Finally, some legal powers attempted to make their municipal law “spill over” into international law,¹⁰ and the transition process from “international morality” to “international law” has been accelerated. Moreover, even some moral norms at the personal level are being promoted to law as an outcome of mainstream values held by Western powers.

China’s Status in the International Legal Order

Although some tokens of “international law” can be found in ancient China,¹¹ its concepts of “state,” “international” and even “law” do not match the equivalent notions we use today. According to Liang Xi, “International law was imported to China from the West only after the Opium War in 1840.”¹² It was argued by some other scholars, however, that China had the first acquaintance with modern international law as early as in the mid-seventeenth century.¹³ Nevertheless, in over a hundred years after that, Western powers waged consecutive wars against China with powerful weapons and warships, imposing a series of unequal treaties, carving up Chinese territory and extracting large sums of war indemnities. International law was by no means a tool to safeguard China’s state interests.

¹⁰For example, Belgium enacted the Law of Universal Jurisdiction in 1993 which aroused international controversy.

¹¹See Chen Guyuan, *Tracing International Law in China* (Taiwan: Commercial Press, 1973); Liu Daren and Yuan Guoqin, *Developments in the History of International Law* (Beijing: Fangzheng Press, 2007); and Sun Yurong, *A Study in International Law in Ancient China* (Beijing: China University of Political Science and Law Press, 1999).

¹²See Liang Xi, ed., *International Law* (Wuhan: Wuhan University Press, 2000), p. 36.

¹³See Yang Zewei, *An Outline of History of International Law* (Beijing: Higher Education Press, 2011), p. 336.

On the contrary, modern international law left huge liabilities for China, such as spheres of influence, extra-territoriality, and concessions. As late as 1943, close to the end of World War II, Western powers like the United States still often invoked “extra-territoriality” in China. Thus, China was by and large a subservient victim of international law for over a century.

China did not benefit from the international legal regime until the end of World War II.

Only after the end of World War II did China, as a member of the victorious allied forces, begin to enjoy the benefits of a stable international legal order. First of all, China was able to claim its world power status as a founding member of the United Nations and one of the five permanent members of the UN Security Council. It made tremendous sacrifice and irreplaceable contributions to the

war against Fascism as one of the major forces on World War II battlefields. Toward the end of the war, China took part in almost every major international conference. Chinese delegates signed the Charter of the United Nations cementing China’s founding member status in San Francisco on October 24, 1945, and China managed to assume permanent membership in the United Nations Security Council, armed with veto power. This fact, for the first time in history and by law, secured China’s position as a world power.

Secondly, China began to exercise significant voting and decision-making power as a permanent member of the United Nations Security Council and many other crucial posts in other international organizations. In October 1971, the People’s Republic of China formally assumed its permanent seat and became entitled to all legal rights in the United Nations. Apart from being a permanent member in the United Nations Security Council, China held more and more leading positions in the United Nations Trusteeship Council, International Court of Justice, World Bank, International Monetary Fund, and other organizations, all of which made it possible for China to exercise its voting and decision-making power for critical issues in the international arena.

Lastly, a guarantee mechanism for prevention of war was provided by the post-war international legal system in general and the collective security regime under the United Nations Charter in particular, which created a favorable external environment for China’s social and economic development. On February 23, 2015, Chinese Foreign Minister Wang Yi chaired a UN

ministerial-level open debate on the 70th anniversary marking the victory of the war against Fascism and the founding of the United Nations, to reflect on history and reaffirm the commitment to the principles of the UN Charter. He pointed out that “The Security Council needs to take more precautionary measures to forestall conflict and act in a timely manner to stop warfare.”¹⁴ As an outcome of the anti-Fascism war, together with other states, the victorious Allied States established a political and legal order for the post-war world, in which the most prominent institutional arrangements included restriction of sovereignty for Japan and Germany,¹⁵ such as the occupation of both countries, imposition of peaceful constitutions,¹⁶ the limitation of regular armed forces, and the renunciation of the right to belligerency.

China’s Contribution to Modern International Law

Over the past seven decades, relations between China and the international legal system have undergone a zigzag process, with contradictions and conflicts coupled with coordination and mutual accommodation. In terms of theoretical exploration and law enforcement, China has exerted great impact upon the formation and evolution of the post-World War II international legal system.

Together with India and Myanmar, China put forward “the Five Principles of Peaceful Co-Existence,” a significant contribution to the system of fundamental principles of contemporary international law.¹⁷ In late 1954, Premier Zhou Enlai was invited to visit India and Myanmar, and “the

¹⁴United Nations News Center, “Chinese Foreign Minister Wang Yi Chairs Ministerial Open Debate in the UN Security Council Stresses Realistic Importance of the United Nations Charter,” February 23, 2015, <http://www.un.org/chinese/News/story.asp?newsID=23502>.

¹⁵In accordance with Article 107 of the United Nations, nothing in the present Charter shall invalidate or preclude action, in relation to any state which during the Second World War has been an enemy of any signatory to the present Charter, taken or authorized as a result of that war by the Governments having responsibility for such action.

¹⁶Article 26, Paragraph 1, *Basic Law of Federal Republic of Germany*, and Article 9, *Constitution of State of Japan*.

¹⁷“The Five Principles of Peaceful Co-Existence” are mutual respect for each other’s territorial integrity and sovereignty, mutual non-aggression, mutual non-interference in each other’s internal affairs, equality and cooperation for mutual benefit, and peaceful co-existence.

Five Principles of Co-Existence" were publicized in the Joint Communiques of China, India, and Myanmar. Essentially, the Five Principles coincided with "the Seven Principles of the United Nations Charter," and they were basic principles of international law initiated for the first time by states other than Western powers, complementing and improving the system of contemporary international law.

Meanwhile, China also began to provide increasing international public goods by participating in UN peacekeeping operations. Chinese participation should be regarded as constituting military diplomacy in China's overall diplomacy. It was an effective approach for China to provide public goods in high politics (for international peace and humanitarian protection) to the international community and a way to build up China's international image and win it international esteem for being a responsible power through creative involvement.¹⁸

China has always tried to uphold international justice and has consistently observed the fundamental principles of contemporary international law and basic principles of international relations as well. China has always emphasized that the principles of state sovereignty and non-interference should be adhered to strictly, and in the past, China has more often than not cast veto in the Security Council on several occasions to prevent some states from abusing UN mandates by interfering in the domestic affairs of other states. For instance, from February to July 2011, in voting procedures regarding the Syrian crisis, China, together with Russia, exercised their veto votes three consecutive times in the Security Council of the United Nations. For crucial issues like the Iranian and DPRK nuclear issues, China argues that international disputes should be settled by peaceful means, instead of resorting to the use or threat of force.

Besides, China is contributing to international justice by supporting African states' efforts in avoiding the negative effects of international criminal justice prosecution. Up till now, all of the nine "situations"¹⁹ under

¹⁸See Wang Yizhou, *Creative Involvement: Emergency of a Global Role for China* (Beijing: Peking University Press, 2013).

¹⁹Pursuant to the Rome Statute, the Prosecutor can initiate an investigation on the basis of a referral from any State Party or from the United Nations Security Council. In addition, the Prosecutor can initiate investigations *proprio motu* on the basis of information on crimes within the jurisdiction of the Court received from individuals or organizations ("communications").

review by the International Criminal Court have come from African states without exception, these have aroused harsh controversy and led to severe divisions within the international community.²⁰

Recalling the four centuries of international law since the Peace of Westphalia in 1648, it is not difficult to find that each great change in international law — from the principle of sovereign equality to the renunciation of extra-territoriality, from the establishment of the basic principles to the alteration of concrete rules, etc. — has been related to changes in the balance of international economic and political power. With its growing economic size and increasing share of the world's total GDP, China is demanding greater discourse power commensurate with its rising national power. In general, China's interaction with the international legal system during the past decades demonstrated the following three dimensions:

The first is China's proactive involvement in international organizations of an economic nature. It sought to restore its original contracting party status of the General Agreement on Tariffs and Trade (or GATT, the WTO's precursor) as early as 1986, and made significant adjustment and adaptation to win accession to the WTO, so that its own economy could be connected to the global market, for economic exchanges are less affected by ideological and political factors.

The second dimension is China's diligent reservation over premature norms that have emerged in recent years. There is notable disagreement and considerable conflict over a number of international norms — the responsibility to protect, for one example — between China and some Western powers.²¹ In the past years, affected by the idea of international rule of law and global governance, the responsibility to protect has gained

China's engagement in the international legal system has been focused on economic, normative and peacekeeping issues.

²⁰Ministry of Foreign Affairs of China, "UN Security Council Rotary Chairperson Chinese UN Ambassador Liu Jieyi Presides Security Council Meetings in November," November 4, 2013, http://www.fmprc.gov.cn/mfa_chn/wjdt_611265/zwbdt_611281/t1095809.shtml.

²¹See Huang Yao, "The Doctrine of the Responsibility to Protect from the Perspective of the Law on the Use of Force," *Chinese Journal of Law*, No. 3 (May/June 2012).

instant currency. It is argued by some scholars that when governments are unable to protect their people, “timely and decisive” acts could be taken by the international society as a whole to take collective responsibility to protect people concerned from mass atrocities. The issue also attracts attention from Chinese scholars, but it is still arguable whether “to give protection” constitutes a right, an obligation or even a responsibility.²² However, the situation in Libya in 2011 changed the course of such debate. All of a sudden, and without preparation, Libya served as a testing ground for the exercise of a “responsibility to protect” and further judicial intervention by Western powers.²³ As a matter of fact, the notion of the responsibility to protect has not been accepted broadly by the international society, and it is essentially a variation of “humanitarian intervention.” Therefore, some Chinese academics argue that it “bears very thick moral color” to prioritize protection of individuals over the state sovereignty.²⁴ In the field of international criminal law, Chinese delegates cast an “against vote” when the Rome Statute was adopted in 1998, because China held that jurisdiction by the International Criminal Court by the Statute almost established universal jurisdiction,²⁵ and this would be detrimental to judicial sovereignty of a third party, affect the judicial procedure of a state against its will, and cause long-term tensions and chaos in international relations.

The third dimension is China’s affirmative and positive position and involvement in international peacekeeping operations in general and peacekeeping operations by the United Nations in particular. Over the past decades, China has shifted from staying out of UN peacekeeping operations to cautious involvement, and then to active participation and coordination with the rest of the international society. Especially with the end of the Cold War, China has become increasingly active in taking part in United Nations

²²See Cai Congyan, “The Nature of Enforcement of R2P by the United Nations: From Political Responsibility to Legal Obligation,” *Jurists*, No. 4 (June/July, 2011).

²³See Song Jie, “Judicial Intervention in International Relations: An Intervention Era Is Coming,” *World Economics and Politics*, No. 7 (July 2011).

²⁴See Liu Bo, “New Developments in Western Doctrine of Humanitarian Intervention,” *China Science Post*, September 9, 2013, p. 7.

²⁵According to some British scholars, there are no general rules to authorize states to punish foreign nationals who commit crimes against humanity, just as they are entitled to punish piracy. See Robert Jennings and Arthur Watts, eds., *Oppenheim’s International Law* (London: Longman Group UK Limited and Mrs. Tomoko Hudson, 1992), pp. 363–364.

peacekeeping operations by providing personnel, material, and funds. At present, China is the largest troop contributor to UN peacekeeping operations among the five permanent members of the UN Security Council. Participation in peacekeeping operations serves China's national interests, which includes but is not limited to establishing an image of a responsible great power, gaining support of war-torn states, expanding military exchanges with other states, and providing field-training opportunities for the Chinese military.

In short, China's contribution to world peace and international justice is showcased by its diplomacy with peculiarity, that is, empathetically facilitating evolution by inherent innovation rather than encouraging radical change or even revolution with external pressure.

A Bigger Role for China to Play

Like municipal law, the international legal system always lags behind reality. Similarly, China's aspirations can hardly be reflected immediately or fully in the transformation of the international legal regime either. At present, China is striving to enhance its voting power by proposing new rules in international law, in order to play a more proactive and constructive role in the creation of new international rules and norms. Toward this goal, China is facing many favorable conditions as well as daunting challenges.

On the positive list, the first is the well-established political and legal systems of the world today. As the world order developed since the end of World War II has played an important role in preventing wars in the last seventy years, it is preferable for China to maintain the current United Nations political and legal systems in general and "Unanimity of Powers" and non-proliferation of nuclear weapons in particular.

The second positive factor is that China has gained more and more voting power in international justice with an increasing number of Chinese judges, committee members and arbitrators in international organizations.²⁶ In 2012, all the Chinese candidates were elected into the five major

²⁶See Sheng Hongsheng, "Growing Legal Influences: China gets Increasingly Involved in International Law Making and Enforcement," *Beijing Review*, Vol. 54, No. 40 (October 6, 2011).

judicial organs of the United Nations including the International Court of Justice and the International Law Commission. A new legal culture and new legal ideas are thus being introduced into the process for the settlement of international disputes by international judicial institutions, which will greatly enhance multi-polarity and inclusiveness of international justice. Besides, China also enjoys increasing voting power in international organizations of an economic nature. Since joining the WTO in 2001, China has not only conducted international economic activities based on WTO principles, but also tried to resolve legal disputes with other members according to such principles. From 2004 to date, 11 Chinese scholars have been designated by the WTO Appellate Body as judges, legal experts or lawyers.

The third positive factor is that China has already achieved much progress in the joint establishment of new international organizations. In 1997, the International Network for Bamboo and Rattan became the first international organization headquartered in China. China also played a leading role in the creation of the Shanghai Cooperation Organization (SCO), whose Secretariat is located in Beijing. As a new type of regional organization, the SCO does not target any third party, but aims to promote cooperation among its member states in fighting against terrorism, separatism and extremism, so as to maintain regional peace despite the many misinterpretations of the organization as an unlawful and anti-Western alliance.²⁷ In a more recent example, many global and regional powers like the United Kingdom, France, Germany, Australia and South Korea expressed interest in joining the China-led Asian Infrastructure Investment Bank (AIIB) as founding members. By April 15, 2015, a total of 57 countries had joined the AIIB as founding members, including all major economies of the world apart from the U.S., Japan, and Canada. In fact, the initiative has gathered such momentum that many scholars are regarding it as a sign marking a substantial boost of China's international status.

The final positive factor is China's increasing soft power. While trying to enhance its comprehensive national strength, China has placed much

²⁷Matthew Crosston, "The Pluto of International Organizations: Micro-Agendas, IO Theory, and Dismissing the Shanghai Cooperation Organization," *Comparative Strategy*, Vol. 32, No. 3 (July/August 2013), pp. 283-294; Stephen Aris and Aglaya Snetkov, "Global Alternatives, Regional Stability and Common Causes: The International Politics of the Shanghai Cooperation Organization and its relationship to the West," *Eurasian Geography and Economics*, Vol. 54, No. 2 (April, 2013), pp. 202-226.

emphasis on soft power development as well, and put forward a series of new ideas to increase its moral appeal.²⁸ Over the past few years, a series of new ideas have been proposed by the Chinese leadership, such as building a “Harmonious World,” forging a “new type of major power relations,” “win-win results of international relations,” the “New Security Concept,” the “One Belt and One Road Initiative” and the “Asian Dream.” Besides, China has also initiated a series of bilateral and multilateral cooperation mechanisms like the Forum on China-Africa Cooperation and the Forum of China and the Community of Latin American and Caribbean States.

In the meantime, China is facing increasing challenges on its way to playing a bigger role in the international legal system as well. Now that Germany, Japan, India, Brazil and even South Africa are all eager to seek permanent memberships in the United Nations Security Council, the enlargement of the organization will inevitably weaken China’s relative international standing and diminish its influence.

Besides, certain states or groups of states tend to interfere in China’s domestic affairs by misinterpreting the principle of self-determination. Unsurprisingly, when the International Court of Justice released its Advisory Opinion regarding Kosovo’s declaration of independence on July 22, 2010, claiming that it did not violate international law, both China and Russia held reservation for this critical issue under international law.²⁹

Another challenge China faces is that aggressive and invasive international criminal justice and universal jurisdiction is eroding state sovereignty and judicial independence. There seems to be a trend of international

Evolution of the international legal regime is challenging traditional leadership and jurisdiction of international law.

²⁸For soft power construction, see Zhang Chun, “On the Four-Step Strategy for China’s Comprehensive Rising without Challenging the Existing International System,” *World Economics and Politics*, No. 5 (May 2014).

²⁹See Yu Mincai, “A Comment on ICJ Advisory Opinion Concerning Kosovo Independence,” *Studies in Law and Business*, No. 6 (November/December 2010); He Zhipeng, “Judicial Dilemma in Power Politics: A Reflection on ICJ Advisory Opinion Concerning Kosovo Independence,” *Studies in Law and Business*, No. 6 (November/December 2010).

judicial intervention. After the end of the Cold War, international criminal law underwent resurrection and rapid development,³⁰ and in no more than twenty years, seven international criminal institutions have been set up. As a result, many states and international organizations have begun to hold serious reservations or even objection to universal jurisdiction,³¹ aiming to prevent the International Criminal Court from becoming a political instrument to achieve the selfish interests of the states concerned. In terms of a definition for the crime of aggression,³² China insists that the issue is so important that the definition should be given by the United Nations Security Council instead of the International Criminal Court. In recent years, there are some cases relating to law suits against incumbent and retired Chinese leaders. As for the controversy, just as a Chinese delegate said at a United Nations conference,

As stated by the ICJ in the Arrest Warrant case, these officials can still be held criminally accountable without prejudice to the immunity from foreign criminal jurisdiction through measures such as prosecution by their own national courts, waiver of their immunity, prosecution at the termination of their tenure of office, and prosecution by an international criminal justice organ. Therefore, immunity is not necessary linked with impunity.³³

The last challenge for China is the growing controversy over the principles in settling sovereign or security disputes. Today, on international maritime disputes, international judicial institutions are inclined to resort to the principle of "effectivités" (effective control) to adjudicate territorial

³⁰Dirk van Zyl Smit, "Punishment and Human Rights in International Criminal Justice," *Human Rights Law Review*, Vol. 2, No. 1 (January 2002).

³¹See "Princeton Principle on Universal Jurisdiction," Gao Mingxuan and Wang Xiumei, trans., *Chinese Criminal Science*, No. 3 (March 2002).

³²See Yao Caifu, "The Development of the Conception of the Crime Aggression in International Law," *Journal of University of International Relations*, No. 4 (July/August 2011).

³³Statement by Mr. Xu Hong, Chinese Delegate, Director-General of the Department of Treaty and Law of the Ministry of Foreign Affairs of China at the 69th Session of the UN General Assembly on Agenda Item 78 Report of the 66th Session of the International Law Commission (Part 2), <http://www.fmprc.gov.cn/ce/ceun/eng/chinaandun/legalaffairs/sixth-committee1/t1207044.htm>.

sovereignty over contested islands, which is detrimental to China and other countries that have remained less assertive over the past decades in territorial struggles with their neighbors. Take the case between Singapore and Malaysia, for example. The International Court of Justice ruled that Singapore has sovereignty over the Pedra Branca (White Rock),³⁴ because Malaysia could not provide ample historical evidence to prove that it enjoyed sovereignty over the island in question after 1844, while Singapore has conducted long-time effective control over the rock concerned.³⁵ This principle is not only evident in sovereignty disputes. On April 25, 2014, nine nuclear powers including China were sued by the Republic of the Marshall Islands on the charge of growing threat of nuclear proliferation,³⁶ which poses a new challenge to the existing nuclear system dominated mainly by great powers.

Facing all the positive and negative factors for its increasing engagement with the international legal system, China not only needs to learn to play a more constructive role in the international arena, but also has to promote domestic rule of law as well, in order to match its municipal law with the development of international law.

There are two pathways to becoming a constructive power, gradual involvement and seeking benefit while evading damages. Given

China needs to
match its municipal
law with the
evolving
international law.

³⁴International Court of Justice, *Sovereignty over Pedra Branca/Pulau Batu Puteh, Middle Rocks and South Ledge (Malaysia/Singapore)*, <http://www.icj-cij.org/docket/index.php?p1=3&p2=3&code=masi&case=130&k=2b&p3=0>; <http://www.icj-cij.org/docket/files/130/14492.pdf>, and ICJ Judgment of May 23, 2008: *Sovereignty over Pedra Branca/Pulau Batu Puteh, Middle Rocks and South Ledge (Malaysia/Singapore)*, Paragraph 196.

³⁵ICJ Judgment of May 23, 2008, *Sovereignty over Pedra Branca/Pulau Batu Puteh, Middle Rocks and South Ledge (Malaysia/Singapore)*, Paragraph 276; Huang Yao and Ling Jiaming, "On the Application of the Rule of Effective Control from the Perspective of International Judicial Decisions: Also on the Issues of Sovereignty over the Nansha (Spratly) Islands," *Journal of Sun Yat-Sen University*, Vol. 51, No. 4 (July/August 2011).

³⁶Obligations concerning Negotiations relating to Cessation of the Nuclear Arms Race and to Nuclear Disarmament.

the fact that the current international system is still largely dominated by Western powers,³⁷ China will need to make full use of its advantages and resolve the above-mentioned negative factors in order to promote its own legal rights while enhancing the development of international law. It could be the best approach for China to promote developments in the international legal system by offering more and more public goods in the areas of both high and low politics, such as providing more foreign aid and increasing participation in United Nations peacekeeping operations. During the process, China should learn to take the lead in reforming the current international legal regime by initiating new norms and mechanisms to gradually replace the outdated principles and rules of international law.

Conclusion

Arguably, the rise of China can be considered as the most significant event in the evolution of the post-World War II international system. As a result of the changes in the international economic landscape, the balance of power in international politics and the decision-making power on major global affairs are also shifting, reflected in the declining dominance of Western powers in issues relating to development assistance and conflict prevention. The center of gravity of the global balance of power is shifting eastward. The relationship between China's rise and its interactions with the international legal system is becoming increasingly complicated, exerting far-reaching and extensive influence on the future trajectory of the evolution of the international legal system.

In terms of governing international social relations, and compared with other norms, international law enjoys special and prominent advantages. The current international legal regime is in a period of rapid transition. It cannot adapt itself to the current international system unless broader reforms are taken by the international society.

It is beyond doubt that the post-World War II international legal system has deficiencies. It was built upon the old-time European system of international law, and it is therefore incomplete and under-representative, reflecting and serving the narrow interests of Western powers in particular.

³⁷See Zhang Xiaoming, "A Rising China and Normative Changes in International Society," *Foreign Affairs Review*, No. 1 (January/February 2011).

Similarly, China's interactions with the international legal system need to be reexamined as well. In the early days, due to ideological clashes, China framed international law in a negative light, and with few qualified international legal experts. It was difficult to formulate a sober assessment of the potential impacts of the principles and rules in international law. In an evolving international legal system and an emerging new international order, what China needs to do is project a positive image of a responsible major power. It must participate in international affairs as "an active insider" instead of "a detached observer," resolutely confronting issues that it has never faced before. On one hand, more efforts need to be taken to make sure that international law better represents and serve China's legitimate rights and interests as well as incorporate Chinese values, ideas about the rule of law, and legal philosophy. On the other hand, from a Chinese perspective and with a global vision, Chinese scholars and practitioners should contribute to the reform of the current international law, both in theory and in practice, so as to establish a more just and lasting international legal system.

The Evolving Sino-American Relationship and the Korea Problem

*Gi-Wook Shin and
David Straub*

Abstract: Distrust between the United States and China continues to grow in Northeast Asia. Among many contributing factors, the North Korea issue is one of the most important, as illustrated by the controversy over the possible deployment of the United States' THAAD missile defense system in South Korea. Thus, resolving or mitigating the Korea problem, a significant goal in its own right to both the United States and China, is also essential to reducing U.S.-PRC strategic distrust. China and the United States share long-term interests vis-à-vis the Korean peninsula. The question is how its resolution might be achieved. U.S. efforts to induce North Korea to abandon its nuclear and missile programs by offering incentives and imposing sanctions have failed, and Chinese attempts to encourage Pyongyang to adopt PRC-style economic reforms have not fared much better. With Washington, Beijing, and Pyongyang unlikely to change their approaches, the hope for any new initiative must rest with Seoul. South Korea's special relationships with the North, the United

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States, and the PRC, along with its status as a dynamic middle power, give it the potential to play a larger leadership role in dealing with North Korea. In doing so, South Korea should consult with the United States and China on a long-term strategy for inter-Korean reconciliation that would, for now, finesse the nuclear issue. Such a strategy would require U.S. and Chinese support of the South Korean leadership in addressing the Korea problem. The process of working together with Seoul to formulate and implement this strategy would allow both powers to ensure that their long-term interests on the peninsula are respected. Although there is no guarantee that such an effort will succeed, the worsening situation on and around the Korean peninsula and the U.S. and PRC's lack of progress all argue for this new approach, as do the potential benefits to the U.S.-PRC relationship.

Keywords: Strategic distrust, nuclear threat, inter-Korean reconciliation, tailored engagement, South Korean leadership.

Despite being a relic of World War II and the Cold War, the “Korea problem” continues to exist, now well into the twenty-first century. The two Korean states are extremely polarized: while the South has become a model of economic and political development for many developing countries, the North maintains perhaps the world's most closed system, and it appears determined to develop a deliverable nuclear arsenal. Meanwhile, the post-Cold War era of good feelings among the major powers in Northeast Asia ended several years ago. Growing strategic distrust characterizes U.S. ties with both China and Russia, as well as Japanese relations with China and South Korea. Together, these developments on and around the Korean peninsula have made the Korea problem arguably more serious and intractable than at any time since the end of the Korean War in 1953.

U.S.-PRC strategic distrust stems from a number of factors, but tensions over the Korean peninsula constitute one of the most important, enduring, and challenging factors. Despite public assurances by officials in both Washington and Beijing of their cooperation on the North Korea nuclear problem, cooperation is in fact distinctly limited by the two capitals' divergent visions of the future of the Korean peninsula. Washington *aims* for an end to the North's nuclear weapons program and *hopes* for the eventual peaceful unification of the peninsula under the South's leadership. Beijing likewise seeks an end to the North's nuclear weapons program, but

is more concerned about instability in the North than about the nuclear issue, making it reluctant to increase sanctions and pressure on Pyongyang to abandon the program. It is also wary of the risks of Korean unification, especially as long as the United States remains a treaty ally of the South.

The broader strategic distrust on the part of Washington and Beijing also complicates their efforts to work together to address the Korea problem. This explains, in part, Beijing's decision not to condemn Pyongyang after its apparent unprovoked sinking of a South Korean naval vessel in 2010, with the loss of 46 lives, and its protest when the United States responded to the attack by dispatching an aircraft carrier to the Yellow Sea (West Sea) in a show of force aimed at Pyongyang. Similarly, Beijing has publicly expressed its strong opposition to South Korea's allowing the United States to deploy a Terminal High-Altitude Area Defense (THAAD) missile defense system in the South, even though the United States insists that it would be directed solely against North Korea's growing missile threat, not against the PRC's missile arsenal.

Mitigating and resolving the North Korean nuclear program and eventually the larger Korea problem would thus not only remove a major concern for both Washington and Beijing but *also* help to reduce the general strategic distrust between the two powers. The conundrum, however, is how all this might be accomplished. U.S. efforts to induce North Korea to abandon its nuclear and missile programs by offering incentives and imposing sanctions have not succeeded, while Chinese efforts to encourage Pyongyang to adopt PRC-style economic reforms have not fared much better. Yet neither Washington nor Beijing shows any willingness to change its approach, and Pyongyang seems even less flexible than usual due to its continuing power transition. While both Tokyo and Moscow also have important interests in the security situation on the Korean peninsula, neither is in a position to serve as a catalyst to change the current trajectory.

We therefore argue that the principal hope for any new initiative must rest with Seoul, specifically an effort to improve inter-Korean relations, which will eventually also serve as a basis to address the nuclear and other peninsular issues. We call this approach "tailored engagement" because it focuses on the utility of enhanced South Korean engagement with the North in a way that is fitted to the real contours of the Korea problem,

politics in the South, and the interests of Korea's neighbors.¹ South Korea's special relationship with the North and its status as a dynamic middle power give it the potential to play a much larger leadership role in dealing with North Korea, especially if it has the cooperation of the PRC and the United States. Beijing and Washington should support the effort because it would allow them to ensure that both their immediate and long-term interests on the Korean peninsula are respected. This is possible because South Korea is friendly with both countries and seeks to maintain close and cooperative relations. It could be counted on to consult closely with China and the United States in the process of formulating and implementing its policy. The success of tailored engagement would not only help to resolve the Korean problem but also reduce U.S.-PRC strategic distrust.

We will begin by examining more closely the current situation on and around the Korean peninsula and, based on that, consider the prospects if the current trajectory is not changed. Next, we will discuss the causes of U.S.-PRC strategic distrust and identify where the nations' interests on the peninsula coincide and how their differences may be bridged. Finally, we will discuss our concept of tailored engagement in more detail. By supporting a South Korea-led effort to improve inter-Korean relations, we believe that the United States and China can eventually help to end the North Korea nuclear weapons program and resolve the Korea problem, while protecting U.S. and Chinese interests on the peninsula and reducing Sino-American strategic distrust in the process.

History and Prospects of the Korean Problem

The period around the end of the Cold War saw a coincidence of developments that raised hopes for a positive resolution of the Korea problem. Many in the West saw the peaceful unification of Germany at that time as a likely model for what would happen on the Korean peninsula. The Republic of Korea, having made rapid economic progress since the early 1960s, had become one of the world's major economic and trading powers,

¹Gi-Wook Shin, David Straub, and Joyce Lee, *Tailored Engagement: Toward an Effective and Sustainable Inter-Korean Relations Policy* (Walter H. Shorenstein Asia-Pacific Research Center Books, 2014), <http://aparc.fsi.stanford.edu/publication/tailored-engagement-toward-effective-and-sustainable-inter-korean-relations-policy>.

while North Korea had insisted on retaining a command-style economy and was suffering economic collapse and a major famine. Succeeding the Soviet Union, the Russian Federation was no longer supportive of North Korea, and the PRC was focused on its own economic development. With Kim Il-sung's death in 1994, many in the West assumed that Korean unification under Seoul's leadership was only a matter of years away. The CIA director, for example, famously predicted in 1996 that the North would collapse "in the next two or three years."² During this period, Moscow and Beijing normalized relations with Seoul, but Washington and Tokyo did not establish full diplomatic relations with Pyongyang.

Soon after the end of the Cold War, the nuclear issue flared up into the so-called first North Korean nuclear crisis. Despite the United States' 1991 withdrawal of all its tactical nuclear weapons from abroad, including from South Korea,³ and an inter-Korean agreement shortly thereafter not to pursue nuclear reprocessing and uranium enrichment,⁴ Pyongyang refused to allow the International Atomic Energy Agency to clarify questions about the extent of its nuclear program. With Pyongyang threatening to leave the Nuclear Nonproliferation Treaty, the United States under the Clinton administration negotiated bilaterally with North Korea to achieve the Agreed Framework of October 21, 1994. Pyongyang promised, in essence, to refrain from nuclear weapons development, and the United States agreed to move toward normalized relations with North Korea and to provide it with energy assistance. Implementation on both sides was slower than hoped, but significant progress was made in carrying out the agreement's provisions.

A few years later, inter-Korean relations also made dramatic progress as the Kim Dae-jung administration in South Korea (1998–2003), with the strong support of the Clinton administration, pursued a determined "sunshine policy" of aiding North Korea and reassuring its leaders of the South's peaceful intentions. This resulted in an unprecedented inter-Korean

²Terry Atlas, "CIA Director Fears N. Korea's Collapse, New War," *Chicago Tribune*, December 12, 1996, http://articles.chicagotribune.com/1996-12-12/news/9612120248.1_north-korea-cia-director-john-deutch-anthony-lake.

³George H.W. Bush, "Address to the Nation on Reducing United States and Soviet Nuclear Weapons," September 27, 1991, <http://www.presidency.ucsb.edu/ws/?pid=20035>.

⁴Joint Declaration of South and North Korea on the Denuclearization of the Korean Peninsula, <http://cns.miis.edu/inventory/pdfs/aptkoreanuc.pdf>.

summit in June 2000 and a number of agreements and exchanges between the two sides. President Kim won the Nobel Peace Prize for his efforts, although the honor was somewhat tarnished when it was later revealed that his government was behind a large cash payment to Pyongyang in advance of the summit.

A decade of apparent progress on the Korea problem ended in U.S.-DPRK confrontation in late 2002 over the North's covert pursuit of a uranium enrichment program.⁵ The George W. Bush administration made it clear it would not engage Pyongyang until it abandoned uranium enrichment. In short order, Pyongyang expelled International Atomic Energy Agency monitors from its declared nuclear facilities and became the only signatory to the Nuclear Nonproliferation Treaty ever to withdraw from it. To address this "second nuclear crisis" involving North Korea, the United States promoted the establishment of Six-Party Talks chaired and hosted by the PRC. The Bush administration felt that North Korea had deceived the United States by pursuing uranium enrichment and believed that the Six-Party Talks would be the best way of leveraging the potential influence of the international community, especially China, to induce Pyongyang to abandon its nuclear weapons program.

Despite the convening of numerous rounds of Six-Party Talks between 2003 and 2008, North Korea did not abandon its nuclear weapons program. While a number of agreements and understandings were reached, most were never implemented, and those that were implemented proved unsustainable. In 2005, Pyongyang declared itself a nuclear power;⁶ in 2006, it tested its first nuclear device. In 2009, shortly after Barack Obama was elected U.S. president on a platform of reaching

⁵Earlier in the year, the Bush administration had concluded, based on intelligence, that Pyongyang was greatly expanding its existing covert nuclear enrichment program. The program clearly violated the letter of the 1992 North-South Korean nuclear agreement as well as at least the spirit of the 1994 U.S.-DPRK Agreed Framework. Many Bush administration leaders, long hostile to the Agreed Framework, seemed to regard the expansion of the covert uranium enrichment program as an opportunity to end the Agreed Framework. Co-author Straub was a member of the U.S. delegation in October 2002 that confronted DPRK officials at meetings in Pyongyang with the fact that the United States had learned about the covert program.

⁶Anthony Faiola, "N. Korea Declares Itself a Nuclear Power," *Washington Post*, February 10, 2005, <http://www.washingtonpost.com/wp-dyn/articles/A12836-2005Feb10.html>.

out to countries with which the United States had long had adversarial relations,⁷ North Korea tested its second nuclear device. No further rounds of Six-Party Talks have been held since. An American effort to negotiate bilaterally with North Korea, however, began in 2011 and resulted in the modest “Leap Day Deal” of February 29, 2012.⁸ Under it, North Korea promised not to conduct nuclear tests and long-range missile launches, in exchange for 240,000 metric tons of American food aid. Within just a matter of weeks, however, the deal spectacularly imploded when North Korea conducted another long-range rocket launch.

Since February 2012, the U.S. has conditioned resumed talks with Pyongyang on the latter’s demonstration of good faith.

Since the failure of the Leap Day Deal, the United States has consistently conditioned a resumption of bilateral negotiations and Six-Party Talks on Pyongyang’s demonstrating its willingness to engage in good-faith negotiations. That is because Pyongyang no longer holds any credibility in Washington, and there is virtually no political support in the United States for offering further concessions to North Korea.⁹ This was underlined by Donald Gregg, a former American ambassador to

South Korea and outspoken advocate of U.S.-North Korean talks, who said in April 2015 that there is “no political support whatsoever” in Washington for taking a new diplomatic initiative toward Pyongyang and

⁷Most notably in a debate with Republican Party presidential nominee John McCain, when Obama said, “I believe that we should have direct talks — not just with our friends, but also with our enemies.” Commission on Presidential Debates, “October 7, 2008 Debate Transcript,” <http://www.debates.org/index.php?page=october-7-2008-debate-transcrip>. As president, Obama has launched major diplomatic initiatives toward Myanmar, Iran, and Cuba, and continues to engage them actively.

⁸The U.S. description of the agreement may be found at <http://www.state.gov/r/pa/prs/ps/2012/02/184869.htm>.

⁹An analysis of the U.S. media shows deep-rooted distrust of the DPRK among Americans. See Chapter 2 in Gi-Wook Shin, *One Alliance, Two Lenses: U.S.-Korea Relations in a New Era* (Stanford, CA: Stanford University Press, 2010).

that no “major changes [are] coming, I regret to say.”¹⁰ By early 2015, President Obama, apparently having given up hope of productive talks with Pyongyang, felt free to publicly predict that “over time you will see a regime like this collapse.”¹¹

Meanwhile, although Beijing advocates an unconditional return to Six-Party Talks, Pyongyang’s behavior, especially since the leadership transition in Pyongyang beginning in December 2011, has apparently resulted in seriously strained bilateral ties. The top leaders of the two capitals have not visited or met since the death of Kim Jong-Il, and the December 2013 execution of Kim Jong-Il’s brother-in-law Jang Sung-taek, an advocate of closer Sino-North Korean ties, was widely regarded as a blow to bilateral relations. In fact, the North Korean statement on Jang’s indictment, without citing China by name, blasted him for making cozy deals with that country for the sale of North Korean minerals and for Chinese investment in North Korean special economic zones. Since then, China-North Korea economic ties appear to have stagnated, and official statistics indicate that China has dramatically reduced supplies of oil to North Korea.

For its part, North Korea under its new leader Kim Jong-un has adopted an even more aggressive posture. Toward the United States, it has repeatedly threatened to launch a preemptive nuclear strike. It has continued to develop and test nuclear devices and missiles, including its third nuclear test on February 12, 2013, and its first successful launch of a satellite on December 12, 2012. Although the North has not tested a nuclear device since 2013, most experts believe that nuclear development continues unabated and that another nuclear device may be tested at any time within weeks of a decision to do so by the political leadership. Meanwhile, Pyongyang greeted the new South Korean administration of President Park Geun-hye not only with the third nuclear test on the eve of her inauguration but also with unilateral steps at the joint industrial park in Kaesong that resulted in its suspension for five months.

¹⁰Cara Anna, “Former Ambassador: Early Idea to Invite Kim to US Rejected,” Associated Press, April 10, 2015, http://hosted.ap.org/dynamic/stories/U/UN_UNITED_NATIONS_NORTH_KOREA?SITE=AP&SECTION=HOME&TEMPLATE=DEFAULT.

¹¹White House, “The YouTube Interview with President Obama,” January 22, 2015, <https://www.youtube.com/watch?v=GbR6iQ62v9k&feature=youtube.gdata>.

To the United States, North Korea's continuing nuclear and missile development, coupled with its threats of preemptive strikes against the United States itself, is becoming alarming. The North Koreans themselves revealed to a visiting Stanford expert, Dr. Siegfried Hecker, in 2010 that they apparently had already developed a full-scale advanced uranium enrichment facility in Yongbyon, despite years of denying the existence of such a program. Moreover, Hecker concluded, based on the speed with which they had built the facility, that North Korea likely had other, covert uranium enrichment facilities outside of Yongbyon.¹² More recently, some American private-sector experts estimate that, in a worst-case scenario, North Korea could have 100 nuclear weapons by 2020, due in significant part to its uranium enrichment program.¹³ The U.S. Under Secretary of State for Political Affairs, Wendy Sherman, implicitly lent credence to that number, if not necessarily the early date for its achievement, when she said in a speech in 2015 that North Korean leaders "hope to follow" the example of Pakistan, "a country whose nuclear program was first protested, then accepted."¹⁴ The commander of U.S. Forces Korea has stated that he must assume that North Korea has been able to miniaturize its nuclear devices for use as warheads.¹⁵ Admiral William Gortney, the head of the U.S. Northern Command, stated flatly on April 7, 2015, "Our assessment is

¹²Siegfried S. Hecker, "A Return Trip to North Korea's Yongbyon Nuclear Complex," Center for International Security and Cooperation, Stanford University, November 20, 2010, <http://iis-db.stanford.edu/pubs/23035/HeckerYongbyon.pdf>.

¹³Joel S. Wit and Sun Young Ahn, "North Korea's Nuclear Futures: Technology and Strategy," 38 North, US-Korea Institute at SAIS, 2015, <http://38north.org/wp-content/uploads/2015/02/NKNF-NK-Nuclear-Futures-Wit-0215.pdf>.

¹⁴Wendy R. Sherman, "Remarks on Northeast Asia," Carnegie Endowment for International Peace, Washington, DC, February 27, 2015, <http://www.state.gov/p/us/rm/2015/238035.htm>. See also the remark by Christopher Hill, a former American negotiator with North Korea: "[The North Koreans] used to tell me, 'Why can't we be India?'" Chang Jaesoon, "Iran Nuclear Deal Good Example for N. Korea: Christopher Hill," Yonhap News Agency, April 6, 2015, <http://www.globalpost.com/article/6507285/2015/04/06/iran-nuclear-deal-good-example-n-korea-christopher-hill>.

¹⁵Commander, U.S. Forces Korea, General Curtis Scaparrotti and Rear Admiral John Kirby, Press Secretary, Department of Defense Press Briefing by General Scaparrotti, Pentagon Briefing Room, October 24, 2014, <http://www.defense.gov/Transcripts/Transcript.aspx?TranscriptID=5525>.

that they [the North Koreans] have the ability to put a nuclear weapon on a KN-08 [road-mobile missile] and shoot it at the [American] homeland."¹⁶

If current trends continue, Pyongyang will, sooner or later, indeed develop a nuclear and missile arsenal on par with that of Pakistan. Given the unlikelihood that the United States and South Korea will accept such a situation, i.e., ease sanctions and normalize relations with Pyongyang as long as it has nuclear weapons, tensions on and around the Korean peninsula can be expected to rise over time,

further aggravating the Sino-American relationship. North Korea's threats to attack the United States with nuclear weapons will be taken increasingly seriously in Washington as its capabilities improve. The risk of accidental conflict on the Korean peninsula, which has never disappeared since the end of the Korean War, may increase, this time possibly again involving other powers and also the use of nuclear weapons. (Pyongyang argues that its possession of nuclear weapons will reduce the risk of war on the peninsula, but we discuss below why this is not likely to be the case.) The United States is currently preoccupied with trying to address Iran's nuclear program, but with North Korea continuing its nuclear and missile development, sooner or later the United States will focus intently on ending the increasing threat that Pyongyang poses not only to U.S. allies South Korea and Japan, but also to the United States' homeland itself.

Pyongyang will keep developing its nuclear and missile arsenal if current trends continue.

U.S. and Chinese Strategic Distrust and Shared Interests

Despite U.S. and Chinese cooperation to establish and convene the Six-Party Talks on ending North Korea's nuclear weapons program from 2003, their overall strategic distrust only grew in the following

¹⁶Anthony Capaccio, "North Korea Can Miniaturize a Nuclear Weapon, U.S. Says," Bloomberg News, April 7, 2015, http://www.bloomberg.com/news/articles/2015-04-07/n-korea-can-mount-miniature-nuclear-weapon-u-s-admiral-says?utm_source=Sailthru&utm_medium=email&utm_term=%2ASituation%20Report&utm_campaign=SitRep04%-2F08.

years.¹⁷ Chinese officials and commentators increasingly seemed convinced that, after decades of assisting the PRC with its economic development, U.S. officials were now aiming to strategically contain or even “strangle” China. In the assessment of a former top U.S. government China intelligence analyst, some Chinese even fear that “war [with the United States] is inevitable because the United States will attack China or, at a minimum, will do everything possible to contain, constrain, and thwart China’s rise.”¹⁸ U.S. officials responded by vehemently denying such intentions while expressing their own concerns about China, citing the steep climb in PRC defense spending, a lack of transparency in military affairs, and PRC policies regarding Taiwan and maritime issues in the East and South China Seas.

U.S. and Chinese strategic mistrust stems from many factors. A Chinese sense of victimization at the hands of great powers, including the United States, during the nineteenth and twentieth centuries, heightens suspicions of others’ intentions. Meanwhile, understandable Chinese pride at their great accomplishments during the past generation, as well as a sense of American decline, especially in the wake of the 2008 Wall Street financial crisis, have made many Chinese feel they need the United States less and have made them less tolerant of perceived American arrogance. Territorial issues linger, and these are among the most sensitive foreign policy and security concerns for most countries. Taiwan is naturally an extremely important and sensitive issue for the PRC, as are maritime disputes. From an American perspective, China’s steeply increasing defense spending fuels concerns that the PRC intends eventually to exclude the United States from the region. Analysts in both countries and elsewhere are concerned about the risks of an unintended military clash as mutual distrust and suspicions increase. Over the long run, many observers fear that the two countries could be caught in a “Thucydides trap” of escalating military competition and possible conflict between an established and a rising power.

¹⁷The literature on this issue is now voluminous. A particularly useful study is one that was done jointly by an American and a Chinese expert, Kenneth Lieberthal and Wang Jisi, “Addressing U.S.-China Strategic Distrust,” Brookings Institution, John L. Thornton China Center Monograph Series, No. 4, Washington, D.C., March 2012, http://www.brookings.edu/~media/research/files/papers/2012/3/30-us-china-lieberthal/0330_china_lieberthal.pdf.

¹⁸Thomas Fingar, “The United States and China: Same Bed, Different Dreams, Shared Destiny,” The Third Annual Nancy Bernkopf Tucker Memorial Lecture on U.S.-East Asia Relations, April 20, 2015, The Wilson Center, Washington, D.C.

At the outset of the Six-Party Talks, the forum gave rise to the hope, voiced by officials in both Beijing and Washington, for closer, more effective U.S.-Chinese cooperation on the Korea problem in particular, and even establishment of a new regional security framework. It soon became apparent, however, that American and Chinese priorities on the Korean peninsula differed in important respects. Chinese officials tended to attribute as much responsibility to the United States as to North Korea for the nuclear problem. They made clear that the United States had to address North Korea's own security concerns before it could expect Pyongyang to resolve the nuclear issue. From an American perspective, however, the United States had no intention of attacking North Korea and thus Pyongyang's nuclear weapons program had no legitimate justification. Moreover, the United States had put a stop to South Korea's nuclear weapons program soon after it began in the 1970s. American officials were hoping that China, as North Korea's main source of foreign support, would similarly use its leverage to help quickly end Pyongyang's nuclear weapons program.

As the Six-Party Talks progressed, it seemed to many Americans that the Chinese were unwilling to apply much pressure on North Korea or even be transparent about the incentives it could offer North Korea to end its nuclear weapons program. This led to the American feeling that the PRC, while clearly not wanting North Korea to have nuclear weapons, was much more concerned about the risks of instability in North Korea. Many Americans believed that the PRC was also concerned that the regime's possible collapse might lead to unification on South Korean terms, which they felt Beijing did not want for fear that unified Korea would remain a U.S. ally. For their part, Chinese officials seem frustrated at the rigidity of the American position, including the United States' unwillingness to be clearer and more detailed in the inducements it was prepared to provide to the North Koreans for denuclearization. North Korea clearly saw these differences and did its best to exploit them.

Thus, despite reaching a number of agreements, the Six-Party Talks did not result in the Americans' intended goal of preventing North Korea from becoming a nuclear power. On the contrary, North Korea used the forum to declare itself a nuclear weapons state and to propagandize its reasons for doing so. During the talks, it conducted its first test of a nuclear device and subsequently of two more, as well as succeeded for the first time in putting a satellite in orbit on one of its rockets. As a result, most U.S. officials

apparently no longer see the utility of Six-Party Talks, despite pro forma statements to the contrary.

Today, Washington declares its willingness to resume Six-Party Talks but only when Pyongyang first gives credible indications of its own willingness to negotiate in good faith. Beijing, on the other hand, calls for an early resumption of the talks and gives the impression that it would be prepared to resume the Six-Party Talks even if Pyongyang took no steps to demonstrate good faith. This is in spite of the fact that senior North Korean officials continue to make public statements such as those by the DPRK's ambassador to the United Nations, who reportedly said in March 2015 that his country was not interested in returning to the Six-Party Talks if their premise was North Korea's denuclearization.¹⁹

Earlier in the Obama administration, top U.S. officials' public statements suggested that they had high hopes that Beijing's attitude toward Pyongyang was evolving to resemble Washington's. More recently, the tone of U.S. officials' language has changed, a likely indication that they have concluded that Beijing's fundamental position has not changed and is unlikely to do so. Indeed, U.S. officials apparently have told their Chinese counterparts that the United States would have to take steps in the region, such as increasing missile defense, to counter North Korea's moves, unless China was able to use its leverage to persuade Pyongyang to change course. Predictably, Beijing's reaction to this U.S. position has been negative.²⁰

¹⁹Elizabeth Shim, "North Korea will Never Give Up Nuclear Weapons, Says Envoy to U.N.," *United Press International*, March 31, 2015, http://www.upi.com/Top_News/World-News/2015/03/31/North-Korea-will-never-give-up-nuclear-weapons-says-envoy-to-UN/6141427854080/.

²⁰For a revealing statement about U.S.-Chinese differences over North Korea, see the exchange between PRC Ambassador to the United States Cui Tiankai and former U.S. National Security Adviser Stephen Hadley. Hadley commented that "North Korea is as potentially divisive of the relationship between the United States and China as Taiwan is, so it's in some sense a ticking time bomb in the relationship." Cui replied: "One thing that worries me ... maybe more than a little bit, is that we're very often told that China has such an influence over DPRK and we should force the DPRK to do this or that. Otherwise the United States would have to do something that will hurt China's security interests. You see, you are giving us a mission impossible. ... [I don't] think that this is very fair, I don't think that this is a constructive way of working with each other." See "U.S.-China Cooperation in Peace and Security with Ambassador Cui Tiankai," video, United States Institute of Peace, April 10, 2014, <http://www.usip.org/events/us-china-cooperation-in-peace-and-security-ambassador-cui-tiankai>.

Thus, while the Six-Party Talks began with hope on both sides not only that the forum would lead to a resolution of the North Korea nuclear issue but also that it would advance bilateral U.S.-PRC coordination and cooperation, the talks achieved neither. From an American perspective, North Korea used the talks as a cover to accelerate its apparent plan to become a nuclear weapons state, and the result was that the talks contributed to an increase in U.S.-Chinese strategic distrust in regard to Korea and more generally.

Still, it should be noted that China and the United States share fundamental long-term interests on the peninsula. U.S. interests on the Korean Peninsula are both more profound and more limited than probably most Chinese policymakers realize. U.S. involvement on the Korean peninsula in 1945 began almost as an afterthought, to prevent the Soviet Union from dominating it. The consensus among American policymakers at the time was that having U.S. forces in Korea represented a strategic risk rather than an advantage, which explains the U.S. decision to withdraw its forces from the peninsula in 1949. Today the United States' security commitment to the Republic of Korea is extremely strong, but it is not in the first instance because of Korea's perceived strategic benefit to the United States. Rather, it is because over 30,000 American soldiers died in the Korean War and thus, politically, no American president can afford to "lose" what they fought and died for.

The domestic political roots of the American commitment to the Republic of Korea do not extend to Korea's forcible unification. Even though the United States does indeed *hope* for unification under Seoul's leadership, it will not risk military confrontation to achieve it. Rather, the United States' basic long-term interest is in the security and success of South Korea within its current borders. Not since President Truman dismissed General MacArthur in 1951 has the United States contemplated the forceful unification of Korea. Indeed, the consistent American instinct in response to

Since the end of the Korean War, both China and the U.S. have been seeking to reduce tensions and risk of military conflict on the Korean Peninsula.

even extreme North Korean provocation since 1951 has been to seek to reduce tensions and the risk of military conflict.²¹

Similarly, China has refused to support Pyongyang's military adventures since the end of the Korean War. Like the United States, the PRC regards war on the Korean peninsula as too risky to its interests to contemplate. Moreover, the PRC has long sought to induce Pyongyang to engage in a process of gradual economic reform and, implicitly, of gradual opening to the outside world. Presumably, this would contribute to the DPRK behaving less provocatively and more responsibly toward its neighbors.

The overlap in the interests of Beijing and Washington also extends to the Republic of Korea. Both benefit from close and cooperative relations with the South, including economic, technological, cultural, and educational exchanges. American officials are sincere in their pronouncements that good relations between Beijing and Seoul are also in American interests. Like Chinese and Americans, most South Koreans absolutely do not want to risk another war on the Korean peninsula. They want Korea to be unified, but only peacefully and under conditions that will allow for the success of the project. Almost certainly, that means that unification will not occur until some considerable time in the future, after a process of increasing cooperation between the two Korean states.

Thus, despite strategic distrust, this overlap in American and Chinese fundamental interests on the Korean peninsula in general and in South Korea in particular means that there is considerable room for the countries to reach an accommodation to help ensure peace, security, and development on the Korean peninsula over the long term. Increased consultation and mutual understanding about this overlap would provide a solid basis for supporting a Seoul-led effort to improve inter-Korean relations as the first step toward eventually resolving the Korea problem writ large.

The Need for a South Korean Initiative

The problem is how to move from the current stalemate to a process that rests on these shared fundamental interests among China, the United

²¹See the United States' Department of State published documentary record of its policy toward the Korean peninsula in the *Foreign Relations of the United States* series, <https://history.state.gov/historicaldocuments>.

States, and South Korea, and offers at least the hope of improving the situation on the peninsula. With North Korea evidently not understanding why it needs to reconsider its current course, and U.S., PRC, and South Korean approaches so far manifestly having not succeeded, clearly, a new approach is needed. But who should take the lead and what should the approach be?

We believe that there is no prospect that the United States or China will take a significantly different approach in the foreseeable future. The Obama administration felt betrayed and disrespected when, after reaching out to the DPRK, following President Obama's first inauguration, it almost immediately proceeded to test a nuclear device.²² The dramatic failure of its Leap Day

Neither China nor the U.S. is likely to take new initiatives in the foreseeable future.

Deal with Pyongyang three years later destroyed whatever little credibility Pyongyang retained with American negotiators. For the United States, resuming Six-Party Talks when North Korean officials have made it clear they do not intend to give up nuclear weapons, not only would be useless but would also be tantamount to accepting the North as a nuclear weapons state. While some observers have suggested that the Six-Party Talks might be used to freeze the North's nuclear and missile programs, Americans have little reason to believe that the North would keep such a promise, even if it were willing to make it. Moreover, this also would be widely seen as the United States accommodating itself to the North as a limited nuclear weapons state, something American leaders are not prepared to accept.

Meanwhile, the PRC appears increasingly frustrated with Pyongyang's behavior, including its continuing nuclear and missile development, its attacks against the South, and its unwillingness to engage in serious systemic reform. But the PRC's concern about the risks of instability in the North and on the peninsula as a whole has apparently locked it into a status quo position. It calls on the United States to negotiate with North Korea but

²²Jeffrey A. Bader, *Obama and China's Rise: An Insider's Account of America's Asia Strategy* (Washington, D.C.: Brookings Institution Press, 2012), pp. 26–39.

without being willing or able to help to ensure that such negotiations might actually result in substantive progress.

Among the four major players on the Korean peninsula, that leaves only South Korea as a country that might take a major new initiative to address the Korea problem. Although South Korea has not done so, we believe that it has both the need and the ability to take on greater leadership in addressing the Korea problem. Apart from North Korea itself, South Korea stands to suffer the most if the current trajectory on the peninsula continues. The risk of a military clash or even war will remain and increase. The North's actions force Seoul to spend an inordinate amount of resources for deterrence and defense. Moreover, the South suffers many opportunity costs due to the current situation, including being cut off by land from Eurasia.

South Korea need not fear to engage the North because it has won the competition with it in all respects, including economically, technologically, and diplomatically. Its conventional military forces are stronger than those of the North, too; it lags behind in nuclear weapons and missile development, but only because it has foresworn those capabilities. Not just in comparison with North Korea but globally as well, South Korea is now a major state. It has the world's 14th largest nominal GDP; it is the 8th leading exporter; and it has the 7th most active-duty military personnel. The Secretary General of the United Nations, Ban Ki-moon, is a South Korean citizen whose selection was supported by both the PRC and the United States.

The reason that the South, with such a need and such resources, has not taken the lead in dealing with the North stems primarily from deep political division at home. Progressives, arguing that the North acts threateningly because it feels insecure, maintain that the South should provide unilateral aid to the North. Conservatives, on the other hand, insist that the North's behavior is due to the domestic insecurity of its leaders and that they will use Southern largesse to strengthen their military, including nuclear weapons. The result is that South Korean administrations have not maintained a consistent policy that might have had a chance over time to induce positive change in North Korea. North Korean leaders use various means to seek to increase the divisions within the South, and their strategy is to wait out conservative leaders, in the hope that they will be succeeded by progressives. Even when the South has been

led by progressive leaders, however, the North has strictly limited its dealings with South Korea, in part because it feels it can obtain benefits without having to reciprocate.

The keys to overcoming this dilemma, as we have outlined in our policy study *Tailored Engagement*, are (1) seeking a consensus policy in the South that can be pursued consistently and (2) obtaining the support of both the PRC and the United States. Overcoming internal polarization in the South over North Korea will certainly not be easy, but we believe it is possible

to the extent that partisans on both sides there increasingly realize that they must compromise with each other if the South is to exercise influence. Public opinion polls clearly show an overwhelming majority in the political middle in the South who would support a principled yet more flexible and bold approach to the North — in other words, a policy that is neither “sunshine” nor “all nuclear-first.” Moreover, as a conservative, President Park has the political space in the South, if she wishes, to pursue such an approach, just as President Nixon, who earlier in his career had been labeled a “red baiter,” was able to forge relations with the PRC in a way that a liberal American president would have found much more difficult to undertake.

Obtaining the support of the PRC and the United States will be equally important in helping Seoul to forge such a domestic consensus and in implementing the new policy. Without the prospect of PRC and U.S. support, partisans in the South will be less inclined to consider forging a compromise approach. And without U.S. and PRC support, the North will feel that it does not have to take the South seriously. Currently, however, instead of working together with the South, the United States and the PRC are increasingly competing against each other in the corridors of power in Seoul. The United States urged Seoul not to join the PRC-led Asian Infrastructure Investment Bank (AIIB), while the PRC has forcefully argued against the South allowing the United States to introduce its THAAD missile defense system there. Such competition is in the long-term interest of none of the three states. Due to proximity and China’s size, South Korea’s primary economic relationship will be with the PRC. But in terms of security, the more threatening the North is and the more discouraging the PRC is of U.S.-South Korean security

Overcoming internal polarization over North Korea is the most imminent task faced by the South.

cooperation, the likelier it is that Southern leaders will feel the need to adhere to the United States for strategic reassurance.

The reality is that Seoul needs and wants very close and cooperative relations with both Beijing and Washington and vice versa. Recently, the South's foreign minister challenged the dominant narrative in the South Korean media that South Korea is "sandwiched" or "trapped" between the United States and China, suggesting instead that both countries see South Korea as increasingly important to them and that this presents opportunities to Seoul.²³ The vice foreign minister also stressed that "the Korea-U.S. alliance and Korea-China relations are not a zero-sum relationship . . . [and that] they are not only compatible, but also carry the potential even to develop into mutually complementary and strengthening relationships depending on Korea's role therein."²⁴

China and the United States should take advantage of this strategic need on Seoul's part to seek to address the fundamental aspects of the Korea problem that threaten both of their long-term interests. By supporting a greater role for the South in dealing with the North, they will make perfectly clear to the North's leaders, for the first time, that it must begin a process of gradual political and economic change. In the process of developing the details of the tailored engagement policy, Beijing and Washington will engage intensively with Seoul and with each other, which will reduce their strategic distrust in regard to the Korean peninsula and also contribute to greater mutual understanding on other strategic issues as well.

Making Tailored Engagement Work

As we have stressed, in addition to the need to obtain the support of the PRC and the United States, tailored engagement can work only if South Koreans achieve a consensus among themselves in favor of the approach. This will require their agreement about the policy parameters of major

²³Foreign Minister Yun Byung-se said, "The current situation in which we are getting 'love calls' from both the United States and China because of our strategic value should not be considered a headache or dilemma. Rather, it is a blessing." Kang Jin-Kyu and Shin Yong-Ho "Foreign Minister Under Fire For 'Blessing' Remark," *JoongAng Daily*, April 1, 2015, <http://koreajoongangdaily.joins.com/news/article/Article.aspx?aid=3002571>.

²⁴Kim Hyo-jin, "Relations with U.S. and China Are 'Not a Zero-Sum Game,'" *Korea Times*, April 13, 2015, http://www.koreatimes.co.kr/www/news/nation/2015/04/113_177044.html.

issues. These include the policies toward *denuclearization, sanctions, human rights, and unification*. Currently, the main South Korean political parties are deeply divided over all four, and Washington and Beijing also have significant differences over them. We recommend approaches to each that would appeal to large majorities in South Korea and that, taken together, would meet the interests of both Washington and Beijing, certainly more than the current situation benefits either.

North Korea's *denuclearization* is Washington's main concern on the Korean peninsula, following only the maintenance of the South's security, to which the former is increasingly related. It is also a major issue for the PRC and the ROK, but the PRC and South Korean progressives as well believe that Pyongyang is pursuing nuclear weapons and missile development partly out of fear for its own security. The latter thus support not only U.S.-North Korean bilateral and multilateral negotiations but also much more active South Korean engagement of and aid to the North. The United States and South Korean conservatives, on the other hand, feel that as much pressure as possible should increasingly be brought to bear on Pyongyang to make it realize that nuclear weapons will bring it neither security nor prosperity.

At the same time, Americans understand that the South has a special relationship to the North, and the United States will thus not oppose South Korean efforts to engage the North that do not undermine international efforts to induce the North to denuclearize.²⁵ A prime example of this is Washington's tolerance of the Kaesong inter-Korean industrial park, even though it is a major source of hard currency for the North. We thus advocate that the South begin by pursuing engagement with the North in the humanitarian, educational, and cultural areas, which will not undercut international efforts to persuade the North to denuclearize. Progress in inter-Korean efforts based on such efforts could contribute to a resumption of Six-Party Talks, at which the South and other countries could offer economic cooperation, including infrastructure aid, as part of a package deal for the North's denuclearization. Such an approach would appeal to a great majority of South Koreans and also be consistent with fundamental Chinese and American interests.

²⁵See, for example, the statement by Under Secretary of State Wendy Sherman: "We fully support President Park's initiative to have bilateral discussions with North Korea." U.S. Department of State, February 27, 2015, <http://www.state.gov/p/us/rm/2015/238035.htm>.

The division within South Korea between conservatives and progressives and between the United States and the PRC over the issue of *sanctions* is similar to the division over denuclearization. South Korean progressives and the PRC are reluctant to increase sanctions, while South Korean conservatives and the United States support a toughening of sanctions in response to North Korean actions. Some sanctions are inevitable in view of the North's behavior, but the threat of sanctions is often more effective than their actual application. Moreover, once imposed, they are politically difficult to remove, especially if they are multilateral, even though there is wide recognition that they may foreclose more promising avenues of action. In this regard, South Korea needs to consider easing or bypassing the May 24 sanctions it unilaterally imposed on the North after the sinking of the *Cheonan* in 2010. This is something that the ROK can do on its own, though politically challenging, and it would enable it to begin pursuing tailored engagement. Meanwhile, most international sanctions would remain in place until the North began to show sincerity about resolving the nuclear issue, an approach that would satisfy basic U.S. concerns.

**The ROK can repeal
its unilateral
sanctions on the
North as a first step.**

On the *human rights* issue, the main South Korean political parties have been divided between the conservatives, who want to emulate the United States' own North Korean human rights law, and progressives, who want to focus instead on humanitarian assistance such as providing food and medicine to

ordinary North Koreans. A large majority of South Koreans, however, support the approach of criticizing the extreme aspects of Pyongyang's behavior toward its own people whilst helping ordinary North Koreans with basic material needs. South Korea may not need to take the lead internationally on the North Korean human rights issue, which could be seen as self-serving as well as pose an obstacle to talks with the North, but should quietly support European and other international efforts to highlight the need for Pyongyang to follow basic international human rights practices. This would be acceptable to the United States and would not be worse for the PRC than the current situation.

Finally, with regards to the four major issues, *unification* is the source of major misunderstandings and disagreement among and within the ROK, PRC, and the United States. South Korean progressives accuse their conservative

countrymen of supporting “unification by absorption” along German lines. They criticize its advocates for assuming that the Pyongyang regime will collapse or, worse, for supporting active measures to weaken Pyongyang and hurry along its collapse. For progressives, such “collapsist” attitudes are, at best, an example of wishful thinking and, at worst, reflect an irresponsible, even “warmongering” approach to the complex and delicate Korea problem. Conservatives counter that Pyongyang’s own policies and rigidity will, sooner or later, bring about dramatic change in the North. Many conservatives also counter that they are not pursuing unification by absorption but believe that it would be imprudent if the South were not prepared for such a contingency.

President Park has stressed the need for Korean unification — and its benefits for all concerned, both on and around the Korean peninsula — but she is not pursuing a policy of achieving unification by force. Rather, she seems to be focusing on laying the groundwork for eventual peaceful unification by stressing its benefits to Korea’s neighbors and especially to the younger generation in the South, the members of which express little interest at all in the North, much less for unification.

Although the Obama administration officially supports Korean unification, such support is rhetorical rather than real.²⁶ The United States’ chief concern on the Korean peninsula is to maintain the South’s security. Since there is no clear way that the United States could bring about unification under the current circumstances without risking war on the Korean peninsula, the United States is not actively pursuing it. As noted above, President Obama did refer publicly to Pyongyang’s eventual collapse, but it is clear that he did so as a prediction rather than as an expression of policy.

It should thus be possible for South Koreans to reach agreement on a policy that supports the concept of peaceful unification in the long term while pursuing inter-Korean reconciliation for the time being. Such an approach would also help to reassure Pyongyang about the South’s

**China and the U.S.
should support South
Korea’s reconciliation
approach to the
North.**

²⁶“Joint Vision for the Alliance of the United States of America and the Republic of Korea,” The White House Office of the Press Secretary, June 16, 2009, https://www-whitehouse.gov/the_press_office/Joint-vision-for-the-alliance-of-the-United-States-of-America-and-the-Republic-of-Korea/.

intentions and would meet with no opposition from either the PRC or the United States.

Even though a large majority of the South Korean public would support the approach outlined above, it will not be easy to mobilize political support for such a consensus due to the partisan nature of policymaking and the deep divisions between the main conservative and progressive parties. Even after achieving such a consensus, implementing tailored engagement and negotiating with the North will present major challenges. We thus recommend that the South Korean president appoint a senior figure with bipartisan support to serve as her top assistant on North Korean matters. This would be similar to President Clinton's appointment of former Secretary of Defense William Perry to head his North Korea policy review and to engage with the North Koreans in 1998–1999. This "South Korean Bill Perry" could help the president to develop a political consensus in support of tailored engagement, manage the manifold elements of the bureaucracy involved in North Korean affairs, coordinate with the United States and China, and lead or direct negotiations with Pyongyang at the sub-summit level.

Conclusion

The situation on and around the Korean peninsula is becoming increasingly complicated and threatening to the interests of all concerned. Under its new leadership, North Korea appears to have doubled down on its *byeongjin* or "parallel" policy of seeking to develop nuclear weapons while growing its economy. Pyongyang's leaders continue to believe that if they continue on their current course, above all the development of nuclear weapons and missile capabilities, they will eventually achieve their external and internal security aims without taking the risks of even gradual and limited political and economic reforms. Clearly, this will not succeed because the international community will not ease sanctions against it as long as it maintains nuclear weapons and because the North's leaders feel they need not engage in reform if they have what they term a nuclear "deterrent." This is illustrated by the fact that, even under the most optimistic estimates of North Korean economic growth, the much larger South Korean economy grows

by a larger *margin* each year than the size of the entire North Korean economy.²⁷ Meanwhile, for reasons of strategic distrust and perceived divergent interests on the Korean peninsula, the United States and China are not effectively cooperating about Korea for the sake of their long-term interests.

This increasingly serious situation warrants that Beijing and Washington review their policies and take a long-term approach to the very complex and difficult Korea problem. Their fundamental long-term interests basically overlap, but due to strategic distrust, they have not consulted with one another and cooperated as closely as they need to do to deal with the problem. Both could maximize chances of the achievement of their interests by cooperating intensively in support of a new North Korea strategy in which the South takes the lead and puts the initial focus where it should be, on inter-Korean reconciliation. While we recognize the difficulties, we believe that the risks of the alternative argue for making a concerted effort in this direction. If successful, such an approach will both help to ensure peace and stability on the Korean peninsula and contribute to reducing strategic distrust between the two powers in Northeast Asia.

²⁷ Assuming the South's GDP is forty times larger than that of the North and that it is growing at a rate of 2.5 percent per year, the South's annual margin of growth alone would still be larger than the North's entire GDP.

An Accommodative Security Architecture in the Asia-Pacific:

Where Do We Stand and What Do
We Want?

Wu Chunsi

Abstract: In the Asia-Pacific geopolitical dynamics, China's rise and its accompanying "assertive" diplomacy are often cited by some studies as the cause of security concerns. The author argues that this interpretation of the Asia-Pacific security situation is wrong. The Asia-Pacific confronts various and complex security problems, which cannot be simply attributed to the rise of China. The occurrence and activation of so many security problems in the Asia-Pacific only indicate that the security architecture in the region is undergoing a profound transition. The old security architecture inherited from the Cold War era cannot effectively handle the security problems in the region any more. The Asia-Pacific needs a new architecture adaptive to the features of the post-Cold War era. The new security architecture should embody the spirit of cooperation and reflect Asian countries' interests and ways of handling regional affairs. More importantly, the new security architecture should feature ample accommodativeness, not only including the diverse cultures and paths of development of the region, but also encouraging and incentivizing all parties

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of the region to learn from each other so as to jointly create a sustainable security environment for the region.

Keywords: Asia-Pacific security architecture; power shift; U.S. alliance; Asian regionalism.

At the beginning of the second decade of the twenty-first century, relations among nations in the Asia-Pacific were suddenly confronted by a round of turbulence. First of all, China-U.S. relations deteriorated unexpectedly after about eight years' of steady development since 9/11 and a promising start in the Obama administration. Secondly, renewed tensions on the Korean Peninsula flared up after the *Cheonan* Incident. Thirdly, disputes in the South China Sea reemerged, especially between China and the Philippines, and between China and Vietnam. Fourthly, tensions between China and Japan mounted after Japan's unilateral nationalization of the Diaoyu Islands. Thus, in 2010, the same year that the United States vigorously promoted its strategic pivot to the Asia-Pacific,¹ the quietness of the region was suddenly disrupted. The nations in the Asia-Pacific region began to shift their attention away from economic development and cooperation to ever-increasing security concerns. In short, regional security is facing many new challenges that demand urgent and innovative management.

To the international society, China's rise and its so-called "assertive" actions are often cited as the cause of instability.² This observation is

¹On July 22, 2009, U.S. State Secretary Hillary Clinton announced at the ASEAN summit, "the United States is back in Southeast Asia." This might be viewed as the starting point of the Asia-Pacific Rebalancing Strategy. In 2010, the U.S. was very actively involved in East Asian affairs, especially the disputes between some countries, for instance, the *Cheonan* Incident, the South China Sea disputes between China and some Southeast Asian countries, and China-Japan disputes over the Diaoyu Islands. The name of the U.S. Asia-Pacific Rebalancing Strategy has been changed several times. At the beginning, it was called "return to the Asia-Pacific," then "pivot strategy," and finally the name was fixed as "rebalancing strategy."

²For a summary of the narrative about China's assertiveness and its negative influence on international relations, see Walter Lee, "China's Unassertive Rise: What Is Assertiveness and How We Have Misunderstood It?" *International Journal of China Studies*, Vol. 4, No. 3 (December 2013), pp. 503–538.

ill-founded, for it overestimates China's capacity of influencing regional affairs and wrongfully attributes blame to China.

By analyzing the major security challenges in the Asia-Pacific region, the author maintains that it is the transitional characteristic of the regional security architecture, rather than the rise of China, that leads to the emergence of regional security concerns. Erected in the Cold War era, the current security architecture in the Asia-Pacific can no longer effectively address today's security problems. In this sense, a new security architecture is needed and the process of constructing a new architecture has been initiated. Establishing a more accommodative security architecture that better reflects the features of the post-Cold War era is the best way to meet the demands and expectations of most countries in the Asia-Pacific region.

Complexity of Security Challenges in the Asia-Pacific

If we look into the evolving security landscape in the Asia-Pacific during the past ten years, we can find that security challenges in the region are getting more and more complex and diversified:

First of all, there are physical security problems caused by territorial and sovereignty disputes, such as the competition in the South China Sea, disputes between China and Japan over the Diaoyu Islands, and border conflicts between Thailand and Cambodia, to name only a few. However, most of these problems are not new. The reemergence of these old problems has various causes and cannot be easily ascribed to one single factor. For example, one of the direct causes leading to the South China Sea disputes is that the United Nation Commission on the Limits of the Continental Shelf (CLCS) requires all parties to the UN Convention on the Law of the Sea (UNCLOS) to submit their plans or at least preliminary information concerning the outer limits of the continental shelf beyond 200 nautical miles by May 13, 2009,³ rather than growing actual conflicts hitherto, considering the fact that the "U-shaped line" in the South China Sea had never been the

³Chinese researchers have noticed the negative impacts of the UN Convention on the Law of the Sea, see Liu Zhongmin, "Guoji Haiyang Xingshi Biange Beijing Xiade Zhongguo Haiyang Anquan Zhanlue [The Maritime Security Strategy of China in the Context of a Changing International Maritime Environment]," *Global Review*, No. 3 (May/June 2011), pp. 1-9.

focal point of dispute despite occasional challenges before 2009.⁴ In another case, the contest between China and Japan over the Diaoyu Islands was indeed triggered by the Japanese Government's announcement of nationalizing the islands, which concerns China with its sovereign rights over the Islands and Japan's foreign policy orientation.⁵ Therefore, it is unreasonable to simply attribute all these regional security problems to the rise of China, given that these physical security problems in East Asia are usually complicated and caused by diverse factors with unique historical and practical backgrounds.

The second grave security concern in the Asia-Pacific region is the strategic competition among major powers, especially between China and the United States, a rising power and an established power trying to maintain its global leadership. Ironically enough, the incentive for China and the U.S. to engage in an armed conflict, compared with the situation before 2008, is actually decreasing, because the Taiwan issue, a most sensitive one in their bilateral relations, has remained on the backburner over the past years. Thus, the current worries about China-U.S. conflicts are more the result of the dynamics of "power shift" rather than a reflections of the real intentions of both countries to even calibrate a war against each other.

In terms of power shift,⁶ however, China and the U.S. are not the only two countries in the region that are influenced by the change of power

Current security challenges in the Asia-Pacific are caused by diverse factors rather than simply the rise of China.

⁴Zhang Jie, "Dui Nanhai Duanxuxian de Renzhi yu Zhongguo de Zhanlue Xuanze [The Perception Gap on the "U-Shaped Line" in the South China Sea and China's Strategic Choices]," *The Journal of International Studies*, Issue 2 (March/April 2014), pp. 45–60.

⁵For the analysis of the reasons for Japan's nationalizing the Islands, see Zhai Xin, "Ribei Minzhudang Zhengquan Guoyouhua Tiaoyudao de Dongyin [On the Reasons of the JDP Government's Nationalization of the Diaoyu Islands]," *China International Studies*, No. 5 (September/October 2012), pp. 23–31.

⁶As to the "power shift" between China and the U.S., American researchers also notice that mainstream scholars of China believe that the U.S. in the foreseeable future will retain overwhelming superiority. See Thomas Fingar, "China's Vision of World Order," in Ashley J. Tellis and Travis Tanner, eds., *Strategic Asia 2012–13: China's Military Challenge* (Seattle: The National Bureau of Asian Research, 2012), pp. 343–376.

structure. For example, within ASEAN, Vietnam's rise and its potential role as a competitor and challenger worries some traditional leading countries in the union. In South Asia, Pakistan worries about the rise of India and their growing capacity gap. In East Asia, Japan might be the country that feels more uncomfortable with the rise of China than the United States, because China's rapid development directly challenges the status of Japan as the leading power among Asian countries. This observation, to some extent, explains the worsening China-Japan relationship since 2010, when China surpassed Japan in GDP terms. Thus, as far as power shift is concerned, it is also unreasonable to suppose that China is the only major factor influencing interactions among nations.

Thirdly, the Asia-Pacific faces a range of non-traditional challenges and lacks institutional safeguards to handle them. The 2004 earthquake and tsunami in the Indian Ocean killed 230,000 people in 14 countries, in which Indonesia suffered the most, followed by Sri Lanka, India, and Thailand.⁷ The 2011 earthquake and tsunami in Japan claimed 15,890 lives (as of February 10, 2015),⁸ and substantial amount of radioactive material was leaked to the nearby sea after the meltdown of three nuclear reactors installed in the Fukushima Nuclear Power Plant. These two cases demonstrate that destructive effects of non-traditional security problems are sometimes more fatal than traditional ones. Non-traditional security problems should attract at least the same attention from Asia-Pacific countries, if not more.

Growing tension in traditional security arenas has seriously hindered regional cooperation on non-traditional security issues.

However, due to the growing tensions in traditional security arenas after 2010, regional cooperation has been undercut and regional capacity to cope with non-traditional security threats further weakened.

Fourthly, for all the benefits and profits that economic globalization and Internet-related technologies can offer, they have also created new security challenges. For

⁷"2004 Indian Ocean Earthquake and Tsunami," Wikipedia, http://en.wikipedia.org/wiki/2004_Indian_Ocean_earthquake_and_tsunami.

⁸"2011 Japan Earthquake—Tsunami Fast Facts," CNN Library, <http://edition.cnn.com/2013/07/17/world/asia/japan-earthquake—tsunami-fast-facts/>.

instance, the Internet and mobile communications have created a totally different virtual world. Should the rules in the virtual world be applied in the real world? In the relatively invisible and high-speed Internet world, how can we effectively prevent and detect crimes and manage other security risks in a timely manner? Are we ready to handle the great capacity of social media for social mobilization? The rules for managing cyber-related issues have not been well-established. Most countries in East Asia have experienced fast economic growth and social progress, but they are still at the early stage of development. The new security challenges brought about by new technologies increase the vulnerability of the region and demand intensive attention.

To sum up, it is obvious that there are many different security challenges in the Asia-Pacific. Simply attributing the regional tensions to the rise of China is irrational. The multiplicity of security risks in the Asia-Pacific indicates that the region is transforming, that the old way of interactions among regional countries is not as effective as before, and that the outdated security arrangements basically inherited from the Cold War era are not able to deal with the complicated and diversified challenges any more. Therefore, a new security architecture is needed to tackle new security challenges in the Asia-Pacific.

Going Beyond the Cold War System: Slow but Lasting Progress

Generally speaking, there are three types of security arrangements in the Asia-Pacific: the U.S.-led alliance system, regional cooperation mechanisms, and sub-regional arrangements focusing on concrete issues.

The U.S.-led Alliance System

The U.S.-led alliance system is an important security presence in the Asia-Pacific. However, the system was designed for the Cold War security landscape and can no longer accommodate the new security reality in the post-Cold War era. It was established for the purpose of defeating the Soviet-led Warsaw Pact alliance and it is difficult to transform it into an inclusive regional arrangement for cooperation because of its fundamentally confrontational nature.⁹ Without a clear target, the alliance system

⁹For more details see Wu Chunsi, "Strategic Transition and Security Cooperation in the Asia-Pacific Region," *Global Review*, Winter 2013, pp. 82–88.

would lose its momentum for further evolution. Alliances exist to search for an enemy, which antagonizes international relations and poisons the regional political atmosphere.

An important case in this regard is NATO, the European pillar of the U.S. alliance system. NATO found itself in an awkward position after the Cold War: how to find the rationale for its continual existence? For this purpose, NATO actively pursued transformation, trying to expand its mission and shift its focus from security to political affairs, from being against Russia to safeguarding regional security in Europe. But the outcome did not turn out as envisioned. First of all, NATO became actively involved in the disintegration of former Yugoslavia. Secondly, NATO's action of global intervention, such as in Iraq and Afghanistan, has drawn a lot of criticism even in Europe. Thirdly and also most importantly, NATO can hardly handle its relations with Russia. By expanding to Eastern Europe

The U.S.-led alliance system is a major obstacle to both long-term regional peace and sustainable Sino-U.S. relations.

and the former Soviet republics, NATO has cornered Russia and then received strong Russian counter-actions. Thus, we have to ask, if NATO fails to get along with Russia in Europe, how can we expect U.S.-led alliances, bilaterally or multilaterally, to deal with China properly in the Asia-Pacific?

The U.S.-led alliance system in the Asia-Pacific is more likely to be a major obstacle to both long-term regional peace and sustainable Sino-U.S. relations. It is clearly not advisable to be retained as a basis of the

post-Cold War security architecture in the region.

Regional Security Cooperation Platforms

The second type of security institutions in the Asia-Pacific is large-scale platforms for security and political cooperation such as the ASEAN Regional Forum (ARF) and the East Asia Summit (EAS).

Established in 1994, the ARF holds foreign ministers' meetings and other dialogues more than ten times at various levels each year. The topics of the ARF vary greatly, covering confidence building, preventive diplomacy, oil spill incidents, cyber-security, maritime and aeronautical search

and rescue, and so on. The ARF is the most influential and widely attended political and security dialogue in the Asia-Pacific. Moreover, based on the principle of "ASEAN-centrality," the ARF provides quite a special cooperation function sometimes ridiculed as "a pony pulling a carriage," which means that in the Asia-Pacific, smaller countries, rather than big powers, play the driver's role in regional cooperation.

The leading role of ASEAN has been called into question from time to time since the outbreak of the 1997/1998 Asian Financial Crisis. Firstly, economic strength of ASEAN countries was crippled by the crisis. It is widely doubted whether some ASEAN states would continue to invest in security affairs irrelevant to their own interests. Secondly, the centrality of ASEAN to some degree comes from the incompetence of big countries in regional affairs. When big countries begin to change their passive attitude to regional affairs and find ways to coordinate their policies, the advantages of small- and medium-sized countries who are leading regional affairs will decrease. Thirdly, some ASEAN members are involved in conflicts with other countries. Thus, whether ASEAN can continue to play a central, neutral, and objective role in regional affairs has become increasingly uncertain. An important platform for regional political and security cooperation as it is, the ARF may encounter daunting challenges before developing into a powerful security architecture.

Another important candidate for regional security architecture is the EAS, which is a product of ASEAN's expansion of partnership with major players in the region. In 2005, ASEAN extended the ASEAN+3 (China, Japan, and South Korea) mechanism to incorporate Australia, India, and New Zealand. Then in 2010, the United States and Russia became formal members of the Summit, after which the EAS has included almost all major countries in the region.¹⁰ Besides, the annual summits of the EAS (in comparison to the ARF's foreign ministers or defense ministers meetings) also make the EAS a promising leading platform for regional security cooperation. Nevertheless, the EAS also faces many challenges in its future development.

¹⁰Kevin Rudd, "U.S.-China 21: The Future of U.S.-China Relations under Xi Jinping," Belfer Center for Science and International Affairs, April 2015, <http://belfercenter.ksg.harvard.edu/files/Summary%20Report%20US-China%2021.pdf>.

The first is in its leadership. As an extension of the ASEAN+3 process, the EAS is a new platform where ASEAN wants to play a central role. However, the inclusion of the U.S. undermines the leadership role of ASEAN, because the U.S.'s pursuit of leadership of the Asia-Pacific is no secret at all. Thus, which direction the EAS will take next is the first question many people want to ask. Secondly, the predecessor of the EAS, ASEAN+3, is mainly a mechanism for political dialogue between ASEAN and its three partners. It has yet to decide whether the EAS should continue to play that role or should transform itself into a security mechanism in the Asia-Pacific. Thirdly, it is mainly because of its summit meetings that the EAS has gathered so much attention, yet in dealing with concrete security issues, government agencies and other organizations at operational levels might be more instrumental. With regard to its slow institutionalization process, it may take a long time for the EAS to truly function as a comprehensive platform for all salient issues in the region. The final challenge is about its inclusiveness. Although relatively limited participation might be an advantage for decision making, the absence of representatives from some countries may hinder effectiveness. For example, South Korea is a member of the EAS, but North Korea is not. How to engage each and every partner in this regional institution remains unclear.

Multilateral Functional Cooperation

At the current stage, the existing regional mechanisms in the Asia-Pacific have various shortcomings and are thus inadequate to constitute the overall security architecture of the region. Of course, in addition to the multilateral mechanisms, there are other "mini-multilateral" mechanisms in the Asia-Pacific like the Six-Party Talks on the Korean nuclear issue and the Shanghai Cooperation Organization (SCO).

The Six-Party Talks was initiated on August 27, 2003 in order to deal with the North Korean nuclear crisis. Up to September 30, 2009, there had been six rounds of talks and several important documents on North Korea's nuclear program were issued. From then on, however, the Six-Party Talks have come to a standstill, and it seems difficult to expand the mandate of the Six-Party Talks from the Korean nuclear issue to more comprehensive

Northeast Asian security issues, although there are some discussions with regard to this proposal.¹¹

In comparison with the Six-Party Talks, the SCO is a more successful example in promoting sub-regional security cooperation in Central Asia. Established in 2001, the SCO has not only enhanced mutual trust among Central Asian states, Russia, and China, but has also become an effective instrument against terrorism, separatism, and extremism. Now, cooperation among SCO members has extended to the energy and economic sectors. The institution exhibits many merits that regional cooperation is expected to achieve.

However, even in the case of the SCO, casually expanded membership and missions may endanger its effectiveness and the unity of its members. The cost might be higher than expected for transforming from a sub-regional security cooperation institution on concrete, functional issues into a regional architecture covering much more complicated and diversified security issues.

Wavering Asian Regionalism

Around 2008 and 2009, some new official proposals on regional security mechanisms were made. The first is former Australian Prime Minister Kevin Rudd's proposal of an Asia-Pacific Community.¹² It was first raised in his speech at the Asia Society in Sydney in June 2008 and was then reiterated in his address at the Shangri-La Dialogue in Singapore in May 2009. Mr. Rudd basically called for a mechanism of dialogues, cooperation, and actions on economic and political matters and also future security challenges, involving almost all countries in the region such as the U.S., Japan, China, India, Indonesia, and others.

Soon after Mr. Rudd's proposal, then South Korean President Lee Myung-bak put forward his "New Asia Initiative" in Jakarta, Indonesia in March 2009.¹³ According to President Lee's proposal, South Korea shall

¹¹See Shi Yuanhua, "'Liufang Huitan' Jizhihua: Dongbeiya Anquan Hezuo de Nuli Fangxiang [Institutionalization of the Six-Party Talks: The Direction for Northeast Asian Security Cooperation]," *Global Review*, No. 2 (March/April 2005), pp. 15–20.

¹²"Australian PM Wants Asia-Pacific Union," *China Daily*, June 5, 2008, http://www.chinadaily.com.cn/world/2008-06/05/content_6737054.htm.

¹³Zhu Zhiqun, "South Korea in a New Asia initiative," *Asia Times Online*, June 30, 2009, <http://www.atimes.com/atimes/Korea/KF30Dg01.html>.

play a central role in representing the interests of Asian nations in the international arena. South Korea plans to conclude free-trade agreements with all Asian countries and establish a green-growth belt in the Asia-Pacific region.

About half a year later, Japanese Prime Minister Yukio Hatoyama announced his plan on regional cooperation as well. Mr. Hatoyama's concept of "East Asian Community" aroused wide attention, for the proposal not only called for strengthened cooperation in East Asia, but also implied that Japan was trying to distance itself from the U.S.¹⁴

The Asia-Pacific, especially East Asia, is seeking new momentum for further regional security cooperation.

All those proposals demonstrated that the Asia-Pacific, especially East Asia, is seeking new momentum for further regional security cooperation. However, the invigorating development of Asian regionalism was suspended right after 2010, when the U.S. announced its "rebalancing strategy" in the Asia-Pacific. On one hand, it seemed that all countries in the region were waiting for the U.S. proposal on regional cooperation,

because historically, the U.S. has seldom stayed subject to regional proposals from other countries. On the other hand, with the implementation of the U.S. "rebalancing strategy," relations among regional countries, especially among China and some of its Southeast Asian and East Asian neighbors went sour, and East Asian cooperation and Asian regionalism slipped to a low level. However, the demand for regional cooperation still exists, because the security challenges faced by Asian countries are real and serious.

China's Firm Support for Regional Security Cooperation

With its participation in various international activities as a permanent UNSC member, China has gradually familiarized itself with international organizations and multilateralism, which finally helped China participate

¹⁴Tsuneo Watanabe, "A Chilly Washington Reception for Hatoyama Diplomacy," The Tokyo Foundation, March 18, 2010, <http://www.tokyofoundation.org/en/topics/eurasia-information-network/a-chilly-washington-reception-for-hatoyama-diplomacy>.

in Asia-Pacific multilateral cooperation.¹⁵ In 1994 China decided to join in the ARF, a sign of China's increasing adoption of multilateral approaches to strategic and security issues in its foreign policy.¹⁶ Since then, China has kept up its engagement with other countries in the Asia-Pacific. Its occasional disputes with some regional states have not changed the orientation of China's multilateral diplomacy. To an ever increasing extent, China supports regional cooperation in the Asia-Pacific.

Dissolving Conflicts in a Cooperative Way

Disputes and conflicts are commonplace in international relations. What is crucial for regional peace and stability is not whether conflicts exist or not, but whether the region takes suitable approaches to handle the conflicts. In the current dynamics, Asia-Pacific countries need to cultivate a "cooperative spirit" to properly handle their disputes and jointly deal with common problems.

To nurture the spirit of cooperation, some practices of Asia-Pacific countries who are in dispute have to be changed. First of all, Asia-Pacific countries in conflict should learn to be empathetic toward each other and mutually acknowledge the reality of conflicting interests. Secondly, Asia-Pacific countries should abandon the mentality of trying to take advantage of the other side. Over-emphasis on relative gains can only increase distrust among related parties and ruin the cooperative process. Thirdly, Asia-Pacific countries should not seek to solve regional disputes by enlisting support of extra-regional powers. Looking for outside support only increases antagonism among all sides. Finally, cooperation also means restrained response. It is important for all parties to refrain from radical responses in times of contingencies so as to win more time and space for crisis settlement.

¹⁵For reasons for China's engaging in multilateral diplomacy, see Jiang Zhaijiu, "Zhongguo Diqu Duobian Anquan Hezuo de Dongyin [Motivations for China's Regional Multilateral Security Cooperation]," *Chinese Journal of International Politics*, No. 1 (Spring 2006), pp. 1-27.

¹⁶For the change of China's attitude toward regional multilateral cooperation, see Liu Changming and Pang Chun'en, "Cong Shuangbian Zhuyi dao Duobian Zhuyi: Zhongguo yu Dongbeiyi Guanxi de Xinmoshi [From Bilateralism to Multilateralism: A New Model of Relations between China and East Asian Countries]," *Journal of Shandong University*, No. 5 (September/October 2007), pp. 111-115.

In practice, China's reiterated support for regional security cooperation is not yet enough. As the largest nation in the region, China needs to take the lead in establishing new norms and codes of conduct for interactions of all parties, in order to encourage a cooperative spirit of the post-Cold War era.

Speaking for Asian Interests and the Asian Way

To support regional cooperation, China endorses Asian countries' efforts in exploring an Asian way of development and cooperation, typically reflected in ASEAN countries' practice of promoting regionalism.¹⁷

Compared with Western-style regionalism, the ASEAN way of regional cooperation exhibits some distinct characteristics: first of all, ASEAN countries insist on respect for sovereignty and non-interference in domestic issues, in contrast with the Western argument that sovereignty concerns are increasingly out of date. Secondly, ASEAN countries adopt the "consultation and consensus" principle in their decision-making process. Their preference for soft institutions and comfortable pace of integration does not follow the pattern of Western-style regionalism. Thirdly, ASEAN countries recognize and accept diversity of the region. Over the past two decades, inclusiveness has been practiced quite well in ASEAN integration.

Reflecting on the ASEAN practice of regional cooperation, China believes that Asian countries have their own understandings on how to manage regional affairs and interactions. China advocates that Asian countries' interests and preference should be put at the center of Asia-Pacific cooperation, a case made by Chinese President Xi Jinping in his address at the 2014 CICA summit meeting where he emphasized that "it is for the people of Asia to run the affairs of Asia, solve the problems of Asia and uphold the security of Asia."¹⁸

As residents in the region, Asian countries' interests differ from those of non-resident actors. The reason is not difficult to find. In an extreme scenario, non-resident actors could stay away from Asia, while Asian

¹⁷Zhang Yunling, "East Asian Community Building: View from a Chinese Scholar," Research Bulletin of the Japan Center for Economic Research, June 2006, <https://www.jcer.or.jp/eng/pdf/zhang.pdf>.

¹⁸Xi Jinping's Remarks at the Fourth Summit of the Conference on Interaction and Confidence Building Measures in Asia," Chinese Foreign Ministry, http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1159951.shtml.

countries have no other options but to face this scenario. Asian countries must therefore pay more attention to maintaining regional stability. It might be dangerous for Asian countries to blindly follow the agenda and proposals of non-residents. Only with a better understanding of their own interests can Asian countries better pursue a secure regional status.

Thus, what China is aiming for is an equitable and inclusive regional security architecture in the Asia-Pacific, rather than “driving the U.S. out of Asia.” Whether the U.S. stays in or away from Asia will not be decided by China; instead, it is determined by U.S. calculation of its benefits and costs of keeping its presence in Asia. China takes an open and inclusive attitude toward non-resident actors in Asia, calling for their positive and constructive roles in promoting Asia’s security and cooperation.

From the Chinese perspective, the ideal security architecture in the post-Cold War Asia-Pacific should be accommodative enough to not only include various parties of the region but also embody the spirit of cooperation and consensus.

China aims for an equitable and inclusive regional security architecture rather than “driving the U.S. out of Asia.”

Blueprints for an Accommodative Security Architecture

The new post-Cold War security architecture should reflect the features of cooperation and inclusiveness of major powers. However, the Cold War history suggests that ideology is still a critical element hindering mutual acceptance among major powers. To construct a new security architecture in the Asia-Pacific, it is of great significance to reduce the influence of ideological factors.

Having the concern over ideological competition in mind, we need to consider the kind of institution that can provide a broad and solid base for regional security cooperation so that all members of the region can equally join in as long as they are committed to safeguarding regional peace and security. Compared with the broad-based architecture, the proposal of building up a regional security architecture on the basis of the U.S. alliance system actually has less attraction for countries which have different

ideological and geopolitical orientations. Therefore, the term “accommodativeness” tends to add an additional dimension to the concept of inclusiveness. “Inclusiveness” may reflect a subjective willingness to include other parties into the system. However, if the system itself is not inclusive enough for ideological or other reasons, other parties still cannot join in it. Thus, an accommodative architecture stresses the shape and capacity of the system, requiring it to be more tolerant and flexible for various participants.¹⁹

Respecting Diversity of the Region

To be more accommodative to all members of the region, it would be better if the new security architecture could accept the norm of “respecting the diversity of the region.”

The Asia-Pacific is a multicultural region. Regional security cooperation and security architecture require enlarging common ground, calling on regional countries to take common actions, reaching consensus on threats, and taking the same position on security issues. That countries uphold their own culture and choose their own development path does not conflict with their mission on security cooperation. On the contrary, over-emphasis on ideological integration by organizing so-called “coalition of democracies” may result in the split of the region and increasing antagonism among regional countries.

Respecting diversity is a fundamental requirement to sustain cooperation in the Asia-Pacific, because it conforms to and underwrites many important, universal principles in international relations. For instance, it confers equal status on all states in international affairs. Also, a country that advocates respect for diversity is likely to be more tolerant and open to newcomers. Therefore, in the process of promoting security cooperation on some specific issues, Asia-Pacific countries should also pay attention to

¹⁹G. John Ikenberry suggests in his well-known book *Liberal Leviathan* that liberal internationalism can create a larger order — a political and economic space within the international system — in which participating states operate. See G. John Ikenberry, *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order* (Princeton: Princeton University Press, 2011), p. 71. Disagreeing with Ikenberry, this author argues that liberal internationalism still has an important obstacle — the ideological factor — that is blocking the participation of states with interests.

solidifying the norm of protecting and respecting diversity of the region. Through codifying the norm of respecting diversity, the Asia-Pacific security architecture can have its spiritual pillar established.

A Consultative and Effective Decision-Making System

On the basis of respect for diversity, the organizational framework of the new security architecture should be different from the current one inherited from the Cold War era, which was largely dominated by superpowers. The new security architecture should reflect the principles of equal participation, consultation, and democratic decision-making. Thus, the new security architecture needs a decision-making system with wide participation. Asian countries should have their voice on the agenda setting of regional affairs. Moreover, small- and medium-sized states should preserve their important roles in the decision-making process, as they have been doing in ASEAN practices. On the whole, in terms of a decision-making system, the new security architecture should absorb the merits of the ASEAN way, so that small countries' interests can be better protected, and big and balanced relationships between big and smaller countries can be achieved.

Meanwhile, a potential risk accompanying the wide and equal participation might be lack of efficiency of the system. None of these Asian countries wants the new security architecture to be a talk shop. What the Asia-Pacific needs is an institution that can effectively handle regional security problems. One way to reduce the negative effects of power sharing in the process of decision-making might be to assign tasks more clearly. For example, more *ad hoc* committees should be established so that major security issues of the region can be handled by specific countries under regional consensus.

Major Areas for Security Cooperation

Given the existing complex security challenges in the region, it is especially important to figure out priorities and focal issues for cooperation.

The emerging security architecture should feature respect for regional diversity, a consultative decision-making process, and broader dimensions of cooperation.

The question we need to ask is: What fundamental interests do all Asia-Pacific nations share? In the author's opinion, they share three major common interests at least: (1) lasting economic development; (2) freedom from fear of violence; and (3) readiness to address contingencies or natural disasters.

Economic development is the foundation for Asia-Pacific prosperity. It is of great importance to sustain economic development in the Asia-Pacific. However, in the age of globalization, regional supply of finance, information, and energy have many weaknesses to remedy. How to prevent economic development from being disrupted? There is plenty of space left for cooperation.

Secondly, a secure environment for the people of Asia-Pacific countries entails freedom from fear of violence. In recent years, geopolitical competition among countries has received a lot of media coverage, but acts of violence are the more immediate risks threatening people's daily lives. For example, terrorism and religious extremism are widespread threats around the world, including China's neighboring countries like Afghanistan. Moreover, Asia-Pacific countries are facing the serious challenge of cross-border crime. In 2012, two Chinese cargo ships were attacked on the Mekong and all the 13 crew members on board were brutally murdered. This is a recent case highlighting the importance of transnational security cooperation against cross-border crime. Immediate security challenges to people's daily lives should become the focal point of regional cooperation in the Asia-Pacific.

In addition to preventing and responding to security challenges, disaster rescue and humanitarian relief should be another focus of Asia-Pacific security cooperation. In spite of the fast economic growth, major Asian countries do not have sufficient capability to handle emergencies and natural disasters. In the cases of the Indian Ocean Tsunami in 2004, Japan's nuclear leakage in 2011, and the missing of Malaysia Airlines jet plane (MH370) in 2014, Asian countries relied excessively on outside countries' assistance. How to help people out of such emergencies is an area that Asian countries should invest more in, to fulfill their security responsibilities. In short, regional security institutions should make some arrangements on how to respond and coordinate policies of various countries in serious regional disasters and emergencies.

Conclusion

There are many security challenges now in the Asia-Pacific. Some of them stem from major powers' competition, but more are the result of new technologies, lack of agreed regulations on emerging issues, and natural disasters as well as incidents. The security challenges require responses from the region, and should not be used as a pretext for intensifying and escalating competition among nations; instead, these challenges should serve as a wake-up call for regional powers to come up with new mechanisms for more effective cooperation and coordination.

Since the end of the Cold War, Asian people have never relaxed in seeking a post-Cold War security architecture for the region. Given the shortcomings in the security mechanisms such as the ARF, the EAS, and the U.S.-led alliance system, it is not realistic for regional countries to depend on them to maintain regional peace and security. Therefore, the Asia-Pacific is still in the process of transforming from the Cold-War security architecture to the post-Cold War one. The transformation process itself brings about some uncertainties and risks to the region, and it makes the task of building a new security architecture more urgent.

A new accommodative security architecture that can address the post-Cold War security risks of the region should reflect some essential features including respect for regional diversity, highlighting the "Asian way," and expanding realms of cooperation. But most importantly, it has to be inclusive enough to engage all parties that are committed to maintaining peace, stability, and prosperity in the region. With regard to many misperceptions and misunderstandings on regional security issues, sober assessment and extensive discussions are needed so that we clearly know where we are and what we want, in order to build a solid foundation for a new security architecture that can better serve the interests of people in the region.

Road to a Great Monetary Power

China's Changing Role
in the International
Monetary System

Li Wei and Su Han

Abstract: Since the beginning of its reform and opening up over three decades ago, China has taken great efforts to integrate into the GATT/WTO-centered international trade system and the U.S. Dollar-centered international monetary system. By using the U.S. Dollar as the principal currency in its international economic engagement while exercising strict capital controls domestically, China has practically adopted a U.S. Dollar-dependent strategy to promote export, attract foreign investment, and maintain financial security, thus it has achieved lasting economic growth. However, with the declining credibility of the U.S. Dollar due to the U.S. financial crisis in 2008, and the increasing strategic competition between China and the United States, more and more Chinese in the policy and academic circles are skeptical of China's highly dependent monetary policy. Since 2009, China has begun to adopt a more proactive international monetary strategy by taking such measures as promoting the internationalization of the RMB, initiating new reforms of the international

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monetary system, and fostering a new regional monetary order. Such changes imply that China is changing its role: moving from being a dependent to a reformer of the U.S. Dollar system, which reflects a salient dimension of the evolving relationships between China and the broader international system.

Keywords: International monetary system; the U.S. Dollar system; RMB internationalization; reformer.

Since the beginning of China's reform and opening up in 1978, its foreign economic policy has had two basic goals: firstly to gain access to the open consumer market of the West by employing an export-oriented trade policy, culminating in China's entry into the WTO in 2001; secondly to enhance China's manufacturing industry by importing advanced technologies and managerial expertise especially through attracting foreign direct investment (FDI). Both depend on a relatively stable international currency as a medium between domestic and global markets. Thus China adopted an international monetary policy largely dependent on the U.S. Dollar, confining the *renminbi* (RMB), the Chinese currency, to domestic markets, while using the U.S. Dollar as the main currency in its international economic engagement. To a large extent, it was a "free-riding policy" on the U.S. Dollar.

This policy has been imperative in China's rapid economic rise over the past decades, as it not only facilitated China's export and procurement of FDI, but helped fend off financial and monetary risks as well. After the outbreak of the U.S. financial crisis in 2008, however, both political and economic elites in China have come to realize the growing price that China may need to pay for free-riding, and thus they have sought to lessen China's dependence on the U.S. Dollar system by adjusting the domestic monetary policy and engaging in ever more active monetary diplomacy. With such efforts, China is increasingly becoming a reformer of the international monetary system.

This article first analyzes China's changing role in the international monetary system as well as its causes, and then discusses China's further endeavors in reforming the current system into a more just and sustainable one.

Free-Riding on the U.S. Dollar System

As a soft mien of U.S. hegemony, the U.S. Dollar-centered international monetary system (the Bretton Woods system), together with U.S. military supremacy and the U.S.-led international economic institutions including the International Monetary Fund (IMF), the World Bank, and General Agreement on Tariffs and Trade (GATT), were keys to the stabilization of the post-World War II financial order and the rapid economic recovery of the capitalist world.¹ Even after the collapse of the Bretton Woods system in 1973 caused by a chain of major U.S. Dollar crises in the preceding years, the U.S. Dollar maintained its central role in the international monetary system.

For three decades after opening up, China maintained its dependence on the U.S. Dollar for financial security and easier access to the world market.

To promptly connect itself with the enticing Western markets for trade opportunities, investment, and new technologies, China chose to join the U.S. Dollar system shortly after it began its reform and opening-up process in the late 1970s. By using the U.S. Dollar as the principal currency in its international economic engagement, China adopted a “U.S. Dollar-dependent strategy” and refrained from attempts to internationalize the RMB or to create an independent

regional monetary alliance like Europeans did, thus enjoying the many dividends of free-riding on the U.S. Dollar system. To be more specific, China’s dependent strategy on the U.S. Dollar consisted of three key elements.

First, China adopted the U.S. Dollar as a principal currency not only for pricing and settlement in its foreign trade, FDI, and other international financial activities, but also in GDP accounting, since its national economic accounting system was established in 1985. For example, the U.S. Dollar had been used in the settlement of up to 90 percent of China’s foreign trade before 2008, and remains a principal currency for settlement despite its declining credibility due to the U.S. financial crisis. In comparison, only 22 percent of

¹Charles P. Kindleberger, “International Public Goods without International Government,” *American Economic Review*, Vol. 76, No. 1 (March 1986), pp. 1–13.

China's total trade debts were settled with the RMB as late as 2014.² Such high dependence on the U.S. Dollar, together with its rapidly expanding surplus in foreign trade, is the key contributor to China's ever-growing U.S. Dollar reserves.

Second, China closely pegged the value of the RMB to the U.S. Dollar, virtually taking it as the sole referent currency for the RMB's exchange rate. This policy has largely continued even after China began to adopt floating exchange rates of the RMB in 1994. For instance, the benchmark exchange rate of the RMB to the U.S. Dollar was kept at 8.2–8.3 to 1 between 1995 and 2005.³ Not totally by chance, these ten years witnessed the foundation of China's export-oriented economy. Although China revised its U.S. Dollar-pegged policy and began to adjust the RMB exchange rate to a basket of referent currencies on July 21, 2005,⁴ the U.S. Dollar remained the most important currency in the basket. After the U.S. financial crisis broke out in 2008, China once again pegged the RMB to the U.S. Dollar for financial stability, and resumed limited floating exchange rates only after June 2010.

Third, China kept enlarging U.S. Dollar assets as its major foreign exchange reserve assets. Under the official guideline to prioritize U.S. Dollar assets, China's foreign exchange reserves have topped the world with an increase of 369.7 percent over the past decade. According to the People's Bank of China, U.S. Dollar assets accounted for nearly 70 percent of China's total foreign exchange reserves in 2014, followed by the EURO and British Pound assets (about 20 percent) and the Japanese Yen assets (about 10 percent), while gold assets only constituted 1.05 percent.⁵ Today, of China's total 4-trillion-U.S. Dollar-worth foreign exchange reserves, nearly 3 trillion are U.S. Dollar assets such as the U.S. national debts, federal bonds, and corporate bonds. In reality, China has grown to be the largest holder of

²"Half of China's total trade to be settled in yuan by 2020," Reuters, March 26, 2015, <http://uk.reuters.com/article/2015/03/26/uk-china-yuan-offshore-idUKKBN0MM0EL20150326>.

³Calculation by the authors based on statistics of the People's Bank of China, <http://www.pbc.gov.cn/>.

⁴The People's Bank of China Announcement No. 16 (2005): "Announcement of the People's Bank of China on Reforming the RMB Exchange Rate Regime," July 21, 2005.

⁵The People's Bank of China, <http://www.pbc.gov.cn/publish/html/kuangjia.htm?id=2014s09.htm>.

the U.S. national debts with 32.4 percent of its foreign exchange reserves invested in them, making China the biggest “stakeholder” in maintaining the stability of the U.S. Dollar.⁶

China’s U.S. Dollar-dependent strategy played a key role not only in its integration into the U.S.-centered international economic system, but in enhancing its financial security as well. Thanks to its U.S.-Dollar-pegged policy and tight capital controls, China’s domestic financial system remained intact during the Asian financial crisis in 1997. Concerned with its own economic interests and financial security, China also worked closely with the United States at the peak of the U.S. financial crisis, so as to stabilize the value of the Dollar and restore the global financial order. Clearly, China has enjoyed many “free-riding dividends” of the U.S. Dollar — a “double-edged sword” as it is — as international public goods, and thus managed to maintain its economic growth over the past decades.

China as a “Reformer”

Nevertheless, a new era of post-Cold War international relations, especially economic relations, was dawning, with the outbreak of the U.S. financial crisis in 2008 as well as the European debt crisis and China replacing Japan as the world’s second largest economy in 2010. Since then, China has been increasingly doubtful of the U.S. Dollar system, and has contributed to the reformation of the international monetary system with ever more ideas and initiatives. To an increasing degree, China is playing a reformer’s role in the international monetary system, which can be seen on all levels.

On the global level, China is strongly advocating the reformation of the system. A salient example is its support for the Group of 20 (G20) to replace the G7 as the basic platform for global economic governance, including monetary management. As a major member of the G20, China has

⁶According to the U.S. Treasury, China held 1,244.3 billion U.S. dollars worth of U.S. national debt in December 2014, accounting for 20.46 percent of the total of 6,153.7 billion, closely followed by Japan. See statistics of the U.S. Treasury, <http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt>.

been increasingly active in financial diplomacy to promote a structural reform of the international monetary system, thereby winning it a bigger say in the system.⁷ Over the years, China has been calling for a bigger role of the Special Drawing Right (SDR) to palliate the overdependence of global reserve assets on the U.S. Dollar. As Mr. Zhou Xiaochuan, Governor of the People's Bank of China, proposed before the G20 London Summit in 2009, "The ideal goal of reforming the international monetary system is to create an international reserve currency [such as the SDR] that is delinked from sovereign states, and whose value can be kept stable in the long run, so as to circumvent the intrinsic drawbacks of using sovereign credit currencies as reserve currencies."⁸ This proposal was widely considered as China's first open challenge to the U.S. Dollar's predominance.⁹ Besides, China is also trying to add the RMB into the basket of base currencies of the SDR. If accepted by the IMF after the organization's review of the SDR in November 2015, the RMB will become a major international currency, and the world's demand for it is likely to explode, which will mark a huge boost to the RMB's international status.

At the same time, China is also very active in reforming the existing international financial institutions to enhance its say and share in them. By increasing its capital in the IMF and the World Bank, China's quota in the IMF rose from 3.994 percent before 2008 to 6.390 percent in 2010, and its voting share rose from 3.803 percent to 6.068 percent accordingly.¹⁰ China's voting share in the International Bank for Reconstruction and Development (IBRD), the key decision-making body of the World Bank,

⁷Cui Zhinan and Xing Yue, "From G7 Era to G20: The Transition of International Financial Governance Regime," *World Economics and Politics*, No. 1 (January 2011), pp. 134-154.

⁸Zhou Xiaochuan, "Guanyu Gaige Guojihuobitixi de Sikao [Reflections on Reforming the International Monetary System]," PBC Website, March 23, 2009, http://www.pbc.gov.cn/publish/hanglingdao/36/2010/20100914193900497315048/20100914193900497315048_.html.

⁹Daniel W. Drezner, "Bad Debts: Assessing China's Financial Influence in Great Power Politics," *International Security*, Vol. 34, No. 2 (Fall 2009), p. 39.

¹⁰IMF Finance Department: "Quota and Voting Shares before and after Implementation of Reforms Agreed in 2008 and 2010," March 3, 2011. <http://www.imf.org/external/np/sec/pr/2011/pdfs/quota.tbl.pdf>.

also rose to 5.25 percent in 2015.¹¹ It is expected that China will surpass Germany, France, and the UK as the third largest shareholder of the IMF and the World Bank when the reform is completed,¹² though the blueprint of the reform is still stuck at the U.S. Senate at present. To demonstrate China's firm stance, Chinese President Xi Jinping reiterated the urgency of the IMF quota reform at the 9th G20 Summit held in Brisbane in November 2014. Furthermore, in the personnel reform of major international financial institutions, Mr. Zhu Min, former Deputy Governor of the People's Bank of China, was named Special Adviser to the IMF President in May 2010 and elected as IMF Vice President in July 2011, only three years after Mr. Justin Yifu Lin, a renowned Chinese economist, became Vice President of the World Bank. With more and more Chinese faces assuming key posts of global institutions, China will inevitably have more say in the management of world financial affairs and make bigger contributions as a responsible great power.¹³

China is growing to be a reformer of the international monetary system on all fronts.

On the regional level, China is taking new initiatives in promoting regional monetary cooperation in such institutions as the BRICS, the "ASEAN-plus-Three (China, Japan, and South Korea)," and the Shanghai Cooperation Organization (SCO), in order to lower the whole region's dependence on the U.S. Dollar system. Especially since the outbreak of the U.S. financial crisis, not only has

China played a leading role in advocating bigger say and share for regional members in international financial institutions, it has also managed to enhance cooperation with other members in settling trade with local currencies, setting up the BRICS Contingency Reserve Mechanism, and founding

¹¹Corporate Secretariat of World Bank: "International Bank for Reconstruction and Development Voting Power of Executive Directors," <http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDEdsVotingTable.pdf>.

¹²"IMF Tongguo Fen'e Gaigefang'an, Zhongguo Paiming cong Binglie Diliu Yueju Disan [IMF Passes Quota Reform Plan. China Jumps to the Third Place from the Sixth]," *China News*, November 6, 2010, <http://www.chinanews.com/cj/2010/11-06/2638998.shtml>.

¹³Li Wei, "The Rise of China's Financial Diplomacy," *World Economics and Politics*, No. 2 (March 2013), pp. 77-98.

the BRICS Development Bank, so as to foster a more balanced international monetary system and reduce the U.S. Dollar monopoly. For example, the opening of the East Asian Foreign Exchange Reserves established by the ASEAN-plus-Three on March 24, 2010, marked the beginning of a financial crisis management and prevention mechanism that covers the whole region, with Mr. Wei Benhua, former Deputy Director of China's State Administration of Foreign Exchange, as its first director. Primarily because of China's contribution, the East Asian Foreign Exchange Reserves doubled its size to 240 billion U.S. dollars in 2012, and the proportion of its terms for loans parallel to the IMF's dropped to 70 percent, a big step toward its full self-determination.¹⁴ As the basis of RMB internationalization, China is also promoting the regionalization of the RMB by working with other SCO members to foster a regional settlement and payment system for trade and investment, to encourage settlement with local currencies, and to set up an SCO development bank.

Most strikingly, the Asian Infrastructure Investment Bank (AIIB) initiative was formally launched in Beijing in October 2014, a year after President Xi Jinping's proposal on his visit to Indonesia. By April 15, 2015, a total of 57 countries had confirmed their participation as founding members — 20 of them are outside Asia, and some are U.S. allies or strategic partners. Expected to be fully established by the end of 2015, the China-led AIIB is regarded by many as a rival of the existing international financial institutions like the IMF, the World Bank, and the Asian Development Bank (ADB),¹⁵ which are considered as being dominated by developed countries like the United States and Japan. The rapid progress of the initiative showcases China's growing mobilizing power in international financial and monetary arenas.

On the bilateral level, China continues to enhance the RMB's international status through active monetary diplomacy. Starting from settling

¹⁴"Dongya Waihui Chubeiku Zhubu Tuogou IMF, Guimo Jiang Kuorong Yibei [East Asian Foreign Exchange Reserves to Be Delinked from IMF with Doubled Size], *Ifeng Finance*, March 22, 2012, <http://finance.ifeng.com/news/hqcj/20120322/5785163.shtml>.

¹⁵Tania Branigan, "Support for China-led Development Bank Grows despite US Opposition," *The Guardian*, March 14, 2015, <http://www.theguardian.com/world/2015/mar/13/support-china-led-development-bank-grows-despite-us-opposition-australia-uk-new-zealand-asia>.

certain cross-border trade with the RMB after the outbreak of the U.S. financial crisis, China has taken substantial measures to lower its dependence on the U.S. Dollar and to expand its own monetary partnership networks. “Currency-swap diplomacy” is the first step toward the RMB internationalization. Since the first currency swap deal was made between China and South Korea in late 2008, China has signed currency reciprocal agreements with 28 countries and regional governmental institutions, with the size of agreements with South Korea, the European Central Bank (ECB), Singapore, the UK, Australia, and Canada exceeding 200 billion RMB each, making the RMB-centered currency swap network the third largest in the world, only behind the U.S. Dollar-centered and the EURO-centered ones.

On the basis of the ever expanding currency swap networks, China’s next step is to encourage settlement of international trade with the RMB. Since 2013, China has been pushing for trade settlement with local currencies under both multilateral and bilateral frameworks, and has reiterated this goal in many joint statements with other governments to augment its effect. Over little more than two years, China has made diplomatic arrangements with about 30 countries including Russia, South Korea, and India on the issue and begun to settle more and more cross-border trade with the RMB, which is now the fifth largest trade-settling currency in the global market.¹⁶

The RMB is the fifth largest trade-settling currency and seventh reserve currency in the world.

The growing trade settlement with the RMB boosts greater demands for direct transaction between the RMB and other currencies, the goal toward which China has taken many diplomatic efforts since 2010, especially after 2014. At present, the RMB can trade directly with nine foreign currencies such as the EURO, the British Pound, the Singapore Dollar, and the South Korean

Won, apart from the U.S. Dollar. This implies that the exchange rates between the RMB and other currencies are increasingly a function of the

¹⁶“Renminbi Yuesheng wei Quanjie Diwuda Zhifu Huobi [RMB Ranks the Fifth Trade-Settling Currency in the World],” *China News*, January 28, 2015, <http://finance.china-news.com/fortune/2015/01-28/7013725.shtml>.

quoted prices of transactors, rather than decided mainly by the value of the U.S. Dollar as an intermediary currency.

With the expanding use of the RMB in settlement, payment, and direct transactions, an RMB clearing mechanism is taking shape to facilitate use of the RMB on a larger scale. Since 2013, China has signed memorandums with 11 countries including Singapore, Germany, and the UK on the RMB clearing mechanism, a sign of rapid development of the overseas network for RMB clearing and rising status of the RMB in global markets.

In addition to bilateral monetary diplomacy, China is also promoting the RMB as an international reserve currency. First acknowledged by the Philippines in December 2006 as one of its reserve currencies, the RMB has been recognized as a reserve currency by the central banks of 40 countries and regions such as Malaysia, South Korea, Cambodia, and Thailand, making it the seventh most important reserve currency of the world.¹⁷

It can be concluded from above that China is adapting its past role of mainly being a free-rider on the U.S. Dollar system to becoming a proactive reformer of the system, in order to better protect its rights and interests, as well as to seek more financial influence on the world stage. This move is considered by many as the biggest challenge to the U.S. Dollar-centered international monetary system.

Motivators of China's Role Change

Admittedly, the transformation of China's role in the international monetary system is a result of both the weakening of the U.S. Dollar system and China's pursuit of greater power and interests in the system. Understanding such drivers behind China's role change is the basis of grasping the future trajectory of the international monetary system.

The ultimate motivator of China's role change is its growing concern over the insecurity of the U.S. Dollar system, in which the U.S. Dollar can serve as instrumental global public goods when the United States' economic situation remains good, but becomes predacious in times of U.S. economic downswing. Due to the United States' unrestricted use of the political and

¹⁷"RMB Becomes the 7th Global Reserve Currency," *People's Daily Online*, October 23, 2014, <http://finance.people.com.cn/n/2014/1023/c1004-25891863.html>.

economic power generated from the hegemonic status of the Dollar, there has been a serious imbalance in the share of power and interests between the United States and other countries in the international monetary system.

The United States nets huge profits from the global use of the Dollar mainly by two means. First by “seigniorage,” the revenue taken from the gap between the face value and actual value of the Dollar. Research indicates that the United States has acquired roughly 2 trillion dollars of seigniorage in total since the end of World War II.¹⁸ Today, with over 900 billion U.S. dollars in cash, about two-thirds of which circulate abroad, the United States casts seigniorage on at least 600 billion dollars. A variant of seigniorage is “inflation tax,” which refers to the financial loss of value suffered by mostly foreign dollar-holders and fixed-rate bond-holders, due to the effects of inflation caused by the United States’ over-issuance of the Dollar. As the United States generally pays to Dollar-reserve countries an interest of about 3 percent each year, an inflation rate of 3 percent would automatically write off the interest the United States needs to pay. Over the past decades, the United States has many times adopted such monetary policies as inflation and depreciation of the Dollar to shift its own economic burden onto those creditor countries,¹⁹ a practice regarded as “revenue of last resort” by political economists.²⁰ Indeed, such “power to deflect” is usually the most tempting and harmful privilege of a monetary hegemon²¹ — the many rounds of quantitative easing (QE) launched by the U.S. government after the 2008 financial crisis provide a case in point.²²

Another way the United States benefits from the global use of the Dollar is that it can keep increasing its international borrowing with its

¹⁸Zhang Ming, *The Global Financial Crisis and China's International Financial Strategy* (Beijing: China Financial Publishing House, 2010), p. 265.

¹⁹Susan Strange, “The Persistent Myth of Lost Hegemony,” *International Organization*, Vol. 41, No. 4 (Autumn 1987), p. 569.

²⁰Charles A. E. Goodhart, “The Political Economy of Monetary Union,” in Peter B. Kenen, ed., *Understanding Interdependence: The Macroeconomics of the Open Economy* (Princeton: Princeton University Press, 1995), p. 452.

²¹Benjamin J. Cohen, “The Macrofoundations of Monetary Power,” in David Andrews, ed., *The International Monetary Power* (Ithaca: Cornell University Press, 2006), pp. 46–49.

²²Li Wei, “Maintenance of Hegemony: International Economic Strategy of the Obama Administration,” *Foreign Affairs Review*, No. 3 (May/June 2013), pp. 59–60.

“power to delay.”²³ Since the United States became a debtor country in 1971, its debts had amounted to 11.46 trillion dollars by 2009 and have continued rising afterwards. As a Chinese scholar sharply points out, the U.S. economy could remain relatively stable in the past despite the serious imbalance between savings and consumption, in large part because the United States could develop on the savings of other countries in a U.S. Dollar-centered international monetary system.²⁴

Moreover, the United States also derives much political privilege from its monetary hegemony. For one thing, it exercises great control over global strategic resources such as crude oil with its pricing power; for another, it has much influence on those countries heavily dependent on the Dollar.²⁵ One example of how much influence the United States’ monetary policy has is its effects on the global price of crude oil. At the prime of the global financial crisis, the global crude oil price dropped from 147 U.S. dollars per barrel in July 2008 to 33 dollars per barrel in February 2009. Yet with two rounds of QE by the U.S. (starting in November 2008 and November 2010, respectively), the oil price rose back to 110 dollars per barrel in 2011. As it is, the ups and downs of global oil price are basically a function of the United States’ monetary policy rather than a reflection of real supply and demand in the global market.

Enjoying all the benefits and privileges of an international currency-issuing country, the United States often fails to take the responsibility of stabilizing the global monetary order. Thus, many countries have begun to call for an overhaul of the international monetary system over the past decade. Especially with the declining credibility of the Dollar since the U.S. financial crisis, there has been increasing discussion on limiting the role of the Dollar in the global financial market, and many international organizations such as the UN, the G20, and the BRICS have encouraged greater use of the RMB as an international currency. Meanwhile, the United States has been urging the RMB to appreciate so as to ease the global trade

²³Benjamin J. Cohen, “The Macrofoundations of Monetary Power,” in David Andrews, ed., *The International Monetary Power* (Ithaca: Cornell University Press, 2006), pp. 41–46.

²⁴Li Ruogu, *Reform of International Monetary System and Internationalization of the Renminbi* (Beijing: China Financial Publishing House, 2009), p. 2.

²⁵Gong Gang, *Against All Odds: The Strategy to Turn RMB into a Hard Currency* (Beijing: People’s Publishing House, 2013), pp. 55–56.

imbalance and stimulate the U.S. economy. The RMB exchange rate is under the growing scrutiny of the U.S. Congress, and the successive QE rounds of the United States after 2009 are in part targeted for appreciation of the RMB.

China's role change is motivated both by concerns of the insecure U.S. Dollar system and by its own growing strategic demand.

As one of the biggest foreign exchange reserve holders, China is increasingly concerned about the security risks of falling into the "U.S. Dollar Trap."²⁶ Overdependence on the Dollar and Dollar assets not only impairs China's autonomy in its monetary policy, but it will also make China the biggest victim when the United States deflects its own crisis to the world by depreciating the Dollar.²⁷

Therefore, it is necessary for China to forsake its past dependence on the U.S. Dollar and strengthen its own monetary policy.

Other than concerns about the insecurity of the U.S. Dollar system, China's role change is also motivated by its growing demand for political power and economic interests on the world stage. As the international status of a country's currency is a mirror of its political power,²⁸ a rising China necessarily seeks more monetary power of its own. With an annual growth rate above 7 percent — even at double-digits in many years — over the past two decades, China's nominal GDP is likely to surpass that of the United States as early as 2020;²⁹ its share of the world's total commodity trade has also been expanding, ranking first at 12 percent in 2013. Clearly, the RMB's international status no longer matches China's rapidly rising economic status in the world.

²⁶Eswar Prasad, "The Dollar Trap," *Harvard Business Review*, Vol. 91, No. 12 (December 2013), p. 40.

²⁷Morris Goldstein and Nicholas Lardy, "China's Role in the Revived Bretton Woods System: A Case of Mistaken Identity," Institute for International Economics Working Paper No. WP05-2, 2005. p. 9.

²⁸Philipp Hartmann, *Currency Competition and Foreign Exchange Markets: The Dollar, the Yen and Euro* (Cambridge, UK: Cambridge University Press, 1998), p. 2.

²⁹See EIU Global Competitiveness Report, quoted from Zhang Qunfa, "Dollar Supremacy and RMB Internationalization," *Economic Survey*, No. 2 (March/April 2008), p. 44.

It is widely believed that strengthening the RMB as a major international currency will not only bring vast economic interests to China, but also enhance China's global power as well, including the "power of identity," pricing power over global strategic resources, manipulative power in monetary policies around the world, and "anchor-currency power" over dependent countries.³⁰ Especially when China and the United States are engaged in ever more intense strategic competition,³¹ China's enormous foreign exchange reserves invested in the United States' financial market have grown to be a "mutual hostage" to both, which is a key constraint of Sino-U.S. competition. As a result, China has put increasing efforts to reform the U.S. Dollar-centered international monetary system in recent years.

Challenging Way Ahead for the Reformer

With continuing growth of its economic and political influence in the world, China will be more determined to promote reforms of the international monetary system both by the intra-system approach, i.e., strengthening some of the existing institutions, and by the extra-system approach, i.e., enhancing alternative currencies to balance against the U.S. Dollar monopoly.

The intra-system approach refers to gradual reforms of the norms and institutions within the current international monetary system. Other than strengthening the supervision of existing institutions over the issuance of the U.S. Dollar, i.e., the United States' monetary policy, it is both necessary and possible to develop the IMF into a super-national "central bank of the world" with the power to issue a super-sovereign currency. From as early as the Bretton Woods Conference in July 1944, the British economist John Maynard Keynes proposed creating a super-sovereign currency, the "Bancor," for international settlement. In reality, the SDR founded by the IMF in 1969 is an embryonic form of a super-sovereign currency used for reserve

³⁰C. Randall Henning, "The Exchange-Rate Weapon and Macroeconomic Conflict," in David Andrews, ed., *The International Monetary Power* (Ithaca: Cornell University Press, 2006), pp. 117–138.

³¹Li Wei and Zhang Zhixin, "The New-type Sino-U.S. Relations at an Era of Strategic Competition," *Quarterly Journal of International Politics*, No. 1 (Spring 2015), pp. 25–53.

China is devoted to RMB internationalization while strengthening certain institutions in the existing international monetary system.

assets and accounting. To promote the SDR's role as an international currency, the IMF issued 250 billion U.S. dollars' worth of additional SDR in 2009, 100 billion of which was shared among developing and rising countries.³²

Nevertheless, due to such lingering problems of the SDR as its inadequate representation of major currencies,³³ its limited size for extensive use in the world market, and the unbalanced share between developed and developing countries, many reforms have yet to be taken before an "SDR system" is established: First, the mechanisms of pricing, issuance and distribution of the SDR

must be improved to increase the weight of the RMB and the currencies of major developing countries in the SDR basket, and the size of the SDR needs to be expanded for wider adoption as reserve assets. Second, the IMF should encourage the use of the SDR in pricing, settlement, borrowing, accounting and other financial businesses around the world. Third, the IMF itself must be reformed promptly so as to enhance its independence, transparency and decision-making process, as well as to increase the share and say of rising economies.

The extra-system approach requires the enhancement of the role of alternative international currencies to balance against the U.S. Dollar hegemony. Growing diversification of international currencies will greatly reduce the costs of market players in switching among currencies, thus rendering more flexibility and efficiency to global economic and financial activities.³⁴ With regard to the changing influence of major currencies in the world over the past decade, the future global monetary system is likely to

³²"SDR Zengfa Fang'an Chulu Xinxing Guojia Fende Qianyimeiyuan [SDR Additional Issuance Plan Announced: 100 Billion U.S. Dollars Shared by Rising Countries]," *China Stock*, July 21, 2009, <http://www.cnstock.com/08haiwaigs/2009-07/21/content.4447576.htm>.

³³Currently, four major currencies constitute the whole SDR basket, including the U.S. Dollar (41.9 percent), the EURO (37.4 percent), the British Pound (11.3 percent), and the Japanese Yen (9.4 percent).

³⁴Masayuki Tadokoro, "After Dollar?" *International Relations of the Asia-Pacific*, Vol. 10, No. 3 (September 2010), pp. 425.

develop from one dominated by the U.S. Dollar into one underpinned by the Dollar, the EURO and the RMB.³⁵ Competition among the three currencies will inevitably generate new check-and-balance mechanisms for the international monetary system.

With its ever-expanding economy and trade volume as well as its proactive monetary diplomacy, China has achieved rapid progress in RMB internationalization in the past few years. For instance, its trade volume settled with the RMB reached 4.63 trillion in 2013, or 18 percent of its total trade, compared with the meager 3 percent in 2010.³⁶ However, facing the U.S.'s super strength and the long-established U.S. Dollar system, China will have to boldly embrace more major reforms domestically before taking the lead in promoting the systemic reformation on the world stage and making the RMB a genuine global currency.

Above all, China needs to exhibit more political accountability both to the domestic public and to the international community. Accountability is not built on policy statements alone, but is also rooted in credibility of the government, developed from day-to-day practice. Domestically, China must carry through the institutional reforms in all fields including strengthening democracy and open policy processes. In global arenas, it is of equal importance for China to adapt to generally acknowledged international norms and shoulder more global responsibilities, so as to win the respect and trust of other countries, as well as foster an image of a "great yet not hegemonic power."

Next, China should keep on developing its "smart power," the combination of hard and soft power, by providing more global public goods. A self-interested and uncharitable mentality does not fit a great power with

As a strong reformer,
China must keep
developing its
political
accountability and
smart power, while
taking coercive
measures wisely.

³⁵Barry Eichengreen, "The Renminbi as an International Currency," Econometrics Laboratory UC Berkeley online paper, January 2010, http://emlab.berkeley.edu/~eichengr/renminbi_international_1-2011.pdf.

³⁶"Renminbi Zheng Zhujian Bei Quanjie Jiena [RMB Increasingly Acknowledged by the World]," *Lianhe Zaobao*, July 20, 2014, <http://www.zaobao.com/finance/comment/story20140720-367956>.

grand ambitions. Therefore, it is necessary for China to further open its domestic market to the world, especially neighboring countries and other developing economies, so that the whole world can benefit from China's robust economic growth. Meanwhile, China needs to play a more active role in various global and regional financial institutions, and make bigger contributions to common development and crisis relief around the world, in order to win over more partners in promoting the reformation of the international monetary system.

Finally, China must learn to exercise political coercion in a decisive yet prudent way. As exemplified by the U.S. Dollar's ascent to world supremacy, coercion is the last and most forceful resort of an international currency. During the first five decades or so after the founding of the People's Republic in 1949, China rarely applied coercion in its engagement with the international regime, as its very limited coercive power had to be used to protect such core national interests as national security and territorial integrity. In recent years, however, China has begun to exercise coercion in international economic arenas, especially by more frequently employing retaliatory measures against the protectionist moves of other markets. For example, in the face of EU anti-dumping duties on Chinese photovoltaic products in 2013, China threatened to impose punitive duties on imports from Europe of wine and key parts used in making solar panels, and finally reached an agreement with the EU based on mutual compromise.³⁷ Such coercive measures may very possibly be applied to guard the RMB's international status as well.

In all, as a major driving force behind the reformation of the U.S. Dollar system, the rise of the RMB will certainly bring about increasing political contention on the global stage, particularly between China and the United States. The United States may remain calm to RMB internationalization for the time being, or even encourage the RMB to play a bigger role in the international monetary system, in order to enhance the feasibility of

³⁷Jonathan Stearns, "EU Nations Approve Pact with China on Solar-Panel Imports," *Bloomberg Business*, December 3, 2013, <http://www.bloomberg.com/news/articles/2013-12-02/u-nations-approve-pact-with-china-on-solar-panel-trade>.

its own monetary policy.³⁸ Yet when it finds the RMB so widely used as to start replacing the Dollar in the global economy, the United States will certainly take measures to confine the future space of the RMB, for the Dollar supremacy is as important as its military supremacy to maintaining its leading position in the world. How China manages to reach an agreement with the United States on accommodating the continuing rise of the RMB while promoting a multi-currency international monetary system, is an arduous task for Chinese diplomacy in the years to come.

Conclusion

China's dependence on the U.S. Dollar system during the first three decades of its reform and opening up was essential to China's development into an export-oriented economy. By free-riding on the Dollar, China managed to achieve its dual strategic goals of promoting export and attracting foreign investment, laying the foundation for its rapid economic rise. Facing the increasing problems of the U.S. Dollar system, however, a more ambitious China has proactively conducted its monetary diplomacy since the outbreak of the 2008 U.S. financial crisis, and is transforming from a dependent to a reformer of the international monetary system.

In view of the myriad problems with China's domestic institutions and the heavy dependence of the world economy on the U.S. Dollar, China will encounter many challenges on its road as a systemic reformer. Whether China can develop into a great power in international monetary arenas is not only a function of China's economic growth in the future, but more importantly, depends on the continuing advancement of its political leadership as well.

³⁸Many U.S. economists argue that the U.S. ought to support the diversification trends of the international monetary system, because a strong Dollar coupled with a huge trade deficit hinders the adjustment of the U.S.' economic policy. See, for instance, C. Fred Bergsten, "The Dollar and the Deficits: How Washington Can Prevent the Next Crisis," *Foreign Affairs*, Vol. 88, No. 6 (November/December 2009), pp. 23–25.

China's Foreign Assistance and Its Implications for the International Aid Architecture

Pan Yaling

Abstract: China is now emerging as one of the most important development partners in the world. Based on its double identities as both recipient and donor, China has developed some specialties in terms of international development assistance. What new elements has China brought to the international aid architecture? This essay argues that the Chinese foreign assistance theory has four unique features, namely prioritizing development without setting any precondition; building win-win relationships with recipient countries through promotion of their independent development and national interests; insisting on equality rather than moral preaching, as well as keeping strategic patience while avoiding technical short-sightedness. Despite such specialties, China's foreign assistance is still practiced under international frameworks; the changes it aims to make

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should not be regarded as a “quiet revolution,” but as an amendment to the existing international aid architecture.

Keywords: Foreign assistance theory; Chinese experience; sustainable self-development; international aid architecture.

Along with its rapid rise, China has emerged as an important development partner, a fact that attracts intensive global attention to explore the theory, model, institution, policy, and practice of China’s foreign assistance.¹ Foreign researchers tend to focus on the institutions and strategic goals of China’s foreign assistance, and the differences between China and traditional donors, while Chinese scholars, though devoting themselves to defending China’s stance and refuting skepticism and criticism from the international community in general and the West in particular, usually fail

¹For the summary of the most recent studies on China and other emerging donors, see Julie Walz and Vijaya Ramachandran, “Brave New World: A Literature Review of Emerging Donors and the Changing Nature of Foreign Assistance,” Working Paper, No. 273 (Washington, D.C.: Center for Global Development, November 2011). There is a growing body of literature on this topic since 2011, for example, Liu Hongwu and Huang Meibo, *Zhongguo Duiwai Yuanzhu yu Guoji Zeren de Zhanlue Yanjiu* [*Strategic Studies on China’s Foreign Assistance and International Responsibility*] (Beijing: China Social Science Press, 2013); Yasutami Shimomura and Hideo Ohashi, eds., *A Study of China’s Foreign Aid* (London, UK: Palgrave Macmillan, 2013); Deborah Bräutigam, “Aid ‘with Chinese Characteristics’: Chinese Aid and Development Finance Meet the OECD–DAC Regime,” *Journal of International Development*, Vol. 23, No. 5 (July 2011), pp. 752–764; Naohiro Kitano, “China’s Foreign Aid at a Transitional Stage,” *Asian Economic Policy Review*, Vol. 9, No. 2 (July 2014), pp. 301–317. It is important to note that while international academic and policy communities prefer to use the term “emerging donor,” China prefers terms like “development cooperation partner” or “development donor” given the inequality nature of the term donor/recipient. For example, the *White Paper of China’s Foreign Aid* claims that China’s foreign assistance is conducted under the South-South cooperation framework. See Information Office of the State Council, the People’s Republic of China, *China’s Foreign Aid (White Paper)*, April 2011, Beijing, <http://www.scio.gov.cn/zxbd/nd/2011/Document/896900/896900.htm>. Such attitude is also adopted increasingly by the UN system, see, for example, UN, *High-level Committee on South-South Cooperation*, 17th Session, SSC/17/2, May 22, 2012, [http://ssc.undp.org/content/dam/ssc/documents/HLC%202012/SSC%2017%202%20\(C\).pdf](http://ssc.undp.org/content/dam/ssc/documents/HLC%202012/SSC%2017%202%20(C).pdf).

to conceptualize and theorize Chinese aid practices in a comprehensive way.²

Since the very beginning of the twenty-first century, an increasing number of Chinese scholars have been making efforts to conceptualize and theorize China's international engagement and diplomacy.³ Based on their achievements, this essay explores the theoretical meaning of China's foreign assistance policy and practices, and some possible improvements of the theory. It argues that Chinese foreign assistance theory has at least four features, namely, adhering to the basic goal of prioritizing development without setting any precondition; supporting the independent development of the recipient countries, yet refraining from entrenching special bureaucratic interests of both national and international development industries; pursuing equal and inclusive development rather than moral preaching which is often adopted by traditional donors; and always

²There are few comprehensive discussions about the characteristics of China's foreign assistance. See Zhang Haibin, *Fazhan Yindaoxing Yuanzhu: Zhongguo dui Feizhou Yuanzhu Moshi Yanjiu* [Assistance for Leading to Development: On Models of China's Aid to Africa] (Shanghai: Shanghai People's Publishing House, 2012); Zhou Hong, "Zhongguo Yuanwai Liushinian de Huigu yu Zhanwang [Sixty Years' China Aid: Reflections and Prospects]," *Foreign Affairs Review*, Vol. 27, No. 5 (September/October 2010); Zhou Hong, "Zhongguo Duiwai Yuanzhu yu Gaige Kaifang Sanshinian [China's Foreign Aid and 30 Years of Reform and Opening Up]," *World Economy and Politics*, No. 5 (May 2008); Zhang Changyu, "Duiwai Jingji Hezuo Liushinian: Huigu yu Zhanwang [China's 60-year Foreign Economic Cooperation: Review and Prospect]," *International Economic Cooperation*, No. 2 (February 2009); Diao Li and He Fan, "Zhongguo Duiwai Yuanzhu Zhanlue Fansi [Reflections on China's Foreign Assistance Strategy]," *Journal of Contemporary Asia and Pacific Studies*, No. 6 (November/December 2008), pp. 120–133.

³In the past decade, with a series of ceremonies, for example, the 50th anniversary of the Five Principles of Peaceful Coexistence established in 1954, the 30th anniversary of the Reform and Opening-up Policy announced in 1978, the 60th anniversary of the establishment of the PRC in 1949, and the 90th anniversary of the creation of the CPC in 1921, etc., China's academic community has done numerous research to conceptualize and theorize China's international engagement and diplomacy. See, for example, Yang Jiemian *et al.*, *Zhongguo Gongchandang he Zhongguo Tese Waijiao Lilun yu Shijian* [The CPC and Theory and Practice of Diplomacy with Chinese Characteristics] (Shanghai: Oriental Publishing Center, 2011); Qi Pengfei, ed., *Zhongguo Gongchandang yu Dangdai Zhongguo Waijiao (1949–2009)* [The CPC and Contemporary Chinese Diplomacy (1949–2009)] (Beijing: CPC History Press, 2010); Yu Xintian *et al.*, *Guoji Tixi Zhong de Zhongguo Juese* [China's Role in the International System] (Beijing: Encyclopedia of China Publishing House, 2008).

keeping strategic patience when practicing development aid. Combining all these four distinctive aspects together, the nascent Chinese foreign assistance theory could serve as a complement to the traditional foreign aid theory.

Taking Development as Top Priority

As a developing country, China always emphasizes that development without any precondition should be the most important criterion when delivering foreign assistance, which could be named as “development-oriented” assistance.⁴ That means China consciously refuses to set any precondition before many development goals, thus intentionally or unintentionally avoiding the conditions-first approach.

Given its double identities as both aid donor and recipient, China defines the fundamental goals of its foreign assistance as follows:

Unremittingly helping recipient countries build up their self-development capacity. Practice has proved that a country’s development depends mainly on its own strength. In providing foreign aid, China does its best to help recipient countries to foster local personnel and technical forces, build infrastructure, and develop and use domestic resources, so as to lay a foundation for future development and embarkation on the road of self-reliance and independent development.⁵

China emphasizes actual effect rather than preconditions of development in providing aid.

⁴Professor Zhang Haibin sees China’s foreign assistance as “assistance for leading to development” which puts development at a very high priority. However, it is important to note that such a definition has two very fundamental differences from that of this paper. For one thing, the term “development-oriented” emphasizes more the steadiness of such an approach, the other is that “assistance for leading to development” still takes conditions of development for granted, to some extent. See Zhang, *Assistance for Leading to Development: On Models of China’s Aid to Africa*, pp. 96–97.

⁵Information Office of the State Council of the People’s Republic of China, *China’s Foreign Aid (White Paper)*, April 2011, Beijing, <http://www.scio.gov.cn/zxbd/nd/2011/Document/896900/896900.htm>.

In other words, China places the highest priority on these development goals when delivering foreign assistance. In practice, such an approach has two main elements, namely, promoting development goals instead of pre-conditions for development, and emphasizing development effectiveness instead of aid effectiveness.

Prioritizing Development in the Development-Security Nexus

The “development-oriented” or “development-first” approach means that China’s foreign assistance aims to promote not only the development of recipient countries but also their willingness to pursue development. There are always conflicting goals in the decision-making process, in which development vs. security might be one of the most important pairs. How to deal with the development-security nexus or to develop a balanced approach? Through its development-first approach in the past three decades, China’s experience provides new solutions. On the eve of reform and opening up in late 1978, China found itself entangled with plenty of problems on development and security, some of which were even worse than those faced by most African countries today.⁶ As former Chairperson of the African Union Commission Jean Ping pointed out,

Barely fifty years ago, outside of Japan, all of Asia was still in a hopeless situation of underdevelopment comparable to ours. Famine then had a name, China, and poverty was called India.⁷

It was the development-first approach that enabled China to overcome most of its serious development and security challenges and begin to emerge as a global power. Based on its past experience, China’s foreign aid projects are targeted at areas such as agriculture, industry, economic infrastructure, public facilities, education, and health care, focusing on improving industrial and agricultural productivity of recipient countries, in

⁶On the development-security nexus, see Zhang Chun, “‘Fazhan-Anquan Guanlian’: Zhongmeiou Duifei Zhengce Bijiao [‘Development-Security Nexus’: A Comparative Study of the Africa Policies of China, the EU, and the U.S.],” *Chinese Journal of European Studies*, No. 3 (May/June 2009), pp. 69–73

⁷Jean Ping, *And Africa will Shine Forth: A Statesman’s Memoir* (New York: International Peace Institute, 2012), “Introduction,” p. 6.

order to lay a solid foundation for their economic and social development. In recent years, combating climate change has become a new component within China's foreign aid package.⁸ By doing so, China hopes to strengthen the self-development capabilities of recipient countries, and help develop their national industries to create more jobs and improve the living standard of local people.

This development-oriented or development-first approach is widely welcomed by recipient countries, especially those in Africa. As a report by the African Development Bank (AfDB) points out, the China-African relationship now is an evolving partnership.

China is a valuable trading partner, a source of investment financing, and an important complement to traditional development partners. China is investing massively in infrastructure, which helps alleviate supply bottlenecks and improve competitiveness.⁹

China's coherent aid policy also strengthens recipient countries' appetite for self-development, which is in stark contrast with the volatile nature of traditional and multilateral donations. Due to great success of the Marshall Plan in Europe in the 1950s, traditional donors were eager to replicate this experience in other developing countries, African ones in particular.¹⁰ At the very beginning, traditional donors focused more on investment and aid projects for promoting economic development. However, the failure of developmentalism in the 1960s made them gradually shift focus on to political and social development, as well as aid to create or improve conditions of economic development, which opened the door to attachment of political and social conditions for aid delivery. In the 1990s, along with the wide

⁸Information Office of the State Council of the People's Republic of China, *China's Foreign Aid (White Paper)*, April 2011, Beijing, <http://www.scio.gov.cn/zxbd/nd/2011/Document/896900/896900.htm>; Feng Cunwan, "Nannan Hezuo Kuangjia Xia de Zhongguo Qihou Yuanzhu [China's Climate Assistance within the Framework of South-South Cooperation]," *Global Review*, Vol. 7, No. 1 (January/February 2015), pp. 34–51.

⁹Richard Schiere, "China and Africa: An Emerging Partnership for Development? – An Overview of Issues," Working Paper, No. 125 (Abidjan, Côte d'Ivoire: African Development Bank Group, May 2011), pp. 6–7, 17.

¹⁰Dambisa Moyo, *Dead Aid: Why Aid is Not Working and How There is a Better Way For Africa* (New York: Allen Lane, 2009), pp. 12, 35–36.

spread of Western democracy and the neo-liberal model, a revised form of developmentalism returned.¹¹ It is noteworthy that the philosophy of traditional donors gradually shifted from being development-oriented to condition-oriented during this process, intentionally or unintentionally, and the content of development course changed as well. As Dambisa Moyo argues, "democracy was the donor's final refuge; the last-ditch attempt to show that aid interventions could work, would work, if only the political conditions were right."¹²

China always respects the recipients' willingness for self-development.

Promoting Development Effectiveness Rather than Aid Effectiveness

The development orientation of China's foreign assistance is embodied in its pursuit of development effectiveness, rather than aid effectiveness pursued by traditional donors. To guarantee development effectiveness, China always delivers and distributes its aid in a quick and efficient manner. As former President of Senegal, Abdoulaye Wade said,

But Western complaints about China's slow pace in adopting democratic reform cannot obscure the fact that the Chinese are more competitive, less bureaucratic and more adept at business in Africa than their critics.¹³

By the same token, Chinese aid decision is based more on development needs of recipient countries, with an emphasis on local capacity of self-development. For example, China always attaches importance to agriculture and rural development and poverty reduction of developing countries. By the end of 2009, China had launched 221 agricultural aid projects in

¹¹Howard J. Wiarda, "Introduction: The Western Tradition and Its Export to the Non-West," in Howard J. Wiarda and Steven Boilard, eds., *Non-Western Theories of Development: Regional Norms versus Global Trends* (New York: Harcourt Brace College Publishers, 1999), pp. 1–2, 9.

¹²Moyo, *Dead Aid: Why Aid is Not Working and How There is a Better Way For Africa*, p. 24.

¹³Abdoulaye Wade, "Time for the West to Practice what it Preaches," *Financial Times*, January 24, 2008.

other developing countries — 35 farms, 47 agro-technology experiment and promotion stations, 11 animal husbandry projects, 15 fisheries projects, 47 farmland-irrigation and water-conservancy projects, and 66 other types of agricultural projects.¹⁴ In another example, China has significant comparative advantages in the field of infrastructure building, which could greatly help recipient countries. A report from AfDB states that China's investment in the African infrastructure sector remained stable at around \$5 billion per year in the period from 2005 to 2009, and increased almost 80 percent to 9 billion in 2010. In contrast, commitments from other donors such as India, the Arab Fund, and the African Regional Development Bank remained on a stable level of \$2.7 billion in 2010.¹⁵

Due to failures in the past four decades, traditional donors gradually shifted away from “aid-as-entitlement” concepts toward an emphasis on results and performance since the early 1990s, which resulted in a broad-based consensus on aid effectiveness measured by clear development results.¹⁶ Such a focus on aid effectiveness has put the cart before the horse, led to ignorance of development effectiveness and technicalization of development aid. However, such an approach highlights the Chinese exceptionalism. As a 2007 IMF report argues, Chinese aid focuses on infrastructure funding like power (mainly hydropower), transport (mainly railways), information and communication technologies — none is of enough interest to traditional donors.¹⁷

Building Win-Win Relationships

It is undeniable that national interest is always one of the key rationales of international relations, and this principle also doubtlessly applies to foreign

¹⁴Information Office of the State Council of the People's Republic of China, *China's Foreign Aid (White Paper)*, April 2011, Beijing, <http://www.scio.gov.cn/zxbd/nd/2011/Document/896900/896900.htm>.

¹⁵Richard Schiere and Alex Rugamba, “Chinese Infrastructure Investments and African Integration,” Working Paper, No. 127 (Abidjan, Côte d'Ivoire: African Development Bank Group, May 2011), pp. 14–15.

¹⁶UNDP, *Development Effectiveness: Review of Evaluative Evidence* (New York: UNDP, 2001), p. 5.

¹⁷Jina-Ye Wang, “What Drives China's Growing Role in Africa?” IMF Working Paper, WP/07/211, 2007.

assistance. China never argues that its foreign aid is implemented out of sheer altruism and that it does not care about national interests;¹⁸ however, China tries hard to respect national interests of recipient countries when providing development assistance. To promote self-development of recipient countries serves China's national interests. Through talent training, infrastructure improvement, and natural resources exploration, China hopes to lay a solid basis for sustainable and independent local development. By doing so, China pursues win-win goals that avoid selfishness and dependency, either political or economic, of the recipient countries, thus curbing the bureaucratic interests of so-called development industry.

Not to Create Dependency

China has never intended to create political dependency in recipient countries. When proposing the "Eight Principles" of foreign assistance in 1964, then Chinese Premier Zhou Enlai declared that the goal of China's foreign assistance was not to create dependency on China by recipient countries, but to guide them onto self-dependent paths. China understands that this will be a long-term process, as Premier Zhou pointed out to delegates from 14 West Asian and African countries between late 1963 and early 1964,

It's unrealistic to ask newly independent African countries to cast off foreign aid and achieve self-dependence right now. For them, a more realistic way out is to use aid but not depend on aid, gradually develop the national economy for the future possibility of casting off foreign aid.¹⁹ (Author's translation)

In contrast, given their long colonial history and ideological and strategic interests in recipient countries, traditional donors can hardly avoid increasing the political dependency of their recipients when delivering foreign aid. For example, the Europe Union (EU) and its members have complicated colonial linkages with the African, Caribbean, and Pacific countries (ACP). To preserve their influence and privileges from the

¹⁸It is important to note that Chinese President Xi Jinping does advocate a new view on morality and interests, indicating a more altruist tendency in China's foreign assistance.

¹⁹"Outline of Fourteen Countries Visit Report," Document, No. 203-00494-01, Chinese Foreign Ministry, pp. 18–19.

colonial age, the EU considers foreign aid as a tool.²⁰ Thus, European countries set up the Development Fund for the Overseas Countries and Territories in 1957, which evolved into the European Development Fund later, then signed two Yaoundé Agreements and four Lome Conventions, followed by the most recent Cotonou Agreement signed in 2000. The World Trade Organization (WTO) finally ended such a unilateral preferential treatment, and the replaced proposal, Economic Partnership Agreement, has been postponed for almost eight years due to some hidden agenda that ACP states were wary of, especially the African countries.²¹

Some scholars warn about the possibility of deterioration on debt concessionality that could bring some risks to debt sustainability, considering that China is now increasing its foreign assistance to Africa. However, according to an OECD research paper in 2008, on how China is impacting on the parameters of debt sustainability indicators, this has not yet been the case. In fact, China has a positive impact on debt sustainability through stimulating exports and GNP.²² Indeed, to avoid deterioration of African debt, China has always been supporting African countries to reduce debts through their own efforts, relieving their debt burden owed to China. From 2000 to 2009, China has written off 312 debt payments for 35 African countries, totaling 18.96 billion yuan (RMB). The above-mentioned debt relieving measures demonstrate China's determination and aspiration to help Africa, which also speeds up the process of debt reduction for

China does its best to help prevent over-dependency of the recipients on its aid, and to curb bureaucratic interests of the development industry.

²⁰D. Chinweizu, "Africa and the Capitalist Countries," in Ali Mazrui, ed., *The General History of Africa, Vol. VIII Africana since 1935* (Oxford: James Currey, 1999), p. 769.

²¹Zhang Chun, "Quanqiu Jingji Weiji Xia Feizhou Diqu Yitihua de Tiaozhan [Challenges Posed by the Global Economic Crisis to African Regional Integration]," *African Studies*, Vol. 1, No. 1 (2010), pp. 260-261.

²²Helmut Reisen and Sokhna Ndoye, "Prudent versus Imprudent Lending to Africa: From Debt Relief to Emerging Lenders," Working Paper, No. 268 (Paris, France: OECD Development Center, February 2008), pp. 38-39.

Africa by other countries.²³ As S. Ibi Ajayi describes, for various reasons, the debt crisis in Africa and the developing world in general has been derived from huge aid by traditional and multilateral donors; with selfish consideration of bureaucratic interests, such aid created economic dependency and a master-slave relationship. One of the consequences might be that the developing world is interminably trapped in underdevelopment, dependency, and poverty.²⁴

Not to Build Development Industry

In practice, China's foreign assistance does not promote bureaucratic interests of the development industry. With decentralized foreign assistance agencies, China encourages cross-departmental coordination and cooperation in the implementation of various projects, fully respecting the demands of recipient countries in order to benefit their people. Although many propose to build a centralized and professional development agency,²⁵ the current system or institutional arrangement does help restrain the entrenchment of bureaucratic interests. Key departments dealing with foreign assistance in China include the Ministry of Commerce (MOFCOM), the Ministry of Foreign Affairs (MoFA), the Ministry of Finance (MOF), and China's Export and Import Bank (EXIM Bank). The Ministries of Education, Health, and Agriculture, among others, might have greater voices in their fields respectively. As the top administrator, the State Council retains the power to make final decisions. Any grant more than USD 1.5 million and/or assistance over RMB 100 million should be approved by the State Council. In spite of some complex procedures, different governmental agencies can be quickly mobilized due to the absence of a monopolizing organization, which embodies the high efficiency of China's foreign assistance.

One has to confess that bureaucratic interests of the development industry have significant impact on the decision and implementation of both

²³Information Office of the State Council of the People's Republic of China, "China-Africa Economic and Trade Cooperation," December 2010, Beijing, http://english.gov.cn/official/2010-12/23/content_1771603.htm.

²⁴S. Ibi Ajayi, "Issues of Globalisation in Africa: The Opportunities and the Challenges," *Ibadan Journal of the Social Sciences*, Vol. 2, No. 1 (2004), pp. 23–42.

²⁵Zhang Hongmin, ed., *Zhongguo he Shijie Zhuyao Jingjiti yu Feizhou Jingmao Hezuo Yanjiu* [A Study of Economic and Trade Cooperation between Africa and China and other Major Economies] (Beijing: World Affairs Press, 2012), pp. 459–460.

traditional and multilateral donors. As Dambisa Moyo asked, given what we know about foreign aid, and how it encourages and sustains corruption, why do Western governments insist on parceling out aid to poor countries? One of the practical explanations is that

[t]here is simply a pressure to lend. The World Bank employs 10,000 people, the IMF over 2,500; add another 5,000 for the other UN agencies; add to that the employees of at least 25,000 registered NGOs, private charities and the army of government aid agencies: taken together around 50,000 people, the population of Swaziland. . . Their livelihoods depend on aid, just as those of the officials who take it. For most developmental organizations, successful lending is measured almost entirely by the size of the donor's lending portfolio, and not by how much of the aid is actually used for its intended purpose. . . Donors are subject to "fiscal year" concerns: "they feared the consequences within their agencies of not releasing the funds in the fiscal year for which they were slated."²⁶

Based on such consideration of bureaucratic interests, donors, both traditional and multilateral ones, compete with each other to lend and meet their "fiscal year" concerns, but sacrifice the actual needs of recipient countries. Taking Tanzania as an example, it received more than 1,500 aid commitments between 2001 and 2003, from more than 50 bilateral and multilateral donors,²⁷ and most of these commitments were devoted to environmental protection for the minimization of negative impacts of economic development. Not for the sake of development itself, but for influence and lending, these donors' competition in Tanzania has created negative consequences. The percentage of forest coverage between 2000 and 2005 even decreased by 10 percent compared with that of 1990–2000.²⁸ In other words, traditional and multilateral donors actually do the same thing for meeting their

²⁶Moyo, *Dead Aid: Why Aid is Not Working and How There is a Better Way For Africa*, p. 54.

²⁷D. Roodman, "Competitive Proliferation of Aid Projects: A Model," Working Paper, No. 89 (Washington, D.C.: Center for Global Development, November 2011), June 2006, p. 2.

²⁸*Forest Resources and Assessment 2005: Global Synthesis* (Rome, Italy: Food and Agriculture Organization, 2005), pp. 22, 196.

own “fiscal year” target instead of promoting development when they accuse their recipients of earmarking for money.

Highlighting Equality and Mutual Trust

The third characteristic of China's foreign assistance lies in its basic attitude toward recipient countries, namely equality and inclusiveness, without preaching about how to develop their economies. For one, China always insists on the non-intervention principle and attaches no strings to its assistance. For another, China stresses that the imposed concept of “the China model” does not imply universality of China's experience. Each country can and should find its own pathway of development. This might be the reason that China's development assistance has been much welcomed in many countries.

No-Strings-Attached Approach

Equality is one of the core principles that guide China's foreign relations as well as development assistance in particular. The first two of China's eight principles for economic aid and technical assistance to other countries, issued in January 1964, state that:

- (1) The Chinese government always bases itself on the principle of equality and mutual benefit in providing aid to other countries. It never regards such aid as a kind of unilateral favor but as something mutual.
- (2) In providing aid to other countries, the Chinese government strictly respects the sovereignty of recipient countries, and never attaches any conditions or asks for any privileges.²⁹

And the “equal and mutual benefit” principle was placed on top of the four principles for China's foreign aid initiated in the early 1980s. *The 2011 White Paper of China's Foreign Aid* also states:

- Imposing no political conditions. China upholds the Five Principles of Peaceful Coexistence, respects recipient countries' right to independently

²⁹Information Office of the State Council of the People's Republic of China, *China's Foreign Aid (White Paper)*, April 2011, Beijing, “Appendix 1,” <http://www.scio.gov.cn/zxbd/nd/2011/Document/896900/896900.htm>.

select their own path and model of development, and believes that every country should explore a development path suitable to its actual conditions. China never uses foreign aid as a means to interfere in recipient countries' internal affairs or seek political privileges for itself.

- Adhering to equality, mutual benefit and common development. China maintains that foreign aid is mutual help between developing countries, focuses on practical effects, accommodates recipient countries' interests, and strives to promote friendly bilateral relations and mutual benefit through economic and technical cooperation with other developing countries.³⁰

Such an attitude is widely welcomed by recipient countries, especially in Africa. Although many Western reports highlight an anti-Chinese mood arising in Africa, the mainstream polling results prove just the opposite; for example, according to the Pew Global Attitudes Project, China's influence in Africa is almost universally viewed more positively than that of the United States.³¹

However, in the eyes of traditional donors, the non-interference principle and no-strings-attached approach "undermines" their efforts to improve human rights records and good governance in recipient countries. The reasons that China adopts such an approach, according to Western scholars and politicians, lie in its greedy needs for natural resources and commercial opportunities and even a practice of neo-colonialism. As a U.S. scholar writes, development assistance without any conditionality

has spurred some fears that Western influence in Africa will thereby be diminished and that investments in governance, transparency, and accountability will be undermined, particularly

³⁰Information Office of the State Council of the People's Republic of China, *China's Foreign Aid (White Paper)*, April 2011, Beijing, <http://www.scio.gov.cn/zxbd/nd/2011/Document/896900/896900.htm>.

³¹"U.S. Favorability Ratings Remain Positive, China Seen Overtaking U.S. as Global Superpower," Pew Global Attitudes Project, July 13, 2011, <http://www.pewglobal.org/2011/07/13/china-seen-overtaking-us-as-global-superpower/>; Andrew Kohut, "How the World Sees China," Pew Global Attitudes Project, December 11, 2007, <http://pewresearch.org/pubs/656/how-the-world-sees-china>.

in natural resource-rich states whose governments lack legitimacy or national vision.³²

However, according to Professor Ngaire Woods, the “support for rogue states” argument does not have evidence that economic disaster has in fact followed acceptance of aid from China. Indeed, there is now some evidence that countries with intensified aid and trade links with China are enjoying higher growth rates, better terms of trade, increased export volumes and higher public revenues.³³ Another research finds that, while China’s role in

resource-rich countries like Angola and Sudan is controversial,

China insists on equality and mutual trust in providing aid, and tries to avoid moral preaching.

mutual respect is a key element of China’s foreign policy and even smaller African countries with relatively little economic or political significance have received large aid and investment support from China.³⁴

Experience Sharing but not Moral Preaching

When delivering development assistance, China does not only insist on the principle of equality, but also on inclusiveness. On one hand, China fully respects the recipients’ own choices of development path and model, believing that each country has the capability to find the right way that fits their national contexts. China has a clear understanding about the “China

³²Carola McGiffert, “Chinese Soft Power and Its Implications for the United States: Competition and Cooperation in the Developing World,” CSIS Smart Power Initiative Report (Washington, D.C.: Center for Strategic and International Studies, March 10, 2009), p. 29.

³³Ngaire Woods, “Whose aid? Whose influence? China, Emerging Donors and the Silent Revolution in Development Assistance,” *International Affairs*, Vol. 84, No. 6 (November/December 2008), pp. 1207–1208.

³⁴M. Davies, H. Edinger, N. Tay and S. Naidu, *How China Delivers Development Assistance to Africa* (Stellenbosch, South Africa: Center for Chinese Studies, University of Stellenbosch, February 2008), p. 5.

model" argument as well as the motivation behind such rhetoric. Generally speaking, there is no consensus within the official and academic circles on the so-called "China model," neither is there any attempt to spread this "model" to other countries. China prefers to share "Chinese experience" with recipient countries through, for example, technical cooperation, human resource development, and so on. So far, China has helped African countries build six Sino-African economic zones for exploring specific models and ways for Africa.³⁵

On the other hand, China actively participates in international cooperation on foreign aid. In addition to developing bilateral assistance, China also gets involved in trilateral and regional collaboration with other countries and some multilateral organizations in capacity building, training, and infrastructure construction. Under the trilateral cooperation pressure mostly from the traditional donors,³⁶ China agrees to work with all parties concerned to conduct complementary and fruitful trilateral and regional cooperation on the basis of respecting the needs of recipient countries under the framework of South-South cooperation. For example, Chinese Premier Li Keqiang announced the three principles for trilateral cooperation in Africa in May 2014 when delivering his speech at the 24th World Economic Forum on Africa,

China is also ready to step up its collaboration with international organizations and relevant countries to explore trilateral and multilateral cooperation based on the principles of "African needs, African consent and African participation" and make a joint contribution to Africa's development.³⁷

³⁵Jean-Claude Berthelemy, "China's Engagement and Aid Effectiveness in Africa," Working Paper, No. 129 (Abidjan, Côte d'Ivoire: African Development Bank Group, 2011), p. 28.

³⁶On pressures of trilateral cooperation in Africa from traditional donors, see Zhang Chun, "Zhongfei Guanxi: Yingdui Guoji Duifei Hezuo de Yali he Tiaozhan [China-Africa Relations: How to Deal with Pressures of International Cooperation in Africa]," *Foreign Affairs Review*, No. 3 (May/June 2012), pp. 36, 41–42.

³⁷"Work Together to Scale New Heights in African Development," Address by Chinese Premier Li Keqiang at the 24th World Economic Forum on Africa, May 8, 2014, Chinese Foreign Ministry website, May 8, 2014, http://www.fmprc.gov.cn/mfa_eng/topics_665678/lkqzlcfasebyfmrnrlyaglkny/t1157616.shtml.

In contrast, traditional donors tend to believe that they are leaders in development and know better how to achieve development, and thus take a closed-minded view and try to teach recipient countries how to develop. To a great extent, foreign aid or development assistance has become an entrenched belief, even a myth, in the traditional donors' circles. On one hand, they believe that it is a time-honored truth that all nations will gradually enjoy "development" achievements; as a matter of fact, such belief is based on "local universalism." It is an unwise attempt for a society to impose its self-believed and historically constructed values onto other societies.³⁸ On the other hand, based on linear thinking, traditional donors believe that to realize Western-style development equates to "progress"; however, such a "development" may cause profound damages to a society, thus the "progress" in the eyes of traditional donors is but a kind of vague ideology.³⁹ Based on these two erroneous assumptions, traditional donors try very hard to transplant their own development model into other societies, which justifies the conditionality of aid. A natural consequence of this self-proclaimed moral/ethical advantage is that the call for trilateral cooperation by traditional donors does not mean they are now open to all development models and paths; rather, it implies that their aid is a kind of "charity" or "lifeline." Since the emerging donors are potential destroyers of this system, traditional donors try to regulate or socialize them through potential trilateral cooperation.

Keeping Strategic Patience

In addition to the above characteristics, China also keeps strategic patience when providing foreign aid. Long-term and comprehensive approaches are always adopted to promote development in recipient countries. In most cases, China warns against the trends of finding technical, once-and-for-all "panacea" solutions.

³⁸Gilbert Rist, *Le Développement, Histoire d'une Croyance Occidentale*, Chinese Edition, trans., Lu Xianggan (Beijing, Social Sciences Academic Press, 2011), p. 40.

³⁹John H. Bodley, *Victims of Progress* (Walnut Creek, California: Altamira Press, 2008); Pan Yaling, "Xifang Guoji Guanxi Lilun de 'Jingbu' Yishi Xingtai [The Progressive Ideology in Western International Relations Theories]," *International Forum*, No. 4 (July/August 2005).

Long-Term and Comprehensive Strategic Planning

Many international analysts and observers argue that China's foreign assistance is simply driven by a thirst for natural resources in general, oil and gas in particular.⁴⁰ In fact, China develops relations with recipient countries with a much broader vision, hoping to promote their sustainable development based on mutual friendship. China does not pursue short-term interests at the expense of long-term strategic concerns.

Out of strategic considerations, most of China's aid programs and projects are long-term and comprehensive in nature. First of all, internal elements of China's aid are highly harmonized. Financial resources for foreign aid usually fall into three categories: grants (aid gratis), interest-free loans, and concessional loans. The newly issued *Measures for the Administration of Foreign Aid* by MOFCOM in December 2014 clarifies the two criteria for choosing different types of foreign assistance, namely local needs plus local economic returns: if there are no needs, then no assistance is provided; based on local needs, if economic returns are low (public infrastructure projects for example), then grants are given; if economic returns are average, then interest-free loans; and if economic returns are high, then concession loans.⁴¹ China offers foreign aid in eight forms: complete projects, goods and materials, technical cooperation, human resource development cooperation, medical teams, humanitarian aid, volunteer programs, and debt relief. Regarding the distribution of its foreign aid, China sets great store by people's living conditions and economic development of recipient countries, making great efforts to ensure that its aid benefits as many needy people as possible.⁴²

Secondly, China's aid always maintains continuity, not only in general guidelines and policy principles but also project and program implementation. For example, since the first medical team was sent in 1963, China's

⁴⁰See, for example, Stefan Halper, *The Beijing Consensus: How China's Authoritarian Model Will Dominate the Twenty-first Century* (New York: Basic Books, 2010); Penny Davies, *China and the End of Poverty in Africa-towards Mutual Benefit?* (Sundyberg, Sweden: Diakonia, August 2007); Moisés Naím, "Rogue Aid," *Foreign Policy*, Vol. 159 (March/April 2007), pp. 95–96.

⁴¹*Measures for the Administration of Foreign Aid*, No. 5, 2014, MOFCOM Regulation, November 15, 2014, <http://www.mofcom.gov.cn/article/b/c/201411/20141100799438.shtml>.

⁴²Information Office of the State Council of the People's Republic of China, *China's Foreign Aid (White Paper)*, April 2011, Beijing, <http://www.scio.gov.cn/zxbd/nd/2011/Document/896900/896900.htm>.

medical team initiatives have experienced four stages of development, namely inauguration, fast expansion, transformation, and full-fledged development. Sending medical teams has not only been a specific aspect of China's foreign assistance, but become a tradition as well.⁴³ From 1963 to 2014, 23,000 medical workers have been sent to 66 countries and regions, delivering services to 270 million people, according to China's official statistics. Furthermore, 50 Chinese medical workers have died on foreign aid missions over the past five decades — a big sacrifice yet marked example of China's contribution to international development. Currently, 1,171 Chinese medical workers are serving in 113 medical centers in 49 countries and regions, with 42 workers being stationed in Africa.⁴⁴

China encourages sustainable development of the recipient countries rather than eagerness for quick fixes.

Finally, early planning for its foreign aid programs and projects has long been maintained as a Chinese tradition. In 2000, China and Africa jointly established the Forum on China-Africa Cooperation (FOCAC). A ministerial conference was then held every three years in order to review achievements and make new working principles and action plans. In 2013, China started to draft its long-term foreign assistance strategy and national

foreign assistance strategies until 2030, which will hopefully be publicized in 2015.⁴⁵

Neither Panacea nor Technicalization for Development

With a strategic view, China keeps patience on both aid effectiveness and self-development of recipient countries. China never hopes to solve all problems by delivering a single (set of) aid program. Based on its own development experience, China advocates a gradual and steady approach.

⁴³For the contributions of medical teams to China's soft power, see Zhang Chun, "Yiliao Waijiao yu Ruanshili Peiyu: Yi Zhongguo Yuanfei Yiliaodui Weili [Health Diplomacy and Soft Power Building]," *Contemporary International Relations*, No. 3 (March 2010).

⁴⁴"China Marks 50th Anniversary of First Overseas Medical Aid Mission," *Xinhua News*, August 15, 2013, http://news.xinhuanet.com/english/china/2013-08/15/c_132633920.htm.

⁴⁵Personal exchanges with MOFCOM officials, September 25, 2014, Beijing.

Thus, China believes in recipient countries' capabilities in finding the right way to develop, on the premise that enough ownership and policy space are provided. China keeps pace with the times and pays attention to reform and innovation, adapting its foreign aid to the development of both domestic and international situations by summarizing experiences and adjusting the management mechanism, so as to constantly improve its foreign aid initiatives.⁴⁶

In contrast, aid from traditional donors lacks such sensitivity to strategy and tends to emphasize more the technical dimension and short-sighted "panacea" solutions. Development studies reached its first climax in the 1960s, thanks to the impetus to copy the success of the Marshall Plan in the third world, providing a "better" development model (compared to that of the communist camp) in the context of the Cold War, and justifying the survival of international development aid agencies after the end of the Marshall Plan.⁴⁷ The failure of modernization projects in the 1960s led traditional donors to explore the root causes and search for new solutions, which nurtured a tradition of finding a once-and-for-all solution or "panacea" that dominated the subsequent history of development practice. In the past five decades, the world witnessed continuous change of development themes every 10 years,⁴⁸ aid for "industrialization" (1960s), followed by aid for "poverty eradication" (1970s), then aid contingent upon "structural adjustment" (1980s), then aid based on "good governance and democratization" (since 1990),⁴⁹ then aid effectiveness (2000s), and currently an embryonic approach of result management.

⁴⁶Information Office of the State Council of the People's Republic of China, *China's Foreign Aid (White Paper)*, April 2011, Beijing, <http://www.scio.gov.cn/zxbd/nd/2011/Document/896900/896900.htm>.

⁴⁷On the evolution of development industry, see Howard J. Wiarda, *Political Development in Emerging Nations: Is There Still a Third World* (Belmont, California: Thomson/Wadsworth, 2004), chap. 2.

⁴⁸Laurence Chandy, "Reframing Development Cooperation," in Global Economy and Development at Brookings ed., *From Aid to Global Development Cooperation*, Brookings Blum Roundtable Policy Briefs (Washington, D.C.: Brookings Institution, 2011), p. 5.

⁴⁹Erik Thorbecke, "The Evolution of the Development Doctrine, 1950–2005," UN University Research Paper, No. 2006/155, December 2006; Moyo, *Dead Aid: Why Aid is Not Working and How There is a Better Way For Africa*, pp. 8, 11–20.

The fascination with “panacea” also nurtures a trend of technicalization of traditional donors’ aid, resulting in ignorance of development effectiveness. As Duflo and Kramer have pointed out, the most important progress of development studies since the beginning of the twenty-first century are all technical but not theoretical, for example, to use random and controlled experiments to evaluate the effectiveness of aid.⁵⁰ Such an effort to seek panacea and technical solutions brings serious disturbance to recipient countries. The development theme changes every ten years, which means the recipient countries have to re-learn how to write application and evaluation reports every ten years. More importantly, these recipients have to re-adapt themselves to new ideas and concepts every ten years, which consumes much of their time and energy for pursuing development effectiveness. Thus, a vicious circle is created where the donors are in constant pursuit of the next panacea and recipient countries have to undergo all the difficulties trying to catch up.

Conclusion

As both donor and recipient in the past six decades and more, China has developed an embryonic theory of foreign assistance with four distinctive features: prioritizing development without setting any precondition, building win-win relations with recipient countries through promotion of their independent development and national interests, insisting on equality rather than moral preaching, as well as keeping strategic patience while avoiding technical short-sightedness. Carried out on a small scale and a few platforms, and working under an improving legal system, China’s foreign assistance has made great achievements that attract growing international attention.

It is important to note that China’s foreign assistance, both in practice and in theory, is still at the rudimentary stage. Improving such theory and practice could bring broader implications for the building of China’s theories of international relations and diplomacy. For one thing, it can provide more systematic, theoretical, and strategic guidelines for China’s practice of

⁵⁰E. Duflo and M. Kramer, “Use of Randomization in the Evaluation of Development Effectiveness,” paper prepared for the World Bank Operations Evaluation Department Conference in Washington D.C., July 15–16, 2003.

development assistance, improving China's performance and easing suspicions and criticisms from the international community. For another, it will contribute more global intellectual public goods by building China's theories of international relations and diplomacy. Three points need to be highlighted for further improvement of China's foreign assistance theory.

First, the experience and specialties of China's foreign assistance need to be summarized and further refined. Under the circumstances of donor diversification, better theoretical frameworks foretell a brighter future for China's foreign assistance. We need to think more about the relationship between China's development aid and South-South cooperation, the specialties and commonalities between China and other emerging donors, what contributions China can make to the reform of traditional and multilateral donors in both mentality and mechanism, as well as how China can contribute to future international development cooperation, for example, the UN post-2015 development agenda.

Second, the way to strengthen the pros and address the cons of China's foreign assistance needs to be further explored. The fact that China's success is based on a small amount of aid and relatively defective legal and platform system has not gone unnoticed in international criticism. Should China develop a unified, strong foreign assistance platform, with the risks of entrenching bureaucratic interests, following the instruction of international observers? Should China follow the traditional donors and join the OECD/DAC group, risking abandoning all specialties and being abandoned by recipient countries? Decisions on such questions are determinants to China's foreign assistance development and the future of China's international position.

Third, more ways and mechanisms for trilateral and multilateral cooperation need to be explored. While China opens to all kind of trilateral and multilateral cooperation, such practices are still at the beginning stage. How to implement the "Africa needs, Africa agrees, Africa participates" principles on the ground, how to expand these principles to all foreign assistance programs, and how to build overseeing mechanisms to uphold the above principles, are key to the future role of China in the international aid architecture. Without causing a "quiet revolution" in international aid architecture, China can best prove its political willingness through inclusive and fruitful trilateral and multilateral cooperation.

The Silk Road Renaissance and New Potential of the Russian-Chinese Partnership

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and
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Abstract: The similarity between the Russian and Chinese stances in international politics is driving their strategic partnership. Cooperation in building international transport corridors across Central Asia can make their economies stronger and the region safer. This article presents the main reasons for China and Russia to develop their transport corridors, details of the various international transport corridor projects of other global powers in Central Asia, and the prospects for cooperation in this sphere. Recently China has encountered a slowdown in its economic growth whereby Chinese goods become more expensive, thus impairing their main competitive advantage — low price. This prospect highlights a need to explore strategies to make transportation of goods more

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efficient. For the Russian government, even in times of economic sanctions and crisis, development of transport infrastructure such as the Moscow-Kazan high-speed railway is a high priority, which is expected not only to return financial results, but also to have positive effects on demography, population mobility, job creation, as well as foster new opportunities for local small- and medium-sized businesses. While both Russia and China are well aware of the economic reasons for developing transport corridors in the region, each has its own tertiary ambitions which are not yet quite clear. Trans-Russian transport corridors are twice more efficient than Trans-Caucasian or Trans-Turkish ones, and China's "Silk Road Economic Belt" initiative will be more effective with Russia. Previously suspicious about the advancement of other great powers in Central Asia, Russia has been awakened by the greatest Eurasian transport project under development, the "Silk Road Economic Belt," with particular regard to the opportunities of the project, as well as the risks of non-participation. Transport corridors may have great effects on the regional order in Central Asia and are of tremendous strategic impact. Both Russia and China are interested in building transport corridors and strengthening their positions in Central Asia. To prevent rivalry between Russia and China for transport corridors and cooperation with Central Asian countries, both countries must understand each other's goals and fears. With good management, cooperation in transport corridors can bring both countries great benefits.

Keywords: Transport corridor; Chinese-Russian cooperation; "Silk Road Economic Belt"; Central Asia; TRACECA.

The process of globalization that is sweeping much of the world today is most closely associated with the development of international transport infrastructure. Simultaneously, market forces are driving a greater pace of integration and international cooperation, forcing countries to meet tighter time and efficiency requirements. This explains the appearance of international transport corridors (ITC), high-speed trunk roads, and other innovations that are based on the latest achievements of science and technology. In this context, the main objective is the integration of national transport routes into a single international system.

This international focus is associated with the gradual weakening of Russia's monopolistic position and the increase of Chinese influence in the

regional transit market in Eurasia, leading to competing ITC projects from the EU, the U.S., and minor but still important players in the “big political game” of transport corridors in Central Asia, such as Kazakhstan, Turkey, Japan, Iran, and India.

The completion of transport corridor projects in Central Asia may prove to be the biggest economic and geo-political events in the region in recent times. These corridor projects along the so-called “Silk Road” are becoming a key focus of attention for great powers, due to their overlapping and competing national interests.

New Drivers of Power Game in Central Eurasia

In the coming years, the most powerful drivers for the expansion of transcontinental Eurasian trade will be the rapid growth of the Indian and Chinese economies. To date, most Chinese and Indian exports are shipped by sea, but the anticipated, continued growth of such exports will increase demand for the development and efficiency of transcontinental road, rail, and shipping routes. Geographically, much of the produce of Western China lends itself to the maritime routes despite the slow nature of transcontinental shipping; 83 percent of China’s oil imports and global trade worth an estimated US\$5.3 trillion each year passes through the South China Sea. There is a risk of conflict in the South China Sea between China, Vietnam, Malaysia, Brunei, and the Philippines due to their competing territorial and jurisdictional claims. To secure the

Economically, Russia and Central Asian states benefit a lot from the increasing transit trade.

transportation of export goods, China is launching the “One Belt and One Road” initiatives.

Meanwhile, realistic estimates for overland trade from India through Central Asia are already exceeding US\$100 billion in 2015 alone. Russia and its neighboring Central Asian countries stand to benefit immensely from this increase in overland trade through

the collection of tariffs and the growing role of their own transit-related industries.

After two decades of rapid growth, China’s economy is set to grow more slowly. As recently announced, China grew only 7.4 percent in

2014, marking its lowest rate in 24 years. The new challenge is economic rebalancing. Partly, China wants to rebalance its economy by launching the "One Road and One Belt" initiatives that consist of a network of both land and sea routes. The land route, the "Silk Road Economic Belt," is planned to traverse Eurasia using three sub-routes (north, middle, and south). The sea route, the "21st-Century Maritime Silk Road," will extend from Eastern China to Southeast Asia, East Africa, the Middle East, and Europe. In order to improve the infrastructure along these Silk Road routes, China will not only contribute US\$40 billion to set up a Silk Road Fund, but also provide about 26 percent of the total capital (US\$100 billion) to establish the Asian Infrastructure Investment Bank (AIIB).

According to the Transport Strategy of Russia, until 2030, the transport sphere is seen as a priority growth point of Russia's national economy.¹ One of the most promising ways of implementing this initiative is the integration of the transport system of Russia in the Eurasian transport space. Russia has sought to become a founding member of the Asian Infrastructure Investment Bank, analogous of the World Bank, the International Monetary Fund, and the Asian Development Bank (ADB). In May 2015, the Russian government and the Chinese government signed a series of contracts worth US\$25 billion, including joint investment in the construction of a high-speed railway linking Moscow with Kazan, connecting Russia to China's "Silk Road Economic Belt" project.

The impact of this high-speed railway upon the Russian economy is great, especially in times of crisis: it will create 300,000 jobs, increase mobility of the population, raise living standards, and give a boost for small- and medium-sized businesses. Despite this, there is skepticism in Russia around the lack of its own trans-Eurasian transport corridor project and the potential decrease in significance of the Trans-Siberian railway. There are also concerns that Russia and China will hold negotiations to come to a consensus over the choice of technology for use in construction of the high-speed railway. Russian market is enticing to China, but for Russia it is important to support its own industry and producers. However, signing the

¹Transport Strategy of Russian Federation until 2030, Ministry of Transport, No. 1734-p, September 2008, http://www.mintrans.ru/upload/iblock/3cc/ts_proekt_16102008.pdf.

investment contracts in construction shows that increased collaboration between the states has net benefits on both sides.

Despite domestic skepticism, the Russian government is determined to construct a high-speed railway connecting to China's New Silk Road.

Both the EU and the U.S. want to increase their influence in Central Asia and decrease the influence of Russia and China.² Hence in 1993, the EU launched its TRACECA (Transport Corridor Europe-Caucasus-Asia) project to connect Europe with the Caucasian and Central Asian states. The EU is interested in building closer ties with Caucasian and Central Asian countries through their transport corridor project, but this project is widely viewed as inefficient and lacking in scope. The TRACECA organization website itself presents research conducted in 2011 comparing the Trans-Turkish, Trans-Caucasian, and Trans-Russian routes by four criteria: time, cost, reliability, and security. The Trans-Russian route was the most attractive by all criteria. Moreover, this route was over-indexed ahead of the others by 200 to 300 percent. It is indicative that Russia has not been invited to participate in the TRACECA, because the EU sees transport corridors as an instrument of political influence in the region.

By contrast, the U.S. version of the "New Silk Road" project aims at linking South Asia to Central Asia via Afghanistan. The project envisages the creation of a transcontinental trading network linking Afghanistan, Central Asia, and Europe.³ Many American experts believe that this project can help in Afghanistan's development following the withdrawal of NATO combat forces in 2014. The formation of an American Central Asian ITC project is of great importance to the U.S.' geo-political strategy. For America to remain as the world leader, many see that it needs to win in a "Great

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²NATO's Partnership with Central Asia 155 PCNP 13 E bis — Report of the Subcommittee on NATO Partnerships. Rapporteur: Daniel Bacquelaine, <http://www.nato-pa.int/Default.asp?SHORTCUT=3212#PC>

³S. Frederick Starr and Andrew C. Kuchins, *The Key to Success in Afghanistan: A Modern Silk Road Strategy*, Central Asia-Caucasus Institute Silk Road Studies Program, (Washington D.C.: Paul H. Nitze School of Advanced International Studies, 2010).

Game" in Eurasia, and the American ITC project — "New Silk Road" is a key to its success.

It is important to determine the characteristics of the transport interests of Russia and China and to discuss the EU and the U.S. interests, revealing the degree of coincidence or mismatch of these interests. The crisis in Ukraine and the deterioration in relations with the West have turned Russia's polarity eastward, specifically toward Russian-Chinese cooperation. This was highlighted by the recent record-breaking gas contract between the two nations signed on November 9, 2014, worth US\$400 billion, and which is supposed to reduce the effects of Western sanctions on the Russian economy and give China resources for further development.

Many in Russia now see China as their key strategic ally and economic partner as both countries share similar security outlooks. China's share of global commodity trade increased from less than 1 percent in 1978 to 12 percent in 2012, allowing it to surpass the U.S. as the world's largest trading nation.

Russia's geography alone has the benefit of providing a single nation trans-Eurasian corridor and undoubtedly, Russia will continue to build up and upgrade its own internal transport infrastructure regardless of Sino-Russian cooperation. It is of great importance to Russian internal policy to bring economic development to its outlying regions and as such, transport is high on its political agenda. It may also indeed develop and expand its own ITC projects. Regardless of the level of collaboration, Russia already has the best Trans-Eurasian transit opportunities and shall continue to play a significant role in building transport corridors with North and South Korea, Japan, Iran, Turkey, India, and of course China. China and Russia should be ready for the possibility that their respective or even combined projects will not be welcomed by other forces in Central Asia, mainly the European Union and the United States.

The U.S. and Its "New Silk Road" Initiative

With the withdrawal of its troops from Afghanistan, the U.S. needs to rebalance its policy in the Central Asian region. The basic of this rebalanced policy is to strive for an era of cooperation with the Central Asian Republics in a broader sense.

According to U.S. thinking, Afghanistan's economic and political viability can be achieved by opening up to the world market via South Asian connectivity.⁴ But in doing so, the U.S. recognizes the significance of linkage with the Central Asian region as well. In its "New Silk Road" concept, the United States envisions a larger role for the Central Asian Republics. The areas identified for facilitating that role are construction and expansion of infrastructure, energy transmission lines, roads, railways, pipelines, and fiber optic links. The U.S. is interested in opening up Central Asia to the South Asian markets in pro-American countries. Washington is conscious of the significance of India's role in making the "New Silk Road" a success. The democratic political arrangement of India and India's expanding economy are two positive elements the U.S. values for closer cooperation with India in South Asia.⁵

A transport corridor linking South Asia to Central Asia is seen as the U.S.' version of a "New Silk Road" to help it win the "Great Game" in Eurasia.

The concept of a "New Silk Road" began to be taken more seriously after Hillary Clinton's visit to Central Asia in September 2011. In 2006, the U.S. State Department reorganized and created a new bureau for South and Central Asian affairs that demonstrated its intentions.⁶ One of the most promising ways forward for the U.S. and NATO in Afghanistan is to focus on removing the impediments to continental transport and trade across Afghanistan's territory by completing trans-Afghan rail lines linking Europe and Asia, the Afghan Ring Road, and Kabul Heart highway, linking them to continental trunk routes, and especially to the Pakistani port of Gwadar. The Government of Afghanistan affirmed in 2007 its commitment to a transport-based national strategy. Such a strategy

⁴John Kerry, "Remarks at the London Conference on Afghanistan," December 4, 2014, <http://www.state.gov/secretary/remarks/2014/12/234679.htm>.

⁵Srinath Raghavan, "Stability in Southern Asia: Indian Perspective," in Ashley J. Tellis and Sean Mirski, eds., *Crux of Asia. China, India, and the Emerging Global Order* (Washington D.C.: Carnegie Endowment for International Peace, 2013), pp. 135–145.

⁶Nicklas Norling and Niklas Swanström, "The Virtues and Potential Gains of Continental Trade in Eurasia," *Asian Survey*, Vol. 47, No. 3 (May/June 2007), pp. 351–373.

re-establishes Afghanistan's traditional role as a hub of transport and trade linking Europe and the Middle East with the Indian sub-continent and all South and Southeast Asia.

Some US\$22 billion is being spent in Central Asia alone. The Asian Development Bank and the World Bank are the most significant international financial institutions involved in trade and transport development. Between 2004 and 2009, the ADB approved US\$3.488 billion for transport projects in Central and West Asia. The World Bank invested US\$5.329 billion in transport projects across the same set of countries over the same period. Between 2002 and 2009, the U.S., through USAID, spent US\$1.8 billion to redevelop 635 km of the Afghan Ring Road and 2,700 km of other roads linking primary and secondary markets. Other contributors to Afghanistan's road network include Iran (which spent a total of US\$220 million on Afghan roads), India, Japan, and Saudi Arabia, among others. The U.S. also built the large bridge connecting Afghanistan and Tajikistan.⁷

The ADB, which has invested US\$600 million on roads in Afghanistan, believes the completed Ring Road will cut travel time between the Northeast and Southwest by up to five hours.⁸ One USAID study suggests that savings derived from improved transportation infrastructure could reach 60 percent of present transport costs.

With the announcement of the "New Silk Road" strategy, the U.S. drew global attention to the various ongoing initiatives aiming to promote trade, economic cooperation, and development in Central Asia and in other countries located along the path of the ancient Silk Road. Such a shift in U.S. policy in the Central Asia region from a security-oriented approach to a new trade-driven and economy-oriented approach can become a turning point that empowers other ongoing national and international initiatives, such as those launched by Turkey, Kazakhstan, and Turkmenistan, as well as TRACECA and Central Asia Regional Economic Cooperation (CAREC).

The United States' "New Silk Road" initiative is focused on Afghanistan as a main hub for economic integration and transportation. It

⁷S. Frederick Starr and Andrew C. Kuchins, "The Key to Success in Afghanistan: A Modern Silk Road Strategy."

⁸Ibid.

is expected that the Silk Road initiative would help to provide the much-needed support to Afghanistan after the withdrawal of U.S. troops.⁹

Taking into account the weak regional cooperation and enduring competition among the Central Asian states, conducting bilateral meetings in private, from the standpoint of neighboring states, produces doubt on the “New Silk Road” strategy and deteriorates trust among governments in the region. The “New Silk Road” strategy also has a political dimension, namely the promotion of democratic norms, values, and human rights. As it is said in the Silk Road Strategy Act of 1999:

United States foreign policy and international assistance should be narrowly targeted to support the economic and political independence as well as democracy building, free market policies, human rights, and regional economic integration of the countries of the South Caucasus and Central Asia.¹⁰

For obvious political reasons, Iran, despite its location, convenient trade routes, and influence in the region, has been completely left out of the “New Silk Road” strategy. This Act facilitates U.S. investment in the EU’s TRACECA project for infrastructure development, border controls, and other imperatives for the project.

The EU’s TRACECA and Japan’s Engagement

The EU’s Transport Corridor Europe-Caucasus-Asia (TRACECA) project is supposed to connect Central Asia with Europe by a railway and to become the shortest way from China to Southern and Central Europe and the Persian Gulf linking the Chinese port of Lianyungang on the Yellow Sea to the Georgian ports of Poti and Batumi on the Black Sea and then on into Western Europe.

The TRACECA Program was created on the occasion of the Brussels Conference on May 3, 1993, with the participation of the Ministers of

⁹Vladimir Fedorenko, “The New Silk Road Initiatives in Central Asia,” Rethink Paper 10 (Washington D.C.: Rethink Institute, 2013), pp. 4–9.

¹⁰The Silk Road Strategy Act of 1999, <https://www.eso.org/gen-fac/pubs/astclim/espas/maidanak/silkroad.html>.

Transport and Trade from eight states, five of them from Central Asia: the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Tajikistan, the Republic of Turkmenistan and the Republic of Uzbekistan, and three other states from the Caucasus region: the Republic of Armenia, the Republic of Azerbaijan and Georgia. During the Conference, an agreement was signed for the implementation of the Technical Assistance Program, financed by the European Union, for the development of a transport corridor on a west-east axis from Europe, across the Black Sea, through the Caucasus and the Caspian Sea to Central Asia.

The EU countries finance the project, as it will link the Eurasian transport corridor with European and world transport systems. The first investors to join the project were the European Bank for Reconstruction and Development (EBRD) and the World Bank. The Islam Development Bank (IDB) and the Asian Development Bank joined later. Today the participants of this program are: Armenia, Azerbaijan, Bulgaria, Georgia, Kazakhstan, Kyrgyzstan, Iran, Moldova, Romania, Turkey, Ukraine, Uzbekistan, Tajikistan, and Turkmenistan. Japan is participating in the project implementation through the ADB.

The EU aims to connect Western Europe and China by a railway through Central Asia and the Black Sea.

On October 29, 2013, the Trans-Eurasian undersea rail tunnel was opened to traffic, the tunnel runs through the Bosphorus Strait, theoretically creating the possibility of traveling to Beijing from London via Istanbul. But this is only a theoretical possibility; the crux of the real passage lies in the opening of the Caspian Sea undersea tunnel. For example, in 1999, the China-Kyrgyzstan railway line, which was under discussion among China, Kyrgyzstan, and Uzbekistan, needed only 577 km to integrate the rail network in Xinjiang with the TRACECA. According to experts, this constitutes the optimal cost-efficient line.¹¹

¹¹Pan Zhiping, "Silk Road Economic Belt: A Dynamic New Concept for Geopolitics in Central Asia," China Institute of International Studies, 2014, http://www.ciis.org.cn/english/2014-09/18/content_7243440.htm.

The Japanese government has also developed a special program for reviving the Silk Road trade route.¹² Though Japan is more interested in cooperation with Russia within transport corridors, wide scale cooperation in that sphere did not appear because of the territorial dispute over the Kurile Islands. According to Kazuo Ogura, Director-General of the Economic Affairs Bureau, "There is a limit to the extent to which (Japan) can cooperate with Russia" in light of the territorial dispute between the two countries.¹³ With Russia and Japan disagreeing over territorial issues, officials considered it easier for Japan to focus its policies on the Central Asian republics, as there would be less political baggage in its new engagement with these states. Japanese officials also admitted that aid to Central Asia was intended to show Russia that more funds could be forthcoming if they agreed to hand back the Kurile Islands to Japan.¹⁴ The Organization for Economic Cooperation and Development (OECD), under strong lobbying by Japan, agreed to include the five Central Asian republics under the Official Development Assistance (ODA) program, certifying them as developing countries. This enabled Japan to register aid to the region as official development aid. Japan also pushed for the Central Asian republics to be admitted into the ADB even though they were already members of the European Bank for Reconstruction and Development. This allowed the Central Asian republics to draw credit from both banks, an unprecedented arrangement.¹⁵ As the TRACECA project does not include Russia, it forms an alternative transport corridor with Iran and India.

Russia's ITC Projects

Russian ITC corridors include the pan-European corridor, the Trans-Siberian railway, and the North-South corridor, Primorye 1 and Primorye 2. Besides, Russia is also cooperating with China to build a transcontinental

¹²Teimuraz Gorshkov and George Bagaturia, "TRACECA—Restoration of Silk Route," *Japan Railway & Transport Review*, No. 28 (September 2001), p. 144.

¹³*Ibid.*, p. 53.

¹⁴Christopher Len, "Japan's Central Asian Diplomacy: Motivations, Implications and Prospects for the Region," *China and Eurasia Forum Quarterly*, Vol. 3, No. 3 (November 2005), p. 130.

¹⁵*Ibid.*, p. 133.

corridor between Western China and Europe that goes through Russia and Kazakhstan.

In 2000, Russia, Iran, and India signed an agreement in St. Petersburg laying out a vision for a North-South Transport Corridor. The corridor stretches from ports in India across the Arabian Sea to the southern Iranian port of Bandar Abbas, where goods then transit via Iran and the Caspian Sea to ports in Russia’s sector of the Caspian.¹⁶ From there, the route stretches along the Volga River via Moscow to Northern Europe. Analysts indicate that Indian cargo transported via this route has increased dramatically over the past year, reversing the dramatic decline of the 1990s. The revived route is expected to offer both quicker and cheaper transportation than the primary alternative — the shipment of goods from South Asia through the Mediterranean and Suez Canal and then into the Atlantic and North Sea to Baltic ports. Russian analysts predict that delivery time using the North-South Corridor will be reduced anywhere from 10 to 20 days, and the cost per container will decrease by US\$400 to US\$500.

The North-South Transport Corridor is making strides toward achieving a new framework. This project has the potential to incorporate other interested states, including countries of the Caucasus, Central Asia, Eastern Europe, and perhaps also Oman.¹⁷

Central Asian countries — Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, and Tajikistan — are all landlocked, and Uzbekistan has only landlocked neighbors too. Rails and roads are the only surface transport options in these countries. Road transport offers little hope because the roads are in poor condition and there are few trucks. Therefore, the railways of the region have played a major role in transportation, carrying

Russia is building or upgrading the pan-European, North-South and transcontinental corridors mainly for economic purposes.

¹⁶Inland Transport Committee of the United Nations Economic Commission for Europe, “Euro-Asian Transport Links,” UN Economic and Social Council, August 12, 2004, p. 7.

¹⁷Regine A. Spector, “The North-South Transport Corridor,” *Central Asia-Caucasus Analyst*, July 2002, <http://www.brookings.edu/research/articles/2002/07/03russia-spector>.

almost 90 percent of all surface freight. After the collapse of the USSR, the railway network started developing in an east-west way. Before that, there were mostly north-south lines, connecting with Moscow. Development of east-west railways linked Central Asian countries to China in the east and Iran in the Southwest.

The four main lines of Central Asia have a general north-south orientation. Two connect with the Trans-Siberian railroad in the north, and the other two converge in Moscow. The network between express trains that links Moscow with Central Asian capitals is sometimes called the Eurasian railway. Even after independence, the connections between Russia and the five nations of Central Asia are still better than the connections between the nations, reflecting the pattern of demand.¹⁸ Because countries of the former Soviet Union use the broad gauge of 1,520 mm while most neighboring countries use the standard gauge 1,435 mm, trains crossing from China and Iran into Kazakhstan, and Turkmenistan must change bogies. This is impractical for freight such as liquids, frozen goods and hazardous materials, so the wagon bogies are changed in these cases. The gauge is one of the biggest obstacles to the growth of transit goods in Central Asian countries.

There are two railways that link Europe with Asia — the Silk Railway through Central Asia, and Trans-Siberian in the north. An added burden of the Silk Railway is that it crosses many customs borders of Central Asian countries, while the Trans-Siberian does not cross any border until it reaches European countries beyond Russia. However, Russia's Far Eastern ports — Vladivostok, Vostochny, Nakhodka — suffer from very dilapidated infrastructure at railyards adjacent to port facilities, causing huge freight backlogs. Trans-Siberian freight volumes are only 25 percent of their maximum. Talks have been held to explore the possibility of Japan's provision of assistance to improve transport operations on the line. Though the route from Japan to Rotterdam via Central Asia is about 1,000 km shorter than the route via Vladivostok and the Trans-Siberian railway, Russia opts not to use such transport corridors so as to maintain its political influence and to attract countries in participation in the Eurasian Economic Union. The North-South ITC seeks to bring participating countries economic

¹⁸Shigeru Otsuka, "Central Asia's Rail Network and Eurasian Land Bridge," *Japan Railway & Transport Review*, No. 28 (September 2001), pp. 48–49.

benefits. Primorye 1 and Primorye 2 will connect Chinese provinces with Russian Pacific ports, which will benefit both countries. In other words, unlike the U.S. and the EU, Russia does not link its ITC projects with politics.

China’s “Silk Road Economic Belt”

The Chinese project “Silk Road Economic Belt” is also different from the U.S. and the EU projects. It is based on the creation of three main corridors across the Eurasian continent, called the “Eurasian Land Bridge,” which will serve as the “main artery” from which offshoots consisting of railways, highways, and pipelines will be built.

In the “One Belt and One Road” initiative, no political conditions have been imposed on participants in the Silk Road frameworks. China has always advocated that countries should respect each other’s rights to independently choose their own social system and development path.

Though China sees it as three main corridors across the Eurasian continent, the “Silk Road Economic Belt” has hardly taken any concrete shape yet. According to China’s published blueprint, the first corridor can go through the existing Trans-Siberian railway running from Vladivostok in Eastern Russia to Moscow and onward to Western Europe and Rotterdam; the second can run from Lianyungang port in Eastern China through Kazakhstan in Central Asia and on to Rotterdam; and the third can run from the Pearl River Delta in Southeast China through South Asia to Rotterdam.¹⁹

The New Silk Road initiative is crucial to China’s economic leadership in Asia.

China has announced a US\$46 billion investment plan on a China-Pakistan Economic Corridor that will give China access to the Persian Gulf through the Pakistani port of Gwadar. Also the Bangladesh-China-India-Myanmar Economic Corridor is closely related to the “Silk Road Economic Belt” project.

¹⁹Tridivesh Maini, “The ‘New Silk Road’: India’s Pivotal Role,” *Strategic Analysis*, Vol. 36, No. 4 (July/August 2012), pp. 651–656.

In addition, China and Turkey have agreed to build a roughly 7,000-km rail route connecting the largest cities of Turkey. The construction is well underway and is expected to be ready by 2023. In February 2013, China approved the construction of a new railroad from China to Kyrgyzstan and Uzbekistan. There are also plans to convert the track gauge size of Kyrgyzstan's railways from Russian (1,520 mm) to international standards (1,435 mm) in order to make connections with China, Turkey, and Iran faster and more convenient.²⁰

At present, China cannot fully secure the long, vulnerable maritime supply lines to Africa, Latin America or the Middle East. Various experts have argued that new corridors to Southern and Central Asia will be helpful in diminishing China's reliance on the narrow, pirate-infested Straits of Malacca or the Indian Ocean, controlled by the Indian and U.S. navies.

A regional transportation network is seen as an important contribution to China's economic leadership in Asia, helping China diversify its supply lines, penetrate consumer markets, and counterbalance other powers' attempts to project economic influence. Between 1999 and 2008, China implemented the largest domestic road and rail network expansion of all Asian countries.

The density of the transportation network in China's border provinces has grown much faster than in the Indian border provinces or the Russian Far East. With a road density of about 20 km per 100sq km, even the mountainous Tibet Autonomous Region is doing better than the average of only 18 km in the Indian provinces of Uttar Pradesh, Bihar, and Arunachal Pradesh. In 2008, road density in China's frontier provinces like Yunnan, Guangxi, Jilin, and Heilongjiang was about 30 percent higher than in India's border provinces and entirely outstripped Russia's obsolete transportation grid in the Far East.

Experts and officials have expressed their concern about roads, arguing that a road network matters not only in the contest for economic clout but in the struggle for strategic influence as well.²¹ It has become clear that new logistic arteries have facilitated China's strengthening of its economic

²⁰Vladimir Fedorenko, "The New Silk Road Initiatives In Central Asia," p. 14.

²¹Jonathan Holslag, "China's Roads to Influence," *Asian Survey*, Vol. 50, No. 4 (July/August 2010), p. 662.

position in its neighborhood. Markets that used to be inaccessible are now directly connected to China's rapidly growing economy.

New Potential of the Russian-Chinese Partnership

The rapid development of China's "Silk Road Economic Belt" project is a clear message to the EU and the U.S. who are afraid to lose their positions in Central Asia. The U.S.' pivot back to Asia and the negotiations around two trade agreements — TTIP (Transatlantic Trade and Investment Partnership) and TPP (Trans-Pacific Partnership) — are the reaction of the U.S. to the rise of China and the continuing process of a deteriorating unipolar world.²² China and Russia share a similar stance in world politics and are thus being seen as threats to the unipolar world.

For Russia, the implementation of transport corridors will give an economic boost to its Far East regions. The Primorye 1 and Primorye 2 transport corridors have a big role as they are supposed to connect Chinese provinces that do not have access to the ocean with Russian Far East ports. Russia is planning to make Vladivostok a free-zone port that will attract investments and function as a hub in the Russian Far East. Russia is partially situated on the Silk way and is itself part of the "Silk Road Economic Belt." On February 2, 2015, during trilateral talks between the Chinese, Indian, and Russian Foreign Ministers, China's Foreign Minister Wang Yi called upon New Delhi and Moscow to join Beijing's "One Belt and One Road" initiative to create an economic corridor across Eurasia.²³ This move appears to strike a final blow to Washington's idea to create a U.S.-controlled "New Silk Road" in Eurasia, undermining both its political and economic influence in Asia. In October 2014, the Ministry of Transport of the Russian Federation, the Russian Railway, the National Commission of Development and Reform of China, and the China Railway Construction Corporation signed a memorandum of understanding in the field of high-speed railway communication. The Russian Railway reported that the

²²Ibid., pp. 641–662.

²³Saisal Dasgupta, "China's Ambitious New Silk Road Project Faces Hurdles," *Emerging Equity*, April 19, 2015, <http://emergingequity.org/2015/04/19/chinas-ambitious-new-silk-road-project-faces-hurdles/>.

document's purpose was to develop the project of the Eurasian high-speed transport corridor from Moscow to Beijing via Kazan.

Russia and China face new potential of cooperation in Central Asia both for the region's long-term development and for better positions in the "new Great Game."

Another important multilateral project is the international transport corridor between Europe and Western China. The corridor will connect Europe to Asia through the Russian cities of Saint Petersburg, Moscow, Nizhny Novgorod, Kazan, and Orenburg, and the Kazakh cities of Aktobe, Kyzylorda, Shymkent, Taraz, Korday, and Almaty. The corridor is expected to become one of the most technologically advanced trade routes with its high-quality road, roadside infrastructure, and technological innovations. The length of the road is expected to be around 5,247 miles (1,387

miles will go through Russia, 1,731 miles through Kazakhstan, and 2,128 miles through China). The World Bank provided a loan of US\$2.125 billion for the construction of the project. The project was approved in May 2012 and is expected to be completed by 2017.

The Western Europe-Western China transport corridor is expected to become the fastest Eurasian transport route, significantly reducing travel time. For example, while shipments from China to European markets take 14 days via the Trans-Siberian railway and 45 days through the Suez Canal, the Western Europe-Western China corridor would offer a faster route reaching Europe in 10 days. On May 20, 2014 in a communiqué signed by Russia and China, it is said that "Russia finds Chinese initiative on building 'Silk Road Economic Belt' important and highly appreciate the readiness of Chinese counterparts to consider Russian interests in its development and realization."²⁴ In terms of security, territorial disputes in the South China Sea have led to instability in Chinese relations with Vietnam, Philippines, and some other Southeast Asian countries. This has caused China to focus more closely on Eurasia, given also that the American factor played a big

²⁴Yang Yanyi, "China to Revive Ancient Silk Road," EUobserver, 12 May, <https://euobserver.com/eu-china/128666>.

role in destabilizing Chinese relations with its eastern and southern neighbors — for instance, in November 2011, the U.S. announced its stakes in the South China Sea.

A great number of analysts have characterized the current development in Greater Central Asia in terms of a “new Great Game” among Russia, the U.S, China, the EU, and other actors. The truth, however, is that this “game” is also the key to the long-term development of the Greater Central Asian countries. As during the original Great Game in the nineteenth century, when the British and Tsarist Russian empires sought to gain dominance by building railroads to the region, the “new Great Game” also relates closely to infrastructure. Opening Greater Central Asia to continental trade in energy and goods would give countries in the region greater access to foreign technology and foreign exchange revenue, increase market access, and reduce the harmful effects of being landlocked. Official Chinese policy in Central Asia is quiet and cautious, focused on developing the region as an economic partner with its western province Xinjiang, whilst also looking beyond at what China characterizes as the “Eurasian Land Bridge” connecting East Asia and Western Europe.

Conclusion

Each of the new Silk Road initiatives described above has its own specific agenda, goals, and priorities. To conclude, the Silk Road renaissance facilitated by the various new Silk Road initiatives has already begun. In order to achieve fast-growing economies and sustained development, Central Asian states have no other option but to participate in the new Silk Road initiatives since their landlocked economies compel them to cooperate with one another. China is an active member of the business organization integrating the railway line crossing Russia in east-west direction into a bi-modal (railway and sea) corridor, connecting China with the eastern coast of the United States through Narvik. However, it is also a fact that China is highly interested in building a Trans-Eurasian corridor through Central-Asia as well — together with the countries involved. But this corridor heading toward Western and Eastern Europe can compete with other routes only if it runs at its full length on terrestrial routes and if its railway tracks are interoperable, at least in terms of the compliance of railway gauges

between the Russian and Chinese railways.²⁵ At present, Russia appears to be the main security provider for Central Asian states. At the level of military cooperation with the Central Asian republics, China cannot compete with Russia. But at the level of investments given to Central Asian countries and participation in infrastructure projects, Russia cannot compete with China. In fact, Russia and China share the same goal in many ways and can benefit from cooperation in transport corridor projects. Ultimately, China and Russia are interested in a stable Central Asia and their ITC projects in Central Asia can give the economies of both countries a fresh boost.

²⁵Ferenc Erdósi, "Global and Regional Roles of the Russian Transport Infrastructures," Discussion Paper No. 69 (Pécs: Centre for Regional Studies of the Hungarian Academy of Sciences), pp. 28–48.



The Belt and Road Initiative and China's Foreign Policy Toward Its Territorial and Boundary Disputes

Kong Lingjie

Abstract: Outstanding territorial and boundary disputes both on land and at sea between China and many of its neighbors remain a most sensitive, complicated, and enduring matter in their bilateral relations. In 2013, China proposed the Belt and Road Initiative, which aims to promote connectivity and cooperation between China and the rest of the world through the land-based Silk Road Economic Belt and the oceangoing Maritime Silk Road. Under this Initiative, frontiers, land boundaries, borderlands, maritime boundaries, and the ocean enjoy unique positions. Obviously, impacts of these outstanding territorial and boundary disputes on the Initiative should not be underestimated. Meanwhile, the Initiative can facilitate cooperation between China and other disputant states on conflict management and dispute resolution. But such an effect should not

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be overestimated. Indeed, it can have a side effect, inducing some disputant states to take more provocative actions.

Keywords: Belt and Road Initiative; territorial disputes; boundary disputes; regional security; conflict management.

A state cannot exist without necessary territories.¹ Territory, together with the government and population, is among the key elements of a sovereign state.² The ocean is of strategic importance for the rise of great powers and sustainable development of coastal states.³ A state's sovereignty, sovereign rights and jurisdictional competences in respect of its territory and the sea are delimited in space by boundaries.⁴ Territorial and boundary issues often touch upon core national interests in sovereignty, security and development. The whole course of modern history testifies to the central role of these issues in international relations.⁵ Territorial and boundary disputes have been conspicuous among the causes of war.⁶ In 1907, Lord Curzon of Kedleston warned in his lecture on frontiers at Oxford University, "Frontiers are indeed the razor's edge on which hang suspended the modern issues of war or peace, of life or death to nations."⁷

Due to the independence of Latin American, African, and Asian colonies, and the collapse of the Soviet Union in 1991, the number of international boundaries have increased in the twenty-first century. Meanwhile, a movement of enclosure of the ocean by coastal states ensued after the

¹Hersch Lauterpacht, ed., *Oppenheim's International Law*, Vol. 1: *Peace* (London: Longman, 1958), p. 451.

²Ian Brownlie, *Principles of Public International Law* (Oxford: Oxford University Press, 2008), p. 105.

³Alfred T. Mahan, *The Influence of Sea Power upon History 1660–1783* (New York: Little, Brown and Company, 1898).

⁴*Island of Palmas Case* (United States vs. Netherlands), R.I.A.A., Vol. XI (the Hague, the Netherlands: Permanent Court of Arbitration, 1928), p. 839.

⁵Robert Y. Jennings, *Acquisition of Territory in International Law* (Manchester, UK: Manchester University Press, 1963), p. 2.

⁶Norman Hill, *Claims to Territory in International Law and Relations* (Oxford: Oxford University Press, 1945), p. 3.

⁷Lord Curzon of Kedleston, *The Romanes Lecture on the Subject of Frontiers* (Oxford: Clarendon Press, 1907), p. 7.

United States claimed exclusive rights over its continental shelf in 1945 through the Truman Proclamation.⁸ Expansion of sovereignty, sovereign rights, and jurisdiction of coastal states over the ocean was confirmed by the United Nations Convention on the Law of the Sea (UNCLOS) under the regimes of exclusive economic zone and continental shelf. As a result, conflicts over sovereignty and the nature of offshore maritime features and disputes between coastal states over maritime delimitation have become common and popular.⁹ Therefore, the strategic significance of previously neglected areas, new technologies applied in the exploitation of previously inaccessible areas, and strong national sentiments turn territorial and boundary disputes into the most sensitive, complicated, and enduring problems in relations between the disputant states, thus becoming a source of international conflicts, and a destabilizing factor in regional and international security.¹⁰

Besides defining the geographic limits of national sovereignty and jurisdiction, boundaries can also be bridges and channels for cross-border exchanges and cooperation. As Victor Prescott correctly put it,

Most commentators use these [i.e. Curzon's] words to introduce discussion of boundary conflicts, but Curzon's reference to peace should not be forgotten. . . In fact both discord and concord regarding boundaries are important subjects for discussion.¹¹

⁸Proclamation 2667—Policy of the United States With Respect to the Natural Resources of the Subsoil and Sea Bed of the Continental Shelf, September 28, 1945.

⁹According to investigation by IBRU of Durham University, there are 309 land boundaries, and 52 of them have not yet been delimited; the political maritime boundaries of the world total 425, and 160 of them have not been delimited. Gerald Blake, "Borderlands Under Stress: Some Global Perspectives," in Martin Pratt and Janet A. Brown, eds., *Borderlands Under Stress* (Leiden: the Netherlands: Kluwer Law International, 2000), pp. 4–5. See also Peter Calvert, *Border and Territorial Disputes of the World* (London: John Harper Publishing, 2004); Victor Prescott and Clive Schofield, *Maritime Political Boundaries of the World* (Leiden, The Netherlands: Martinus Nijhoff, 2004).

¹⁰Brownlie, *Principles of Public International Law*, p. 123.

¹¹Victor Prescott and Gillian Triggs, *International Frontiers and Boundaries: Law, Politics and Geography* (Leiden, The Netherlands: Martinus Nijhoff, 2008), p. 5.

Similarly, Beth Simmons argues that neither the idea to conceptualize international borders as causes of interstate rivalry and military confrontation, nor that our world is increasingly “borderless,” is useful for understanding the role of international boundaries in a world of interdependent states. The best way to understand this irony is to theorize about international borders as international political-economic institutions that produce both divisible benefits and mutual benefits.¹²

In other words, it will not be appropriate today to perceive boundaries as either the Roman Hadrian Wall or the Chinese Great Wall that aimed solely for national defense. International boundaries could and should function like the ancient Silk Road on land and at sea that connected the East and West. Accordingly, territorial and boundary disputes could either be causes of interstate conflicts, or a catalyst for cross-border cooperation. The internal borders of the member states of the European Union, the U.S.-Canadian border, and China’s borderlands with its neighbors all prove that it is possible to turn boundaries from segregation walls into high-speed channels for efficient and lawful movement of people, goods, services, capital, and information across national borders.¹³

Territorial and
boundary disputes
may cause interstate
conflicts but can
also serve as new
catalysts for
cross-border
cooperation.

¹²Beth A. Simmons, “Trade and Territorial Conflicts: International Borders as Institutions,” Conference Paper (Tucson, Arizona: International Studies Association, 2004), pp. 3–4, <http://faculty.utep.edu/LinkClick.aspx?link=Trade+and+Territorial+Conflict+International+Borders+as+Institutions.pdf&tabid=19444&mid=43213>.

¹³Otwin Marenin, “Challenges for Integrated Border Management in the European Union,” Occasional Paper No. 17 (Geneva, Switzerland: Geneva Center for the Democratic Control of Armed Forces, 2010), pp. 26–28; White House, *Beyond the Borders: A Shared Vision for Perimeter Security and Economic Competitiveness*, December 2011, <http://www.dhs.gov/xlibrary/assets/wh/us-canada-btb-action-plan.pdf>; China has established with its land neighbors about eighty pairs of national level ports along the border to facilitate cross-border trade. See Zhang Guokun, Zhao Ling, and Zhang Hongbo, “Zhongguo Bianjing Kouan Tixi Yanjiu [China’s Border Ports System],” *World Regional Studies*, Vol. 14, No. 2 (Summer 2005). In recent years, China built many cross-border economic cooperation zones with Vietnam, Laos, Kazakhstan, and other neighbors.

In this context, it seems reasonable to argue that territories, the oceans, land and maritime boundaries enjoy a unique and irreplaceable position under China's newly proposed Belt and Road Initiative.

China's Territorial and Boundary Disputes

China has 14 neighboring countries on land and eight at sea.¹⁴ When the People's Republic of China was founded in 1949, there was not even a single boundary between China and any of its neighbors that was unambiguously delimited, accurately demarcated or explicitly marked.¹⁵ Shortly after border conflicts broke out at the end of the 1950s between China and some of its neighbors, the Chinese government decided to pursue peaceful approaches in the settlement of boundary disputes. Since 1960, when China concluded with Myanmar the first bilateral boundary treaty, until 2009, when the Sino-Vietnamese land boundary demarcation work was completed,¹⁶ China had successfully resolved land boundary disputes with 12 neighbors. The length of the boundaries delimited and demarcated totals some 20,000 kilometers, about 90 percent of the length of its land boundaries.¹⁷ There are two peak periods of dispute resolution, i.e., the 1960s and

¹⁴China's land neighbors include North Korea, Russia, Mongolia, Kazakhstan, Tajikistan, Kyrgyzstan, Pakistan, Afghanistan, India, Bhutan, Nepal, Vietnam, Myanmar, and the Laos. Its eight neighbors at sea are North Korea, South Korea, Japan, Vietnam, Indonesia, Brunei, Malaysia, and the Philippines. Among them, North Korea and Vietnam shares both land and maritime boundaries with China.

¹⁵Liao Xinwen, "Ershi Shiji Wuliushi Niandai Zhonggong Zhongyang Jiejue Bianjie Wenti de Yuanze he Fangfa: Lao Yibei Gemingjia yu Bianjie Wenti Yanjiu Zhiyi [Principles and Methods of the CPC Central Committee in Resolution of Boundary Problems: A Study of Revolutionists of the Older Generation and Boundary Problems]," *Documents of the CPC*, Vol. 4 (July/August, 2013), pp. 76–79.

¹⁶Pang Geping, "Lishi Banian, Zhongyue Ludi Bianjie Quanbu Huading [In Eight Years, the Land Boundary between China and Vietnam were Completely Delimited]," *People's Daily*, February 24, 2009, p. 4.

¹⁷See a news report of an interview in May 2013 with Mr. Deng Zhonghua, director of the Department of Boundary and Ocean Affairs of the Ministry of Foreign Affairs of China, <http://www.chinanews.com/gn/2013/05-13/4810330.shtml>.

the 1990s, during which China respectively concluded delimitation treaties and demarcation agreements with six neighbors.¹⁸

An examination of Chinese practices indicated that China's policy on settlement of land boundary disputes has the following characteristics:

First, the Chinese government followed very closely the old Chinese saying, "Close neighbors are better than distant relatives," or the officially termed neighborhood policy of "building a friendly and partnership relationship with the neighbors."

Second, the Chinese government advocated the Five Principles of Peaceful Coexistence, i.e., mutual respect for each other's sovereignty and territorial integrity, mutual non-aggression, mutual non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence.¹⁹

Third, the Chinese government showed respect for history, took into consideration actual needs of both sides, and made adjustments when necessary.

Fourth, the Chinese government never threatened to use force against its weaker neighbors, or took advantage of the difficulties of others to acquire disputed lands.

With a majority of its land boundaries finally demarcated, priorities of Chinese land boundary diplomatic work gradually shifted from dispute settlement to frontiers governance, boundary management, and cross-border cooperation.

Despite China's goodwill, its efforts in maritime delimitation have not been as fruitful as those in land boundary delimitation.

¹⁸In the 1960s, China delimited land boundaries with Myanmar, Nepal, North Korea, Mongolia, Pakistan, and Afghanistan. In the 1990s, China reached agreements with the then Soviet Union, Laos, Vietnam, Kazakhstan, Kyrgyzstan, and Tajikistan. See Department of Treaty and Legal Affairs of the Ministry of Foreign Affairs of China, *A Collection of Treaties Concerning Boundary Affairs of the PRC* (Beijing: World Knowledge Press, 2004); Department of Boundary and Maritime Affairs of the Ministry of Foreign Affairs of China, *A Collection of Treaties Concerning Boundary Affairs of the PRC 2004–2012* (Beijing: World Knowledge Press, 2012).

¹⁹Ministry of Foreign Affairs of China, "China's Initiation of the Five Principles of Peaceful Co-Existence," http://www.fmprc.gov.cn/mfa_eng/ziliao_665539/3602_665543/3604_665547/t18053.shtml.

In contrast, China's efforts in maritime delimitation have not been as fruitful as those in land boundary delimitation. China progressively clarified its claim to sovereignty over disputed offshore islands and its maritime entitlements through diplomatic proclamations, legislation or by releasing position or white papers. The Chinese government made the Proclamation on Territorial Sea in 1958 and the Proclamation on the Baselines of the Territorial Sea in 1996;²⁰ the National People's Congress adopted the Act on Territorial Sea and Contiguous Zone in 1992²¹ and the Act on Exclusive Economic Zone and Continental Shelf in 1998;²² the Chinese government proclaimed the baselines of the territorial sea of *Diaoyu Dao* (Diaoyu Islands/Senkaku Islands) in 2012;²³ and it claimed sovereignty over *Diaoyu Dao* and *Nanhai Zhudao* (the South China Sea Islands).²⁴ Meanwhile, China's neighbors made their own competing claims to sovereignty over certain disputed offshore islands and/or overlapping claims to the sea. Up to now, China has managed to delimitate the maritime boundary in *Beibu Wan* (Tokin Gulf) with Vietnam in 2000.²⁵ In addition, it has concluded a few transitional arrangements on fishing and

²⁰The State Council, "Proclamation of the Government of People's Republic of China on the Baselines of the People's Republic of China," May 5, 1996.

²¹National People's Congress, *Act on Territorial Sea and Contiguous Zone of People's Republic of China*, February 25, 1992.

²²National People's Congress, *Act on Exclusive Economic Zone and Continental Shelf of People's Republic of China*, June 26, 1998.

²³The State Council, "Proclamation of the Government of People's Republic of China on the Baselines of the Diaoyu Islands," September 10, 2012.

²⁴Permanent Mission of the People's Republic of China, Notes Verbales CML/17/2009 and CML/18/2009, May 7, 2009, http://www.un.org/Depts/los/clcs_new/submissions_files/mysvnm33_09/chn_2009re_mys_vnm_e.pdf; http://www.un.org/Depts/los/clcs_new/submissions_files/vnm37_09/chn_2009re_vnm.pdf; Note Verbale CML/8/2011, April 14, 2011, http://www.un.org/Depts/los/clcs_new/submissions_files/mysvnm33_09/chn_2011_re_phl_e.pdf

²⁵Agreement between China and Vietnam on Delimitation of the Territorial Sea, Exclusive Economic Zone and Continental Shelf in the Tonkin Gulf, December 25, 2000. At the same time, the two parties signed the Agreement on Fishery Cooperation in the Tonkin Gulf.

other matters and reached many agreements on conflict management, confidence building, and maritime cooperation.²⁶

Since 2008, territorial disputes between China and neighboring countries, the *Diaoyu* Islands dispute between China and Japan and the South China Sea disputes among China, Vietnam, and the Philippines, have become more and more acute. On land, boundaries between China and India and Bhutan have not yet been delimited. Great disparities exist between the claims of China and India over boundary lines in the disputed Eastern, Western, and Central sectors. Although mechanisms and channels for border security management are available, the Sino-Indian boundary dispute continues, with periods of ups and downs. At sea, sovereignty disputes between China and its neighbors over offshore islands and maritime delimitation, as well as other relevant disputes lead to frequent diplomatic, legal, and law enforcement confrontations. Practically, China is the sole state among the Permanent Members of the United Nations Security Council whose claimed territory and islands are actually occupied by other states. Since 2010, several incidents have broken out including the escalation of Sino-Japanese dispute over the *Diaoyu* Islands in September 2012, the *Huangyan* Island (Scarborough Reef) confrontation between China and the Philippines in April 2012, and frictions between China and Vietnam over exploration of offshore oil in the South China Sea. In January 2013, the Philippines brought the dispute with China over the South China Sea to international arbitration under UNCLOS. China refused to participate in the arbitral procedure and clarified its position and arguments.²⁷

Moreover, since the launch of its Asia-Pacific rebalancing strategy, the United States is becoming more and more actively involved in China's territorial and boundary disputes, especially the East China Sea dispute

²⁶For instance, China and South Korea signed a Fisheries Agreement in 2001; China and India reached many agreements on border security, confidence building, and communication mechanism; China and members of ASEAN signed the Declaration on the Conduct of the Parties in the South China Sea in 2002; China and its neighbors at sea made many joint declarations on dispute management, conflict control, and maritime cooperation.

²⁷"Position Paper of the Government of the People's Republic of China on the Matter of Jurisdiction in the South China Sea Arbitration Initiated by the Republic of the Philippines," December 7, 2014; Sienho Yee, "The South China Sea Arbitration (The Philippines v. China): Potential Jurisdictional Obstacles or Objections," *Chinese Journal of International Law*, Vol. 13, No. 4 (December 2014), pp. 663-739.

between China and Japan and the South China Sea disputes between China and the Philippines.²⁸ The U.S. government has strengthened both political and military ties with its allies in the region. It called on all parties to maintain the status quo, to speed up negotiations over the code of conduct, and to refrain from the threat or use of force. In May 2015, China's land reclamation work on the maritime features in the *Nansha* (Spratly) Islands occupied by China, sparked strong protest and reactions from the United States and its allies.

The Belt and Road Initiative

The Belt and Road Initiative, or "One Belt and One Road" initiative, was proposed by China in 2013 and quickly developed into a national strategy. Almost simultaneously, China put forward other strategically important initiatives like the "Building a Strong Maritime Nation Strategy," "Diplomacy of a Great Power with Chinese Characteristics," the vision for "A New Type of Great Power Relationship" between China and the United States, and the new neighborhood diplomacy featuring amity, sincerity, mutual benefit, and inclusiveness. Under these new initiatives, frontiers, borderlands, and the ocean are elevated to a more critical position. Accordingly, management and settlement of outstanding territorial and boundary disputes between China and its neighbors have become more important and imminent for the Chinese government to deal with.

In any consideration of the process through which China proposed the Belt and Road Initiative, the following events need to be noted:

*In September 2012, at the 18th National Congress of the Communist Party of China, "Building a Strong Maritime Nation Strategy" was for the first time written into a report of the National Congress of the CPC. China is

²⁸Zhou Qi, "Zhanhou Meiguo Nanhai Zhengce de Yanbian Jiqi Genyuan [The Evolution and Origins of U.S. Policy toward the South China Sea after the Cold War]," *World Economy and Politics*, Vol. 6 (June 2014), pp. 35–40. The United States Department of State released a report on China's claims in the South China Sea, which argued that the nine-dash line was illegal and invalid. Office of Ocean and Polar Affairs, Bureau of Oceans and International Environmental and Scientific Affairs, Department of State, *Limits in the Seas: Maritime Claims in the South China Sea*, December 5, 2014, <http://www.state.gov/documents/organization/234936.pdf>. On June 1, 2015, U.S. President Obama made an open remark criticizing China's land reclamation activities in the South China Sea.

determined to enhance its capacity for marine resources exploitation, develop the marine economy, protect the marine environment, resolutely safeguard its maritime rights and interests, and develop itself into a strong maritime nation.

*In November 2012, Xi Jinping, General Secretary of the Communist Party of China, President of the People's Republic of China, and Chairman of the CPC Central Military Commission, defined the "Chinese dream" as the "great rejuvenation of the Chinese nation."

*In July 2013, Xi Jinping pointed out that building a strong maritime nation was part of the great cause of socialism with Chinese characteristics and it was critically significant for the great rejuvenation of the Chinese nation. He emphasized that China would adhere to the path of peaceful development, but would not abandon its legitimate rights and interests, in particular with regard to the nation's core interests. He called for a more balanced approach to protecting China's maritime rights and interests. China should settle dispute peacefully through negotiations and strive to maintain peace and stability. Meanwhile, China should be prepared to cope with complicated situations and improve its capabilities to resolutely maintain the nation's maritime rights and interests. China would continue to follow the principle of "sovereignty residing with us, shelving disputes and seeking joint development," and promote friendly cooperation for mutual benefits, while pursuing and expanding common interests with other countries.²⁹

*During his visit to Kazakhstan in September 2013, Xi Jinping proposed to build the Silk Road Economic Belt.

*One month later, during his visit to Indonesia, Xi proposed the initiative of the twenty-first Century Maritime Silk Road.

In November 2014, at the Central Conference on Work Relating to Foreign Affairs, Xi Jinping said,

We should...actively advance the building of the Silk Road Economic Belt and the 21st Century Maritime Silk Road, work hard to expand the converging interests of various parties, and promote win-win cooperation through results-oriented cooperation.

²⁹See the content of Xi Jinping's remarks at the eighth study session of the CPC Politburo in *People's Daily*, August 1, 2013.

He also emphasized that China should promote neighborhood diplomacy, turn its neighboring areas into a community of shared destiny, continue to follow the principles of amity, sincerity, mutual benefit, and inclusiveness in conducting neighborhood diplomacy, promote friendship and partnership with the neighbors, foster an amicable, secure, and prosperous neighboring environment, and boost win-win cooperation and connectivity with its neighbors.³⁰

On March 29, 2015, under authorization of the State Council, the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce jointly released the "Vision and Proposed Actions Outlined on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road." As the action plan for the Belt and Road Initiative, this document drew a blueprint for the Initiative and clarified its aim and purposes, framework, principles, priorities of cooperation, mechanism of cooperation, place and role of different regions in China, actions and prospect.

A major challenge for China's promotion of the Belt and Road Initiative is to balance between interests of its own and of its neighborhood.

Obviously, China sees itself in a critical era on the path to fulfilling its dream of the great rejuvenation of the Chinese nation. What China cherishes most is an amicable, secure, and prosperous neighboring environment. Geographically, the Belt and Road Initiative and the strong maritime nation strategy both start with China's neighborhood, both need a stable neighboring environment, and both require China and relevant states to effectively manage territorial and boundary disputes. Meanwhile, the Chinese

government continues to reiterate that it would resolutely protect its sovereignty, territorial integrity, and maritime rights. As a result, how to coordinate the two conflicting objectives through a more balanced approach will be a great challenge for China. Toward this end, the following sections will examine impacts of the outstanding territorial and boundary disputes on the Belt and Road Initiative and vice versa.

³⁰Xi Jinping also said, "We should firmly uphold China's territorial sovereignty, maritime rights and interests and national unity, and properly handle territorial and island disputes." *People's Daily*, November 30, 2014.

Impact of Territorial and Boundary Disputes on the Initiative

A review of the geographical scope, aim and purpose, framework, principles, priorities of cooperation, as well as mechanism of cooperation of the Belt and Road Initiative indicates that frontier, borderland, boundary, and the sea enjoy unique positions under the Initiative. Impacts of striking territorial and boundary disputes on the Initiative should not be underestimated.

Geographically, the two complementary components of the Belt and Road Initiative, i.e., the Silk Road Economic Belt and the Maritime Silk Road, both with land and maritime dimensions, aim at improving infrastructure connectivity between China and countries along the routes, through the land-based Silk Road Economic Belt and the oceangoing Maritime Silk Road. The land-based route concerns geographical dimensions of Chinese interior land, frontiers, boundaries, borderlands, and foreign countries; the oceangoing route concerns Chinese interior land, coastal provinces, and maritime areas under the jurisdiction of China, maritime boundaries, and foreign countries.

According to the action plan of the Belt and Road Initiative, the Silk Road Economic Belt has three key routes: (a) from China, through Central Asia and Russia, to Europe (the Baltic); (b) from China, through Central Asia and West Asia, to the Persian Gulf and the Mediterranean Sea; (c) from China, through Southeast Asia and South Asia, to the Indian Ocean. The Maritime Silk Road has two routes: (a) from China's coast, through the South China Sea, to the Indian Ocean and Europe; (b) from China's coast, through the South China Sea, to the South Pacific. Obviously, all of these routes originate from China, go beyond China's land and maritime boundaries with its neighbors, connect to the Euro-Asian Continent, go through the Indian Ocean and the Pacific Ocean, and connect China with countries along the routes. In addition, as an open mechanism, the Initiative is not limited to the areas of the ancient Silk Road.³¹ In this sense, we could say, the Initiative is designed as a global strategy of China.

³¹National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce, "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road," March 29, 2015, http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.

Geopolitically, the Belt and Road Initiative starts with China's neighborhood.³² As an ancient Chinese saying goes, "you can choose your friends, but not your neighbors." From the Chinese government's perspective, neighborhood is a place upon which existence of the nation dwells and a place upon which development of the nation relies. Under the Belt and Road Initiative, China's neighbors on land and at sea are where infrastructure connectivity begins, and they are vital connecting points for policy coordination, unimpeded trade, financial integration, and people-to-people bonds. Unless roads, ports, oil, gas, electricity, and communication channels are linked between China and its neighbors, all-dimensional, multi-tiered and composite connectivity networks cannot be established, and diversified, independent, balanced, and sustainable development in these countries would not be possible.

Growing infrastructure interconnectivity is key to success of the Initiative and sustainable regional development.

Furthermore, strategic positions and geographical advantages of Chinese frontiers, coastal regions, borderlands, and boundaries are clearly defined in the action plan. For instance, in the northwest, China plans to make good use of Xinjiang's geographical advantages as a window of westward opening up to deepen communication and cooperation with Central, South, and West Asian countries and make it a core area on the Silk Road Economic Belt. In the north,

China plans to give full play to Inner Mongolia's proximity to Mongolia and Russia, improve the railway links connecting Heilongjiang Province with Russia and the regional railway network, strengthen cooperation between Heilongjiang, Jilin, and Liaoning provinces and the Russian Far East region. In the southwest, China plans to give full play to the unique advantage of

³²Foreign Minister Wang Yi said, "The path of building a strong nation starts with the neighborhood. China shall first win recognition and support from its neighbor, and get the Chinese dream closely connected with the dream of the Asian people, in order to realize China's dream of great rejuvenation of the Chinese nation". See also Wangyi, "Tansuo Zhongguo Tese Daguo Waijiao zhi Lu [Exploring the Diplomatic Path of Great Power with Chinese Characteristic]," *International Studies*, No. 4 (July/August 2013), p. 5; Zhang Yunling, "Ruhe Renshi Yidai Yilu de Dazhanlue Sheji [How to Comprehend the Strategic Design of the Belt and Road Initiative]," *World Affairs*, January 16, 2015, p. 30.

the Guangxi Zhuang Autonomous Region as a neighbor of ASEAN countries and create an important gateway connecting the Silk Road Economic Belt and the twenty-first Century Maritime Silk Road. China will make good use of the geographical advantage of Yunnan Province, advance the construction of an international transport corridor connecting China and neighboring countries, develop a new highlight of economic cooperation in the Greater Mekong Sub-region, and make the region a pivot of China's opening up to South and Southeast Asia. Similarly, China plans to make the coastal provinces and key port cities the pacesetter and main driving force of the Belt and Road Initiative, particularly the building of the twenty-first Century Maritime Silk Road.

As mentioned earlier, China has many outstanding territorial and boundary disputes with its neighbors both on land and at sea. These disputes can be categorized into three main types, i.e., land boundary disputes, maritime boundary disputes, and sovereignty disputes over offshore islands. To be more specific, the land boundary disputes include land delimitation disputes between China, India and Bhutan, borderland security, boundary management, and cross-border cooperation between China and all its land neighbors, and disputes between China and 13 land neighbors and three other adjacent riparian states with which China shares international rivers. The maritime boundary disputes include maritime delimitation between China and the eight neighbors in the Yellow Sea, the East China Sea and the South China Sea, and fishing, offshore oil and gas exploitation, and other disputes directly or indirectly related to the delimitation disputes. The offshore island disputes refer to the Diaoyu Islands dispute between China and Japan and sovereignty disputes between China, Vietnam, the Philippines, and other states over the *Nansha Qundao* (Spratly Islands) and other maritime features in the South China Sea.

The Belt and Road Initiative is defined as a route for win-win cooperation that promotes common development and prosperity and a path toward peace and friendship by enhancing mutual understanding and trust, and strengthening all-around exchanges. The Chinese government aims to promote practical cooperation in all fields and build a community of shared interests, destiny, and responsibility featuring mutual political trust, economic integration, and cultural inclusiveness. Action priorities include policy coordination, facilities connectivity, unimpeded trade,

financial integration, and people-to-people bonds. As a result, the Initiative needs a peaceful international environment, an amicable, stable, and prosperous neighborhood, joint efforts and commitments and high-level political ties, security confidence, economic integration, and cultural exchanges between China, countries along the routes, and other countries

Enduring territorial and boundary disputes will seriously hinder the progress of the Initiative.

involved.

Clearly, outstanding territorial and boundary disputes pose great challenges to the Belt and Road Initiative. It has been a main destabilizing factor in regional and international security, a sensitive issue in bilateral relations, and an obstacle to cross-border cooperation.³³ Partly because of confrontations with China over territorial and boundary disputes, some of China's

neighbors, e.g., Japan and the Philippines, have chosen not to participate in the Initiative. For those countries that made positive response to the Initiative, territorial and boundary disputes can very likely impede their cooperation with China. Therefore, effective management of these outstanding territorial and boundary disputes between China and its neighbors, avoiding escalation of the disputes into military conflicts, maintenance of peace and stability, and promotion of cooperation beyond national boundaries, are crucial for the Chinese government to successfully push forward the Initiative.

As a long-term initiative, the Belt and Road Initiative will surely have significant and deep implications for China, its neighbors, and the rest of the world. In this respect, China's outstanding territorial and boundary disputes seem to be no exception. The following section will examine impacts of the Initiative on these disputes by identifying its effects on the incentives for a state to choose among different strategies in handling territorial and boundary disputes.

³³Yang Jiechi, "Zai Fenfan Fuza de Guoji Xingshi Zhong Kaichuang Zhongguo Waijiao Xinjiumian" [Creating a New Situation for China's Diplomacy under Complex International Circumstances], *International Studies*, No. 1 (January/February 2014), pp. 3-4.

Strategic Options for Handling Territorial and Boundary Disputes

There are normally three optional strategies, i.e., delay, escalation, and compromise, for a disputant state to deal with its territorial and boundary disputes. Each strategy has its own risks, costs, and benefits.³⁴ As a rational entity that aims for maximization of its own benefits and minimization of its costs, a state will choose a strategy most favorable to its own interests in the short or long run, on a careful assessment and comparison of the anticipated risks, costs, and benefits of each strategy.³⁵ In most cases, the delay strategy, i.e., to keep the status quo of the disputes, neither to compromise nor to escalate, is a strategy with the lowest risk and cost for a disputant state. In other words, unless a state has adequate incentives, it would not shift from the delay strategy either to the compromise strategy or to the escalation strategy.

The risks, costs, and benefits of a state's territorial and boundary strategy depend on various factors. Some of the factors are fixed or relatively stable, while others are more volatile. Normally, the disputant state makes a rational choice by balancing all the factors concerned. It cares about potential economic values of the disputed territory or the sea area, but it may very likely care more about their strategic importance. It needs to focus on the territorial and boundary dispute, but it may also keep in mind other important matters in bilateral relations. In addition to assessing effects of its policy and actions on bilateral relations, it may have to consider the regional and international order and balance of power as well. It bases its strategic choice on its own bargaining power, but it needs to consider that of its opponent as well. It pursues a maximization of its own national interests, but it may also have to take those of its opponent into account. It should assess the legality of its claim and actions, but also consider their legitimacy and feasibility. In short, it may have to look back on the past, focus on the present, and look ahead to the future. Besides, the decision making and strategies of one party is not completely independent from that

³⁴Taylor Fravel, *Strong Borders, Secure Nation: Cooperation and Conflict in China's Territorial Disputes* (Princeton, N.J.: Princeton University Press, 2008), p. 12.

³⁵Paul K. Huth, *Standing Your Ground: Territorial Disputes and International Conflict* (Ann Arbor, Michigan: University of Michigan Press, 1996).

of the other party. The outcome of a dispute is often due to dynamic interactions between policies, strategies, and actions of the disputant states.

In general, the following factors are believed to be the main incentives that induce a state to choose the compromise strategy: (a) internal threats, such as regime security and frontier stability; (b) external threats, such as rivalry between one party and another power; (c) bilateral relations, such as high-level political mutual trust and economic interdependence.

Factors that push a state to choose the escalation strategy include: (a) a sharp decrease in the bargaining power, such as unilateral occupation of the disputed territory by the other party; (b) the opponent choosing to escalate the dispute; (c) the two parties having disputes over other more significant matters; (d) one party forming alliance with third parties or intervention by third parties; (e) national sentiment.³⁶

Through an empirical study of China's territorial conflicts that occurred from 1949 to 2005, Taylor Fravel noticed that China chose to cooperate and compromise in a majority of these disputes, and chose to use force only in a few of them. He concluded that internal and external threats China faced during the 1960s and the 1990s were the main factors that induced China to compromise; sharp decrease in its already weak bargaining power was the key factor that pushed China to resort to the use of force.³⁷ Nie Hongyi examined the interrelationship between strategies of the neighbors and that of China. He concluded that China's policy would be more tolerant if the other party chose to maintain the status quo of the disputed territories; on the contrary, when the other party chose to change the status quo, China's policy would be more hardline.³⁸

In addition, according to the issue-linkage theory, a state may resort to other related or unrelated matters to increase its bargaining power on a dispute.³⁹ Through an examination of the strategies states chose in

³⁶Birger Heldt, "Domestic Politics, Absolute Deprivation, and the Use of Armed Force in Interstate Territorial Disputes, 1950–1990," *Journal of Conflict Resolution*, Vol. 43, No. 4 (August 1999), p. 451.

³⁷See Fravel, *Strong Border Secure Nation: Cooperation and Conflict in China's Territorial Disputes*.

³⁸Nie Hongyi, "Explaining Chinese Solutions to Territorial Disputes with Neighbor States," *Chinese Journal of International Politics*, Vol. 2, No. 4 (December 2009), pp. 487–523.

³⁹William Wallace, "Atlantic Relations: Policy Coordination and Conflict," *International Affairs*, Vol. 52, No. 2 (April 1976), p. 162.

territorial disputes, Krista E. Wiegand argues that states may purposely maintain territorial disputes in order to use them as bargaining leverage in negotiations over other important unresolved issues. This dual strategy of issue linkage and coercive diplomacy enables the challenger state to benefit from its territorial claim.⁴⁰

How the Initiative may Influence Related States' Strategies

In general, the Belt and Road Initiative seems to be a chance for China to improve its relations with neighboring countries. It could decrease the incentives for China and other states concerned to escalate the disputes, and create favorable conditions for cooperation on conflict management and dispute resolution. However, it may have positive and negative influences on the strategies of China and other disputant states.

On one hand, it may help China and its neighbors to manage the conflicts more effectively or even resolve the disputes, because it could: (a) increase mutual trust, economic interdependence, and cultural exchanges between them, improve bilateral relations, and create favorable conditions for conflict management and dispute resolution; (b) increase the opportunity costs for a state to choose to escalate the dispute, decrease its anticipated benefits, and thus lower the possibility of escalation of disputes;⁴¹ (c) decrease the possibility for a party to form alliance with third parties; and (d) decrease the pressure for a state to choose to cooperate in disputes.

On the other hand, the Belt and Road Initiative may very likely lead to further escalation of the territorial and boundary disputes, because it could: (a) decrease the incentives for a state to compromise due to the fact that it faces less internal and external threats to its regime security and frontier security; (b) some states may use these disputes as bargaining leverage in

⁴⁰Krista E. Wiegand, *Enduring Territorial Disputes: Strategies of Bargaining, Coercive Diplomacy, and Settlement* (Athens, Georgia: University of Georgia Press, 2011).

⁴¹Wu Zhicheng and Chen Yiyi, "Guojia Jian de Lingtu Zhengduan Yuanhe Yiyu Fufa [Why Territorial Disputes are Likely to Occur]," *World Economy and Politics*, Vol. 2 (February 2015), pp. 124–136.

negotiations over other important unresolved issues; and (c) some weak states may choose to form alliances with other disputant states or third parties.

Though the Initiative decreases the possibility of compromise among all disputant parties, China will have more leverage in settling disputes.

Under the Belt and Road Initiative, strategic importance of frontiers, boundary, borderlands, offshore islands, and the sea increases. This will further decrease the possibility for China to reach compromise with its neighbors. However, with increasing interdependence between China and its neighbors, China will have more tools to handle the disputes. In consideration of the aims and objectives of the Belt and Road Initiative, the peaceful diplomatic strategy and the new neighborhood diplomacy featuring amity, sincerity, mutual benefit, and

inclusiveness, China's policy toward territorial and boundary disputes is not expected to change dramatically. On the other hand, it aims to implement the Initiative successfully, and to safeguard its territorial sovereignty and maritime rights as well. Therefore, China will basically hold on to the delay strategy, and choose to neither compromise nor escalate the disputes.⁴²

Some disputant states have reacted quite positively to the Belt and Road Initiative, such as South Korea, Malaysia, India, and Vietnam. The Initiative may help China and these countries to better manage their respective disputes. In contrast, Japan, the Philippines, and a few other countries have not positively responded to the Initiative, thus effect of the Initiative on their strategy is limited. Instead, they may continue to hold on to the escalation strategy, or at least to maintain these disputes as bargaining leverage in negotiation over other important matters. In addition,

⁴²It may be argued that since the escalation of the Huangyan Island Dispute in April 2012, the Chinese government took more resolute and hardened actions in response to provocative actions taken by other disputant states. The land reclamation work by China recently indicates that it would even take the initiative to consolidate its weak positions over the Spratly Islands.

as allies of the United States, they will adopt strategies that largely depend on U.S. positions and attitudes.⁴³

Conclusion

The outstanding territorial and boundary disputes between China and its neighbors remain most sensitive, complicated and imminent in their bilateral relations. These disputes could be causes for conflicts, and also catalysts for cooperation. The Belt and Road Initiative proposed by China in 2013 received positive responses from over 60 countries and regional and international organizations. Such a global initiative originating in China and involving China's neighbors needs an amicable, stable, and prosperous neighboring environment. Impacts of these enduring territorial and boundary disputes on the Initiative should not be underestimated. China needs to manage them more effectively, keeping them under control, and promoting cooperation beyond international boundaries. The Initiative may ease tensions between China and other disputant states and create favorable conditions for cooperation on dispute management and resolution. But such an effect should not be overestimated. In a worse case scenario, it may induce some disputant states to maintain or to escalate the disputes.

Therefore, under the Belt and Road Initiative, China may very like to (a) adhere to the path of peaceful development, follow its new vision for neighborhood diplomacy featuring amity, sincerity, mutual benefit, and inclusiveness, and formulate an overall boundary and maritime policy that coordinates China's core interests in safeguarding a secure neighborhood and protecting its territorial sovereignty and maritime rights, through a more balanced approach;⁴⁴ (b) hold on to its previous approaches of resolving disputes through bilateral talks, manage conflicts through rules and mechanisms, and ease tensions through mutually beneficial cooperation;

⁴³The Initiative was proposed by China in September 2013. An empirical study of the interrelationship between the Initiative and strategies of China, other disputant states, and the third parties over the territorial and boundary disputes is still not possible.

⁴⁴On January 30, Xi Jinping pointed out, "We shall adhere to the path of peaceful development, but we cannot give up our legitimate interests, or sacrifice our national core interests." *People's Daily*, January 30, 2013.

(c) continue to uphold its claims to territorial sovereignty and maritime rights, especially its claims in the South China Sea; (d) draw bottom lines for itself, and draw red lines for other disputant states and the third parties;⁴⁵ (e) try to avoid escalation of disputes, especially military confrontations; (f) move forward the idea of “sovereignty residing with us, shelving differences and seeking joint development,” make full use of the geographical advantages of frontiers, boundaries, borderlands, and the sea areas under overlapping claims, expand common interests, ease tensions, and establish effective mechanisms for conflict management, confidence building, and cross-border cooperation;⁴⁶ and (g) resolve the outstanding disputes on a case-by-case basis and in a step-by-step manner.⁴⁷

⁴⁵Liu Zhenmin, “Jianchi Hezuo Gongying, Xieshou Dazao Yazhou Mingyun Gongtongti [Adhere to Win-win Cooperation, Jointly Establish the Asian Community of Shared Destiny],” *International Studies*, No. 2 (March/April 2014), p. 9. See also Yang Jiemian, “Xinshiji Zhongguo Waijiao Sixiang, Zhanlue he Shijian de Tansuo Chuangxin [Exploration and Reform of Diplomatic Thoughts, Strategy and Practices of China in the New Era],” *International Studies*, No. 1 (January/February 2015), pp. 26–27.

⁴⁶See the content of Xi Jinping’s remarks at the eighth study session of the CPC Politburo in *People’s Daily*, August 1, 2013.

⁴⁷Liu, “Jianchi Hezuo Gongying, Xieshou Dazao Yazhou Mingyun Gongtongti [Adhere to Win-win Cooperation, Jointly Establish the Asian Community of Shared Destiny],” p. 9.



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