Beyond win–win: rethinking China’s international relationships in an era of economic uncertainty

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In July 2012 the International Monetary Fund (IMF) reduced its estimates of China’s economic growth to 8 per cent for 2012 and to 8.3 per cent for 2013.¹ Robert Zoellick, president of the World Bank, cautioned China that it must shift its economic focus away from exports and towards increasing domestic consumption.² Lower expectations are not good news for China, but ironically they say more about the anticipation of continuing basic strength for the Chinese economy than about its vulnerabilities. The reason given for Zoellick’s admonition was that the world economy, and especially that of the developed world, is facing stagnation, and flat demand abroad for Chinese products dampens exports. The IMF sees the major downside risks of the world economy in Europe and the United States, and notes that economic growth in the other BRICs (Brazil, Russia and India) has also slowed. In this context China is still doing relatively well. China’s anticipated 2013 GDP increment is equal to the combined estimated increments of the other top ten national economies, as well as the size of the entire Turkish economy in 2011, the world’s seventeenth largest.³ In 2011 China’s GDP in purchasing power parity was 75 per cent that of the United States; if the IMF’s estimates are correct it will be 84 per cent in 2013, making plausible the Economist Intelligence Unit’s estimate of convergence with the US by 2016.⁴ Economic capacity is important in its own right and as a foundational dimension of both military power and political influence.

China’s current global prominence is the result of successful domestic policies and successful diplomacy. On the domestic side, Barry Naughton argues that economic growth has resulted not only from market forces but also from the positive interaction of state-owned enterprises, firms receiving foreign investment,

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¹ For comments on earlier drafts I would like to thank Herman Schwartz and audiences at Academia Sinica, Guangxi Academy of Social Sciences, US Pacific Command Headquarters and Asia-Pacific Center for Security Studies, as well as anonymous reviewers, though the views expressed are my own.
and small-scale private enterprise guided by the government.\textsuperscript{5} Equally impressive has been China’s emergence from diplomatic isolation during the reform era. While China’s global relationships began to improve with admission to the UN in 1971 and the historic visits of Kissinger and Nixon, its relations within Asia generally lagged behind. Since 1990, however, China’s attention to good relations with its neighbours has resulted in strong institutional and diplomatic ties that undergird a remarkable expansion of trade and investment. ‘Win–win’ is the latest in a series of slogans that articulate China’s enthusiasm for deepening its regional and global ties.

Despite its success, or rather because of it, China now faces a new context that requires the reorientation of both its domestic development and its diplomacy. Zoellick’s recommendation of promoting consumption touches only the tip of the iceberg of domestic challenges. In order to move from a strategy of maximum economic growth to one of sustainable growth, inequalities must be addressed, welfare promoted, innovation and entrepreneurship encouraged, and an ageing population cared for. These challenges are addressed in the Twelfth Five Year Plan (2011–15) and will occupy China’s leadership for the foreseeable future. On the political side, the rule of law needs to be strengthened, transparency and representativeness improved, and intra-party democracy expanded.\textsuperscript{6}

The need to adjust China’s diplomacy is less obvious. After all, everyone wins with ‘win–win’, so why change? In a nutshell, I argue that the current era of global economic uncertainty, combined with the remarkable increase in China’s relative capacities, make credible reassurance from China more important to its partners than their mutual benefit. Economic uncertainty has made the fear of risk more vivid than the prospect of gain, and China’s peaceful leap forward since 2008 has greatly increased its partners’ sense of exposure to China’s actions. Diplomacy that prioritizes reassurance would limit China’s options, but it is necessary in order to preserve the favourable international environment created by the earlier win–win policies.

Underlying this argument is a rejection of the Realist assumption that disparities of capacity inevitably imply domination by the larger and stronger side. The actual effects of asymmetry are more complex. Cooperation is possible to the extent that the benefits of the relationship are credible to both sides. If the larger side imposes its unilateral preferences, the vividness of the smaller side’s perception of threat is likely to produce determined resistance rather than submission. As Andrew Mack argued in his classic reflection on the American war in Vietnam, the larger side can be frustrated because the limited aims and commitments of its ‘small war’ pose a mortal threat to its opponent.\textsuperscript{7} Traditional Chinese diplomacy was sobered by many ‘small war’ experiences.\textsuperscript{8} Although the frustration and

\textsuperscript{5} Barry Naughton, ‘China’s distinctive system: can it be a model for others?’, Journal of Contemporary China 19: 65, June 2010, pp. 437–60.
unintended consequences of domination are most striking in military conflicts, there are more subtle analogues in economic interactions.

Changes in asymmetric relationships make more acute the challenges of diplomatic management, and China since 2008 has simultaneously increased its asymmetry with most partners as it approaches GDP parity with the single global superpower. Other states have therefore become hypersensitive to China’s actions and apparent ambitions. If China alienates them, it will isolate itself. If it maintains current win–win policies but is insensitive to their increased concerns, they will become more cautious. If China adds credible reassurance to win–win, it will maximize its opportunities for cooperation.

I begin with a brief review of the course of development of China’s diplomacy, and then discuss the effects of the contextual change in global politics since 2008. The controversy surrounding the South China Sea is presented as an example of new diplomatic challenges. The specifics of reassurance are then discussed in the framework of China’s increasing asymmetry with smaller and developing countries and decreasing asymmetry with developed economies, especially the United States. Finally, the conclusion addresses the counter-argument for greater Chinese assertiveness.

The roots of win–win

Despite the retrogression of the Cultural Revolution era, the roots of current win–win policies go back to the beginnings of PRC diplomacy. China’s critique of imperialism and its identification with Third World nations emerging from colonialism after the Second World War led to the formulation in 1954 of the Five Principles of Peaceful Coexistence:

1. Mutual respect for each other’s territorial integrity and sovereignty.
2. Mutual non-aggression.
3. Mutual non-interference in each other’s internal affairs.
4. Equality and mutual benefit.
5. Peaceful coexistence.

China did not claim sole ownership of these principles. They were jointly announced with India and Burma, and they became core ideas of the 1954 Asia–Africa (Bandung) Conference and subsequently of the Non-Aligned Movement. They remain part of China’s credo in any establishment of diplomatic relations. As Sophie Richardson points out, while not particularly relevant to US–China relations, with developing nations they have defined China’s core diplomatic priorities most of the time, and with most places.

9 There is a historic resonance between the Five Principles and traditional Chinese diplomacy, but not a direct connection. Therefore we start with the People’s Republic from 1949. For traditional background, see Brantly Womack, ‘Sustainable international leadership: lessons from the Sino-Vietnamese relationship, 968–1885’, in Brantly Womack, China among unequals (Singapore: World Scientific Press, 2010), pp. 183–212.

From the late 1950s to 1970 the solidarity between China and Third World governments was increasingly vitiated by China’s support for continuing revolution both at home and abroad. As decolonization succeeded and tension between Beijing and Moscow grew, China’s condemnation of imperialism evolved into a critique of hegemonism. While anti-hegemonism did not target Third World states, most post-colonial states were aligned with one or the other superpower, and few were attracted by the rigid isolationist stance of China and Albania. Even Vietnam, the largest recipient of Chinese aid, expanded its relations with the Soviet Union during the 1960s. Moreover, post-colonial states faced ongoing domestic insurgencies, and China’s attitude towards popular disturbances was ambiguous. Actual assistance to insurgent groups was limited, but there was vocal encouragement in many cases as well as the stirring image provided by the Cultural Revolution to leftists everywhere.

In 1970 China’s diplomacy shifted to revolutionary pragmatism, and while support for some insurgencies continued, the general picture of diplomatic relationships was transformed by admission to the UN in 1971 and the Shanghai Communiqué that brought Richard Nixon and Mao Zedong together in 1972. The rhetoric of anti-hegemonism continued, but given China’s new relationship with the United States anti-hegemonism came to mean opposition to the Soviet Union. The exchange of visits between Marshal Tito of Yugoslavia and Hua Guofeng in 1977 and 1979 highlighted China’s shift from criticized Soviet revisionism to opposing Soviet expansionism. The groundwork was laid for a new era of international relationships in which China would establish formal relations with most states and no longer stand outside global organizations.

Deng Xiaoping’s ‘second revolution’ in domestic policy was mirrored in external relations. In both areas, the most novel and important element was the new priority of maximum economic growth. Revolutionary pragmatism was replaced by economic pragmatism. The turning point can be dated to 1 January 1979, in part because of the completion of the process of normalization with the US and in part because of the shift in policy towards Taiwan from an aim of ‘liberation’ to one of ‘peaceful reunification’. Even though war with Vietnam began less than two months later, China shed its reputation as a revolutionary troublemaker. Indeed, China’s hostility towards a fellow communist state that had occupied its neighbour Cambodia reassured other South-East Asian states and provided an avenue of cooperation. In any case, the primary emphasis of China’s foreign relations was now on trade and investment. Anti-hegemonism faded into a background drumbeat in diplomatic discourse, though it was used as late as 2003 to criticize American unilateralism. It was replaced as a diplomatic organizing principle first by multipolarity, and later by globalization.

13 The term came into general use in China in 1996; before then, it was considered capitalist. See Yu Keping, ‘Preserving China’s autonomy in the era of globalization’, in Yu Keping, Democracy is a good thing (Washington DC: Brookings Institution, 2009), pp. 149–56.
its 1998 defence white paper China presented a ‘new security concept’, stressing that ‘security should be based on mutual trust and common interests’. The term ‘win–win’ (shuangying) appeared in discussions around the World Trade Organization (WTO) negotiations in 1999 and quickly became a favourite descriptor for bilateral relationships.

World attention was fixed on China by spontaneous demonstrations at Tiananmen in May 1989 and then was shocked and disgusted by the massacre of 4 June. This led to a major setback in China’s relations with the developed world, but it also occasioned a self-effacing diplomatic posture and a reorientation of its stance towards its Asian neighbours. Normalization of relations with Vietnam, Indonesia, Singapore and South Korea in 1991–2, as well as with the new post-Soviet states of Central Asia, completed China’s diplomatic circle, and ‘good neighbour’ policies encouraged the rapid growth of economic and other ties. China resolved most of its land border disputes, and tensions over maritime claims were of secondary significance behind a general improvement in economic and political relationships. The creation of the Shanghai Five in 1996 and preservation of the value of the renminbi during the Asian financial crisis of 1997 were especially important to China’s new Asian image. China proved itself to be a reliable partner for South-East Asia, in contrast to the World Bank, the United States and Japan. In Central Asia, the smaller states were relieved not to be the cockpit of Sino-Russian competition, while Russia and China shared concerns about American unilateralism.

Until 2008, China’s win–win bilateral policies and its enthusiasm for regional cooperation (the Shanghai Five became the Shanghai Cooperation Organization in 2001, and the China–ASEAN Free Trade Area was launched in 2002) stood in stark contrast to American unilateralism and its fixation on the ‘war on terror’. Economic relations with neighbours grew exponentially. In 2000 China accounted for 4 per cent of all ASEAN’s trade; by 2009 this had grown to 12 per cent—roughly equal to half of intra-ASEAN trade—and China was ASEAN’s largest external trade partner. Within a decade, trade with China had moved from being a welcome and growing sideshow to being a major part of every South-East Asian state’s economic profile. And trade was only one aspect of thickening relationships which also included political exchanges, investment and tourism. Win–win, confidence in mutual benefit, made possible China’s peaceful rise.

Win–win since 2008: from panda to dragon?

Since the onset of global economic uncertainty in 2008 China has become vastly more important to its neighbours and to the global economy, and yet its same policies of win–win have met with considerably more anxiety and resistance.

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Similarly, in the remaining areas of disputed sovereignty China’s claims have not changed, but tensions have escalated. China has not made any threats, and yet its partners feel more threatened. Why?

There are two contextual changes in China’s foreign policy environment that have affected the attitudes of its partners. The first is that the economic troubles of 2008 began at the core of the global system and have vastly increased the unpredictability of everyone’s economic outlook. The second is that China’s continued growth despite the global downturn has increased the disparity between itself and smaller states and at the same time has decreased the disparity between itself and the United States and the European Union. Perhaps more importantly, the rapidity of the change in relative asymmetry causes China’s partners to anticipate even greater changes in the future.

The financial crisis that has reshaped the global economy since mid-2008 is the first systemic crisis of the globalized world. Previous post-Cold War crises had been local (affecting Russia, Mexico, Argentina) or regional (the Asian financial crisis); they did not challenge the stability of the global system. The current crisis began in the United States and has had severe repercussions in the EU. Even the world depression of the 1930s is a poor comparison. Not only are the volume and intensity of global interrelationships much greater now, but there are many more sovereign units, there exist international and regional organizations that can provide venues for cooperation, and there is a dominant world paper currency rather than a gold or silver standard. Thus the global politics of the new era are as novel and uncertain as its economics. While everyone assumes that the crisis is part of a cycle, there is no prior experience that credibly predicts its depth or duration. Recurring doubts about each major segment of the global economy, including China, underscore the extent of global uncertainty.

For nations and for many of the world’s families, an overly optimistic and complacent mentality of reliable progress has been replaced by a situation of multidimensional uncertainty. A profound shift in priorities has occurred. If progress can be relied on, then risk is downplayed and marginal benefit becomes the chief criterion for decisions. But if the future becomes uncertain, then caution and the protection of present assets become more important than risky marginal gain. This is not simply a psychological reaction. If, for example, a company is considering an international investment but the relevant currency exchange rates have varied by plus or minus 10 per cent, then profitability of less than 10 per cent could be wiped out by currency fluctuation. And of course the outlook for investment might itself be affected by unforeseen global reverberations. At the national level, governments want to restore their previous levels of prosperity, but they too must face the risks that they once ignored. Caution becomes the global watchword.

No country, not excluding China, has profited from the global downturn. The crisis has exacerbated China’s domestic challenges of political and economic sustainability. However, China is the least damaged major economy, and in an era of caution and confusion its continued high growth rate is even more impressive. Moreover, as other economies wobbled, China’s relative growth became more
prominent. As a rock of stability in turbulent waters, it attracts more international investment that in turn contributes to more growth. With its surplus foreign exchange earnings and concerns about resource security, China’s own foreign direct investment has become one of the few growth areas of foreign investment. China’s holdings in dollar-denominated assets make it America’s biggest foreign creditor and thus banker to the banks, a situation unimaginable a decade ago. With the continuing troubles of the developed economies, the arrogant exclusivity of the G7 has given way to the expanded G20. Given China’s unique position among rising economies and the unique position of the US in the current economic disorder, talk of a ‘G2’ is not unreasonable, though as a leading interaction rather than as an exclusive club.

Table 1: China’s trade rankings, 2011

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<tr>
<th>Country</th>
<th>Exports to China</th>
<th>Imports from China</th>
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<tr>
<td></td>
<td>Rank</td>
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<tr>
<td>Japan</td>
<td>1</td>
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<td>North Korea</td>
<td>1</td>
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<td>South Korea</td>
<td>1</td>
<td>24.4</td>
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<tr>
<td>Mongolia</td>
<td>1</td>
<td>85.7</td>
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<td>Taiwan</td>
<td>1</td>
<td>28.1</td>
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<td>Vietnam</td>
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<td>Laos</td>
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<td>Cambodia</td>
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<td>Thailand</td>
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<tr>
<td>Malaysia</td>
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<td>Indonesia</td>
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<tr>
<td>Burma</td>
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<td>India</td>
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<tr>
<td>Pakistan</td>
<td>4</td>
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<tr>
<td>Iran</td>
<td>1</td>
<td>21.4</td>
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<tr>
<td>Tajikistan</td>
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<td>Kyrgyzstan</td>
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<td>EU</td>
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Table 1 illustrates China’s economic importance to its neighbours and to the world. China is one of the top five export destinations and top three import sources not only for all its neighbouring states with the exception of Afghanistan, but also for the US and EU. It is of course well known as the world’s factory, so the high number of top ranks in imports is not surprising. Most are in the 15–25 per cent range, with the exceptions above this level being neighbours particularly dependent on China. The high exporters to China fall into two groups: the suppliers of advanced intermediate goods (Japan, South Korea, Taiwan) and the sources of energy and raw materials (Australia, Iran, Kazakhstan). In general, South-East Asia is less involved in trade with China than North-East Asia or Central Asia. But Chinese trade and investment are key growth areas for all its partners.

Clearly, China has become more than merely one good neighbour among many. Now its geographical centrality to Asia is matched by economic centrality, and it is approaching parity with the US as a global economic mass. While these developments make relations with China more important for its neighbours, it also makes them nervous. Has their neighbourhood become China’s backyard? Is China becoming strong enough as a regional actor to dictate the terms of relations, and also becoming strong enough on the global stage to control the interference of other global powers in Asia? Will China remain a good neighbour when it has the power to be otherwise, or will it yield to the temptations of hegemonism? These are Asia’s new, unsettling questions, made more urgent by the general uncertainty of the post-2008 era. They arise from China’s peaceful leap forward and the anticipation of its further growth rather than from changes in China’s policy. However, these questions make China’s neighbours acutely sensitive to any indication that its intentions might be aggressive. How will China behave when its economy is twice its present size—in just nine years, at 8 per cent average growth? As far as neighbours are concerned, the difference between an extremely large panda and a dragon is one of attitude, and they wonder if China’s attitude will change.

There are similar concerns at the global level. In 2007 Juan Tokatlian, a leading Argentine expert on South American foreign relations, welcomed China’s growing involvement in the region and suggested a strategy of ‘reliable engagement’. In 2011 he took a more cautious attitude. Not only does the proportional increase in China’s presence require rethinking, but there are also various worrisome trends. China’s investments in food and energy are tempting, but will they condemn the suppliers to a permanent role as primary resource economies? What about the poor environmental reputation of China’s mining operations? Will corruption reinforce local elites at the cost of the citizenry? These and similar concerns are felt throughout Latin America and Africa.

Among global powers the concerns about China are of a different order. They see the distance between themselves and China narrowing. Indeed, in aggregate

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Beyond win–win

GDP China has surpassed all but the United States, though it is still distant from the developed world in GDP per capita and in technological sophistication. For Europe and Japan, deep concerns about their own continued growth make links with China more attractive. To hold their positions they must engage with China. Yet at the same time, as shown by the Senkaku/Diaoyu islands dispute for Japan, and by tensions over human rights for Europe, China’s rise raises questions about their own stature. The American situation vis-à-vis China is even more ambivalent. As the world’s only superpower, the United States exercised an increasingly unilateral diplomacy in the post-Cold War era, and military commitments in the Middle East increased its financial burden at the same time as its domestic economy was undermined by imprudent policies. China’s continued rise since 2008 presents economic opportunities for the US, but also confronts the US with the prospect of losing its status as sole superpower. Since the fall of the Soviet Union the United States has defined its security in terms of global invulnerability. China’s military growth now challenges that invulnerability in the western Pacific.

Meanwhile, public pressures on all governments are likely to make diplomacy more difficult. In China and Vietnam, proliferating organized interests both inside and outside the state structure fragment and complicate decision-making and diplomatic management. More dramatically, the internet and social media have cost the party-state its monopoly on information and communication, and ‘netizen’ voices tend to be extreme, especially on current foreign affairs. Since netizen voices and dissonant bureaucrats are heard outside China as well as within, they amplify a perception of China as becoming more aggressive. Although the challenge of the connectivity revolution is most evident in political systems that exclude organized opposition, it also has a polarizing effect in democratic states. Public sentiment can be stirred more quickly and at less cost than was possible in earlier times, and extremist opinion groups are less limited by location. Strangely enough, globalization does not mean that we share the same world, and governments must cope with domestic pressures as well as external realities.

We cannot leave the description of changes of attention towards China since 2008 without pointing out that they are based in part on a distorted projection of current rates of change. Dramatic relative change—especially in an atmosphere of increased caution and worry—encourages an exaggerated focus on China and also unrealistic extrapolations from current changes. As most economists inside and outside China agree, China’s future growth will be slowed down by a sluggish global economy even as its relative strength helps others to recover. Domestic problems such as overinvestment in real estate have yet to exert their full negative effect. It may turn out that the sub-phases of the era of global economic uncertainty will be the initial shock of China’s peaceful leap forward, from 2008 to 2012, followed by a few years of concern about a faltering China.

The longer term might not be so China-centric. China is only the largest of a number of middle-income countries, including (among others) India, that are likely to sustain high relative growth for the foreseeable future. The middle third of the world economy is moving closer to the upper third, and China is only the largest and fastest moving of that middle cohort. Moreover, the multifaceted, accumulated economic advantages of the US, the EU and Japan will preserve their status as per capita giants and innovation leaders. Lastly, China faces major challenges of domestic sustainability over the next few decades. Its proportion of working-age population will diminish, raising wages and increasing welfare costs. Environmental constraints on production will become more prominent. The political system will have to keep pace with an increasingly complex, diverse and sophisticated society. None of these challenges portends a looming crisis that will stop China’s growth, but all are likely to reduce China’s absolute rate of growth and its growth relative to the rest of its middle-income cohort.

The Spratly Islands as material symbol of uncertainty

The situation and policies of any of China’s neighbours over the past five years could be used to illustrate the effects of increased asymmetry. But the area attracting the most attention has been the South China Sea. The basic cause of tension is the ambiguity of China’s claims. In an era of heightened anxiety, China’s win–win policies are not enough to calm neighbours’ fears.

Three features put the Spratly Islands at the centre of regional tension. First is the complexity of conflicting sovereign claims. China (both the People’s Republic and Taiwan) and Vietnam claim the entire cluster, while Malaysia and the Philippines claim part, and Brunei claims a reef and some waters. Sovereignty is necessarily an absolute and exclusive claim. However, the islands cannot sustain populations and were not accurately mapped until the nineteenth century, so none of the historical claims are convincing. The struggle to assert and defend claims involves acting as if one’s own claims were not disputed and reacting officially and vocally when other claimants do the same. If a claimant does not protest against another claimant’s ‘encroachment’, he is implicitly yielding his claim. The less dry land, apparently, the louder the dispute. For example, the Scarborough Shoal, the scene of a standoff between China and the Philippines from April to June 2012, consists of a lagoon with no more than five rocks protruding above the surface.

21 For example, Mongolia has been seeking to develop relationships with ‘third neighbours’ in order to buffer its exposure to both Russia and China. See Alan Wachman, Mongolia’s geopolitical gambit: preserving a precarious independence while resisting ‘soft colonialism’, East Asia Institute Fellows Program working paper no. 18 (Seoul: EAI, 2009).
23 The Brunei claim is the smallest and least vocally pursued. See Prashanth Parameswaran, China Brief 12: 21, 5 Nov. 2012.
24 Robert Beckman, ‘Scarborough shoal: flashpoint for confrontation or opportunity for cooperation?’, RSIS no. 072/2012 (Singapore: S. Rajaratnam School of International Studies, 24 April 2012).
Second, the Spratlys are deep in the middle of South-East Asia. China is both the most distant and the most powerful claimant, and not part of the region. Moreover, its claim to the islands anchors vast and even more problematic claims to the waters of the South China Sea, conflicting not only with other Spratly claims but with coastal and continental shelf claims. Thus the Spratlys are perfectly situated to symbolize conflicting interests between China and South-East Asia.

Third, there are likely to be important oil and gas reserves beneath the South China Sea, and the Spratly claims make exploration contestable and unilateral development dangerous. Thus each state can imagine the easing of its energy and budgetary problems that possession of the Spratlys would confer, and South-East Asian states can fear that China will grow so powerful that it will simply take over the South China Sea to slake its own thirst for energy.

Regional anxieties concerning the South China Sea came to a head in 2010. Besides the occasional small-scale confrontations, China reissued its claim to South China Sea waters—the so-called ‘nine-dash line’ or ‘cow’s tongue’—and it was alleged that State Councillor Dai Bingguo had called the South China Sea a ‘core interest’ of China during discussions with American diplomats. Although no ranking Chinese official has applied the term in public, neither has the claim been officially denied. In a general atmosphere of increased caution and concern about China’s leap forward, the ambiguities of the nine-dash line and the ‘core interest’ assertion were interpreted, regionally and globally, as signs of a new, aggressive attitude.

Anxieties about the possibility of China becoming more assertive have heightened the tensions associated with small confrontations in the South China Sea. There are many possible examples, but perhaps the best is the alleged blocking by the Chinese navy of an Indian naval ship making routine port calls along the Vietnamese coast. According to the Financial Times of 1 September 2011, ‘a Chinese warship confronted an Indian navy vessel shortly after it left Vietnamese waters in late July [2011]’. The report was immediately picked up by the regional and Indian press. The Indian navy clarified on 2 September that the ship had received an open-channel message that it was entering Chinese waters from an untraceable source identifying itself only as ‘the Chinese navy’, and no naval vessel was in sight. Despite the Indian statement, the regional and Indian media continued to see the non-event as a provocation.

While the pushing and shoving among all claimants is a constant reminder of such tensions, in fact the risk of major conflict is minimal and there is no foreseeable threshold of Chinese power that would make unilateral seizure of the Spratlys a practical policy. It is important to note that there have been no military casualties

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28 Such a message can be sent ship-to-ship by anyone.
29 See e.g. ‘No buckling down to China’, New Indian Express, 9 Sept. 2011.
there since 1988, that the economic importance of China’s relations with South-East Asia outweighs the potential gain from seizure, and that in a hostile regional environment the platforms and logistics of energy in the South China Sea would be vulnerable. As China’s power grows so will its economic ties, and many of those relationships—not only in South-East Asia—would be damaged by an aggressive unilateral move on China’s part. China would certainly lose its reputation as a good neighbour, and it would not acquire a friendly or submissive backyard.

Even if we grant that major conflict in the South China Sea is unlikely, either now or at some tipping point in the future, it is not unreasonable that it should serve as a focal point for regional anxieties about China. It is the material symbol of the perceived ambiguities of China’s future direction and of the region’s increasing vulnerability. The nine-dash line has been claimed by China since 1947, but it is only recently that China has come to possess naval capabilities on a scale that might enable it to enforce the claim. In 1947 the Republic of China could not control the advance of the People’s Liberation Army in China’s civil war; it was hardly in a position to confront French and British imperialism and the American naval presence at Subic Bay in the Philippines. Today, a claim that once had the harmless softness of a Kuomintang dream-bubble has acquired a threatening ambiguity in the hands of the major regional power. And unofficial but uncorrected statements from China magnify the apparent threat. In the same article of the Chinese newspaper *Global Times* that dispelled the story of the Sino-Indian naval confrontation, an expert with the Naval Research Institute of the People’s Liberation Army Navy was quoted as saying: ‘China has indisputable sovereignty over the South China Sea islands and adjacent waters, and any foreign warship sailing through the area is not in accordance with international law.’ Since the UN Law of the Sea (UNCLOS) to which China is a signatory allows innocent passage of foreign naval vessels through Exclusive Economic Zones (EEZs), this assertion either is untrue or implies that the nine-dash line is claiming most of the South China Sea as territorial waters, that is, a zone of (usually) 12 nautical miles from shore in which foreign militaries can travel only with permission. The latter would truly be a scary claim, and the ambiguity of China’s position does not exclude it. Even more hawkish articles are published in China, and while they do not express official positions, the ambiguity of China’s position lends them plausibility as reflecting possible future intentions; and they are not prohibited in the official press.

China’s maritime claims touch on the common ground between regional and American interests, but the overlap can be misleading. The United States has always been neutral regarding conflicting claims in the South China Sea. However, it claims that UNCLOS (which it has not ratified) permits military intelligence activities in EEZs, an interpretation of ‘innocent passage’ that China

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30 Originally an eleven-dash line, with two dashes in the Gulf of Tonkin. After the Gulf delineation agreement with Vietnam in 2000 and the implementation protocol of 2004, the top two dashes were removed.


32 See e.g. Long Dao, ‘Nanhai dongwu shiji chengshu suoding Fei Yue yi zhan zhi zhan’ [In the South China Sea the time is ripe to lock the Philippines and Vietnam into armed confrontation], *Global Times*, 27 Sept. 2011.
and some other states dispute. The EP-3 spy plane incident of 2001 and the confrontation with the sonar ship *Impeccable* in 2009 have highlighted the differences in interpretation, and China’s naval and aerospace modernization threatens the invulnerability that American forces have enjoyed in the western Pacific since the defeat of Japan in 1945. Thus it is not surprising that Secretary of State Hillary Clinton claimed common cause with South-East Asia in her July 2010 Hanoi speech, emphasizing freedom of navigation and peaceful resolution of conflicts. And, given the ambiguity of China’s maritime claim, there is indeed common ground. However, if South-East Asia were to agree with the American definition of ‘innocent passage’ then it would be countenancing Chinese as well as American intelligence activities 12 nautical miles off its coasts.

Despite China’s record of good neighbour policies and its emphasis on win–win, its neighbours are justifiably concerned about its claims in the South China Sea, especially in an era of caution and uncertainty. The claim that China’s sovereignty is ‘indisputable’ flies in the face of four evident disputants. The nine-dash line was and remains a unilateral and vague assertion that reaches almost to the shores of Vietnam, the Philippines and Malaysia. China’s demand that a multilateral dispute be settled bilaterally can be interpreted as a delaying tactic. Meanwhile, the submarine base on Hainan Island and the launching of China’s first aircraft-carrier are reminders of China’s growing military reach. The frequent small confrontations constantly draw attention to unsettled conflicts of interest. Even the increasing economic ties between China and South-East Asia can create the impression of being sucked into a relationship of dependency.

China does have legitimate interests and claims in the South China Sea, and it would be foolish to expect it to abandon them simply to appease the neighbours. The challenge, therefore, is how to delimit and manage differences so that neighbours are not unduly alarmed. The China–ASEAN 2002 Declaration on Conduct of Parties in the South China Sea (DOC) was an excellent beginning, and the announcement in July 2011 of Guidelines for the Implementation of the DOC marked some progress. But binding guidelines have not yet been achieved, and South-East Asian states themselves have hindered useful steps such as a moratorium on construction in the Spratlys. The 2012 ASEAN summit saw progress on formulating a code of conduct, but differences over confronting China led to ASEAN’s failure to issue a concluding communiqué for the first time in 45 years. Joint management and joint development are the only feasible paths to preservation of fisheries and exploitation of mineral resources, but the confidence-building necessary to such undertakings must be underpinned by credible reassurances and rules of interaction.

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Adjusting win–win

The largest question facing world politics for the next 20 years is how the United States and China will relate to one another as China reaches American levels of overall productivity. However, the largest question is not necessarily the most important one. How China will relate to its neighbours will determine, to a great extent, its vulnerability in its relationship with the United States. If China has a neighbourhood that stands with it, then it cannot be contained. Moreover, the diplomacy necessary to maintain a friendly neighbourhood will be a deeply positive influence on its global and Great Power relationships. But mutual benefit is not a high enough standard for China’s diplomacy. China must think beyond win–win in order to maintain the good neighbour relations that it has created over the past 20 years.

These are strong claims, and they must be defended. How could relationships with smaller states, incapable of challenging China’s security either individually or collectively, be more decisive in China’s global security than its diplomacy with the United States? The United States is capable of threatening China militarily and its current spectrum of attitudes towards China ranges from engagement to hostility. Recently the Obama administration’s new interest in Asia appears to exclude China, and its ‘air–sea battle’ concept is clearly aimed at China.\(^\text{36}\) It is not unimaginable that America’s fear of decline and the interest of its military in preparing for a high-technology opponent could confirm it in a Cold War mentality \emph{vis-à-vis} China. How could this development be less important than the opinions of Russia, Japan and India, much less Thailand, Indonesia and Kazakhstan?

As General Rupert Smith argues in his bold updating of Clausewitz, ‘War no longer exists.’\(^\text{37}\) He goes on to elucidate: ‘War as a massive deciding event in a dispute in international affairs: such a war no longer exists.’ The French Revolution introduced an era of massive armies and ‘industrial war’, and that era ended with the arrival of nuclear weapons. The Cold War was a face-off between the United States and the Soviet Union, and there was an arms race, but its conflicts were on the periphery and they had their local causes. The assurance of mutual destruction in total war led to the development of protocols and treaties to reduce its likelihood. The Soviet Union failed; it did not lose a war. It contained itself by isolating its economy and people, dominating Eastern Europe, scaring Western Europe, and acting in its narrow self-interest even in alliances. Consider the contrast between the American Marshall Plan in Western Europe and the Soviet pillaging of the industries of Eastern Europe. The full weight of the Soviet strategy was on military development and domination of neighbours. In the end, even the Russians themselves were not sad to see the Soviet Union go.


\(^\text{37}\) Rupert Smith, \emph{The utility of force: the art of war in the modern world} (New York: Knopf, 2007), p. 3.
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China has more neighbours than the Soviet Union did, and after three decades of reform and openness its economy is infinitely more enmeshed internationally than the Soviet command economy ever was. If interdependence is seen by China and its partners as a benefit, then China exists in a world in which a threat to itself is an indirect threat to all. If its neighbours do not consider China a threat, and on the contrary highly value their peaceful relationships, then China has an invaluable strategic asset. Not only do the mutual ties strengthen each economy and bring societies into greater contact, they raise the cost and risk of losing the relationship. In short, if China does not contain itself by alienating its neighbours, it will be highly unlikely that any other state could persuade its neighbours to contain it.

Confidence in mutual benefit is a more fundamental bond than a formal alliance, but more subtle. In a regional asymmetric relationship, the smaller parties can be reassured of mutual benefit only if the relationship is open-ended rather than exclusive. If the regional power requires a closed relationship then it is at the same time depriving the smaller parties of possibly beneficial relationships with others and restricting them to an unequal, monopolized relationship. In effect, the regional power is putting a fence around its backyard, and an exclusive regional structure serves its interests rather than those of its neighbours. This is domination, and it is unstable because it is tolerated by others only under duress or for lack of an alternative. Smaller states would rather buffer their disparity with a regional power by developing multilateral regimes, participating in global regimes, and developing extraregional relationships. These actions are not against the interests of the regional power. In fact, if smaller states are confident that they are not alone they can deepen their relationships with the regional power. For example, after Vietnam joined ASEAN and normalized relations with the United States in 1995 it could be more confident in deepening its relations with China. Likewise, Vietnam’s entry into the WTO in 2006 and its expansion of trade with the US allowed it to afford a larger trade deficit with China.

The problem with win–win as a regional strategy is that it is not sufficiently sensitive to the greater exposure to risk of smaller states in asymmetric relationships. The caution of smaller states is not a matter of resenting the gain of the larger—indeed, in proportional terms the smaller side benefits more. But risk is a more vivid concern than gain, especially since 2008. Greater asymmetry means greater exposure, and smaller states will be alert to the ambiguities of the intentions of the larger state as well as to their degree of isolation. Thus the key to a sustainable regional order beyond (but of course including) win–win is a formal commitment of the regional power to acknowledgement of other regional interests, to forms of interaction that preclude domination, and to regional openness. Bilateral reassurance would be confirmed and enhanced by the evolution of multilateral and global regimes. But at the same time as diplomatic reassurance becomes

more necessary, the rising voices of domestic opinions and interests will make it more difficult to achieve.

China’s diplomatic challenge with the United States is of a different sort. China’s relative growth is making it more nearly rather than less nearly equal to the US, and its relative growth gives it a new capacity to be assertive. Given the economic shocks the US has experienced since 2008, its confidence in its future global role is shaken, and it projects China’s growth and assertiveness into the future. While the US does not oppose China’s prosperity, it does not welcome its own loss of relative standing. The basic diffidence of America’s China policy is well described by Michael Swaine. 39 Inevitably China has become for the US the symbol of a future in which its control is diminished. This leads some to proclaim a ‘China threat’, 40 and others to wonder how the United States can get along peacefully with a more equal China.

The quality of China’s regional relationships is the strategic key for China being prepared for either direction in US–China relations. If the United States becomes cold and hostile, then the stability of China’s external relations, both economic and political, will depend on the mutual commitment of other states, most importantly its neighbours. Alienation of neighbours, whether through domination or self-isolation, was the key strategic mistake of the Soviet Union. It made anti-Soviet containment possible. If the United States attempts to draw the line between its friends and China’s friends, it is in China’s interest that they refuse to make the choice. Currently China’s successful good neighbour policy has created a situation in which the worst nightmare of its neighbours is a new Cold War. But they also worry about a changing China. Maintaining a positive neighbourhood and expanding it globally will require China’s increasing attention to the anxieties of small states.

Even if the United States continues on the path of peaceful engagement with China, both are likely to have competitive mentalities. However, if China continues to develop generally friendly external relations, then the global competition might itself be win–win. A good example would be China’s accession to the ASEAN Treaty of Amity as the first non-ASEAN party. China’s action caught the attention first of India and then of Japan, which also joined. Finally in 2009 the United States joined. Clearly the other states were trying to catch up with China, but their efforts have benefited South-East Asia and they have not hurt China. Indeed, South-East Asia can now feel more confident in its global status, and this makes it more confident in its relations with China.

Under President Obama the United States has emphasized peaceful and cooperative relations with most states outside the Middle East. As former Deputy Secretary of State James Steinberg has said: “That’s the single most important achievement of the Obama administration.” 41 The United States is quite confident

40 Most recently Aaron L. Friedberg, Contest for supremacy: China, America, and the struggle for mastery in Asia (New York: W. W. Norton, 2011).

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of the strength of its soft power and it has always prided itself on its peaceful relations. To a certain extent its current interest in improving its relationships in Asia is related to a competitive mentality vis-à-vis China, but if the competition is one of peaceful emulation, then that is a strategic success for Chinese foreign policy.

Conclusion: should China care what the neighbours think?

China’s present and projected relative growth puts the country in a strategic situation of decreasing vulnerability vis-à-vis its neighbours. Hence the increasing anxieties of smaller states and the concerns of global powers. There seems to be less need now for the caution of Deng Xiaoping. China’s peaceful rise has been accomplished. China has risen. If China is now Asia’s pre-eminent regional power and can hold the United States to stalemate on its periphery, then why should it be concerned about the opinions of the neighbours—or, for that matter, of the world?

This is the basic idea of hegemonism, long condemned by China and in consequence unlikely ever to become China’s official policy. However, hegemonic thinking can enter through the back door. China can declare itself to be righteous, generous and friendly, but if its diplomacy with its neighbours rests on its relative capacity advantages then it is acting hegemonically. To be sure, China has its own national interests and it should not sacrifice these to its neighbours. But ultimately the judgement of hegemony lies not with the hegemon but with those who are dominated.

Besides the moral problems of hegemonism there are practical strategic problems. If China enforces its interests on its neighbours or appears likely to, they will hedge their interests against China. Even in a confident asymmetric relationship smaller states will buffer their bilateral exposure by expanding their partners and joining multilateral regimes, but if they are unsure about the intentions of their big partner then they will prepare for the possibility of hostility by reducing their exposure to China. If they become convinced that their identities will be threatened and their interests will suffer, they will move from hedging to balancing against China. As other states fear a divergence of interests between themselves and China, they will move to protect their interests.

Likewise, if developed countries see China’s rise as the emergence of a new and hostile hegemon they will behave defensively. If their perception of a ‘China threat’ is mistaken and in fact China’s external relations are positive, they will find little global support for a suspicious or hostile attitude. However, if other states are also worried about China’s rise, then they could come together to protect the existing world order against a new, more threatening one. It would certainly be against China’s strategic interests to behave in ways that increased global alienation and resistance.

China’s win–win strategy has been successful because it has been sensitive to the needs both of its neighbours and of its global partners. Before 2008 all faced a
strong global system that had little respect for local interests or regional organizations, and China’s different attitude was welcome. Win–win is still welcome; but now, in an era of global economic uncertainty in which China stands out as the successful power, reassurance concerning China’s future path has become more important. Dai Bingguo’s reassurance that China is not pursuing and will not pursue a ‘Monroe Doctrine’ is important, but the ambiguities that drive anxieties need to be addressed. Neighbours need to be confident that China’s continued growth will not be pursued at their expense, and that China’s increasing power will not be used against them. The controversies over the South China Sea illustrate the depth of concern and also the kinds of ambiguities regarding China’s intentions that produce anxiety about the future. But this is not simply a problem for China’s neighbours, or for the rest of the world. China’s own future also depends on international relationships that are sustainable in uncertain times, and for these mutual confidence in mutual benefit is the fundamental prerequisite.