



Directions in China's foreign relations—implications for East Asia and Australia

China's economic dynamism and rising international influence constitute one of the most important elements of international relations in the early 21st century. This paper provides a survey of major issues in China's foreign relations, with a special emphasis on China's relations with and role in East Asia. After a brief overview of economic developments and political issues, the paper discusses China's overall approaches in foreign policy and its relations with the United States, Japan, the Korean Peninsula, Southeast Asia and the Southwest Pacific. The paper's final section reviews issues and challenges in Australia's relations with China.

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Contents

Maps

Executive Summary	1
Acknowledgements	4
Introduction	5
The domestic setting: economic dynamism and political authoritarianism	6
Continuing economic growth	6
Is high growth sustainable? Issues and challenges	8
The political context: President Hu Jintao and 'authoritarian populism'	10
Socio-economic change and political order	11
Possible political directions: autocracy, democracy or disorder	13
State-directed and popular nationalism	14
China's foreign relations: major issues and trends	16
China's multidirectional foreign policy	17
Maximising access to energy and resources	19

Defence force modernisation	20
The United States relationship	22
Dialogue and discussions in 2005.	24
China–US economic relations	25
China, the US and Taiwan	28
Recent developments	29
Bilateral relations and China’s defence modernisation	31
Human rights and democracy.	32
Future China–US relations: ‘Zero sum’ or ‘positive sum’ approaches?	34
China and Japan	35
Recent developments.	38
China and the Korean peninsula	40
South Korea	41
North Korea	42
Recent development: the Six Party Talks and the 19 September 2005 ‘statement of principles’	44
China and Southeast Asia.	45
China and East Asia multilateral cooperation.	49
China and the Southwest Pacific.	51
China and Australia: Issues and implications.	54
Australia–China relations since 1972	54
1972–1989	54
1989–1991	55
1991–1997	55
Since 1997	56
The future of Australia-China relations: key questions.	58
Australia, China and the United States	58
The Taiwan issue	62
Australia, China and Japan	63
Managing a complex relationship.	65
Concluding comment	66
Endnotes	68

East Asia



803065A1 (R00732) 5-04

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Executive Summary

China's economic dynamism and rising international influence constitute one of the most important elements of international relations in the early 21st century. This paper provides a review and assessment of China's foreign relations, with special emphasis on the implications for East Asia and for Australia.

The paper begins by considering briefly the domestic context for China's recent foreign policy approaches. China has attained high growth rates (over 9 per cent per annum) for the past twenty years, driven particularly by high domestic savings, large inflows of foreign direct investment and economic reforms which have included a large role for the private sector. A major element in growth is China's rapid rise as an exporter of manufactured goods. China's growth has raised living standards for many millions of people, the maintenance of which is a central focus for foreign relations. Continuing growth requires careful management and efforts to confront ongoing problems, including the need to continue to reform state-owned enterprises, strengthen the banking system, reduce infrastructure 'bottlenecks', improve the legal framework, and manage the socio-economic impact of income inequalities (particularly between urban and rural areas), demographic issues and China's severe environmental problems.

China's remarkable economic transition is being led and managed by the Chinese Communist Party's 'fourth generation' of leaders (headed by President Hu Jintao and Premier Wen Jiabao) who are seeking to combine high growth with reductions in socio-economic inequalities. Under their leadership, the Party is pursuing ongoing reform while remaining determined to continue to be the dominant political force. Rapid change has been accompanied by many instances of localised public protest that have been acknowledged as a serious issue by government authorities. One key ongoing question will be how China's political system evolves; whether towards a refinement of single party rule, a more pluralistic model or a more diffuse and less effective model of authoritarian rule. China's process of socio-economic change has also been accompanied by expressions of nationalism, both by the government and at the popular level: the Party remains wary of expressions of nationalism that go beyond approved boundaries and is determined to maintain its control over policy-making, including in foreign relations.

China's overall foreign policy is designed to support and advance the country's path to growth. China has sought to gain benefit from the process of globalisation, symbolised by its entry into the World Trade Organisation in 2001. To ensure a stable national environment, China has improved relations with its neighbours and major partners including India, Russia and the European Union. China has also increased greatly its multilateral engagement, both in existing groups and in new forums it has established (such as the Shanghai Cooperation Organisation). A principal focus in foreign relations is to secure the resources needed for continued growth, which is increasing the profile of China's relations with resource-producing countries in the Middle East, Africa and Latin America.

The capacity and sophistication of China's conduct of foreign relations have been upgraded markedly and China has also greatly enhanced its 'soft power', through social, cultural and educational links, especially in East Asia. China's economic growth is also facilitating a program of modernisation of its military forces to introduce new equipment and improved operational capacities. A major focus of these developments has been to increase China's capacities in the vicinity of Taiwan.

China's single most important international relationship is with the world's dominant superpower, the United States. Since relations were normalised in 1979, China and the US have developed many areas of cooperation and a most important economic relationship, while simultaneously having areas of difference and dispute. Relations have been notably closer since the terrorist attacks on 'September 11', 2001, and China has given support in a number of areas of US policy on counter-terrorism.

However relations with the US face significant challenges. The economic relationship is vital to China but China's success in exports has helped produce a sharp imbalance in trade which has fuelled US concerns about some of China's practices (such as its inadequate protection for intellectual property rights) and the value of its currency, which the US has argued is 'unreasonably' low. The two countries have differing approaches to the status of Taiwan, with China claiming sovereignty and the ultimate right to enforce this, and the US asserting that while it does not recognise Taiwan as an independent entity in *de jure* terms, cross-Strait differences should be resolved without coercion. The US has expressed some concern at China's process of military modernisation, including the overall level of spending and the lack of transparency about China's policies. The US and China also have long-standing and ongoing differences about political order, with the US advocating electoral democracy and increased adherence to human rights standards, and China's government affirming its right to control and manage its own political evolution. The paper suggests that in order for the two countries to avoid a 'zero sum' approach to their relations, continuing dialogue and increased trust will be vital.

China has a close and growing economic relationship with Japan but political relations remain clouded. China's and Japan's economies are highly complementary and their trade benefits both parties. The two sides, however, are divided by differing interpretations of their historical experience and by territorial and maritime boundary disputes, which include contest for valuable petroleum resources. China dislikes Japan's close 'non-official' links with Taiwan and has criticised recent moves by Japan and its ally the US to reinforce and upgrade their defence cooperation. China has also opposed Japan's claim to a permanent seat on the UN Security Council. Relations were soured further in April 2005 by a series of acrimonious demonstrations in a number of Chinese cities against Japanese interests. No early improvement in relations appears in sight.

On the Korean peninsula, China has since the early 1990s developed very close relations with South Korea, with extensive trade, investment and educational links. With North Korea, China faces the major policy dilemma of trying to encourage reform and change while avoiding a situation where the isolated and economically debilitated regime might weaken or

collapse, an outcome which could threaten China's own security and economic interests. China opposes the North's nuclear programs and has actively sponsored the Six Party Talks process since 2003 as the best avenue towards reaching a *modus vivendi* among itself, the two Korean governments, Russia, Japan and the US. A 'statement of principles' reached on 19 September 2005 has raised some hopes that negotiations may be continued productively. China has gained diplomatic profile through its role in the talks process but a resolution of the dangers posed to peninsular and regional stability by North Korea's nuclear programs is still to be reached.

China has had substantial success in improving its bilateral and multilateral relations in Southeast Asia. China's rapid growth has produced close economic interactions with the region and China has sought to bolster this progress by multilateral cooperation with the Association of Southeast Asian Nations. China and ASEAN are pursuing a Free Trade Agreement to deepen their ties and China has also supported actively ASEAN's efforts to expand regional cooperation, especially through the ASEAN Regional Forum and the 'ASEAN Plus Three' dialogue with the ten ASEAN members, Japan, South Korea and China.

China's multilateral engagement has also included participation in the Asia Pacific Economic Cooperation group since 1991 and its commitments to cooperation in trade, investment and human resources development. China will also be a central member of the emerging East Asia Summit, which holds its first meeting in December 2005. The Summit process, while still to be consolidated, will provide a further important avenue for China to participate in shaping directions for cooperation in East Asia.

In the Southwest Pacific, China has had long-standing connections and has increased its involvement markedly in recent years. China has significant commercial interests but much of its focus has been directed towards competition with Taiwan for influence and diplomatic relationships in island states. Both China and Taiwan have courted support from island governments and elites in a process which has raised some concerns (including in Australia) that provisions of aid do not give sufficient attention to the need for improved standards of accountability and governance.

China's economic growth and foreign relations activism are now a central issue for Australia. Australia and China have a wide and deep economic relationship with China's need for resources and capacity to supply low priced manufactures now a key issue for Australia's economy. Political dialogue is extensive on many levels. Australia has recently been able to develop closer relations with China alongside its longstanding and intimate relationship with its ally the US. Continuance of this process depends on the climate of US-China relations, which could be affected adversely by tensions over Taiwan; an eventuality which analysts have argued could pose difficult choices for Australia. Australia also maintains a longstanding and very close relationship with Japan, participates in trilateral security dialogues with the US and Japan, and has a strong interest in the capacity for China and Japan to stabilise their relationship. China's economic weight, political significance and increasing role in regional cooperation will keep it as a central focus and challenge for Australia's policy makers.

Acknowledgements

This is a revised version of a paper prepared at the request of the Senate Foreign Affairs, Defence and Trade References Committee of the Australian Parliament to assist with its inquiry into Australia's relationship with China (initiated in December 2004). For information about the Committee and its inquiry see:

http://www.aph.gov.au/Senate/committee/FADT_CTTE/index.htm

The author wishes to express his appreciation to Dr Ann Kent (Australian Research Council Fellow at the Centre for International and Public Law, Faculty of Law, Australian National University), Dr Peter Van Ness (Research Fellow, Contemporary China Centre, Research School of Pacific and Asian Studies, Australian National University), Graeme Dobell (Foreign Affairs and Defence Correspondent, Radio Australia and ABC Radio), Paul Kelly (Editor at Large, *The Australian*), and Michael Ong, David Richardson, Peter Rixon, Jeffrey Robertson, and Effi Tomaras (Information and Research Services) for their most helpful comments on drafts of this paper. Dr Christopher Braddick (Faculty of Asian Studies, Australian National University) and Professor William Tow (Department of International Relations, Research School of Pacific and Asian Studies, Australian National University) provided valuable comments on sections of the draft paper. The author also wishes to thank the participants at an internal Information and Research Services workshop on the paper, Andrew Chin for his assistance with sources, and Marilyn Harrington, Cathy Madden and Doreen White (Information and Research Services) for their editorial assistance.

Introduction

China's evolution into a high growth economy and a country with a greatly expanded international role and profile has been one of the most striking features of international politics in the past thirty years. China is now a central element in economic growth in East Asia and in the international economy overall. The economic policies pursued by the Chinese Communist Party regime have helped lift many millions of people out of poverty in a comparatively very short time. China has expanded greatly its international role, improved relations with many countries, especially around its borders, and thoroughly revised its approach towards multilateral cooperation, not only advancing its participation in existing bodies—such as the World Trade Organization and the United Nations—but participating in new groupings (such as ASEAN Plus Three) and starting its own (such as the Shanghai Cooperation Organisation and the non-official Boao Forum for Asia). The overall process of change underway has been referred to widely by Chinese commentators as China's 'peaceful rise'.¹

China's rise in international prominence also involves significant challenges and problems. China's remarkable economic expansion has been accompanied by several areas of stress, including socio-economic inequality, urban-rural disparities and environmental pressures. China's economic growth is being pursued by the ruling Communist Party, which is sponsoring a major socio-economic transformation while also seeking to maintain a basic continuity of the single-party political system.

China presents a multi-faceted image to the East Asia region and to the world. China is building on its economic successes by enhancing its external relations through many areas of bilateral, regional and international cooperation. At the same time, China is also engaged in an ongoing contest to affirm its claim to sovereignty over Taiwan, is steadily expanding the capacities of its armed forces, and has recently had sharp disagreements with its major East Asian neighbour, Japan. China's relations with the United States have developed effectively in many areas, especially after the 'September 11' terrorist attacks in 2001, and both countries have many areas of common interest. There is, however, also ongoing uncertainty about how this crucial relationship will develop and whether Sino-US accord can be maintained while ongoing areas of policy difference are worked through.

These issues are all of central concern to Australia, as a treaty ally of the United States and a close economic partner of China. This paper will provide a survey of major issues in China's foreign relations, with a special emphasis on China's relations with and role in East Asia. The paper begins with a brief overview of China's economic development and of the political issues and challenges facing the ruling Chinese Communist Party. The paper then discusses in turn China's overall approaches in foreign policy and its relations with the United States, Japan, the Korean Peninsula, Southeast Asia and the Southwest Pacific. The paper's final section reviews issues and challenges in Australia's relations with China.

The domestic setting: economic dynamism and political authoritarianism

Continuing economic growth

The economic reforms pursued in China since 1978 have transformed both the economy itself and its significance for the world. From an inward-looking economy with minimal international interactions, the pace and the sheer scale of China's growth are making it a major factor in international trade overall and of vital significance to many major economies.

The Organisation for Economic Cooperation and Development (OECD) in its first 'Economic Survey of China' (September 2005) stated that:

China's economic growth has averaged 9½ per cent over the past two decades. The rapid pace of economic change is likely to be sustained for some time. These gains have contributed not only to higher personal incomes, but also to a significant reduction in poverty. At the same time, the economy has become substantially integrated with the world economy. A large part of these gains have come through profound shifts in government policies. Reforms have allowed market prices and private investors to play a significant role in production and trade.²

Ross Garnaut (Australian National University) in introducing a set of analyses of China's economic 'boom' (published in August 2005) wrote that:

China is reaping large benefits from reform prompted by WTO membership, facilitating deeper integration into the international economy. Over the past year, China has overtaken Japan as the world's third largest participant in international trade. It continues to be the world's major destination for direct foreign investment. China's growth has systematically raised global prices of its main import products and reduced prices for its main exports. The world has come to see China as by far the most rapidly growing competitive threat and market opportunity.³

China's economy has been transformed in less than thirty years. Before 1979 China maintained a centrally planned economy in which private enterprises and foreign-owned firms were virtually non-existent. China's goal was economic self-sufficiency and foreign trade served to provide those products which could not be produced domestically. From 1979, a series of reforms liberalised agriculture and established special economic zones to attract foreign investment and advanced technology to China and support a strategy of export-led growth. Economic policymaking was decentralised, with major responsibilities given to local and provincial authorities who were encouraged to attain high rates of growth.⁴

As a result of the reforms, economic growth, which had been at an average annual rate of 5.3 per cent between 1960 and 1978, has been at an estimated average annual rate of 9.5 per cent since 1979, making China one of the world's fastest growing economies. The two principal factors propelling growth have been capital investment supported by high domestic savings

levels and foreign direct investment (FDI), and rapid productivity growth. China has one of the world's highest levels of domestic savings (recently estimated at 47 per cent of Gross Domestic Product [GDP] between 2002 and 2004), a pattern encouraged by the lack of a widespread welfare 'safety net', the high cost of health and education and consumers' drive for major items such as housing.⁵ Foreign Direct Investment increased from US\$636 million in 1983 to an estimated US\$64 billion in 2004—with accumulated FDI estimated at the end of 2004 at US\$563 billion.⁶ These two factors have together produced the situation where, as Ross Garnaut and Yiping Huang (Citigroup) have written, 'Chinese investment rates in the early twenty-first century were twice as high as the rest of the world taken as a whole.'⁷

The economic reform process has also made China a major trading power. As Wayne Morrison (Congressional Research Service, Washington D.C.) has observed:

Chinese exports rose from \$14 billion in 1979 to \$593 billion in 2004, while imports over this period grew from \$16 billion to \$561 billion... China's trade continues to grow dramatically. In 2003, Chinese exports and imports rose by 35% and 40% respectively, over 2002 levels. Chinese exports and imports in 2004 were both more than twice as large as those in 2001.⁸

China's trade has continued to rise rapidly in 2005 with exports in the year up to October increasing by 30 per cent from the previous year. China has continued to run large trade deficits with major Asian trade partners such as Japan, Taiwan and South Korea as well as with some major resource exporting countries, but its surpluses with the US and Western Europe have been widening. As a result, China's overall trade surplus was expected to reach US\$100 billion in 2005 and the current account was estimated by the International Monetary Fund (IMF) to have a surplus of nearly US\$700 billion by May 2005.⁹ China's major exports continue to be computers, electronics and other machinery but its exports of textiles and apparel have also risen sharply since global quotas were lifted on 1 January 2005. Textiles and apparel exports rose in the first quarter of the year by 78 per cent to the US, by 92 per cent to Spain, by 90 per cent to France and 88 per cent to Germany.¹⁰

China's remarkable trade performance is taking place in the context of what one analyst (Alan Beattie in the *Financial Times*, London) has described as '... the biggest experiment in the modern history of world trade when it joined the World Trade Organization'.

At stake is the successful and peaceable integration into the world economy of a low-cost producer, the size and competitiveness of whose companies threaten manufacturers around the globe... If the scale of competition from Chinese exports is unprecedented for industrialising economies in recent times, so is the country's adherence to multilateral trade rules. By opening up to imports, China has inoculated itself against the most virulent accusation of stealing jobs from other countries.¹¹

However, the impact on major industrialised countries of China's trade performance continues to arouse contention and controversy. China's economy is in many ways much more open than other major Asian industrialising countries, such as Japan and Thailand at the same stage of development. While China's imports are dominated by commodities, China is

also importing large volumes of machinery and electronic products (such as semiconductors) to bolster its productive capacities. Chinese companies also participate in many transnational production networks (where several countries contribute to the completion of particular products). It has been estimated that up to half of China's exports are made up of intermediate and semi-finished products imported from other countries to be processed and shipped out again. If the double accounting of the import content is removed, then China's exports as a proportion of its GDP are about 18 per cent, rather than the 36 per cent in the 'raw' data.¹²

Nonetheless, China's export success will continue to see close monitoring of its adherence to the commitments it has made by joining the WTO. Some areas of China's adherence to these commitments have been viewed critically, such as the ongoing problems in protection for intellectual property and the slow pace of change in opening up of some market sectors particularly in services such as retail trade.¹³ The reactions of major trade partners and the dangers of protectionist sentiment are likely to continue to be highly important issues for both China's overall economic prospects and for its external relations (see more discussion below).

Is high growth sustainable? Issues and challenges

The medium-term goal of the Chinese government is to raise per capita GDP to US\$3000 by 2020, from an estimated US\$840 in 2000, and to quadruple overall GDP in this period, which will require a rate of growth of at least 7.2 per cent annually.¹⁴ The importance of China to the global economy overall, and to the economic fortunes of East Asia in particular, make the sustainability of its ongoing economic performance a central concern for many countries as well as for China itself. One set of issues concerns the capacity of China's economic policymakers to manage the pace of growth and to avoid overheating. So far this appears to be being handled effectively although the government seems to have had difficulties in achieving the control of growth that it has wished.¹⁵

A second set of questions concern the challenges which China faces in the medium-term if growth is to be sustained.¹⁶ These include:

- State owned enterprises (SOEs) account for about one-third of China's industrial production and employ nearly two thirds of urban workers.¹⁷ According to the OECD over 35 per cent of the SOEs operate at a loss and one in six have a negative net equity. Loss-making SOEs require subsidies, primarily provided through state banks.¹⁸ Support for unprofitable SOEs diverts resources away from more productive areas and also makes it difficult for the government to reduce trade barriers, for fear that many of the SOEs would be rendered unviable and would collapse, creating more unemployment.
- The banking system has major problems. These stem partly because of its support for the SOEs and its failure so far to operate strictly on market-based principles. Many bank loans now are directed to support SOEs: they are often at low interest rates and many are unlikely to ever be repaid. A study by Ernst and Young in 2002 suggested that the level of

non-performing loans issued by China's banks was US\$480 billion, or 43 per cent of China's GDP.¹⁹ The OECD's recent economic survey has argued that substantial progress has been made by Chinese authorities in pursuing bank-sector reform. The OECD concluded that: 'Overall, these reforms appear to have been successful, as since 2000 the new loans made by banks seem to have been of a much better quality.'²⁰ However, the high volumes of bad loans now held by Chinese banks are considered to pose a serious threat to China's banking system. The IMF has reported (in July 2005) that Chinese authorities and IMF staff '... agreed that banks' balance sheets needed to be further strengthened, and internal control systems, governance, and credit risk management in the state banks needed to be further improved.'²¹ The potentially precarious financial state of the Chinese banking system has made Chinese reformers reluctant to open the banking sector to foreign competition although foreign institutions are encouraged to buy shares in some banks as part of the reform process.²² Reform in this sector is part of China's commitments to the WTO.

- Infrastructure 'bottlenecks' constrain growth prospects. These include inadequate transportation and energy systems. China's industry, for example, has frequently had to face power shortages because infrastructure development has not been able to keep pace with levels of growth.
- Inadequate provisions for the rule of law have been associated with continuing problems of corruption, financial speculation and misallocations of investment funds.²³ While substantial progress has been made in revising and strengthening business laws, law enforcement is often inadequate. In the area of intellectual property rights, a set of new laws has been in place since 2001. However weaknesses in protection for intellectual property are a serious problem both for foreign and Chinese investors. The OECD has argued that:

At present in this as well as other areas, it can be very difficult to obtain judgements in court and even more difficult to obtain enforcement of the judgement. Such difficulties are not just faced by foreign enterprises. Chinese entrepreneurs feel that expansion across provincial borders is made difficult by the lack of objectivity of local judiciaries when it comes to trying cases involving the infringement of trade secrets, intellectual property rights and contract enforcement more generally.²⁴

- China faces some challenging demographic trends which could have implications for development prospects. China now has a considerable gender imbalance which has resulted from factors including the 'one child' policy pursued since 1980, a cultural preference for boys and the advent of 'ultra-sound' devices enabling determination of gender of fetuses. In China's 2000 census the proportion of boys to girls aged between 1 and 4 was 120:100. Over the next two decades this trend is likely to see a substantial surplus of men of marriageable age, a development which has led to concerns about potentials for social discord and possible instability.²⁵ China is also expected to experience a substantial rise in the proportion of aged persons in the population, with the median age expected to rise from about 30 in 2000 to 39 in 2025. The conjunction of a higher

proportion of elderly people and smaller family sizes is likely to place very heavy demands on the state's capacity to provide social security support, which is at present largely confined to people in urban areas.²⁶

- Rapid economic growth has placed massive strain on China's environment through flooding, desertification (which has doubled in pace since the 1970s), widespread water scarcity, and dwindling forest reserves. Environmental damage imposes high social and economic costs. It is estimated that the direct economic costs are between 8 and 12 per cent of the country's GDP. There have been serious outbreaks of waterborne diseases and air pollution (primarily from coal burning) is considered responsible for over 300 000 premature deaths per year.²⁷ Disaffection over issues including polluted water, damaged crops and air pollution, is a major cause of social protest (see next section). Many programs are underway with extensive involvement of international organisations, but further damage is expected.²⁸

These issues pose major challenges, not only to economic management and prospects for growth, but also to the capacity of the political system to handle the consequences of rapid social and economic change.

The political context: President Hu Jintao and 'authoritarian populism'

A vital part of the context of China's foreign policy is the character of its political system and the capacity of that system to accommodate the pressures and challenges arising from the country's continuing rapid growth. The ruling Chinese Communist Party (CCP) remains thoroughly predominant and does not intend to forego or surrender that position in the foreseeable future. The regime, however, faces some substantial ongoing pressures, particularly because of the scale and rapidity of socio-economic change. Major questions continue about how China's political system may evolve in the future.

China is now being led by a 'fourth generation' of CCP political leaders. Jiang Zemin, the leader of the preceding generation, retired as Party General Secretary at the Party's 16th National Congress in November 2002 and as state president in March 2003. He was replaced in both positions by Hu Jintao, the acknowledged leader of the 'fourth generation'. In the same period, Li Peng retired as Chairman of the National People's Congress (NPC) and Zhu Rongji retired as Premier, to be replaced by Wu Bangguo and Wen Jiabao respectively. Hu Jintao consolidated his position further when in September 2004 he replaced Jiang Zemin as chairman of the Central Military Commission, the Party body which heads the military bureaucracy.²⁹

The recent leadership changes were accomplished in an orderly manner: indeed the American analyst Lyman Miller (Stanford University) has observed that, 'Hu's orderly succession to Jiang—first as the top party leader, then as People's Republic of China (PRC) president, and now as China's commander-in-chief—stands as the only incidence of a successfully planned retirement of a top leader in favour of a younger designated successor in the history of a major communist country'.³⁰ The transition to the fourth generation leadership was

consolidated by their response to the outbreak of Severe Acute Respiratory Syndrome (SARS) in China in early 2003: after serious initial problems in responding to the crisis (including secrecy) the government was seen to have coped effectively. The CCP leadership's standing was also enhanced in 2001 when China was chosen as the host for the 2008 Olympic Games; in October 2003 when China became the world's third country to successfully place a person into space; and in October 2005 when a further successful space flight was achieved, this time by two astronauts.³¹

President Hu and Premier Wen have sought to present an image of being 'men of the people' through visits to rural and run-down urban areas, and exhortations to officials to be more responsive to the needs of ordinary people. However the new leadership, while emphasising social justice and the need for good governance, has also reaffirmed the dominance of the Party. President Hu has placed emphasis on tightening the Party's control over public opinion by stricter guidance of state media and further restrictions on dissident intellectuals and the activity of non-governmental organisations.³²

In a further move to assert control over information and debate, the government in September 2005 imposed additional restrictions intended to limit the news and other information available to internet users (who now number over 100 million) and restrict sharply the scope of content permitted on web sites. The government's aim was made clear in the text of the regulations which stated that, 'The foremost responsibility of news sites on the Internet is to serve the people, serve socialism, guide public opinion in the right direction, and uphold the interests of the country and the public good'.³³

China under the Hu-Wen administration also continues to attract criticism because of its restrictions of human rights. Amnesty International in its most recent annual report states that despite progress towards reform in some areas, there continue to be '... serious and widespread human rights violations perpetrated across the country'. These included: the detention or imprisonment of tens of thousands of people in circumstances where they were at high risk of torture or ill-treatment; a high rate of employment of the death penalty; the use of the global 'war on terror' to justify a crackdown on the Uighar community in Xinjiang (Turkic-speaking Muslims, of whom many are thought to support an independent state of Eastern Turkestan),³⁴ restrictions on freedom of expression and of religion in Tibet; and restrictions on the Falun Gong spiritual movement which '... remained a key target of repression'.³⁵

Socio-economic change and political order

The stability of China's social and political order cannot be taken for granted, because rapid economic growth, while conferring great benefits, also produces enormous strains on society and socio-political authority. The Hu-Wen leadership has recognised the importance of these issues. Mary E. Gallagher (University of Michigan) has written that:

Expansion and protection of workers and peasants rights has become the centrepiece of the Hu-Wen approach to balanced development. Since 1998, when then premier Zhu Rongji first used

the term “disadvantaged groups”... there has been a gradual acceptance of the idea that economic reform is not always a rising tide that lifts all boats.³⁶

Several major issues pose challenges to social order. In the rural areas, peasants have often faced major problems of land being requisitioned for industrial development purposes without adequate compensation being paid. Peasants also face problems of widespread corruption of government administration, an issue exacerbated by the condition of indebtedness of many local governments (given the withdrawal of many government subsidies). Stability in urban areas is challenged by factors including unemployment (estimated officially in 2004 at 4.2 per cent but with other analyses suggesting it could be much higher) and the difficulties faced by new urban immigrants.³⁷ The process of change in rural areas is leading to the ongoing movement of very large numbers of people from rural to urban areas. It is estimated that up to 300 million people will move to urban areas in the period up to 2020. Immigrants to urban areas face many problems, particularly because under China's residency system they often do not have recognised rights to be in the areas they are living in (a reform announced in November 2005 will see the residency restrictions lifted in 11 of China's 23 provinces).³⁸ ‘Non-legal’ immigrants face many problems of discrimination in employment and in access to services: the impact is often especially adverse for women and children.³⁹

The imbalances between rural and urban areas—along with the problems faced by immigrants to urban areas—are seen by analysts both within and outside China as major threats to social stability. In a survey conducted in 2004 by the official Chinese Academy of Social Sciences (CASS) of 109 of China's most senior economists, sociologists, managers and legal experts, 73 per cent identified the ‘three rural problems’ of agriculture, peasants and rural areas as China's most urgent challenge. Combined with other issues such as corruption, the intensity of the rural turmoil led more than half of the respondents to see a systemic crisis as ‘possible’ or ‘very possible’ within the next 5 to 10 years. Some in the urban population also face severe problems: many workers have faced poor work conditions—often with very inadequate standards of health and safety—and are vulnerable to unscrupulous employers who may withhold wages from ‘non-legal’ residents.⁴⁰

Further concerns have been evident in 2005. The official Xinhua News Agency reported in September that the gap between China's richest and poorest citizens is approaching a serious level and could lead to social unrest. Xinhua stated that the most affluent one-fifth of China's population earn 50 per cent of total income while the bottom one-fifth earn only 4.7 per cent. The Xinhua report commented that, ‘The income gap, which has exceeded reasonable limits, exhibits a further widening trend. If it continues this way for a long time, the phenomenon may give rise to various sorts of social instability.’⁴¹

Against this background, it is not surprising that there is a high level of protest in China with thousands of incidents occurring each year. Such protests are often well-organised, with participants communicating by mobile phone, and the numbers have been rising.⁴² Chinese official sources suggest that the numbers of ‘incidents of social unrest’ rose from 8700 in 1993 to 58 000 in 2003 and that the average number of participants in each incident in this

period rose from 8 persons to 52.⁴³ In July 2005, China's Minister for Public Security Zhou Yongkang was reported as having said that the number of what he called 'mass incidents' was rising rapidly in China: Zhou is understood to have stated that 3.76 million people took part in 74 000 incidents in 2004, which he characterised as a dramatic increase.⁴⁴

While the level and character of these protests has not yet challenged the capacity of the CCP to rule, the issue nonetheless highlights the pressures arising from the scale of economic change now underway and directs added attention to the possible medium-term political implications.

Possible political directions: autocracy, democracy or disorder

At least three scenarios are possible for China's political evolution: a development of the current CCP-dominated system; a move towards a more distinctly liberal direction; or a possible atrophying of the state's capacity to cope with the continuing socio-political impact of rapid economic change.

In the first scenario, China's system could evolve under the leadership of the CCP towards a more efficient and responsive version of one-party dominance. The ruling party is already taking steps to improve the implementation of the rule of law and to enhance communication channels between the people and government. China's leadership in the CCP does not accept the legitimacy and relevance of the Western liberal democratic model and may wish to seek a long term alternative—the model of Singapore's highly capable government under the People's Action Party has been mentioned in this context (albeit, with recognition that Singapore's polity of 4 million is dramatically different from China's geographic and regional diversity and its enormous population).

A second scenario would suggest that China may gradually evolve in a distinctly more liberal direction. There are a number of developments which can encourage such trends. Private industry is developing faster than the state sector. Village elections are held every three years to select village committees, with significant power over issues including land and property rights, and it has been suggested that elections could in the future be held at the level of townships.⁴⁵ Many new self-organised groups are emerging in China's society.⁴⁶ The media have been more robust and active despite ongoing restrictions. George Gilboy (Massachusetts Institute of Technology) and Eric Heginbotham (Council on Foreign Relations) have suggested that:

Village level democracy—imperfect as it is—is bringing greater accountability to the countryside. Nationally, progress in building legal institutions and, especially, fostering a “rights and accountability” culture has been made on a broader front. Although the road ahead is still much longer than that already travelled, the state seems prepared to countenance a judicial system that will be used to mediate interests as part of the local political process, not simply to administer justice.⁴⁷

These trends, under this scenario, could see China evolve towards a more explicitly rules-based system where the CCP might ultimately countenance an explicit recognition of the rights of other political forces, as has happened in the cases of the ruling political elites in several other East Asian political systems in the past thirty years, including South Korea, Thailand and Taiwan.

A third and less favourable scenario would be one where the Chinese ruling elite and state are not able to manage an effective process of adaptation in the political system in the face of massive economic and social change. Some analysts have suggested that China could evolve in a direction more reminiscent of some Latin American countries. Gilboy and Heginbotham have written:

The speed of social change and the explosive growth of social conflict may outstrip the state's ability to respond. Political leaders could settle into a collusive relationship with business and social elites. A semi-permanent "have not" class might engage in a constant and economically costly low level war with the entitled minority. For many Chinese scholars and government officials, Latin American style social and political problems are now an explicit frame of reference for what China might face if it fails to reverse social trends in the near future.⁴⁸

While this third scenario does not seem likely to eventuate in the near future, the capacity for China's government to manage rapid change and maintain effective administration and political stability will continue to be significant elements in the context of China's evolving foreign relations.

State-directed and popular nationalism

An additional factor significant for both domestic politics and foreign relations is nationalist sentiments at both the elite and popular level. While this paper is not seeking to consider these complex issues in detail, it is relevant to note their salience in the context of the discussion below on recent developments in foreign relations.⁴⁹

Appeals to nationalism were a vital element in the Communist Party's struggle for power in China, especially when the Party led peasant resistance against Japanese invasion after 1937. An assertion of China's right to self-determination after the 'century of humiliation' and foreign intervention (from the time of the first 'opium war' after 1839) was a central part of the Party's claim to popular support: an appeal symbolised by Mao Zedong's famous claim at the time of the declaration of the People's Republic in October 1949 that, 'China has stood up'.⁵⁰ For thirty years after 1949, the PRC pursued its national interests firstly as an ally of the Soviet Union and the socialist bloc and (after 1960) as a socialist leader of the 'third world' in opposition to both Soviet and US 'imperialism'. However, after 1978 and the inauguration of economic reforms, appeals to patriotism were directed towards China's new national priorities. Chen Zhimin (Fudan University, Shanghai) has argued that the CCP leadership now sought to pursue 'pragmatic nationalism':

For pragmatic nationalists, the road to greatness was to adopt whatever approach would remedy China's economic weakness. By firmly placing economic modernization as the central task of the government, and by making all necessary economic reforms at home, pragmatic nationalism was able to redirect the Chinese people's energy and talents to strive for their own economic welfare and national greatness.⁵¹

At the end of the 1980s, the CCP's leadership was challenged by two major developments. A period of popular protests in Beijing culminated in the violent suppression by the security forces of unarmed demonstrators in Tiananmen Square in June 1989. In the following two years the identity of the CCP was also challenged by the demise of the Communist regimes in the Soviet Union and Eastern Europe: after 1991, China was the only remaining major power to remain under Communist rule. In this uncertain environment the Communist Party initiated a 'Campaign for National Unity', particularly targeted at young people, which urged the Chinese people to unity under the Party's leadership. Chen Zhimin has written that:

The CCP leadership understood that the CCP could still claim its political legitimacy by appealing to its past credentials as the leader and defender of Chinese independence. However, it could not just rely on that. To sustain and consolidate its political legitimacy, the CCP had to deliver what the Chinese people desired: economic development, political stability and national unity. These three elements... formed the core agenda of official nationalism, which they called patriotism. Among the three, economic development was placed as the top priority.⁵²

Up to the mid-1990s, the promotion of nationalism and patriotism was dominated by the CCP-led regime. However, in the past decade, 'state-directed' nationalism has been joined by activities at the popular level. Popular nationalist sentiment has focused especially on the US (which is often seen as seeking to interfere in China's affairs, thwart its desire to achieve reunification with Taiwan and inhibit its development overall) and Japan (whose wartime record is still deeply resented). From the late 1990s the capacity of people to communicate and mobilise has been enhanced greatly by widespread use of mobile phones and the Internet. Several issues served to focus popular expressions of nationalist sentiment, including China's failure in 1993 to secure the Olympic Games for the year 2000; the US's deployment of forces in the vicinity of Taiwan in early 1996; US and Western criticisms of China's human rights record; and the accidental bombing by US aircraft of the Chinese Embassy in Belgrade in May 1999 (which was followed by substantial protest demonstrations in China). Japan has also been a focus of criticism and protest. A petition in 2005 opposing the granting of a permanent seat on the United Nations Security Council for Japan was circulated on the Internet and supported with over 40 million signatures.⁵³ A series of anti-Japan demonstrations took place in April 2005 and gained international attention (see below).

The extent to which popular nationalism can be expressed in a manner which is outside the ultimate supervision and control of the CCP is not clear. Some analysts have suggested that popular activists have considerable scope for autonomous action⁵⁴ although others argue that protests (such as those against Japan in April 2005) were monitored closely and ultimately manipulated by the government.⁵⁵ The Communist Party is clearly intent on maintaining full control over foreign policy planning and direction. The Party would be highly concerned if

popular nationalist sentiment became inter mixed with other focuses and strands of social protest (discussed above) in a manner which could challenge the Party's control: the CCP will be determined to prevent this eventuality.⁵⁶

China's foreign relations: major issues and trends

In the years since the inauguration of the People's Republic in October 1949, China's foreign relations have undergone a profound transformation. The PRC emerged as a Communist state in close association with the (then) Soviet Union which gave assistance to other 'fraternal' parties (such as the Vietnam Communist Party in its struggle against the French) and which fought an intense war on the Korean peninsula in support of the Communist regime in North Korea (from 1950 to 1953). For a number of years after 1949 China was comparatively isolated internationally but the accession of the PRC to the seat for China in the United Nations in 1971, and then the advent of a relationship with the United States after President Nixon's visit in 1972, opened a new phase of wider involvement. From the early 1970s until 1989 China and the US were in a *de facto* strategic alliance against the Soviet Union but this phase of foreign policy was effectively ended by the June 1989 suppression of protesters in Tiananmen Square and then by the demise of the Soviet Union in 1991.⁵⁷

Since the early to mid-1990s the PRC has sought to develop new emphases in foreign relations: as its economy has continued to expand rapidly, its regional and international significance in trade has grown, and its need and capacity for wide international relationships to support its economic transformation have increased. This section of the paper will outline some of the most important of these aspects of China's overall foreign policies, before looking specifically at the crucial US relationship and key relationships in East Asia and the Southwest Pacific.

China has become more active overall in its foreign relations. Many bilateral relationships have been either newly initiated or deepened. China has revised its approach toward multilateral cooperation. While China up to the mid-1990s had been relatively cautious about engagement in multilateral cooperation, it has recently been active in expanding such involvements. As well as being more activist in the United Nations, China has sought to widen its international associations (for example through joining the WTO in 2001) and has been more prepared to cooperate with regional groups such as the ASEAN Regional Forum. China has, furthermore, initiated a new multilateral grouping when it established the Shanghai Cooperation Organisation (SCO), a grouping of itself, Russia and the Central Asian states of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan (see below).

In pursuing wider foreign relations, China has upgraded its policy-making capacities. Evan Medeiros (the RAND Corporation) and M. Taylor Fravel (Harvard University) have argued that China has expanded considerably the capacities of its Foreign Ministry. There has been increased organised discussion of foreign policy, press relations have been enhanced and many more overseas visits have been pursued. As a result, they argue, China has been able to present its interests in major relationships, such as that with the US, more effectively.⁵⁸

These broad trends can be seen in recent developments in major relationships and in key aspects of China's external policies.

China's multidirectional foreign policy

In a process which began with the adoption of economic reforms from the late 1970s, China has revised its approach both towards the international system overall and towards many of its major relationships. China's continuing high rates of economic growth have underpinned the vital importance of a stable global economic and political environment for China's continuing well-being. From a position in the 1950s and 1960s of pursuing autarky and self-sufficiency, China's government has come to see benefits for China from the process of globalisation. Wide international associations have clearly been essential to China's access to foreign direct investment and to markets for its burgeoning exports. China's willingness to gain benefits from access to the international economy has been illustrated clearly by its commitment to enter the World Trade Organization in 2001.

Zheng Bijian, Chair of the China Reform Forum and an advisor to the Chinese government, has emphasised the importance of China's approach to globalisation:

The most significant strategic choice the Chinese have made was to embrace economic globalization rather than detach themselves from it. In the late 1970s, when the new technological revolution and a new wave of economic globalization were unfolding with great momentum, Beijing grasped the trend and reversed the erroneous practices of the Cultural Revolution. On the basis of the judgment that China's development would depend on its place in an open world, Deng Xiaoping and other Chinese leaders decided to seize the historic opportunity and shift the focus of their work to economic development. They carried out reforms meant to open up and foster domestic markets and tap into international ones. They implemented the household contracting system in rural areas and opened up 14 coastal cities, thus ushering in a period of economic takeoff.⁵⁹

China's leaders have also seen globalisation as significant in terms of political and security issues. China has sought wide and deep international associations as a way of enhancing its national security in a world which can be expected to be increasingly multi-polar. President Jiang Zemin stated in 2002 that:

As countries increase their interdependency and common ground on security, it has become difficult for any single country to realize its security objective by itself alone. Only by strengthening international cooperation can we effectively deal with the security challenge worldwide and realize universal and sustained security.⁶⁰

China's leaders have found it useful to be able to contrast China's emphasis on wide international and multilateral cooperation with the approach of the US, which has stressed its primacy in the world, especially under the Bush administration (see below). Accordingly China has propounded its own 'new security concept' as an essential basis for Chinese foreign policy. This policy advocates an economic and political order in which mutual trust, benefit, equality and cooperation characterise bilateral and multilateral relations to reduce

'insecurity and safeguard global strategic equilibrium and stability'. Yong Deng (United States Naval Academy) and Thomas D. Moore (University of Cincinnati) have argued that:

...the policy reflects Beijing's desire to circumvent Washington's well-established alliance networks by associating such structures with a Cold War mentality that is ill-suited to an era of globalization in which security and development are positive-sum games requiring mutual cooperation, rather than the bloc politics of the past.⁶¹

Against this background, China has sought to develop improved relations with key associates and partners, both on its periphery and more widely. Since the mid-1990s China has made substantial gains in deepening relations with the countries of ASEAN and also with the Republic of Korea (examined in more detail below). China has also improved relations with India, with whom it came into conflict over border issues in the 1960s. Both sides have improved economic relations (with trade reaching a level of US\$7.6 billion in 2004).⁶² On 11 April 2005, China and India announced a new 'strategic partnership' to discuss issues including terrorism, resource competition and the role of the US in Asia. During a visit to India by Premier Wen Jiabao, the two countries pledged to resolve long-standing border disputes and to boost trade and economic cooperation. As a goodwill gesture, China formally abandoned its claim to the small Himalayan province of Sikkim: India, in turn, acknowledged Tibet as part of China. China also pleased India by formally endorsing India's claim to be granted a permanent seat on the UN Security Council.⁶³ China remains wary about India's improving relationship with the United States, which has included improved defence relations and agreements to expand India's access to civilian nuclear technology.⁶⁴

China has also consolidated relations with Russia and with Central Asia. Russia is an important source of resources and arms for China. On 2 February 2005, Russia's President Putin and Tang Jiaxuan, a member of China's State Council, announced during a visit by Tang that the two countries would begin holding regular security consultations and would in the future hold joint military exercises. Tang declared that China considers Russia to be its 'main partner for strategic cooperation' and he said that this was the first time that China had ever established national security consultations with another country.⁶⁵ From 18–25 August 2005, the two countries extended their security cooperation by holding an eight day joint exercise involving nearly 10 000 troops, including 1800 from Russia. The declared aim of the exercise was to strengthen 'the capacity of the two armed forces to jointly fight international terrorism, extremism and separatism' although the forces on display were more suitable for the projection of conventional naval, air and ground forces in Northeast Asia.⁶⁶

China and Russia are also partners in the Shanghai Cooperation Organisation (SCO) with four countries in Central Asia: Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. From its inception in June 2001 the SCO has focussed on non-traditional security threats, particularly terrorism. The SCO has also begun to evolve into a broader organisation. Political interaction among members is extensive, with annual summits, frequent bilateral visits and many ministerial-level meetings and working groups. At the 2003 meeting, Premier Wen Jiabao proposed setting up a free trade zone among members and the reduction of non-tariff barriers in a number of areas.⁶⁷ By 2005, the SCO had accepted Mongolia, India, Pakistan and Iran as

observers.⁶⁸ At its meeting in July 2005, the SCO took a further step towards asserting influence when it called for a deadline for the stationing of foreign troops in Central Asia. No timetable was set and the 'foreign forces' were not identified, but the move appeared to be aimed at the presence of US forces in the region and was seen as being in line with China's desire that any long-term US presence be discouraged.⁶⁹

Europe is another important foreign policy focus and China has developed relations significantly with the European Union (EU). China and the EU share a common interest in encouraging the evolution of a multipolar international order and both support the role of multilateral institutions. The EU and its members do not have a close relationship with Taiwan (unlike the US) and do not have substantial security interests in East Asia. This difference in strategic outlook from the US has been reflected in the EU's willingness to consider lifting the embargo on supply of military material imposed after the Tiananmen crisis in 1989, a policy which was opposed strongly by the US (the policy change has been postponed).⁷⁰

Europe is a valued source of investment and of access to advanced technology for China. On 8 December 2004, the two sides held their 7th annual EU–China Summit in The Hague, with Premier Wen Jiabao leading the Chinese delegation. At the time of the meeting the President of the European Commission, Jose Manuel Barroso, stated that the EU considers China as a 'strategic partner' and that developing China–EU relations is 'one of our top foreign policy objectives in the years to come'.⁷¹

A further significant feature of China's multidirectional foreign policy is the expanding role of 'soft power' in China's international profile.⁷² One notable example of China's approach has been the inauguration of the Boao Forum for Asia, a non-official annual meeting of senior figures on Hainan Island to discuss international and regional cooperation issues. The Forum is clearly a valuable venue for networking between Chinese and regional political and business leaders.⁷³ China's economic success has been accompanied by an increasing transmission of Chinese cinema, popular music and culture overall, both internationally and especially in East Asia. China has also been interested in encouraging many members of future generations of intellectuals, technicians and political elites (particularly from East Asia) to study in its universities and technical colleges. During the 2003 academic year, 110 844 foreign students were pursuing tertiary courses in China's universities, with about 80 per cent coming from other East Asian countries. China's attraction as a centre for education is being enhanced by a major program to expand the sector and attract foreign scholars.⁷⁴ The role of study experiences in China in sensitising foreign students to Chinese approaches and attitudes and in developing professional and personal networks is likely to be considerable and is thus another valuable aspect of China's overall foreign policy process.⁷⁵

Maximising access to energy and resources

Developing relationships to gain access to resources is a major recent emphasis in China's foreign policy.⁷⁶ Efforts to secure a steady supply of energy and resources to support economic growth have been an important element in China's policies since the early 1990s

but have been even more prominent recently. In 1993 China became a net oil importer and oil consumption has been increasing rapidly. In 2003 oil consumption increased by 30 per cent over the previous year and China became the world's second largest oil importer, surpassing Japan. In 2005 oil imports are expected to grow by a further 10 per cent. In response, since the early 1990s, China has invested in 'upstream oil activities' in many countries. In Africa, China has invested in Sudan and began receiving Sudanese oil in 1999. China has production agreements with Chad, Libya, Algeria and Angola (Angola, for example, exported 25 per cent of its output to China in 2001). The Middle East remains China's main source of supply, and the China Petrochemical Corporation (SINOPEC) has signed a 25 year agreement with Iran worth US\$ 70 billion.⁷⁷

In the past three years, China has also expanded its diplomatic associations in the Americas to secure energy and resources.⁷⁸ As well as exploring partnerships and cooperation with Brazil, Colombia, Peru, Ecuador and Bolivia, China has also developed oil exploration and purchase agreements with the anti-American regime in Venezuela of President Hugo Chavez. During his visit to Canada in September 2005, President Hu upgraded ties to the level of a 'strategic partnership' and vowed to pursue a doubling of trade by 2010: Canada's petroleum reserves (the second largest in the world after Saudi Arabia) are considered to play a substantial role in China's interests in the relationship.⁷⁹ China's interest in long-term access to oil supplies was also reflected in the attempt by the China National Offshore Oil Corporation (CNOOC) to buy the US-owned oil company Unocal, an attempt which failed in July 2005 (when Unocal accepted a bid by Chevron) amid negative publicity in the US (see below).⁸⁰

A feature of China's external resources policy is that much of it is conducted by Chinese companies which have close political connections and are often backed by foreign aid. With government backing, such companies are willing to make investments and agreements in cases of high political risk. China has also been able to gain access and cachet with a number of Third World governments because of its willingness to pursue relationships apparently without explicit concern for issues of governance, human rights and other political issues. This has led some in other countries (such as the US) to suggest that China's willingness to pursue deals with countries such as Iran, Sudan, Libya and Angola, is an impediment to efforts to attempt to encourage improved governance and more responsible behaviour from such countries.⁸¹

Defence force modernisation

China's proactive foreign policy and diplomacy has been accompanied by increased spending on defence. China's economic growth is providing the funds to enable force development and modernisation programs. China's official defence budget has risen by double figures in most recent years and in 2005 is rising by 12.5 per cent to reach a total of US\$30 billion.⁸² This official figure is considered widely to be likely to underestimate China's actual expenditure.⁸³ The US government argues that real military expenditure, including weapons acquisition and research attached to other areas of the budget, means that actual expenditure could be two to three times above the official figures. The US Department of Defense, in its latest annual review of China's defence capabilities (released in July 2005), suggested that while evidence

is imperfect, 'the defense sector in China could receive up to \$90.0 billion in 2005',⁸⁴ which would be the third largest military expenditure in the world after the US and Russia (while leaving the US as the clear leader in expenditure, with the 2005 budget estimated at US\$401.7 billion,⁸⁵ more than four times the highest Pentagon estimate for China).

Over the past decade, the People's Liberation Army (PLA) has been engaged in a concerted effort to become a modern military organisation capable of projecting power well beyond China's borders. The desire to be able to project power in relation to Taiwan appears to be the immediate aim of the modernisation programs.⁸⁶ Recent reports have suggested that China's aims in its armed forces programs include an improved nuclear deterrence capacity vis-a-vis the US, soldiers better trained and able to use high technology equipment, and more effective cruise and anti-missile systems which could be used in the areas near Taiwan.⁸⁷ An *Oxford Analytica* report has argued that, 'The balance of power across the Taiwan Strait is tipping in China's favour, but Beijing has to contend with the United States and Japan, allied powers that want to contain the PLA's military expansion and deter any adventurism on its part towards Taiwan'.⁸⁸

China has maintained a comparatively small nuclear force which Michael May (Stanford University) has suggested has included 18 liquid fuelled missiles capable of reaching the US and up to about 100 other nuclear-capable missiles with shorter ranges.⁸⁹ China's nuclear deterrence capacity is being enhanced by the introduction of a new class of nuclear submarine (the Type 094) which can carry 16 'Julang 2' missiles with a range of 8000 kilometres and the ability to carry independently targeted warheads. The new submarines will give China a nuclear capacity that could withstand a nuclear strike from the US and enable China to respond with its own nuclear weapons. China's land-based missiles are also being improved with new and longer range models being introduced.⁹⁰ It should be noted, however, that while these programs may improve China's capabilities, the US maintains an overwhelming superiority over China in nuclear war-fighting capacities, a predominance which is much greater than it had in relation to the former Soviet Union.⁹¹

To enhance its military capacities overall, China has been reducing its forces' overall size while upgrading their technical capacities. Premier Wen Jiabao told the National People's Congress in March 2005 that China would soon complete a program to reduce the size of its armed forces by 200 000 (leaving an overall strength of 2.3 million, the world's largest). As part of these programs, China is seeking to increase its capacities to maintain modern electronic weapons and control systems.⁹² A key element in China's programs has been the deployment of land-based missiles in the provinces adjacent to Taiwan to enable China to achieve overwhelming superiority in the area of missile forces: it is expected that by 2006 China will have about 1000 such weapons capable of reaching Taiwan.⁹³

In the area of naval warfare capacity, China is developing cruise and other anti-ship missiles designed to pierce the electronic defences of US vessels which could be deployed to the area of Taiwan. These weapons will be deployed on new Russian-built Sovremenny class destroyers and Kilo class submarines and on Chinese-built vessels.⁹⁴ The air force now has about 300 modern Russian and Chinese made combat aircraft, armed with sophisticated

weapons, although the remainder of China's over 3000 combat aircraft are of 1970s or earlier vintages.⁹⁵

China is clearly not in a position to challenge the overall position of the US, which remains the clearly predominant military power in the East Asia region: the US Department of Defense report stated that, 'China's ability to project conventional military power beyond its periphery remains limited'.⁹⁶ However the Chinese government appears determined to be able to deploy sufficient modern weapons so that any US decision to deploy its own forces near Taiwan would mean they are highly vulnerable to attack. The *Oxford Analytica* report cited above concluded that:

With strong political support and steadily rising defence budgets, China's defence transformation will continue at an accelerating pace over at least the next few years. Chinese defence chiefs will become increasingly confident they can project their military power far from the country's shores. However, the PLA has not been involved in actual combat for the past 25 years, and its newly acquired war-fighting capabilities and skills are untested.⁹⁷

The United States relationship

For China, the United States is by far its most important single foreign policy focus. China has a multifaceted relationship with the US which involves simultaneously both opportunities and challenges. The US is a highly valued source of foreign investment and advanced technology and a key trade partner whose appetite for Chinese imports is a substantial contributor to China's growth. Alongside growing ties, the two countries have areas of existing and potential disagreement and discord over both political and economic issues (most significantly over Taiwan and North Korea, discussed below).

A senior Chinese analyst, Wang Jisi (Director of the Institute of International Strategic Studies, in the Communist Party's Central Party School), summed up the complex nature of China's approach to the US in an article published in September 2005:

The United States is currently the only country with the capacity and the ambition to exercise global primacy, and it will remain so for a long time to come. This means that the United States is the country that can exert the greatest strategic pressure on China. Although in recent years Beijing has refrained from identifying Washington as an adversary or criticizing its "hegemonism"—a pejorative Chinese code word for U.S. dominance—many Chinese still view the United States as a major threat to their national security and domestic stability.

Yet the United States is a global leader in economics, education, culture, technology, and science. China, therefore, must maintain a close relationship with the United States if its modernization efforts are to succeed. Indeed, a cooperative partnership with Washington is of primary importance to Beijing, where economic prosperity and social stability are now top concerns.⁹⁸

China–US bilateral relations since the 1970s have moved through three major phases. From 1979, when the US and China achieved full normalisation of relations, the two countries entered a period of effective strategic alignment against the common challenge of the Soviet Union up to the end of the 1980s. In East Asia the major focus for this cooperation was both countries' opposition to Vietnam's close relations with the Soviet Union and Vietnam's presence in Cambodia, a phase which concluded with Vietnam's withdrawal in 1989 and the international agreement to resolve the conflict through the Paris Agreements of October 1991. The violent suppression of demonstrations in Tiananmen Square in June 1989 (which was criticised heavily in the US) and the end of the 'Cold War' brought a conclusion to the period of strategic alignment and ushered in a second phase in relations. The two countries experienced some discord in the early to mid-1990s. In 1993 the Clinton administration attempted to link progress in relations with improvements in China's human rights practices, an effort rebuffed by China and de-emphasised by the US after mid-1994.⁹⁹

In 1995 and 1996, further bilateral tension arose over the issues of Taiwan.¹⁰⁰ Significant strain in relations developed in mid-1995 when the US allowed President Lee Teng-hui of Taiwan to make a non-official visit to the US. Tensions escalated further when Taiwan approached its 1996 presidential elections, the first to be genuinely contested. China staged a series of military manoeuvres and missile firings in the vicinity of Taiwan and the US, in response, deployed two carrier battle groups to the vicinity of Taiwan in a pointed display of US power. After this period of significant tension, relations improved in the late 1990s and—in the third major phase of relations since 1979—have been much closer since September 11, 2001, but the complex mix of cooperation and contestation continues.

The improvement in China–US relations since the 'September 11', 2001 terrorist attacks in the US has been one of the most important international developments in the early twenty-first century. The Bush administration came to office in 2001 with expectations that it might adopt a more robust approach towards China, which Mr Bush had characterised as a 'strategic competitor' of the US, and the potential for US–China tensions was a concern for East Asia. These concerns seemed to be realised early in the Bush administration in April 2001, with China's detention of a US electronic surveillance aircraft after it collided with a Chinese aircraft and was forced to land on Hainan Island (where the crew were held for ten days before their release).

However, the advent of the 'September 11' attacks in the US and the 'war on terror' facilitated relations. China condemned the attacks, supported the US in relation to the operation in Afghanistan and counselled its long-time allies in Pakistan to cooperate fully with the US. Since late 2001 Chinese officials have met regularly with their US counterparts and shared data on the multiple campaigns against terrorist groups in Asia. The US reciprocated by placing the East Turkestan Islamic Movement (an organisation with some support in China's western province of Xinjiang, which has a Muslim majority) on the list of designated international terrorist movements.¹⁰¹ China has provided economic assistance to support reconstruction in both Iraq and Afghanistan. Both China and the US have been involved closely in efforts to resolve the North Korea nuclear issue through the Six Party

Talks process, even though their perspectives and priorities have differed (see below).¹⁰² China, however, has had significant differences with the US on aspects of the Bush administration's foreign policies. China clearly opposed the US's invasion of Iraq and is likely to have opposed an explicit UN Security Council resolution to endorse such an action (if one had been submitted in early 2003).¹⁰³

Dialogue and discussions in 2005

Both countries are continuing efforts to expand their dialogue. In August 2005 an important new bilateral forum was inaugurated which will involve regular and frank discussions designed, in the words of Deputy Secretary of State Robert Zoellick, to review the strategic and 'conceptual framework' of relations to improve understanding of each sides interests and domestic considerations. In the first round of the dialogue, which involved a day-long meeting between Zoellick and Executive Vice Foreign Minister Dai Bingguo, the two sides had a 'wide-ranging and unscripted discussion that weaved together various regions including the Middle East, East Asia, Africa and Latin America, with functional issues such as energy, security, terrorism, economic development and trade, and democracy and human rights'.¹⁰⁴ A further round of this dialogue is expected in December 2005.

Bilateral dialogue was continued during a visit to the US by President Hu Jintao in September 2005. While a planned full bilateral visit had to be postponed because of the problems caused by Hurricane Katrina, President Hu and President Bush met in New York on 13 September 2005. Speaking before the meeting, President Hu stressed the 'effective coordination and cooperation' between the two countries on a wide range of issues including counterterrorism, non-proliferation of weapons of mass destruction, UN reform, and economic growth. He proposed that the US and China should work together to safeguard peace and stability in the Taiwan Strait and reaffirmed China's commitment to a denuclearised Korean peninsula. While characterising relations overall as involving 'win-win cooperation', President Hu acknowledged that rapidly expanding bilateral trade had produced friction and promised that China would work hard to reduce the trade imbalance through purchase of US-made goods.¹⁰⁵

According to the official US spokesman for the meeting, President Bush placed particular emphasis on the issues of North Korea, Iran, economics and trade, and the need to combat avian flu. The two leaders reaffirmed previous agreements that the Korean peninsula should be free of nuclear weapons. On Iran, the US sought China's help to encourage Tehran to cooperate with the International Atomic Energy Agency, although China refrained from indicating support for bringing the question of Iran's nuclear programs to the UN Security Council. President Bush urged China to pursue a market-oriented exchange rate for its currency and both leaders pledged to cooperate in seeking successful WTO negotiations in the Doha Round and to achieve more effective protection of intellectual property rights in China (a major issue of contention—see next section). On avian flu, President Bush secured China's agreement to work with US agricultural and health officials as well as the international community to enhance early warning, detection and containment capabilities. It was also announced that the US had passed a list of concerns on human rights issues and

religious freedom to China's foreign ministry: the material included information on specific issues and cases which the US hoped to follow up in later discussions.¹⁰⁶

Further US–China dialogue took place during a visit by President Bush to China on 19-20 November but no major breakthroughs were evident. President Bush had emphasised before his arrival in China that human rights and democracy would be important themes for the visit. In a speech in Kyoto just before his arrival in China, Mr Bush had supported enhanced progress towards democracy and (in a move which was not welcomed in Beijing) had praised Taiwan for its creation of a 'free and democratic Chinese society'.¹⁰⁷ During his visit, Mr Bush attended a Christian church service, expressed support for the cause of religious freedom in China and advanced US positions in areas including currency reform and the trade imbalance. There was no evident further progress on discussions about human rights issues and China rebuffed Mr Bush's comments on democracy.¹⁰⁸ President Hu reaffirmed Chinese policies on Taiwan and on China's commitment to address economic relations issues and work to reduce the imbalance in bilateral trade: a provisional agreement for the purchase of 70 Boeing aircraft worth about US\$4 billion was unveiled at the time of the visit. In a potentially useful step the two leaders announced that they would pursue further dialogue on cooperation on energy issues. Overall, however, President Bush's visit was seen as an opportunity for each side to reaffirm major positions.¹⁰⁹

While regular dialogue is an essential part of the China–US relationship, the limited outcome of the bilateral visit in November 2005 highlighted the fact that the two countries continue to contend with several difficult areas of their interactions: these include their economic relations, the status of Taiwan, China's military modernisation programs and human rights and democracy issues.

China–US economic relations

Economic relations reflect the overall pattern of simultaneous cooperation and potential for disagreement. Both sides derive great benefit from the relationship, in which China has become the US's third largest trading partner, with trade reaching an estimated US\$232 billion in 2004. China's success in exporting to the US however (with the trade deficit reaching US\$162 billion in 2004) has fuelled substantial tensions. Debate sharpened in 2005 on several aspects of economic relations including textile quotas, intellectual property rights, energy issues and currency policies. All of these concerns relate to the overall issue of the trade deficit and all have impacted on domestic interest groups and the concerns of Congress.¹¹⁰

Textiles have been a sensitive area especially since the global quotas formerly maintained by the Multifibre Agreements expired at the beginning of 2005. By September, US industry sources suggested that Chinese textile exports to the US had increased by 627 per cent. US textile industry groups have filed a variety of complaints alleging unfair competition and the issue is politically sensitive, given that since 2001 nearly 400 000 textile and apparel industry jobs have been lost in the US (38 per cent of the industry total), with Chinese imports held largely responsible for the decline.¹¹¹ A series of negotiations resulted in an agreement in

early November 2005 under which quotas would be imposed for the following three years on the permitted rate of increase of imports of a range of Chinese products. While the agreement was praised by US officials and industry representatives, its effectiveness in protecting the US industry was not yet clear: it was argued that the numerical limits imposed on Chinese producers might in fact provide an incentive for them to produce higher-value products for the US market, and thus to become an even more potent medium-term challenge to US producers.¹¹²

Chinese industry's infringement of Intellectual Property Rights (IPR) has been criticised heavily in the US, with many attitudes summed up by the comment by Robert Zoellick (former US Special Trade Representative and current Deputy Secretary of State): 'if we make it, they can fake it'.¹¹³ In testimony to Congress on 7 June 2005, Christopher Hill (Assistant Secretary of State for East Asian and Pacific Affairs) stated that US concerns included 'automobile brakes, even entire passenger cars, electrical switches, medicines, marine pumps, processed foods, and other items that create health and safety risks in China and abroad because of poor product regulation'. The Chinese government has taken action to protect IPR but US concerns continue. David Weller (acting Assistant US Trade Representative for China Affairs), in comments in September 2005, described IPR as an issue of 'epochal nature' and said that enforcement problems continue 'despite some important and serious efforts by sincere and forward-thinking' officials in the Chinese central government.¹¹⁴

China's policies on currency valuation are another area of contention. For many years, the yuan was pegged at a rate of 8.277 to the US dollar and was allowed to move only 0.3 per cent either side of the peg. Many US policymakers considered that this level kept the PRC's currency artificially undervalued, making PRC exports unreasonably competitive, and US exports less competitive, than they might otherwise be. US officials accordingly urged the PRC either to raise the value of the yuan or allow it to float more freely (similar arguments were also advanced by other parties including the IMF).¹¹⁵ Pressure was also exerted within Congress: on 7 April 2005 a non-binding vote in the Senate approved a resolution which called on the US to raise tariffs by 27.5 per cent if China did not upvalue its currency within six months and the measure passed by a two-thirds majority. Chinese leaders reacted negatively to the pressure in relation to the value of the yuan: on 23 June, Premier Wen Jiabao said at a meeting in Tianjin that it was China's right to choose its own currency regime 'suitable to its own national conditions'.¹¹⁶

In July 2005, China did act to modify its currency policy by allowing the yuan to rise in value by 2.1 per cent against the dollar. At the same time it modified the fluctuation band that limits the movement of the daily exchange rate to 0.3 per cent by redefining it in terms of a basket of foreign currencies rather than just to the US dollar. It also announced that in future the central bank (the People's Bank of China) would allow the exchange rate to be more heavily influenced by market conditions.¹¹⁷

While the change in July represented a notable policy shift by China, US leaders, facing a continuing trade deficit with China, have urged Chinese authorities to make further upward adjustments to the yuan. However observers have questioned how much benefit the US might

actually gain even from a more significantly revalued Chinese currency. Recent studies by both the Asian Development Bank and academic analysts have argued that it is unlikely that a revaluation of the yuan would in itself significantly reduce the US trade deficit, since US demand for foreign goods would simply be shifted from China to other low-cost source countries. They also highlight the potential adverse impact for China of a rapid major revaluation, particularly if a move to currency flexibility was to exert too much strain on China's financial and banking systems.¹¹⁸

Chinese policymakers have criticised US pressure on the currency issue. Li Ruogo, Deputy Governor of the People's Bank of China, argued in late 2004 that the US should recognise that its problems do not stem from an undervalued yuan but from an unsustainably high overall trade deficit and a domestic savings rate of only about two per cent. Li was quoted as stating that:

China's custom is that we never blame others for our own problems. For the past 26 years, we never put pressure or problems on to the world. The US has the reverse attitude; whenever they have a problem, they blame others.¹¹⁹

China–US economic relations are likely to continue to be contentious and they involve complex patterns of interrelations and inter-dependence. While US policymakers challenge China about the level of the trade deficit and the value of the yuan, China's supply of cheap products to the US market also benefits many US consumers. Although China has been achieving a high bilateral trade surplus with the US (at US\$162 billion in 2004) China is also redirecting some of its accumulated capital surplus into the US economy. The US under the Bush administration has been sustaining high rates of deficits in both the federal budget and the current account, as the administration has pursued continuing spending on domestic programs, has funded the war in Iraq and has also enacted substantial tax cuts.¹²⁰ To sustain its economy, the US has been absorbing surplus capital from other countries, who have invested in US bonds and securities: China has been investing in the US official money market at a rate of about US\$12 billion per month (i.e. over US\$140 billion per year).¹²¹ However, there has been widespread discussion on the issue of whether the US will be able to sustain its deficits inexorably into the future without experiencing a substantial financial 'correction', which might be produced by US government action or by unexpected activities in the market. Such a 'correction' could involve a rapid devaluation of the US dollar, a rise in US interest rates and a consequential downturn in US consumption and economic growth—which in turn could have adverse effects on China's exports and its economy overall—as well as on the wider East Asian and international economies.¹²²

Prospects for a sustainable foundation for the China–US economic relationship, it has been argued, could be enhanced through action by China to increase the level of domestic demand and rely comparatively less on rapidly rising exports to sustain growth. The US, as well as the international economy, would gain from US measures to tackle its fiscal and current account deficits. However, concerted action in these areas has yet to occur.¹²³ The rapidly growing China–US economic relationship is thus being pursued in a context which—in addition to the

immediate areas of disagreement and dispute—has some considerable medium-term potential for uncertainty and instability.

China, the US and Taiwan

The political status of Taiwan constitutes the single most sensitive issue in China-US relations and is one of the most serious bases for conflict in contemporary international politics. The PRC claims Taiwan to be part of its sovereign territory and the Chinese Communist Party has consistently declared that reunification is a central goal. Taiwan's government (the Republic of China—ROC) was controlled after 1949 by the defeated forces of the Kuomintang (KMT—Nationalist Party of China) regime of General Chiang Kai-shek, which for many years declared itself to be the legitimate government for all of China. However, political change and democratisation in Taiwan since the 1980s have produced a situation where the Taiwan government no longer claims to govern China but instead declares Taiwan to be a distinct entity which has not asserted its *de jure* independence from China but does not accept China's right to alter by coercion the existing situation of *de facto* independence.

The Chinese government has regularly reaffirmed its claim to Taiwan. A white paper on national defence issued in December 2004, for example, stated that:

It is the sacred responsibility of the Chinese armed forces to stop the 'Taiwan independence' forces from splitting the country. We will never allow anyone to split Taiwan from China through whatever means. Should the Taiwan authorities go so far as to make a reckless attempt that constitutes a major incident of 'Taiwan independence', the Chinese people and armed forces will resolutely and thoroughly crush it at any cost.¹²⁴

For over three decades after the inauguration of the PRC in 1949, the Nationalist Party (KMT) government on Taiwan also claimed Taiwan to be a part of China, which the KMT claimed to represent. However, the consolidation of the PRC's rule in China and a process of social and economic change and (from the late 1980s) democratisation of the political system have produced revised attitudes towards the sovereignty issue in Taiwan. In 1991 the KMT government renounced the policy of attempting to reconquer the mainland. The government of the Republic of China now maintains some ambiguity in its positions on the issue of sovereignty in relation to Taiwan. It does not accept the PRC's claim to be the legitimate government of Taiwan and it claims to be an authentic and democratically-elected administration, but it has not declared Taiwan to be an independent country in *de jure* terms.

Taiwan's status is a significant issue for the United States. The US maintains a 'one China' policy and opposes any unilateral move by Taiwan towards independence, while also rejecting any Chinese attempt at coercive reunification. The US government maintains a non-official relationship with Taiwan and under the Taiwan Relations Act of 1979, is authorised to supply Taiwan with weapons of a defensive nature.¹²⁵ China for its part has expressed concern at the continuing level of US support for Taiwan (including assistance for Taiwan's recent bid to gain membership of the World Health Organisation and US arms sales to

Taiwan). In comments in Beijing during his visit in October 2004, US Secretary of State Colin Powell said that, 'Taiwan is not independent' and 'does not enjoy sovereignty as a nation'. He affirmed the US desire that the two sides should pursue dialogue leading to a 'peaceful resolution'.¹²⁶

Recent developments

Attention on Taiwan's status increased with the election in March 2000 of President Chen Shui-bian, leader of the (then) opposition Democratic Progressive Party (DPP). The DPP had been established in 1986 and had campaigned for democratic reform and for the advancement of a distinctive Taiwanese identity.¹²⁷ President Chen in office has not moved to assert a formal status of 'independence' for Taiwan, given the intense opposition that would be forthcoming from China, but he has continued to emphasise the relevance of a distinct identity for Taiwan. In an address on Taiwan's national day on 10 October 2004, President Chen stated that:

The sovereignty of the Republic of China is vested with the 23 million people of Taiwan. The Republic of China is Taiwan and Taiwan is the Republic of China. This is an indisputable fact.¹²⁸

Developments since late 2004 have highlighted the complexity and anomalies in cross-Strait relations. Taiwan and China have a rapidly growing economic relationship but remain politically estranged, with tensions heightened in mid-March 2005 by the passage by China's National People's Congress of an 'anti-secession law'.

Taiwan and China have a strong economic relationship. Investment from Taiwan has been very extensive (at about US\$80 billion so far) and about 70 000 Taiwanese businesses operate in China, employing up to ten million Chinese workers. China is Taiwan's largest source of imports and it is estimated that about 300 000 Taiwanese businesspeople and their dependents live in the greater Shanghai area alone.¹²⁹ Interaction is especially strong in the area of information technology. Total trade between China and Taiwan rose 33.1 per cent in 2004, with China accounting for 18 per cent of Taiwan's overall trade, compared with 17.1 per cent a year earlier. Taiwan enjoys a substantial surplus in this trade: in 2004 it was US\$ 28.28 billion in total trade of US\$61.64 billion. China has been Taiwan's largest export market since late 2002.¹³⁰

Alongside close economic ties, however, the political atmosphere in Taiwan–China relations continues to be tense. President Chen has been interested to affirm Taiwan's distinct identity and character and he won re-election by a narrow margin in March 2004. China distrusts President Chen, whom it regards as intent on 'pushing the envelope' on the issue of Taiwan's status, by pursuing moves (such as constitutional review) which will further establish an identity for Taiwan that emphasises its separateness from China.

While the climate for cross-Strait relations seemed to improve from late 2004, China proceeded to pursue the adoption of an 'anti-secession law' by the National People's

Congress in its March 2005 sessions. The law, passed on 14 March, emphasised the PRC's desire to achieve reunification by peaceful means, but reserved the right to use 'non-peaceful means' to preserve China's territorial integrity and sovereignty.¹³¹ In substantive terms, the anti-secession measure reaffirmed in law some policy commitments which the PRC has propounded for years—particularly its determination not to accept an assertion of full-scale independence by Taiwan. As such it did not significantly alter the challenges which Taiwan has faced on a long-term basis. The measure, however, has been strongly criticised in Taiwan.¹³²

In the period since passage of the anti-secession law, the PRC has sought to reaffirm its interest in cross-Strait dialogue, particularly through visits and discussions with members of Taiwan's opposition parties. Lien Chan, leader of the KMT, made a highly publicised visit to China in April 2005 and he was followed by James Soong, the leader of the other main opposition party, the People's First Party, and by the leader of the smaller opposition New Party. The opposition figures explored bases for dialogue with China. It is not yet evident that any a major breakthrough between China and Taiwan is in sight but the climate across the strait appears to have eased since the beginning of 2005. China utilised the discussions with opposition figures to suggest its continuing interest in dialogue (albeit on terms acceptable to Beijing) and has also offered some economic concessions (including improved access for some of Taiwan's agricultural products) to underscore the additional economic benefits from close relations with China.

The PRC's current approach appears to be focussing on opposing any move to independence rather than on any early effort to achieve reunification. In a statement in September 2005, Wang Zaixi (Deputy Director of the State Council's Taiwan Affairs Office) said that:

As the Taiwan issue is a very complicated one and efforts to seek national unification take time, our main tasks now are to work to maintain peace and stability, promote communication across the Taiwan Strait and oppose Taiwanese independence.¹³³

In the aftermath of passage of the anti-secession law, the US has supported the visits of opposition leaders to China.¹³⁴ The US has also urged China to also talk with Taiwan's government leaders. White House spokesman Scott McClellan said on 27 April 2005 that:

We welcome dialogue between Beijing and Taiwan—major figures in Taiwan—because we believe that diplomacy is the only way to resolve the cross-Strait issue. But we hope that this is the start of Beijing finding new ways to reach out to President Chen and his cabinet, because in the long term, a solution can only be found if Beijing negotiates with the duly elected leadership in Taiwan.¹³⁵

With China formally committed to achieve reunification (and reserving the right to use force as a last resort), and the US opposed to any coercive action by China, Taiwan remains a focus for potential China–US confrontation. Maintenance of cross-Strait peace while avenues are explored for possible dialogue and cooperation between the PRC and Taiwan is one of the central issues for stability and security in East Asia. In this situation, as Richard C. Bush (the

Brookings Institution) has argued in a comment in September 2005, a continued US role is both desirable and necessary:

If communications do not exist between the leaders of the two sides, the next best solution is for the United States to remain deeply involved in cross-Strait relations, in order to ensure that miscalculation does not occur.¹³⁶

Bilateral relations and China's defence modernisation

China's military modernisation has been a further focus of recent contention. Senior US officials have continued to suggest that China should increase the transparency of its defence programs and to question the need for China's build-up of those capacities. US Secretary for Defense Donald Rumsfeld highlighted US concerns in remarks at a conference in Singapore in June 2005, when he said:

China appears to be expanding its missile forces, allowing them to reach targets in many areas of the world, not just the Pacific region, while also expanding its missile capacities here in the region. Since no nation threatens China, one must wonder: why this growing investment?¹³⁷

The Chinese government responded by criticising Mr Rumsfeld's comments and argued that, on a per capita basis, US defence spending was 17.8 times greater than China's. A Foreign Ministry spokesperson said that, 'In order to reply to complicated international situation and safeguard national sovereignty, security and territorial integrity, it is reasonable for China to update its armament.'¹³⁸

Further controversy arose in July 2005 when People's Liberation Army General Zhu Chenghu (dean of the PLA's National Defence University) suggested in a briefing that China would be prepared to use nuclear weapons if the US military intervened in a conflict over Taiwan. While General Zhu indicated that he was presenting only his own opinions and not representing official policy, his comments were received with substantial concern in the US because they appeared to suggest that China might alter its policy of 'no first use' of nuclear weapons by using such weapons in a retaliatory manner in response to conventional force operations by the US. Shortly after the comments, however, Foreign Minister Li Zhaoxing reaffirmed China's official position that it would not be the first party to use nuclear weapons on a 'first strike' basis in a conflict situation.¹³⁹

On a visit to China in October 2005, Defense Secretary Rumsfeld again commented in critical terms about China's defence policies, stating that China was expanding the scope of its nuclear missile arsenal to reach well beyond the Pacific region, that a number of countries in the region were concerned about China's intentions, and that greater clarity about China's policies 'would generate more certainty in the region'. Chinese officials again rebuffed the US concerns: Defence Minister Cao Gangchuan said that the demands of national development were too great to allow China to spend as much on defence as the US claimed it did.¹⁴⁰

At the same time, Chinese and US defence authorities have sought to improve dialogue and communication. In mid-July 2005, a senior PLA leader led a delegation which visited US Pacific Command in Hawaii. In early September, Admiral William Fallon, the commander of US military forces in the Pacific and Indian Ocean regions, visited China, met with senior defence officials and toured a number of military facilities. Admiral Fallon, while repeating US concerns on the level of China's military expenditure, also affirmed that the US posed no threat to China and called for increased communication between the two countries' defence forces.¹⁴¹

The issue of China's military modernisation is likely to continue to be contentious in US–China relations. A key problem is the issue of what level of Chinese military capability may be considered by the US and other regional countries to be 'legitimate', in the context of China's expanding economy and growing regional and international political significance. An additional and related problem is that both China and the US have the potential to feel 'threatened' by each other's defence and military capabilities. David Shambaugh (George Washington University), in an article at the time of Secretary Rumsfeld's visit to China in October 2005, drew attention to some of the complex questions which, he argued, the US needs to consider:

Why is it not natural for a continental nation like China to possess the full range of military capabilities? Why shouldn't the Chinese navy be expected to possess the capability to patrol at least several hundred nautical miles out around its periphery and even to protect sea lanes beyond Asia in order to ensure maritime trade and energy shipping? Why is it unnatural for the air force to possess the capability to loiter its fighters over the East or South China Seas, or to shadow foreign reconnaissance aircraft that try to spy on its territory?

Why is it unnatural for China to develop a second-strike nuclear capability or its own military satellites or anti-satellite weapons, or to buy weapons and defense technologies abroad that it cannot produce domestically? And why is it unnatural for China to prepare for a range of military contingencies to prevent what it considers to be part of its sovereign territory (Taiwan) from proclaiming independence? Though this may be anathema for many U.S. pundits and politicians, if Rumsfeld were China's defense secretary would he not seek such capabilities?

China will inevitably possess a modern military - the only real questions are when and to what ends will it be put?¹⁴²

Human rights and democracy

The US and China also differ on issues of human rights and appropriate models of political order and democracy. A commitment to the support of human rights standards and to the promotion of democracy as the best model for political authority has been a long-standing emphasis in US foreign policy under both Democratic and Republican administrations, and interest in these issues was heightened in the US by the deaths in Tiananmen Square in 1989.

These issues have continued to be a significant area of recent debate under the Bush administration.

In a major statement on US policy towards China, presented in New York on 21 September 2005, Deputy Secretary of State Robert Zoellick challenged China on political rights and democracy. Zoellick said that China's 'exceptional economic growth' was both benefiting its people and giving China growing influence. The US, he said, '...welcomes a confident, peaceful, and prosperous China, one that appreciates that its growth and development depends on constructive connections with the rest of the world.' Zoellick also argued that there is a 'gulf in perceptions' between the two countries. Zoellick emphasised that the US's commitment to democracy continues to be a central element in its approach towards China:

Closed politics cannot be a permanent feature of Chinese society. It is simply not sustainable—as economic growth continues, better-off Chinese will want a greater say in their future, and pressure builds for political reform ... Some in China believe they can secure the Communist Party's monopoly on power through emphasizing economic growth and heightened nationalism. This is risky and mistaken.

China, he suggested, should continue to promote village elections and extend them to counties and provinces, reform its judiciary, support press freedom and expand religious freedom.¹⁴³

President Bush reaffirmed US policies in this area in his speech in Kyoto on 16 November 2005 when he said that:

As China reforms its economy, its leaders are finding that once the door to freedom is opened even a crack, it can not be closed. As the people of China grow in prosperity, their demands for political freedom will grow as well... By meeting the legitimate demands of its citizens for freedom and openness, China's leaders can help their country grow into a modern, prosperous, and confident nation.¹⁴⁴

The PRC, for its part, has regularly affirmed its right to determine its own political path. Shortly after Mr Zoellick's speech, a spokesperson for China's Foreign Ministry, Qin Gang, said on 22 September that he had 'taken note' of Mr Zoellick's comments that China's one-party system was unsustainable, but insisted that the country was politically stable and that communism had brought many benefits to China's 1.3 billion people. The US had no right to dictate political morality to China: 'Internal affairs should be handled by the government and people of each country. We should respect another country's right to choose its own development road', he said.¹⁴⁵

Chinese analysts have also sought to point out that the overall balance of rights and privileges is not necessarily all in favour of the US. Wang Jisi, in his assessment of the relationship, noted that the US was likely to remain the world's strongest economy but also commented that this was despite '... serious problems such as swelling trade and fiscal deficits, illegal immigration, inadequate health care, violent crime, major income disparities, a declining education system and a deeply divided electorate ...'¹⁴⁶

The US's emphasis on seeking political change in China is not shared widely among many of its allies in East Asia, who would prefer a more cautious and lower-key approach to these issues at a time when China is undergoing profound socio-economic changes.¹⁴⁷ These issues, however, are likely to be an ongoing part of the China–US dialogue.

Future China–US relations: 'Zero sum' or 'positive sum' approaches?

The future character of China–US relations is one of the most important issues for international relations in the 21st century. In the immediate future, a key question is whether the improved climate in relations since 2001 can be maintained or whether underlying concerns on both sides will become more predominant.

In both China and the US there is some diversity of opinion about their relations within political and decision-making circles. This was evident in China at least to some degree in July 2005 with the comments of General Zhu Chenghu—and the subsequent rebuttal of those views—in relation to a possible clash between China and the US over Taiwan (although the evidence available in relation to internal policy debate in China remains limited).¹⁴⁸ In his analysis of the relationship, Wang Jisi observed that:

Like all relations between states, the Chinese–U.S. relationship is fundamentally based on interests. But it also involves more intense, love-hate feelings than do the majority of state-to-state ties. The positive and negative factors in the links between China and the United States are closely interwoven and often run into one another.¹⁴⁹

Differences of interpretation and opinion about China are clearly evident in the US and have recently been manifested in the US Congress. The House of Representatives has two groups of legislators, each initiated early in 2005, and each emphasising different aspects of the US–China relationship. The China Congressional Caucus was established by Representative J. Randy Forbes (Republican-Virginia): the 31-member group has focused particularly on China's military modernisation program and the challenges posed to the US. In recent comments, Mr Forbes drew attention to the potential dangers posed by China's military program which he said 'poses a huge threat' and is 'all focussed on the United States'. He also said that, 'we still don't know if China will be our best friend or our worst enemy'. The 35-member US–China Study Group is led by Representative Mark Kirk (Republican-Illinois) who declares its main goal to be to 'reduce needless conflict with China based on wrong information'. Mr Kirk said that while China's military modernisation is 'profound and it's worrying', US economic and diplomatic ties will turn China 'into a less menacing state ... the two largest economies on earth should place the highest priorities on relations to each other' he said.¹⁵⁰

The two factions clashed in mid-2005 over a resolution in relation to the bid by China's CNOOC oil company to buy the US company Unocal, with Mr Forbes' group backing the resolution opposing the sale (which passed with a vote of 398 to 15), and Mr Kirk and some of his allies opposing the resolution. The *Wall Street Journal* has reported that, '... Chinese

government officials are watching the split in Congress to see which group dominates—the one run by Rep. Forbes or the one championed by Rep. Kirk'.¹⁵¹

The different approaches adopted by members of the US Congress highlight the relevance of the overall question of whether China and the US will be able to define their relations in terms which involve 'zero sum' or 'positive sum' assumptions. If China continues to expand its economic power and political influence, as it has done very notably in the past decade, then the US will be dealing and contending with another well-established major power, both in Asia and internationally. There is already debate among academic analysts over whether major powers will inevitably tend to come into conflict and will thus see their changing power relations in 'zero sum' terms, or whether in a globalised world with interdependent economies and many other issues which need to be dealt with globally (such as environmental matters), major powers can and need to coexist without moving towards inexorable conflict.¹⁵²

A key issue here is whether the continuing China–US discussions now underway—such as the senior-level bilateral dialogue begun in August 2005 and further direct discussions between Presidents Hu and Bush—can engender an improved climate of greater confidence and trust between the two countries, a climate which would support 'positive sum' viewpoints on relations. In the complex China–US relationship, Wang Jisi recently wrote, '... trying to view the Chinese–US relationship in traditional zero-sum terms is a mistake and will not guide policy well ...' and he concluded that:

The improvement of Chinese-U.S. relations will be slow, tortuous, limited, and conditional, and could even be reversed in the case of certain provocations (such as a Taiwanese declaration of independence). It is precisely for this reason that the thorny problems in the bilateral relationship must be handled delicately, and a stable new framework established to prevent troubles from disrupting an international environment favorable for building prosperous societies.¹⁵³

Brad Glosserman (Center for Strategic and International Studies) in a recent analysis of the relationship has argued in a similar vein that:

In this environment, trust is paramount. Despite the positive rhetoric, distrust is high and mutual confidence is a precious commodity. Chinese still fear the U.S. is attempting to block its rise or will contain China once it has risen; Americans fear China aims to supplant it as the dominant power in the Asia Pacific. Neither is reassured by the other's assurances that those fears are ungrounded. Opening a senior-level dialogue is a good step, but progress rather than posturing is needed to develop the relationship.¹⁵⁴

China and Japan

China's progress in improving relations with its immediate neighbours has not recently included the other most powerful and significant East Asian country, Japan. Since diplomatic relations were established between Japan and the PRC in 1972 economic relations have progressed strongly. The two economies have a high degree of complementarity and China's

economic growth has been beneficial to Japan, as it has been to East Asia overall. However at a political level relations have been cool, with a series of long-term and more immediate issues fuelling discord, as was illustrated sharply by the widespread demonstrations against Japan in China in April 2005.

China and Japan have been rivals in East Asia for much of the past millennium. For most of this period, China could be seen to be in an ascendant position but from the mid-19th century to the 1980s, China was in comparative decline and Japan was clearly in the dominant position. Japan defeated China in the war in 1894–95 (when it gained control over Taiwan) and fought a bitter war with China from 1937. As Japan's economy achieved great success in the 1960s and 1970s, China was weakened and preoccupied by the Cultural Revolution. China's economic success since the 1990s has changed the balance in relations between the two neighbours but this process has been accompanied by both cooperation and also uncertainty and dispute.¹⁵⁵

Economic relations continue to grow rapidly. Within the last decade, China has surpassed the US as the major trading partner for Japan, South Korea and Taiwan. Japan still exports more to the US but the trend is moving towards China. In 1995 Japan exported over four times more to the US than to China (US\$123 billion versus US\$29 billion) but by 2004 exports to China had reached \$74 billion while those to the US had risen to \$130 billion. China's exports to Japan more than trebled from 1995 to 2004 (from US\$28 billion to US\$94 billion) while in the same period US exports to Japan declined (from US\$64 billion to US\$54 billion).¹⁵⁶ The China relationship has been particularly valuable to Japan in the past decade as its economy has experienced a prolonged period of low growth: about one third of Japan's growth in exports in 2003 and 2004 has been directed to China and Hong Kong. Japan has benefited from inexpensive Chinese imports while its highly sophisticated industries have not so far greatly feared competition from China's more labour-intensive producers (Japan's economy in 2004 was more than two and a half times larger in overall terms than China's).¹⁵⁷ However, while the economies are very complementary in terms of outputs, they are in competition for the resources and energy required to create these outputs and this is a source of ongoing bilateral pressures and tension.¹⁵⁸

Economic interaction has not brought political accord. A central problem is disagreement over historical issues. Much of this is centred on Chinese official and popular resentment at Japan's role and actions in World War Two. The issue has been kept salient partly by controversies over visits by Japanese political leaders to Japan's Yasukuni Shrine where fourteen figures classified by the Allies as war criminals are among the enshrined. There has also been regular criticism from China at the presentation of war history in Japan's school textbooks. When President Jiang Zemin visited Japan in 1998 he urged the Japanese not to forget the issue of history, but a satisfactory basis for dialogue on the issues has not yet been established. As *The Economist* commented in a recent article: 'There has been no scene in Asia equivalent to Helmut Kohl and Francois Mitterrand holding hands at Verdun in 1984, saying "Never again"'.¹⁵⁹

Other issues divide the two countries. Several territorial boundary issues are disputed. These include the Senkaku Islands, which are controlled by Japan but also claimed by China (which calls them the Daiyou islands), and the wider questions of maritime boundaries, a significant matter in relation to possible petroleum resources. Japan and China disagree over the central issue of how their maritime boundary in the East China Sea should be defined. China claims that its 'Exclusive Economic Zone' should extend by the 200 nautical miles from its shoreline permitted by the UN Convention on the Law of the Sea, while Japan claims that the boundary should be the median line between the two countries.¹⁶⁰ Japanese concerns about maritime boundary issues were heightened in November 2004 when a Chinese submarine sailed into Japanese waters near its southern islands, apparently to test maritime defences. Japan's forces detected the submarine and Japan demanded and received an apology from China over the incident: further tensions have arisen in 2005 (see below).¹⁶¹

Taiwan is also a highly sensitive issue. While Japan formally accepts the 'one China' principle, there are substantial ties between Japan and Taiwan stemming from the period of Japanese control (1895–1945). Japan, for example, has been willing to grant approval for former President Lee Teng-hui to visit (in 2001 for medical treatment and again in 2004) despite protests from China. For Japan, Taiwan is in a strategically sensitive position. Japan imports all of its oil and much of it passes through the seas adjacent to Taiwan. Many in Japan fear that an assumption by China of control over Taiwan could impede Japan's access to its oil supplies. Admiral Koichi Furusho (former chief of staff of Japan's Maritime Self Defence Forces) recently commented that, 'If you assume conditions are balanced now, they would collapse as soon as Taiwan unifies with China. The sea lanes would turn all red.'¹⁶² There is strong support in Japan for the US's willingness to support Taiwan's opposition to any forced unification, an issue given additional attention in 2005 (see below).¹⁶³

Japan's interest in attaining a permanent seat on the United Nations Security Council is a further issue of disagreement. Japan considers that a permanent UN Security Council seat is amply justified by Japan's constructive international record as a UN member, its status as the world's second largest economy and its role as the contributor of about 20 per cent of the UN's budget. In China, however, there is widespread opposition to the granting of a permanent seat to Japan. China is proud of its status as the only Asian country with such a permanent seat and is reluctant to share this status with any Asian country, especially Japan.¹⁶⁴ The extent of popular feelings on the issue was suggested by a survey conducted for the Japanese newspaper *Asahi Shimbun* in April 2005, which found that more than 80 per cent of respondents in both China and South Korea opposed a permanent UNSC seat for Japan.¹⁶⁵

Attitudes towards Japan have been seen as one of the principal focuses for nationalist sentiments in China, along with perceptions of the Taiwan issue and of the United States.¹⁶⁶ Nationalist sentiment focussing on Japan, however, can also be a problem for the government if it becomes associated with strands of thinking critical of the CCP (as was noted above). At the time of the anti-Japan protests in China in April 2005 (see below), the Chinese dissident writer Liu Xiaobo was quoted as having commented that, 'The Government is using this kind

of anti-Japanese emotion but it will control it—to the extent that it can be controlled... This is a double-edged sword. If Japan is successful in entering the UN Security Council, the anger of people will turn against the Chinese Government itself'.¹⁶⁷

In Japan, China's rise in regional influence, while beneficial in economic terms, has been viewed with reserve. China's confident moves towards closer relations in East Asia (especially with the ASEAN countries) have been seen by some as a challenge to Japan's influence. This has been particularly so because Japan has not so far been able to match the commitment by China to develop a Free Trade Agreement with ASEAN (see below). China's rise in prominence has also occurred at a time of a growing sense of nationalism in Japan.¹⁶⁸ Feelings of nationalism in Japan, which had to a substantial degree been suppressed during the Cold War, have gained greater expression since the early 1990s. At a time of recession in Japan, many Japanese have resented China's comparative economic success, especially when from a Japanese perspective Japan has contributed to China's growth through aid and low interest loans. Many Japanese also feel frustration that the country is expected to continue to conduct a 'diplomacy of apology' in relation to the era of Japanese colonial rule in East Asia.¹⁶⁹

Recent developments

In 2005, China–Japan relations have gone through a period of further tensions. The year began with some promise of détente in relations: Prime Minister Koizumi did not visit the Yasukuni shrine during the New Year holidays and a Foreign Ministry spokesman was quoted as saying that this was part of an effort 'to map out a scenario to improve relations with China'.¹⁷⁰ Further positive comments followed from both sides. At the conclusion of the National People's Congress on 14 March, Premier Wen Jiabao said that the China–Japan relationship was China's 'most important bilateral relationship' and offered a three step plan towards the resumption of high level leadership contacts which should involve creating an environment conducive towards such talks, conducting strategic research to improve the basis for relations and managing appropriately the issue of history. Wen stated that the 'main stumbling block was political—fundamentally whether Japan could correctly deal with the problems of history'.¹⁷¹

However several issues have fuelled tensions in 2005. On 19 February at the end of the meeting of the Japan–US Security Consultative Committee in Washington, the two sides issued a Joint Statement which declared in part that the two governments aimed at the development of a 'cooperative relationship' with China but also advocated 'the peaceful resolution of issues concerning the Taiwan Strait through dialogue' and increased transparency in China's defence budget. This was the first occasion in which Taiwan had been mentioned explicitly in such a joint Japan–US statement. China's Foreign Ministry spokesperson Kong Quan declared in response on 21 February that the Japan–US alliance was a 'mutual relationship made in a special historical condition, which should not overstep the bilateral category'. The reference to Taiwan impinged on 'China's national sovereignty, territorial integrity and national security and the Chinese people are firmly against it'. An official Japanese spokesperson responded that the statement was 'nothing new' and that

Japan regarded China as a constructive partner with whom a cooperative relationship should be pursued.¹⁷²

Discord also arose over the issue of China's anti-secession law, adopted in March. Chinese officials sought to explain the measure to Japan and Foreign Ministers Li and Machimura spoke by telephone about this law on 15 March: Mr Li was reported to have stated that the measure reflected China's commitment to a peaceful resolution of cross-Strait issues while Mr Machimura reaffirmed Japan's concerns that the measure would have a negative effect on those relations and called for a resumption of talks between China and Taiwan.¹⁷³ Reservations in Japan over China and some of its policies were also reflected in the annual East Asian Strategic Review published by the National Institute for Defence Studies in Japan which directed attention to China's continuing military modernisation and its efforts to strengthen capabilities in the Taiwan Strait, while seeking to deter US intervention. The report also mentioned the November 2004 submarine incident and cited it as an example of China's move from a coastal defence position to one of offshore defence.¹⁷⁴

Further problems arose after a series of demonstrations and protests in China in April. Protests began in the south-western city of Chengdu on 2 April and also occurred in Beijing and other cities several days later. Protesters criticised a decision by Japan's education ministry to approve a school textbook allegedly playing down aspects of Japan's war record. Opposition was also expressed to Japan's move to gain a permanent seat on the UN Security Council. Chinese police often appeared to make little effort to contain the demonstrations, which did some damage to Japanese official and commercial property.¹⁷⁵

The Chinese government moved in mid-April to curtail the protests, but they had by then aroused widespread concern both in Japan and internationally. Japan officially criticised the activities and Japan's Trade Minister, Shoichi Nakagawa, described China as 'a scary country'.¹⁷⁶ The analyst Willy Lo-lap Lam (Jamestown Foundation) commented of the protests that, 'a body blow has been dealt to China's reputation as a responsible member of the global community'.¹⁷⁷

In the immediate aftermath of the protests, China and Japan made efforts to resume dialogue and to ease relations. However, further acrimony occurred between the countries in late May. During an official visit to Japan by China's Vice Premier Wu Yi, Japanese political leaders had made suggestions about possible additional visits to the Yasukuni shrine by Prime Minister Koizumi. China's Foreign Ministry spokesperson said that China was 'extremely dissatisfied' and Vice Premier Wu cancelled a scheduled meeting with Prime Minister Koizumi, a move which in turn was heavily criticised in Japan.¹⁷⁸

Further tensions were evident in late 2005 in the period surrounding Japan's lower-house elections on 11 September. Both sides have been concerned over the issue of exploration and drilling for oil and gas in the areas of their disputed maritime border: Japan has protested at what it considers to be Chinese development of resources near Chunxiao and China has criticised Japan's decision to grant exploration rights in the Japanese-claimed area of Shirabata. Tensions rose further when China deployed five warships near the Chunxiao gas

field on 9 September, two days before Japan's elections. Shortly afterwards, China announced that it had established a 'reserve vessel squadron' in the East China Sea.¹⁷⁹ While talks between the two countries on maritime boundary issues have continued, there has been no indication of any decisive move towards resolution.¹⁸⁰

While relations remain strained with China, Japan and the US have continued to reaffirm their security relationship. At the end of October 2005 the US and Japan, after a meeting of their foreign affairs and defence ministers, announced a further agreement to realign and reorder their forces to cooperate more effectively. An agreement signed with the US will involve a reordering of US deployments in Japan and intensified planning for defence contingencies, increased intelligence sharing and expanded joint training both inside and outside Japan. The US will also increase provision to Japan of missile defence systems including advanced anti-missile radar and Patriot systems. A report of the agreement stated that closer defence cooperation is 'essential to dissuade destabilising military build-ups, to deter aggression and to respond to diverse security challenges'.¹⁸¹

Discord has continued in China–Japan relations. Shortly after the elections, Prime Minister Koizumi (who had returned to office with a considerably enlarged lower house majority) made another visit to the Yasukuni Shrine on 17 October. The visit produced strongly critical reactions in both China and South Korea, and on 18 October, China announced that it was cancelling a planned visit to China by Japan's Foreign Minister Machimura.¹⁸²

In the immediate future, a significant improvement in the climate of political relations between the two countries seems unlikely.¹⁸³ If Mr Koizumi retires as Prime Minister as he has stated he will, after his latest term as Liberal Democratic Party (LDP) President ends (in October 2006), China might hope to be able to make more progress with his successor. However, recent trends within the dominant ruling party LDP have favoured more robust approaches towards relations with China and in late November 2005 the Party released a draft revision of Japan's constitution that for the first time since World War Two would recognise the country's 'self defence forces' as a fully functioning military and would broaden the government's ability to deploy forces overseas.¹⁸⁴ Any revision to the constitution would require the approval of both houses of parliament by a two-thirds majority and also would need to be supported by majority vote in a national referendum but the draft was immediately criticised by China. The official Xinhua News Agency stated on 22 November that the proposed revision was a document '... designed to provide legal support for its [Japan's] ambition for playing a greater political role on the global stage and of boosting the defence force's status'.¹⁸⁵ In late 2005, the disjunction between the two countries' close economic interaction and cool political relations appeared likely to continue.

China and the Korean peninsula

China has a complex mix of interests in relation to the Korean peninsula. The maintenance of peace and stability on the peninsula is a central concern for China and its goals of continuing economic growth. China has a long-term relationship with North Korea, including a security treaty, and has sought to retain working relations even though the North Korean regime's

internal policies are sharply different from those of China and its nuclear policies are a danger to stability on the peninsula and in East Asia overall. China has also developed a very close relationship with South Korea, which China sees as valuable not only in economic terms but also as a necessary contribution towards prospects for dealing with the North Korean nuclear issue and for containing US influence on the peninsula in the long-term.

South Korea

China's relationship with the Republic of Korea (South Korea) has been described by David Shambaugh as having become '... a central element in the evolving balance of power in Northeast Asia'.¹⁸⁶ Since diplomatic relations were established in 1992 a close bilateral relationship has been established. From a situation of limited contacts, the countries' prime ministers now meet annually in reciprocal summits, many regular ministerial level meetings are held, and the two countries' military forces meet and exchange personnel. China is now South Korea's largest economic partner and South Korea is China's third most important economic partner. South Korea ranks fifth as a source of foreign direct investment to China, over one million South Koreans visit China annually, over 60 000 South Koreans regularly live in China and over 50 000 South Koreans study in China. About 10 000 Korean companies operate in China, with many having moved production processes to China.¹⁸⁷

As David Shambaugh has observed:

China's strategy for building ties with South Korea has both an economic motive and a strategic dimension. In the early 1990s, Chinese strategists concluded that China would have little leverage in shaping the eventual outcome of the divided Korean Peninsula if it did not enjoy strong ties with South Korea. Improved ties would also offset any potential threat to China from the U.S.-South Korea alliance and presence of U.S. forces on the peninsula. Further, a more robust Chinese-South Korean relationship would blunt any attempt by Japan to gain a stronger foothold on the peninsula.¹⁸⁸

A significant part of the context for recent China–South Korea relations has been a pattern of difference in outlook and disagreement on some policy issue between South Korea and its longstanding ally, the US. Differences have been evident particularly over North Korea with many in South Korea considering that the US approach has been unduly 'hard-line' and insufficiently supportive of South Korea's efforts to develop dialogue with the North.¹⁸⁹ South Korea and China also have areas of disagreement over North Korea issues, including China's harsh policies in relation to refugees from the North who enter its territory, policies which have brought some criticism from South Korea. In overall approach to North Korea, however, there has been considerable common ground between South Korea and China. China's Premier Wen Jiabao praised South Korea's policies towards North Korea as 'reasonable' after a meeting with South Korea's Prime Minister Lee Hae-chan in January 2005 and the two countries' foreign ministers agreed in February 2005 to enhance coordination on the North Korean nuclear issue.¹⁹⁰

China's strategy with South Korea appears to have been highly successful overall, but relations have not been without problems. Sensitivities in South Korea were aroused in 2004 when Chinese historians asserted that the ancient kingdom of Kogoryo (37 BC to 668 AD) had been a part of China. The controversy angered many Koreans in both South and North. While diplomatic talks smoothed over the immediate issue, the dispute left some longer-term reservations in South Korea about China's goals and strategies.¹⁹¹ The overall China–South Korea relationship, however, remains strong.

North Korea

China faces a series of difficult dilemmas and choices in relation to the Democratic People's Republic of Korea (North Korea). North Korea is one of China's immediate neighbours and one of the world's few remaining Communist-ruled states. China intervened in the Korean War from 1950–53 to protect the Pyongyang regime and the countries signed a Treaty of Friendship, Cooperation and Mutual Assistance in 1961. China opposes North Korea's pursuit of a nuclear weapons capacity because this threatens to destabilise the balance of forces in Northeast Asia overall. An explicit North Korean nuclear weapons capacity could trigger a nuclear arms race in the region with Japan and possibly Taiwan also acquiring nuclear weapons, a development which could leave China effectively surrounded by nuclear-capable states. Policy towards North Korea is also a major issue for China in its relations with the US, given that the US is strongly opposed both to the North Korean regime itself and to its nuclear and missile programs.

While opposing North Korea's nuclear programs, China at the same time is cautious about any developments, including outside pressures (such as punitive sanctions), which could precipitate a major change in the status quo on the Korean peninsula and in particular does not want the North Korean regime to collapse. Such a development could cause serious political and economic consequences for China. A collapse of the regime in the North could precipitate major flows of refugees to Northeast China, a region which has already faced severe pressures from economic restructuring. China would be very concerned that a North Korean collapse would increase instability on the peninsula overall, damage the economic position of South Korea, a major economic partner for China, and damage economic growth prospects in China itself.¹⁹²

China has modified its approach towards North Korea substantially since the late 1990s. During the Cold War, China had been friendly towards the North Korean regime and during the crisis over the North's emerging nuclear programs in 1993–94, China stayed apart from the efforts led by the US to achieve a resolution (through the 'Agreed Framework').¹⁹³ China saw the nuclear issue as essentially one to be resolved between North Korea and the US. Premier Zhu Rongji stated in 1999 that, 'North Korea is a sovereign nation, and it is nothing to do with us whether North Korea develops guided missiles or nuclear weapons.'¹⁹⁴

Developments in North Korean policy and in Sino-US relations produced a change in China's approach. North Korea admitted on 25 October 2002 that it had breached the terms of the Agreed Framework and had a nuclear program and announced in January 2003 that it was

withdrawing from the Nuclear Non-Proliferation Treaty. On 10 January 2003, President Jiang Zemin stated that China 'does not support North Korea's withdrawal from the NPT, and we support the realization of a nuclear-free Korean peninsula.'¹⁹⁵ China now began to try to sponsor diplomatic action and multilateral talks on the issue. Trilateral talks (between North Korea, China and the US) took place on 24–25 April 2003 and the first 'Six Party Talks' (between the two Korean governments, China, the US, Japan and Russia) were held on 27–29 August 2003 in Beijing. Zhu Feng (Beijing University) commented of this period that, 'Never in the diplomatic history of the People's Republic of China (PRC) has the country been so deeply or extensively involved in a controversial regional issue to which it was not a direct party.'¹⁹⁶

The Six Party Talks process has become the central international focus for efforts to contain and resolve the North Korea nuclear issue and the process still continues (see below). For China, its involvement in the Six Party Talks has raised substantially its profile in East Asia as a regional actor able to cooperate with its neighbours and with the United States on a major regional and international problem. However, North Korea has also been a very difficult policy area for China, including in its relations with the US. This is particularly because China and the US have had significant differences in perception over the nature and character of the problems posed by North Korea and over the degree to which China is in a position to pressure or induce North Korea to negotiate and forego its nuclear capacities.

Since the September 11 2001 terrorist attacks, the US has been increasingly concerned that North Korea is a 'rogue state' which has itself in the past conducted terrorist activities (against South Korea), has a nuclear capacity and missile programs, along with suspected chemical and biological warfare capacities, which it could potentially transfer to terrorist groups, and which is a serious ongoing military threat to the security of South Korea and East Asia overall. Given the dangers posed by North Korea, the US has been frustrated that China has not appeared to be willing to use the influence which it has as one of the regime's two major sources of economic assistance (along with South Korea) to induce North Korea to accede to international demands and renounce its nuclear programs.¹⁹⁷

By contrast, China has acknowledged the problems posed by North Korea but has been highly concerned that any crisis over the North should not compromise China's own development priorities. John S. Park (Harvard University) has written that:

Citing the enormous disparities between the capabilities of North Korea, arguably the world's poorest country, and the United States, the uncontested global superpower, Beijing views the threat from the North more as a potential failed state and humanitarian disaster than as a rogue state or intentional threat to international security. Should the nuclear crisis spiral out of control and lead to an armed confrontation between North Korea and the United States, Beijing is concerned about the prospect of U.S. forces on its border and a flood of North Korean refugees streaming into northern China.¹⁹⁸

China has thus attempted to maintain a delicate balance in its approach toward North Korea between pursuing a negotiated solution to the nuclear issue without precipitating instability or a regime collapse which would endanger China's own economic security.

Recent development: the Six Party Talks and the 19 September 2005 'statement of principles'

The Six Party Talks process produced little evident result in its three sets of meetings in 2003 and 2004, apart from bringing the major interested parties together for discussion. After no agreement was reached in the series of talks in June 2004, they did not reconvene until July 2005. On 19 September 2005, however, the parties produced an agreement on a 'statement of principles' through which an agreed resolution should be pursued.

In the statement, North Korea committed itself to abandoning all nuclear weapons and existing nuclear programs and to return at an early date to the Nuclear Non-Proliferation Treaty and the International Atomic Energy Agency, the United States affirmed that it had no nuclear weapons on the peninsula and no intention to attack North Korea, and the US and North Korea committed to respect each other's sovereignty, co-exist and take steps to normalise relations. The six parties undertook to promote cooperation in energy, trade and investment bilaterally and/or multilaterally. North Korea's five partners in the talks said they were willing to provide aid in energy. The statement declared that a permanent peace regime on the peninsula will be discussed by 'the directly related parties' (presumably the Koreans, the US and China) in a separate forum: this could provide a useful avenue to discuss other relevant issues such as chemical and biological weapons, missile programs and conventional military forces without compromising the prospects for progress on nuclear issues.¹⁹⁹

The 19 September statement needs to be followed up by more detailed negotiations, which are likely to be protracted and difficult. Statements of principles have been made before in relation to North Korean nuclear issues (as with the 1994 Agreed Framework) and were not effectively followed through. It is not yet clear that North Korea will in fact be willing to give up its nuclear programs (its ultimate defence against US assault and its strongest claim to international attention) or that verification of progress can be arranged in a manner which will be convincing to all the parties, especially the US. In November 2005 there were concerns that reports of links between North Korea and Iran (in which Iran was understood to have offered North Korea oil and gas in exchange for assistance in building nuclear weapons-capable missiles) might constitute a further obstacle (particularly for the US) in the path of efforts to achieve an agreement on North Korea's nuclear programs through the Six Party Talks process.²⁰⁰

If the 19 September 2005 statement can be followed up with substantive progress, this would be a further major step for East Asia and for China's foreign policy. Even though success is certainly not assured, Chinese analysts and observers in the period since the statement was concluded have stressed its significance for China as an international actor.²⁰¹ Another indication of the importance of the six party process is that both the US and China have suggested that the Six Party Talks could be developed into a longer-term discussion forum on security issues for Northeast Asia.²⁰²

The evolution of the North Korea nuclear issue is likely to be one of the most important elements in China's foreign relations in the early 21st century and a major determinant of whether the progress it has made in establishing itself as a constructive and influential regional and international actor can be sustained and enhanced.

China and Southeast Asia

China's expansion and deepening of relations with Southeast Asia is one of the most notable aspects of its recent foreign relations. China has transcended its recent history of tensions and discord with many states to improve relations bilaterally and to develop major new avenues of cooperation with the Association of Southeast Asian Nations (ASEAN), including an agreement for a free trade agreement. The Southeast Asian states have welcomed the improved relations with China, while retaining an interest in seeing Chinese influence balanced by the roles of other actors.

The first thirty years of the PRC's policies towards Southeast Asia after 1949 were marked by much mutual reservation and suspicion. China gave ideological support to a number of Communist parties in the regional states, including the Malayan Communist Party, the Communist Party of Thailand and the communist movement in the Philippines. China was a major supporter of the Vietnam Communist Party (along with the Soviet Union), both during the struggle against the French and then the war against the US-supported government in South Vietnam. The potential for links between the Chinese communities in Southeast Asian states and mainland China were also a source of some suspicion and concern.²⁰³

A new phase developed in the late 1970s when relations between China and Vietnam deteriorated sharply, as Vietnam moved closer towards the Soviet Union and invaded Cambodia and ejected the Pol Pot regime at the end of 1978. China and ASEAN developed a *de facto* alignment to oppose Vietnam's presence in Cambodia. With the demise of the Soviet Union and the agreement to resolve the Cambodia conflict in 1991, a new climate for regional détente opened up, in which ASEAN improved its relations with the Indochina countries and went on to accept them as members of ASEAN, along with Myanmar (Burma), by 1999. The passing of the Cambodian conflict, and the enlargement of ASEAN, helped create an environment in which China could renew and deepen its regional engagement.

Up to the mid-1990s, China's relations with Southeast Asia continued to be marked by some tensions, with the South China Sea a focus of concern. Both the PRC and Taiwan and four Southeast Asian countries, Brunei, Malaysia, the Philippines and Vietnam, have competing claims in the area. China had in 1974 seized the Paracel Islands from the former Republic of Vietnam (i.e. the regime in Saigon) and a naval clash occurred between China and Vietnam in 1988. Further concerns were aroused when China in 1995 took control of Mischief Reef, in an area claimed by the Philippines.²⁰⁴

However, since the mid-1990s, China-Southeast Asia relations have improved markedly. ASEAN in the 1990s was interested in widening its scope of cooperation in the post-Cold War environment, particularly by establishing the ASEAN Regional Forum in 1994 to

promote dialogue in East Asia overall. The period of the Asian Financial Crisis (from mid-1997) was a watershed for relations. China was seen to have been supportive towards the region and its maintenance of the value of the yuan (so that China did not 'undercut' its neighbours when they were attempting to stabilise their economies after several states had experienced currency devaluations) was appreciated by the ASEAN members. In the wake of the financial crisis, trade and access to foreign direct investment were of particular concern to ASEAN members and they were highly aware of China's growing presence as a factor in the regional as well as in the international economy: there were particular anxieties that ASEAN states would not be able to compete effectively with China's booming economy in attracting investment. Relations were advanced by a special ASEAN–China summit in December 1997 in Kuala Lumpur. In a joint statement with ASEAN, China pledged to pursue cooperation 'in all areas', including the South China Sea and trade. In a written statement, President Jiang Zemin emphasised China's commitment to good relations, saying that 'China will forever be a good neighbour, a good partner and a good friend with ASEAN countries'.²⁰⁵

Since 1997, China has pursued closer relations with the ASEAN region both bilaterally and multilaterally. China has improved key bilateral relationships. China and Indonesia had been estranged for many years after the advent of the Suharto regime in 1966 and diplomatic ties, severed in 1967, were not resumed until 1990. Relations have now been expanded through dialogue, educational cooperation and investment by China in Indonesia's energy sector. An Indonesia–China Energy Forum was initiated in 2002 and in the same year Indonesia won a contract to supply liquefied natural gas to Fujian province. Relations were extended in April 2005 when President Hu Jintao visited Indonesia and signed an agreement with President Susilo Bambang Yudhoyono to establish a 'strategic partnership' between the two countries to open the way for more trade, energy and maritime cooperation.²⁰⁶ In July 2005, further cooperation was foreshadowed when China agreed to provide Indonesia with technical assistance for the possible development by Indonesia of short to medium range missiles, although cooperation between the two countries in the area of security is likely to be constrained by long-term Indonesian reservations about China's strategic role in the region²⁰⁷.

China's already strong relationship with Thailand has been deepened and political, economic and cultural interactions are extensive.²⁰⁸ With Vietnam, since relations were normalised in 1990 after the hiatus over Cambodia, economic and political relations have improved and difficult border issues have been negotiated and ameliorated.²⁰⁹ Relations with the Philippines, which were strained in the mid-1990s over competing claims in the South China Sea, have improved substantially: trade has expanded and in March 2005 China, the Philippines and Vietnam agreed on a three year program of joint exploration for oil and gas resources in the area of the Spratly Islands.²¹⁰ Ties with Malaysia have been marked by increased trade and expanded dialogues. China has also consolidated its already strong relations with Laos and enhanced its relations with Cambodia.²¹¹

China has developed an especially close relationship with Myanmar, whose strategic position gives China the potential for greater access to the Indian Ocean and from there to the Middle East. China has gained advantage from its willingness to deal with the isolated and unpopular

military regime, which has faced sanctions from the US and the European Union. China has helped build a road link from Yunnan province to a port on the Irrawaddy River and has offered development assistance for hydroelectric power and minerals exploration. Myanmar has extensive reserves of natural gas and Chinese companies are interested in developing the sector. It is understood that China has also supported the construction of naval facilities in Hainggik and Great Coco islands and has assisted with the expansion of the Mergui naval base.²¹²

Tensions have been evident at times in some relationships. With Singapore, China has disapproved of its continuing contacts with Taiwan, which have included utilising Taiwanese territory and facilities for military exercises. China also made its displeasure known when Lee Hsien Loong visited Taiwan in July 2004 just before he assumed the office of Prime Minister. Bruce Vaughan (Congressional Research Service) has written that:

The degree of pressure that China brought to bear on Singapore—they cancelled senior level visits and reportedly threatened to postpone free trade talks scheduled for November 2004—demonstrates that China will still use negative pressure to try to influence its Southeast Asian neighbours, at least over the issue of Taiwan... One Singaporean official reportedly stated 'They [China] are trying to make our core interests subordinate to their core interests.'²¹³

Some tensions persisted in 2005 when Singapore indicated its support for Japan's bid for a permanent seat on the UN Security Council.²¹⁴ Nonetheless, it is clear that China's bilateral relations overall with ASEAN members have been enhanced greatly in the past decade.

China has simultaneously been expanding its multilateral engagement. China and ASEAN have concluded protocols in areas including human resource development, public health, information and communications technology, transportation, environment and culture. At their summit in November 2002 the two sides signed agreements including the Declaration on Conduct in the South China Sea and documents covering non-traditional security threats, economic cooperation and agricultural cooperation. At the summit in 2003, China took the important step of formally acceding to ASEAN's Treaty of Amity and Cooperation, becoming the first non-ASEAN state to do so. At the same summit, ASEAN and China signed the Joint Declaration on Strategic Partnership for Peace and Prosperity, which addresses a wide range of political, economic, social and security issues.²¹⁵

China has also given support to ASEAN's efforts to promote dialogue on regional security issues, especially through the ASEAN Regional Forum (ARF), inaugurated in 1994.²¹⁶ The ARF has been useful as a venue for China to gain experience in regional dialogue. China has recently participated actively in the evolution of the ARF and has supported recent moves to enhance its capacities. At the 2003 ARF foreign ministers meetings China introduced a series of proposals for increasing military exchanges and establishing an annual security policy conference. These proposals led to the inauguration of an ARF Security Policy Conference of senior defence officials (whose first meeting was held in Beijing in November 2004) which was seen as a significant step forward in ASEAN-sponsored dialogue on

security challenges.²¹⁷ ASEAN and China have also cooperated in the development of additional regional cooperation processes, particularly in the 'ASEAN Plus Three' process and the forthcoming East Asia Summit (see next section below).

A very significant area of cooperation now underway is the commitment by both sides to achieve a China–ASEAN Free Trade Agreement (CAFTA). A key motivation on China's part in pursuing the CAFTA was to allay ASEAN concerns about the potential adverse impact on their economies of China's rapid rise in economic strength, particularly when it joined the WTO in 2001 and was able to gain access for its highly competitive manufactures on similar terms in major world markets.

China does not dominate the trade of the ASEAN region: Japan–ASEAN trade was US\$135.8 billion and US–ASEAN trade US\$136 billion in 2004, compared to about US\$100 billion for China, but China–ASEAN trade has been rising more rapidly. Total China–ASEAN trade has recently risen from US\$9 billion in 1993 to an estimated US\$78 billion in 2003 and over US\$100 billion in 2004 and ASEAN members as a whole have recently had a surplus of about US\$8 billion annually, mainly because of Chinese demand for raw materials and precision machinery.²¹⁸ The proposed Free Trade Agreement could help expand this pattern of trade further as it would bring together member states which will have a combined population of about 2 billion and a collective gross domestic product of US\$3 trillion. The CAFTA is so far the only trade agreement to have been offered to ASEAN as a collectivity and the only one which will include the four newer ASEAN members (i.e. Cambodia, Laos, Myanmar and Vietnam).²¹⁹ The appeal of the agreement to ASEAN members has been enhanced by China's offer of 'early harvest' reductions of tariffs on some products much earlier than the scheduled date for inauguration of the overall agreement (so that exporters from ASEAN members can gain some rapid and evident advantages from the agreement).

With the CAFTA agreement, China has been able to both boost its image in the ASEAN region and assert a leading position in economic cooperation in relation to Japan, which has not so far been able to offer a multilateral FTA to ASEAN. John Ravenhill (Australian National University) has argued that:

The concerns that Southeast Asian countries voiced about the economic threat from China prior to China's accession to the WTO underscore the tactical brilliance of Beijing in proposing a free trade agreement to ASEAN, especially one that contained "early harvest" provisions for immediate gains for its Southeast Asian neighbours... Regardless of the overall economic value of the China ASEAN agreement—and, given that many of Southeast Asia's exports would enter the Chinese market duty free either because they are raw materials or components for assembly for export, the actual benefits from the agreement may be limited—it was a diplomatic masterstroke both for its effects in assuaging ASEAN concerns about China's rise and in putting Tokyo on the back foot.²²⁰

The wide range of cooperative programs underway does not mean that there is complete accord between China and its ASEAN neighbours. An example of potentially significant differences in interests is in relation to the Mekong region. China is intent on developing

dams in the upper reaches of the Mekong River. This has caused substantial concerns among some of the downstream countries that the ecology of the river will be affected adversely in areas including fish stocks and the environmental health of the Tonle Sap (Cambodia's large and economically and socially significant inland lake).²²¹

The rise in China–ASEAN cooperation has in overall terms been beneficial for both sides. Southeast Asian states, nonetheless, are also highly interested in the ongoing involvement of the United States in Southeast Asia, which includes security treaties with Thailand and the Philippines and other extensive security ties in the region, notably with Singapore. A recent report by the International Institute for Strategic Studies (IISS) has commented that:

Washington's security interest, which includes a substantial military presence in Southeast Asia's neighbourhood, in effect relieves the ASEAN governments of the need for immediate concern over China's increasing presence. The US is still playing a vital role as a 'regional balance'.

The IISS report, however, notes that the ASEAN states have been able to deepen cooperation with China in a context of détente between the US and China.

The present major power equilibrium in Southeast Asia suits ASEAN members, which are mainly keen to enjoy positive relations with both parties and want, above all, to avoid having to choose sides between either the Chinese or the Americans. But it is quite possible that such a choice could be forced on ASEAN members in the event of a Sino-US confrontation over Taiwan.²²²

China and East Asia multilateral cooperation

As part of its pro-active foreign policies, China has been keenly interested in participating in multilateral groupings to advance regional cooperation in East Asia. Since there is no one overarching model or framework for this cooperation, China has been involved in a number of avenues simultaneously and the pace of activities has advanced significantly since the late 1990s. The most important of these regional cooperation groups have been APEC, the ASEAN Plus Three process, and the new 'East Asia Summit' which holds its first meeting in December 2005.

China joined the Asia Pacific Economic Cooperation (APEC) dialogue in 1991, along with Taiwan and Hong Kong (its current membership is 21).²²³ China has consistently participated in APEC's annual leadership dialogues, inaugurated in 1993 at the Seattle meetings. China also participated in APEC's high point of cooperation, its commitment at the 1994 Bogor meetings to secure free trade and investment among developed member economies by 2010 and developing economies by 2020. China continues its involvement although since the mid-1990s APEC has had difficulties in sustaining its early momentum, particularly because the APEC model of 'open regionalism' (by which members would liberalise trade in a manner which also offered the same trade liberalisation provisions to non-members) has been challenged by the growing popularity of bilateral and regional 'free trade agreements' (which offer liberalised conditions only to those participants signing a specific agreement).²²⁴

APEC continues to be important as a regional forum which brings together both China and the US in a multilateral setting and which also includes Taiwan. Since 'September 11', APEC has directed considerable attention to cooperation on regional security and counter terrorism, including efforts to improve travel and transport security, promote international non-proliferation standards, strengthen export controls, and help its members to meet international ship and port safety standards.²²⁵ APEC has also recently been contributing to regional efforts to develop responses to the dangers of an avian flu pandemic.

Alongside APEC, another major focus for regional cooperation has been the ASEAN Plus Three process (now often referred to as 'APT'). The ASEAN Plus Three grouping stemmed from a meeting of the ASEAN members and China, Japan and South Korea in Kuala Lumpur in 1997. ASEAN Plus Three is not a formalised organisation but rather, as Sanae Suzuki (Institute of Developing Economies, Tokyo) has observed, '...it is a loose cooperative framework based on conference diplomacy'.²²⁶ The APT members have pursued dialogues at several different levels: among all thirteen members, among the ASEAN 'ten' and one other member (which has enabled China and Japan, in particular, to maintain and develop their own specific relationships with ASEAN), and among the three Northeast Asian members (China, Japan and South Korea—who held their first trilateral meeting in 1999).

The APT dialogues operate on a basis of consensus: if some members are uncomfortable with a particular proposal then that is not pursued, although the APT's different levels of dialogue provide some flexibility on how proposals may best be considered.²²⁷ The APT process has involved annual meetings of the members' leaders, and many meetings of ministers and senior officials in areas including politics and security, trade, labour, agriculture and forestry, tourism, energy and environment. A significant element in APT activities has been the development of regional financial cooperation, which has included the inauguration of Asian Bond Funds (to mobilise capital for investment in the region) and a series of 'currency swap' arrangements designed to help avoid any repetition of the financial crisis which affected much of the region in 1997.²²⁸ The APT leaders have also commissioned studies and reports to explore bases for further East Asian cooperation. It should be noted that the APT membership is not fully representative of the major East Asian economies in that as a 'government to government' dialogue it does not include Taiwan (unlike APEC).²²⁹

A further development in the 'architecture' of regional cooperation will be initiated with the first meeting of the 'East Asia Summit' (EAS) in December 2005. The idea for an East Asia Summit arose in the context of ASEAN Plus Three dialogues and was originally envisaged as a meeting of those participating states, but the scope was widened to include India, Australia and New Zealand.

At the time of writing (November 2005) the character and likely direction of the East Asia Summit was still emerging. The EAS does not seem likely to make early or rapid progress towards further regional integration. One relevant issue is that the character and level of economic development among the Summit participants is very wide (for example, between Japan and Laos) so agreement on cooperation processes will be difficult to reach (just as it has been within ASEAN itself). A second issue is that clear central leadership of the Summit

is not likely to be feasible while relations among key Northeast Asian participants remain politically distant (especially between China and Japan). At the end of November, as the Summit approached, there were indications of continuing sensitivities among the Northeast Asian participants: A senior Chinese official (Cui Tiangkai, head of the PRC Foreign Ministry's Asian affairs department) said on 30 November that it would be 'impossible' for Premier Wen Jiabao to hold a bilateral meeting with Prime Minister Koizumi at the Summit because of ongoing Chinese opposition to the Prime Minister's visits to the Yasukuni shrine, and South Korea's Foreign Minister Ban Ki-moon stated on the same day that at present South Korea was not considering holding a bilateral meeting between Mr Koizumi and President Roh Moo-hyun during the Summit.²³⁰

A third issue is that the relationship between the new EAS and existing cooperation dialogues, particularly ASEAN Plus Three, remains to be clarified. It was reported in the lead up to the Summit that the issue of the roles of ASEAN Plus Three and the new Summit has been a matter of contention between China and Japan, with China arguing that the ASEAN Plus Three dialogue should be the primary venue for discussions about the overall future of East Asian cooperation while Japan considered that such discussions could appropriately be pursued by the new East Asia Summit.²³¹ It seems probable that the Summit process—at least in its early phase of activity—will proceed in parallel with the existing network of APT discussions and not as a process which will incorporate those networks.²³²

The EAS nonetheless promises to be a high profile gathering of leaders which will provide opportunities for both multilateral strategic discussions and bilateral meetings, and which has the potential to be highly significant for the future.²³³ The Summit will provide another forum which will be valued by China as a way of underscoring its salience as an economic and political force in East Asia.

The Summit has also been attracting interest from some major countries who have not been invited to participate. Russia made an attempt to gain representation but its request was not agreed to. The US has also viewed the Summit with interest. Ever since the formation of APEC in 1989, US policymakers have favoured modes of regional cooperation in East Asia in which the US can participate and have been wary about institutional arrangements which might 'divide' the region from the US.²³⁴ Some American observers have expressed concern that the EAS will be a venue where major East Asia states including China and Japan will be represented but the US will not, and which could be another avenue for China to sponsor dialogues which define 'East Asia' cooperation as not needing to include the US.²³⁵ The question of how the US reacts to, and is able to interact with, the East Asia Summit will be one of the most significant issues in the early phases of the new grouping's activities.

China and the Southwest Pacific

China's higher profile and more active diplomacy have also been reflected in its relations with the Southwest Pacific. This region is of importance to China for several reasons: competition for influence with Taiwan, some strategic interests, and economic and resource relationships.

There have been longstanding connections between China and the Southwest Pacific. Recent research links the indigenous people of Taiwan to the Polynesian, Micronesian and eastern Melanesian peoples of the region. Direct links were established in the eighteenth century when Europeans traders sent Pacific products to China and in the nineteenth century Chinese labour was recruited to work in plantations and phosphate mines. As a result most states of the Pacific have ethnic Chinese communities. Immigrant Chinese have not challenged the political position of indigenous communities and have been principally active in commerce. Some long-established settlers have also been politically prominent, such as Sir Julius Chan in Papua New Guinea.²³⁶

Since the early 1970s, a principal focus for China's interest in the Southwest Pacific has been competition with Taiwan for influence and diplomatic relationships. The region has been particularly significant for Taiwan since it is one of the few areas in the world where Taiwan has been able to maintain some bilateral relations: of the 25 countries now recognising the Republic of China, six are in the region: the Republic of Kiribati, Republic of Marshall Islands, Nauru, Republic of Palau, Solomon Islands and Tuvalu. The PRC maintains diplomatic relations with the Cook Islands, Fiji, Kiribati, Micronesia, Papua New Guinea, Tonga, Vanuatu and Western Samoa: China is thought to have more diplomats in the region than any other country.²³⁷

Both China and Taiwan have sought to maintain and bolster their relations through provision of aid. China, for example, has paid for prestige projects such as a three million dollar sports stadium in Fiji, significant budget transfers to Papua New Guinea, a new parliamentary complex in Vanuatu and new government buildings in Western Samoa. Much of China's aid is considered to have been directed to projects aimed at maximising political support for China, rather than at supporting the recipients' long-term economic development. China's aid has also been popular in the region because unlike Western donors, China does not seek to apply principles of accountability, governance, transparency or human rights as conditions for providing assistance. John Henderson (University of Canterbury, Christchurch) and Benjamin Reilly (Australian National University) have written that, '...China has been widely praised for its policy of "non-interference", which contrasts sharply as the locals see it, to the "bullying" tactics of Australia and New Zealand.'²³⁸ China and Taiwan also compete through 'visit diplomacy', with both governments regularly hosting lavish and elaborate state visits for leaders of friendly island states.²³⁹

The small population size and economic vulnerability of most Pacific states has meant that the China–Taiwan rivalry has occasionally been associated with internal political dispute and conflict. In mid-1999 the government of Prime Minister Bill Skate in Papua New Guinea briefly switched recognition from the PRC to Taiwan in return for what was alleged to be a package of US\$1 billion in grants, soft loans, trade and business deals. The transfer of recognition was reversed shortly after, when the Skate government collapsed, and PNG has since continued its relationship with China.²⁴⁰ In Kiribati in 2003 there were claims and counterclaims that both China and Taiwan were providing funds to assist political allies. When Aote Tong became Prime Minister he shifted Kiribati's recognition away from China

after a period of twenty years of relations: there were subsequent allegations that China continued to attempt to back elements in the country to try to defeat Tong.²⁴¹ In the small nation of Tuvalu, Prime Minister Saufate Sopoanga lost office in August 2004 after coming under attack from the opposition for transferring recognition to China: Chinese diplomats were reported to have alleged that Taiwan actively supported Sopoanga's removal.²⁴²

Another recent case of competition occurred in Vanuatu in November 2004 when the newly appointed Prime Minister, Serge Vohor, visited Taiwan and signed a recognition agreement: Taiwan was reported to have offered the government US\$30 million in aid.²⁴³ China was understood to have felt betrayed by Prime Minister Vohor's transfer of recognition since China had funded a number of high profile projects including the parliament building, a university campus, and an agricultural college. Vohor failed to retain the support of his Council of Ministers and was replaced in December 2004 after a parliamentary vote of 'no confidence'. The new Prime Minister, Ham Lini, reaffirmed Vanuatu's support for Beijing and its 'one China' policy.²⁴⁴

In addition to competition with Taiwan, China has had some strategic interests in the Southwest Pacific. In 1997 China established a satellite tracking station in Kiribati. China denied that the station had any military significance but it was staffed by military personnel and was well-placed to monitor US missile testing at Kwajalein in the Marshall Islands. China closed the base in November 2003 after the Kiribati government transferred recognition to Taiwan. China has also developed military relationships with the three Pacific states which maintain armed forces: PNG, Fiji and Tonga.²⁴⁵ In the case of PNG, China has provided assistance to the PNG military, for example by funding new facilities at Murray Barracks including a military social club, library and a friendship pavilion. Since 2001 China has provided two places each year for PNG officers at the National Defence University in Beijing and during the 2004–2005 academic year five officers studied at the National Defence University, the Army Command College in Nanjing and the Infantry College in Shijiazhuang.²⁴⁶ In July 2005, the two countries announced that they would exchange defence attaches.²⁴⁷

Although political and strategic issues dominate China's interests in the Southwest Pacific, Beijing has also sought to advance economic interests, particularly in investment and tourism. About 3000 state and private Chinese companies conduct business in the region with nearly US\$1 billion invested in hotels, plantations, garment factories, fishing and logging operations. Chinese firms are also interested in the development of logging and minerals resources: one major investment involves a large, majority Chinese-owned nickel mine project in PNG's Madang province. China has established a Pacific Trade Office in Beijing. In 2004 China for the first time joined a regional body, the South Pacific Tourism Organisation. In the same year China granted 'Approved Destination Status' to Fiji, the Northern Marianas, Tonga, the Cook Islands and Vanuatu which will open those countries to Chinese package tourism at a time when China is the fastest growing source of outbound tourism in the world (with overall numbers forecast to reach 100 million per year in 2020, a tenfold increase in two decades).²⁴⁸

China is now a significant factor in the Southwest Pacific and its profile may well increase. China has been pursuing its involvement alongside the other major powers with regional interests (Australia, New Zealand, France, Japan and the US). The US's attention has recently been largely confined to the North Pacific territories of Micronesia, but it is possible that China's continuing regional involvement could see an increase in US attention to this, especially if US–China relations were to experience greater tensions in the future.²⁴⁹ China's regional presence is of ongoing interest to Australia, which has significantly upgraded its involvement in the region since 2003.²⁵⁰ China's approach to economic assistance does not necessarily accord with Australia's interest in promoting improved governance and accountability but China's competition for influence with Taiwan provides a strong motivation for its continuing active diplomacy and aid.

China and Australia: Issues and implications

China's economic development and its growing regional and international significance are a central focus for Australian policy. This section outlines the development of Australia's relations with China since 1972 and then reviews major current political challenges. The evolution of the Australia–China relationship has been – and is likely to continue to be -- bound up closely with the prevailing climate of major power interactions, particularly between China and the US.

Australia–China relations since 1972

When the People's Republic of China was inaugurated in October 1949, Australia did not extend diplomatic recognition to the new government, in a stance which was in accord with US policies but not those of the United Kingdom (which recognised the PRC in 1950). Australia maintained this position for the next 23 years and in 1966 established formal relations with the Republic of China government of Taiwan.²⁵¹ Australia's policy changed in 1972 with the election of the Whitlam government.

In less than three and a half decades, Australia has built up a very substantial relationship with China. This has so far moved through four main phases.

1972–1989: In one of the first acts of the Whitlam government, Australia recognised the PRC on 21 December 1972.²⁵² Under the terms of the Joint Communiqué concluded on that date by the two countries Australia recognised the PRC as the sole legal government of China and 'acknowledged the position' of the Chinese government that Taiwan is a province of the PRC. Australian governments have since had no official dealings with Taiwan but have however supported the development of commercial and other mutually beneficial contacts between Australia and Taiwan.²⁵³ These contacts have included non-official visits by Australian ministers and senior officials to Taiwan.

Australia's diplomatic recognition of the PRC took place in a context of developing détente between the United States and China (although the US itself did not formally recognise the PRC until 1979) and an ongoing confrontation between the US and China (and their allies)

with the Soviet Union. Two Chinese scholars (Professor Jia Qingguo and Zhang Tingting) have in fact described the US and China in this period as 'de facto cold war allies'.²⁵⁴

In the years after 1972, Australia built up political communication and economic relations with China. The Fraser government's highly critical stance towards the Soviet Union saw a strong emphasis on the political relationship with China. Relations during the Hawke government were extended by high level visits, which included Prime Minister Hawke to China in 1984, and visits to Australia by Premier Zhao Ziyang (1984), CCP General Secretary Hu Yaobang (1985) and Premier Li Peng (1988). Economic relations began to expand: trade rose from just US\$86.4 million in 1972 to US\$1.4 billion by the end of the 1980s.

China was an important focus for Australia's regional diplomacy. In the late 1980s, Australia made active efforts to help resolve the conflict over Cambodia and diplomatic communication with China was a vital part of this process (which led ultimately to the signing of the Paris Agreements in October 1991). Australia also contributed substantially to the inauguration of the Asia Pacific Economic Cooperation (APEC) process in 1989 which China (along with Taiwan and Hong Kong) was also able to join in 1991.

1989–1991: The suppression by Chinese security forces of demonstrations in Tiananmen Square on 4–5 June 1989 (with the loss of hundreds of lives) had a major impact in Australia. Prime Minister Hawke was visibly and publicly upset at the events in Beijing and the government issued a statement on 13 July 1989 which reaffirmed Australia's commitment to a long-term constructive relationship, but said that human rights issues should play a more prominent role in the relationship. Australia adopted some sanctions including suspension of high level political visits and defence liaison contacts and the withholding of support for loans to China from international financial institutions.

1991–1997: In February 1991 Australia lifted most of the restrictive measures imposed in 1989. The Minister for Foreign Affairs, Senator Evans, announced that the restrictions had been lifted because of 'discernible improvements in the human rights situation in China' and because other governments (including the US, Japan and the EU) were following a similar path.²⁵⁵ Australia continued its support for dialogue in the Asia-Pacific region and this was enhanced by the inauguration in 1993 (in Seattle) of informal leadership consultations among the heads of government of APEC. Australia also endorsed strongly the commitment made by APEC leaders at the Bogor meeting in 1994 to achieve free flows of trade and investment among developed member economies by 2010 and less developed economies by 2020.

Relations in this period also experienced problems, particularly over Taiwan. United States relations with China encountered increased strain in mid-1995 when the US allowed President Lee Teng-hui of Taiwan to make a non-official visit to the United States. Tensions escalated further when Taiwan approached its 1996 presidential elections, the first to be openly contestable. China staged a series of military manoeuvres and missile firings in the vicinity of Taiwan and the US, in response, deployed two carrier battle groups to the vicinity of Taiwan in a pointed display of US power. Australia was the state in East Asia to most

clearly support the US action. China criticised Australia for its stance and other Australian actions also annoyed the PRC, including talks with the US which strongly reaffirmed the ANZUS alliance, and a visit to Australia by the Dalai Lama in September 1996, during which he met with Prime Minister Howard.²⁵⁶

Since 1997: The bilateral tensions of 1995–96 were stabilised by discussions between both countries' leaders, first during meetings at the APEC summit in Manila in November 1996 and then during Mr Howard's visit to China in April 1997. Australia's China relations have since expanded greatly. The past five years have seen the establishment of new areas of regular dialogue between the two countries. In defence relations these include regular discussions, exchanges of defence officials, naval ships visits, and an expansion of the annual disarmament dialogue to include discussion of broader regional security issues. Other linkages developed have included an annual bilateral dialogue on human rights and consular consultations and the signing of a Consular Agreement. These developments have come on top of major existing links such as the Joint Ministerial Economic Commission.²⁵⁷

A key recent development in the relationship was President Hu Jintao's visit to Australia in October 2003. President Hu was making one of his first overseas visits as President and his address to a joint sitting of the Australian Parliament was his first to a Western democratic assembly. In a notable juxtaposition President Hu made his address just one day after President George Bush also addressed the parliament. During President Hu's visit the Trade and Economic Framework agreement was signed: this provided a basis and benchmark for the future development of economic relations, including a commitment to study development of a Free Trade Agreement. A number of other bilateral agreements were signed during President Hu's visit which codified the governance structures of the A\$25 billion Australia-China Natural Gas Technology Partnership Fund, recognised each other's higher education qualifications, gave greater quarantine certainty to Australian wheat and barley exports to China, and committed the two countries to increased cooperative activities in water resources, public health, food safety, and quarantine matters.²⁵⁸

Trade, development assistance, educational and people to people links have also expanded remarkably. Two-way merchandise trade has grown to A\$28.9 billion in 2004. China is currently ranked as Australia's third largest trading partner overall and second largest merchandise export market, and Australia as China's eleventh largest bilateral trading partner. While trade is the dominant focus in economic relations, Australia also seeks to make a contribution to China's progress in alleviation of poverty by maintaining a program of development assistance. Australia was the first Western bilateral aid donor to China, and Australia's aid (A\$46.2 million in 2005-06) addresses issues such as poverty alleviation, rural development, health, education and good governance.²⁵⁹

Education is another important link—in 2004, 68 857 students from China were enrolled for study in Australia.²⁶⁰ Australia–China relations are being consolidated by the contribution of Australia's Chinese communities. As Prime Minister Howard stated in Beijing in April 2005, of languages other than English, Chinese dialects—particularly Mandarin and Cantonese—are now the most commonly spoken in Australia.²⁶¹ Communication is also being expanded

by China's recognition of Australia as a designated tourist destination. In 2003 alone, 176 000 Chinese people visited Australia and it is expected that by 2012 there could be about one million visitors coming to Australia from China—which would make China Australia's second largest source of visitors (after New Zealand).

Australia continues to pursue cooperation with China in a number of multilateral fora including the ASEAN Regional Forum and APEC. A recent addition to the range of such cooperation avenues has been the announcement of the Asia–Pacific Partnership on Clean Development and Climate. This currently includes Australia, the United States, China, Japan, India and South Korea. With a strategy centred on technology cooperation, the Partnership is intended to bring together, for the first time, key developing and developed countries in the region (nations which account for roughly half the world's greenhouse gas emissions) to address issues of climate change, energy security and air pollution.²⁶²

A further possible area of Australia–China cooperation is in the supply by Australia of uranium oxide concentrates. China has plans to build a substantial number of nuclear power plants to help meet its burgeoning energy needs and has been reported to have requested permission from Australia to conduct exploration and mining of uranium in Australia to support this. During a visit to Beijing in October 2005 the Treasurer, Mr Costello, said that the Australian government would need to examine carefully any request for investment in the industry from a state owned company from China. He also suggested that there was no obvious need for an external party to buy an existing mine in Australia because uranium could be supplied by Australian uranium producing companies under standard commercial arrangements, as long as the required bilateral safeguard agreements were arrived at to ensure that the uranium would be used for peaceful purposes. Mr Costello said that, 'Our agreements are designed to ensure that Australian uranium is subject to the strictest controls; that it is safe; and that it is used solely for peaceful purposes. If China enters into an agreement along those lines with Australia, then the option would be open to China as well.'²⁶³ At the time of writing, agreement had not yet been reached between the two governments on this issue.

The extent of Australia's interactions with China also clearly carries with it potential for controversy and conflict. This was illustrated in early June 2005 when two Chinese citizens, Chen Yonglin and Hao Fengjun, requested permission to remain in Australia. Both had worked for the PRC government (Mr Chen in the diplomatic missions of the PRC in Sydney and Mr Hao in an area of the PRC's security forces), and claimed to have taken part in monitoring of the Falun Gong religious group: they alleged that China pursued extensive activities in spying in Australia.²⁶⁴ The claims by the two men highlight the potential for human and political rights issues in China to gain increased attention in Australia as economic and 'people-to-people' interactions increase.

Despite areas of contention, the Australian government has affirmed its positive view of China's economic growth and increasing international profile. Prime Minister Howard, in his address to the Asia Society in New York on 12 September 2005, stated that:

As China assumes a greater strategic and economic weight in Asia in the 21st century, it will inevitably place some strain on the international system. But to see China's rise in zero-sum terms is overly pessimistic, intellectually misguided and potentially dangerous. It is also a negation of what the West has been urging on China now for decades.

China's progress is good for China and good for the world. Its economic liberalisation and integration into the world economy has lifted hundreds of millions of people out of poverty. Its growth in recent years has helped us sustain the expansion of the global economy and of world trade...

Australia's strong relationship with China is not just based on economic opportunity. We seek to build on shared goals, and not become obsessed by those things that make us different. By widening the circle of substance, we are better able to deal openly and honestly with issues where we might disagree.²⁶⁵

The future of Australia-China relations: key questions

In considering the possible future of Australia's relations with China it is important to recognise that there are very major uncertainties about China's directions and emphases in foreign policy. One set of uncertainties is the capacity of China and its government to continue to handle and accommodate the socio-economic pressures of change. As was noted above, China's economic growth is producing structural socio-economic change and population movements on a mass scale. The CCP has been able to sponsor high rates of growth but it has also faced some substantial ongoing protest at some of the problems arising from the pattern and effects of that growth. If there were to be problems in the capacity of the CCP to provide continuing effective political management, then there could be potential impacts on China's overall political direction and on its foreign relations.

A second area of uncertainty is how China's major power relationships will evolve, particularly in the cases of the US and Japan. China has improved many of its bilateral relationships, particularly in the past decade. However, China-US relations continue to involve intermixed cooperation and tensions and China's dispute with Japan has deep-seated causes and motivations. The degree of Sino-Japanese mutual acrimony in 2005 has been notable, and has occurred despite the close economic relations between the two countries. Australia in its relations with East Asia faces the major challenge that the two countries with which it has the closest association—the US and Japan—are precisely the countries in relation to which China has the most concern. Stresses or major conflict in one of China's key bilateral relationships could affect the climate of relationships in East Asia overall and could thus have serious impacts on Australia's foreign policy interests.

Australia, China and the United States

As this paper has suggested, it is clear that China is rapidly increasing its profile and presence both internationally and in East Asia. Australia will thus need to continue to manage its ongoing relations with China and with its most important political partner and treaty ally, the United States. Alan Gyngell (Lowy Institute for International Policy) has commented that

managing relations with the US and China is '... the central task of Australian foreign policy'.²⁶⁶

The development of Australia–China relations since 1997 has taken place in a context of comparatively favourable US–China relations. This has been the case particularly since the US and China have been cooperating in many areas since the terrorist attacks of September 11, 2001 (as was noted above). This has facilitated the Australian government in being able to continue developing its relations with both countries with comparatively few problems. Prime Minister Howard in August 2004 noted with satisfaction that:

I count it as one of the great successes of this country's foreign relations that we have simultaneously been able to strengthen our long-standing ties with the United States of America, yet at the same time continue to build a very close relationship with China.²⁶⁷

In pursuing its policies towards both China and the US, Australia's perspectives as a middle power with particularly strong security and economic interests in East Asia may well at times differ from those of the US, the world's clearly predominant power. William Tow (Australian National University) has observed that:

... [T]he United States is a global power that often entertains a different set of interests and priorities than does Australia whose economic ties and political affinities are inherently tied to the Asia-Pacific. For America, China represents a rising competitor to its own global power. For Australia, China is a critical determinant of Australian capability to pursue its regional destiny...

Australia can manoeuvre within the larger Sino-US dyad to establish its own independent relationship with the PRC. It has already done so by adopting a less strident approach to human rights in China than has its American counterpart and by linking strong bilateral relations with China more closely to its overall regional posture than have US policy-makers.²⁶⁸

Australia has been a very close ally of the US in the first years of the 21st century; an approach which has included the provision of strong support for the US position in Iraq, Australia has also on occasion differentiated its positions on some significant issues in relation to China from those of the US. One recent instance of this was that Australia in early 2005 indicated that it would not oppose the lifting by the European Union of its arms embargo in trade with China although the US position was to oppose a lifting of the embargo.²⁶⁹ A second instance has been contrasts between approaches by Australia and the US in relation to the issue of the value of the Chinese currency.

As this paper has noted above, the US government has expressed significant concern about the value of the yuan in the context of the high level of the US–China trade deficit (strong criticism has also been made by members of the US Congress). US officials accordingly have urged the PRC either to raise the value of the yuan or allow it to float more freely and have not been satisfied with the actions taken by the PRC on this issue in July 2005.²⁷⁰ In November 2005, the US Treasury in a report described China's failure to permit any

substantial rise in currency value as ‘troubling’ and warned that a continuing refusal by China to alter its policy could draw a more critical response from the Treasury in its next report on the issue in mid-2006.²⁷¹ In the Congress, the bipartisan US–China Economic and Security Review Commission stated in November that the yuan was ‘highly undervalued’ and called for an appreciation of the yuan by at least 25 per cent: in the absence of ‘immediate action’, Congress should consider imposing ‘an immediate, across-the-board tariff in Chinese imports at the level considered necessary’.²⁷²

The Australian government, while acknowledging the need for continuing reform in China’s finance sector and currency management, has presented perspectives different to those from the US. In comments at a meeting of the World Economic Forum in Davos in December 2004, for example, Prime Minister Howard said, after a panel discussion which included a senior PRC official that, ‘I thought the vice-chairman of the central bank gave a reasoned defence of their exchange rate policy... I think their exchange rate policy is a matter for the Chinese’.²⁷³ The Government’s *Budget Strategy and Outlook* paper (presented by the Treasurer Mr Costello on 10 May 2005) also expressed caution about efforts to influence China to make rapid changes to its currency policy:

The strength of the Chinese economy has led to external calls for greater flexibility in its exchange rate, particularly from the United States. However, a more flexible Chinese exchange rate is likely to have only a limited impact on global imbalances. Broader liberalisation of the capital account should be approached cautiously and coincide with a further strengthening in the Chinese financial system. These reforms, if complemented by ongoing structural reforms elsewhere in the economy, would provide a sound footing for balanced growth in the long term.²⁷⁴

Australia has, thirdly, also maintained a different tone and approach from the assertive stance adopted by the US in promoting political reform and improved standards of human rights in China. A difference in emphasis was evident when President Bush and Mr Howard held a joint press conference at the White House on 19 July 2005. President Bush stated that:

Every time I’ve met with the Chinese leaders, I’ve, in a respectful way, shared with them the importance, I feel, for a healthy society to recognise that people think differently and worship differently and, therefore, ought to be encouraged to do so.

The US and Australia, he said:

...can work together to reinforce the need for China to accept certain values as universal - the value of minority rights, the value of freedom for people to speak, the value of freedom of religion, the same values we share.²⁷⁵

Mr Howard commented that:

We have different relationships with the United States and China. I mean, of course, our relationship with the United States is closer and deeper than it is with China, because it’s a relationship that is based upon shared values and a lot of shared history. The Chinese understand that. ... We are going to differ with China on human rights issues... You’ve seen

recently, in the debate over Mr. Chen, you've seen an expression of views from China. But equally, I think the relationship between our two countries is mature enough to ride through temporary arguments such as that.²⁷⁶

A contrast may also be discerned in the comments by President Bush and Mr Howard in November 2005 when Mr Bush visited East Asia and both leaders attended the APEC meeting in Busan, South Korea. President Bush, in his speech in Kyoto on 16 November 2005, praised Taiwan as a model of democratic development and said in relation to China that:

As China reforms its economy, its leaders are finding that once the door to freedom is opened even a crack, it can not be closed. As the people of China grow in prosperity, their demands for political freedom will grow as well ... I have pointed out that the people of China want more freedom to express themselves, to worship without state control, to print Bibles and other sacred texts without fear of punishment ... By meeting the legitimate demands of its citizens for freedom and openness, China's leaders can help their country grow into a modern, prosperous, and confident nation.²⁷⁷

Prime Minister Howard, during a press conference the next day at the time of the APEC meetings in Busan, South Korea on 17 November 2005, when asked to comment on President Bush's advancing of Taiwan as a model of democracy for China and on whether China should make quicker progress towards a more open democracy, said that:

Well I'm in favour of all countries having open societies and open democracies and that includes China, of course I am. But I also respect the fact that China has a different political tradition and I've never sought to ram Australian democracy down the throat of the Chinese in my discussions with them. I think we should try and focus on the things that where we can work together into the future.²⁷⁸

These differences of emphasis between Australia and the US on policy issues in relation to China illustrate that Australia brings its own perspectives to China relations and can contribute these to debate in the context of the alliance with the US. As William Tow has observed (in the quotation above), Australia is able to manoeuvre '...within the larger Sino-US dyad'. However, Australia's capacity to do this depends to a considerable degree on the character and climate of Sino-US relations, and the triangular relationship between Australia, the US and China could be more difficult to manage in the future. Peter Jennings (Australian Strategic Policy Institute) has argued that Australia's strategy of simultaneous fostering of close relations with the US and China '... remains a success only for so long as China and the US are able to keep their interests aligned. If, for some reason, these interests begin to diverge, it will become more difficult for Australia to maintain this policy.'²⁷⁹ In a situation where the US and China's interests were to diverge sharply, it may be argued, issues such as approaches towards currency valuation and human rights questions could potentially become more contentious between Australia and the US. In the context of US-Australia-China relations, two further issues are likely to be especially significant for Australian policy: these are Taiwan, and China's relations with Japan.

The Taiwan issue

It is agreed widely by analysts that the most difficult potential problem for Australia in relations with China and the US would come in the event of a conflict between the US and China over Taiwan. Malcolm Cook and Craig Meer, in a report released by the Lowy Institute for International Policy in April 2005, have written that:

Australia has long feared that the Taiwan issue could force it to choose between two core national interests; its alliance with the United States and harmonious relations with China. The rapid integration of the Australian and Chinese economies—China is now Australia's second largest export market after Japan—and China's willingness to consider a preferential trade deal have deepened Australia's concerns that its interests are not derailed by tensions in the Taiwan Strait.²⁸⁰

However, differing views have been expressed on possible responses by Australia in the event of a crisis over Taiwan. William Tow and Rod Lyon (University of Queensland) have argued that:

The ideal outcome is for Australia never having to “choose” between China and the United States; indeed, each great power has warned Canberra that it would expect neutrality or outright support, respectively, if any such contingency were to arise. Ultimately, Australia would side with the United States in any such conflict, but its influence with China and other Asian states in its aftermath would almost certainly be seriously compromised.²⁸¹

Other analysts have argued that Australia might well be highly reluctant to side with the US in such a situation. Hugh White (Australian National University) stated on 7 May 2004 that ‘United States decision-makers take it absolutely for granted that in a US-China conflict over Taiwan, Australia would provide active and concrete support and they’ve got some reasons to think that.’ However he added:

In circumstances in which Taiwan had materially contributed to the crisis by what you might call conduct jeopardising the status quo, and that is by far the most likely situation ... I think even the Howard government would be very reluctant to join (the US).²⁸²

The sensitivity of the Taiwan issue in the context of Australia's relations with both the US and China was highlighted in August 2004. The Minister for Foreign Affairs, Mr Downer, during a visit to Beijing, in comments on 17 August 2004 at a press conference, indicated that a Chinese attack on Taiwan would not automatically trigger a commitment from Australia under the ANZUS Treaty. He stated that:

The ANZUS treaty is invoked in the event of one of our two countries, Australia or the United States, being attacked, so some other military activity elsewhere in the world, be it Iraq or any where else in the world for that matter, doesn't automatically invoke the ANZUS treaty.²⁸³

The comments provoked some controversy and critical discussion. A spokesperson for the US Department of State commented that ‘... the treaties ... are pretty clear about what's

spelled out'.²⁸⁴ Observers also argued that it was undesirable for an Australian spokesman to have canvassed publicly the question of how Australia might react in relation to an outcome which remains hypothetical.²⁸⁵ Mr Downer subsequently reaffirmed in comments on 19 August that in the event of a flare up over Taiwan, 'I have no idea in a hypothetical situation—which would be a terrible crisis for the Asia-Pacific—which action any country would take, including ours'.²⁸⁶

China has also emphasised the sensitivity of the Taiwan issue in the context of relationships between China, the US and Australia. In June 2005, the Director-General of North American and Oceanic Affairs in the PRC's foreign ministry, He Yafei, issued a warning for Australia and the United States to 'be careful not to invoke the ANZUS alliance against China'. He said that 'we all know Taiwan is part of China and we do not want to see in any way the Taiwan issue become one of the elements that will be taken up by bilateral military alliances, be it Australia—US or Japan—US'.²⁸⁷

Prime Minister Howard provided an assessment of the issue of Taiwan in the context of Australia's relations with the United States and with China in his address to the Lowy Institute in Sydney on 31 March 2005. Mr Howard suggested that Australia can play a constructive role in the China–US relationship.

Australia welcomes China's constructive approach to a range of security matters in recent years—from the war on terror, to the Korean peninsula, to maritime security in South-East Asia. And in the context of our one-China policy, we continue to urge restraint and a peaceful resolution of issues across the Taiwan Straits. Clearly, a large part of the burden of such restraint is borne by the relationship between China and the United States. It would in my strong view be a mistake to embrace an overly pessimistic view of this relationship, pointing to unavoidable conflict. Australia does not believe that there is anything inevitable about escalating strategic competition between China and the United States. In recent years, both sides have shown themselves keen to cooperate on common interests and to handle inevitable differences in an atmosphere of mutual respect ... Australia is encouraged by the constructive and realistic management of this vital relationship. We see ourselves as having a role in continually identifying, and advocating to each, the shared strategic interests these great powers have in regional peace and prosperity.²⁸⁸

Australia, China and Japan

A further important issue in the context of Australia–China relations is Japan, and Australian and United States relations with that country. Australia has a longstanding and vital relationship with Japan and both countries are allies of the US. In May 2005, the US, Japan and Australia emphasised the significance of their trilateral relationship by announcing that they would upgrade three-way security talks (which had been conducted regularly at senior bureaucratic level) by now holding them at foreign minister level. When the upgraded discussions were announced (just after talks between Secretary of State Rice and Foreign Minister Downer) Dr Rice said that, 'We, of course, are looking at a region that is changing a great deal. Part of that, obviously, is China.' Holding the consultations at foreign minister

level, Dr Rice said, '... allows us to have a more direct discussion of some of the political elements... so that we can give better guidance to our security issues and concerns.'²⁸⁹

The importance of Japan for Australia was emphasised by Prime Minister Howard in his address in March 2005 to the Lowy Institute:

The Australia-Japan relationship continues to evolve in new directions off the back of our long and mutually beneficial economic relationship. Australia has no greater friend in Asia than Japan—our largest export market for almost forty years and a strategic partner for regional peace and prosperity ... Today the three great Pacific democracies—the US, Japan and Australia—are working more closely than ever on shared security challenges—especially terrorism and weapons proliferation. Our Trilateral Security Dialogue has added a new dimension to the value all sides place on alliance relationships. Within the framework of its alliance with the US, Japan has taken on important out-of-area security responsibilities in recent years, including in East Timor, Afghanistan and Iraq. This quiet revolution in Japan's external policy—one which Australia has long encouraged—is a welcome sign of a more confident Japan assuming its rightful place in the world and in our region.²⁹⁰

However, as this paper has noted above, China and Japan have recently experienced major difficulties in relations and China does not take a favourable view of some of Japan's efforts to assume a higher profile place in the world, such as its desire for a permanent UN Security Council seat. China has also criticised the recent reaffirmation of close security relations between Japan and the US. China's responses to Japan, and to both Australian and US, relations with it are thus an important factor—and an area of potential sensitivity—in Australia–China relations.

The salience of these issues was highlighted during a visit to China by the Minister for Defence, Senator Hill, in June 2005. After two days of talks between Senator Hill and Chinese leaders, including Defence Minister Cao Gangchuan and a senior policy adviser and former foreign minister, Tang Jiaxuan, it was reported that the Chinese side had raised concerns with Senator Hill about joint military planning between Australia, Japan and the US. Senator Hill stated afterwards (to journalists in Beijing) that '[It was] more in the sense of querying what the upgrade in that trilateral relationship means, so we had a good discussion on that particular issue.' Senator Hill said that the possibility of Australia being drawn into American planning for the defence of Taiwan was not raised with him by the Chinese ministers, although he said that it was 'probably at the back of their minds'.²⁹¹

In his public comments, Senator Hill also expressed the Australian government's concern at the 'troubles' which have developed in China–Japan relations. He said that, 'Both China and Japan are very important partners to Australia. It's in our interests that relations between China and Japan in turn remain sound.'²⁹²

In late 2005, the issue of China–Japan relations continued as a source of concern in East Asia and for Australia. In comments reported in late November, Alan Dupont (Lowy Institute for International Policy) drew attention to the challenges which could face Australia at a time when it has been moving closer to Japan in diplomatic and security terms. In future, he

suggested, the combination of Australia's closer strategic association with Japan and that country's deteriorating relationship with China might confront Australia with difficult choices. There had been extensive concern expressed about the possibility of US–China conflict over Taiwan, Dr Dupont said, '... but something similar could happen with Japan. What would happen if Japan and China got into serious conflict over those offshore islands in the East China Sea, over resource issues, and Japan sought our support?'²⁹³ These comments highlight the extent to which an amelioration of the differences and tensions between Japan and China is in the interests of both East Asia and Australia.

Managing a complex relationship

Australia clearly needs a close and well-functioning relationship with China to facilitate Australia's ability to advance and secure a wide range of interests in areas, including economic, political and security, environmental, health and anti-crime cooperation. In considering how Australia can best place itself to manage its relations effectively, a recent study by William Tow and Russell Trood (Griffith University) made the following comment:

The challenge for Australia in managing its relations with China is to protect our interests and tune our behaviour to Chinese sensitivities without simultaneously raising American suspicions that we're merely a fair-weather friend. Accordingly we need to build relations with China more by dealing with it as a great power in its own right. We must avoid viewing China either solely as a convenient commercial cornucopia or, conversely, as a potential spoiler of Australian–American security relations.

To strike a more acceptable policy balance, Australian governments should find areas of more effective policy accommodation with China. Clearly, policies must benefit mutual Sino-Australian interests, but not to the extent that Australia is left as a mere supplicant to Chinese will. Neither should we succumb to possible future American initiatives to build a new wall of containment against rising Chinese power in the region.²⁹⁴

In managing Australia's China relationship, policy issues and ideas which may be considered include:

- Australia can work to deepen dialogue with China's political and security elites, to advance discussions on areas including China's 'New Security Concept', US policies and possible areas of further mutual cooperation.
- Dialogue between Australia and China could be enhanced by developing a private sector discussion process similar to the one pursued annually between Australia and the US. This could help to broaden the range of ideas in the evolving relationship.²⁹⁵
- Australia can continue to acknowledge China's commitment to regional multilateral diplomacy and explore further areas of cooperation. Australia's capacity to do this will be enhanced through participation in existing multilateral fora such as APEC and through the emerging East Asia Summit process, due to be inaugurated in Kuala Lumpur in December 2005.

- Australia can also work to maintain effective dialogue on security issues with Taiwan. Tow and Trood have suggested that, 'Consideration should be given to widening a 'second-track' process for regular dialogue and to expand political exchanges as a clear sign that Australia will support a Taiwanese desire to negotiate a peaceful resolution of its differences with China. Possible Chinese indignation at these moves can be addressed during the course of bilateral discussion with Australia.'²⁹⁶
- Australia faces a special set of challenges in the Southwest Pacific where China is now a significant actor, partly because of its competitive diplomacy and economic assistance vis-a-vis Taiwan. Australia has been concerned that this competition involves aid programs which do not always support improved efficiency, accountability and governance in regional states. Australia could pursue improved dialogue with China on these issues and, Peter Jennings has suggested, could explore the possibility of developing some joint aid projects with China.²⁹⁷
- Australia's basis for advancing relations with China can clearly be enhanced by promoting 'China literacy' in Australia, through support for Chinese studies and for the expansion of China-relevant skills in both government and the private sector.²⁹⁸

Concluding comment

China's economic dynamism and multidirectional foreign relations constitute one of the most significant international issues in the early 21st century. China is pursuing foreign relations that will serve its processes of economic development, which are vital both for its people's well-being and for the maintenance of socio-political stability. China is seeking balance and cooperation in its complex relationship with the United States, pursuing areas of accord while seeking to manage differences. China is engaged deeply in multilateral cooperation, both in established fora and in new groups it itself has established. The PRC has improved many relationships with neighbouring states including Russia, India and the states of Central Asia. It is trying to manage the problem of North Korea's potentially destabilising nuclear programs in a way which involves the major parties to the issue (through the Six Party Talks), but does not trigger a precipitate change or collapse of the North Korean regime that could damage stability on the peninsula and endanger China's own development goals. In Southeast Asia, China is deepening relations with the ASEAN states and also cooperating with ASEAN in wider East Asia-focused cooperation groups—particularly in the 'ASEAN Plus Three' process and the new East Asia Summit. China is engaged actively in the Southwest Pacific where it has a major commercial and diplomatic presence. Rapid economic growth is facilitating both a military modernisation program and many areas of expansion of social, cultural and educational interactions which are increasing China's 'soft power', especially in East Asia. China's policies and approach have been generally well-received by the countries of East Asia, who have been benefiting greatly from China's economic growth; most countries have simultaneously been keen to balance China's rising influence by maintaining close ties with the United States, which remains the predominant military power in the region.

China's recent approach to foreign relations has served the country well and its profile and influence are rising substantially. What China's leaders probably desire, it may be argued, is another twenty five years like the last twenty five—so that China can consolidate its economic development and major relationships, bolster its material, military and soft power and proceed to achieve a stronger economy and an international position that is enhanced further.²⁹⁹ China may well achieve such an outcome, but this cannot be taken for granted because there are several areas of major uncertainty about how China and its policies and relationships may evolve.

China is, firstly, pursuing a process of massive economic and social change which is simultaneously bringing great benefits to many of its people but is also placing strains on the capacity of its economic management and political structures to handle some of the implications and products of these changes (including mass population movements, environmental damage, and differential rates of growth between coastal and inland and urban and rural regions). The Chinese government's capacity to manage foreign relations depends greatly on maintenance of internal stability and improvements in the system's responsive capacities, issues which cannot be taken for granted.

Secondly, China is achieving high rates of growth and socio-economic change to a large degree because of the decisions to pursue integration with international markets and international economic institutions, especially the World Trade Organization. China's integration into the globalised economy is bringing major benefits to many in the country but it also means that China's economic prospects are linked closely to the fortunes and the policies of major trading partners, including the European Union, Japan and the United States. In this situation, problems of macroeconomic management in China's major partners—including pressures to adopt protectionist measures from industry sectors challenged by China's highly competitive exports—could impact adversely on the prospects for growth and stability in China itself.

Thirdly, China's rise in influence and power is posing complex issues for the balance of power and relationships in East Asia. As the 21st century progresses, East Asia is likely to see a set of relations developing in which several major powers are competing for economic and political influence. China, the United States and Japan are currently the major actors in this environment but they may also be joined to a greater degree by Russia and India. In East Asia, the relationships among China, the US and Japan are likely to be continue to be crucial and there are grounds for concern about how these relations may develop.

In the US–China–Japan 'triangle', only the US–Japan relationship is being pursued with a high degree of accord and confidence. China's most important single international association is with the US. This relationship embodies many shared interests and areas of cooperation but also bases for existing and potential discord, including the status of Taiwan, the North Korean nuclear issue and US–China economic relations. While dialogue is extensive, there is a lack of trust and confidence between the two countries as well as a spread of opinions internally (particularly in the US) on how best relations may be defined and pursued. China–US

relations could easily be subject to 'zero sum' approaches, rather than the 'positive sum' outlook which can facilitate balancing of interests while avoiding conflict.

China–Japan relations, while close in economic terms, also have major problems. China and Japan are now both strong powers in East Asia but long-term suspicions seem to be impeding their capacity to coexist and cooperate readily. China has not so far been willing and able to accept that Japan may have a legitimate right to assume a higher profile in the region and internationally, when China's leaders and many of its people remain resentful at Japan's 20th century history in relation to China and are suspicious about Japan's future intentions. Japan in turn has been concerned about China's rapid rise in economic and political influence in the region and sees China as intent on blocking Japan's efforts to assume a position commensurate with its economic strength and international standing (for example, in securing a permanent seat on the UN Security Council).

The strain and difficulty in these two key relationships will not be easily contained or resolved but they do need to continue to be addressed. Bilateral dialogues need to continue to be deepened (in the case of China–US relations) and greatly improved (between China and Japan). The East Asia region would also benefit from the expansion of multilateral dialogue, both through existing forums (such as APEC) and new avenues. In this context, one avenue which may be useful for the future is the suggestion, cited by both US and Chinese spokespersons, that if the Six Party Talks process does lead to an effective accord which contains and ultimately removes the problems posed by North Korea's nuclear programs, this grouping could be utilised on a longer term basis to improve dialogue on security issues in Northeast Asia, which would be of benefit to East Asia overall.

The balance of power in East Asia, and the degree of trust and confidence with which relations can be pursued, are of central importance to Australia. Australia in the past five years has had considerable success in developing wider relations in East Asia, including through a major expansion of the economic relationship with China, enhanced engagement with both Southeast Asia and the Southwest Pacific, and acceptance as an inaugural participant in the East Asia Summit. Australia has been fortunate to have been able to pursue its regional relations in the context of the improved climate of US–China relations since September 11, 2001. However, if the climate for US–China relations were to deteriorate (for example over Taiwan and/or severe disputes over economic relations), and if the current impasse in political communication and policies between China and Japan continues, cooperation in East Asia will be much more difficult to pursue. Australia could also enter a phase where it faces conflicting pressures arising from its relations with China, and with the US and Japan; pressures which would be hard to manage and which Australia wishes to avoid. Australia will therefore continue to have a vital stake both in the evolution of China's foreign relations and in the capacity of the major powers in East Asia to maintain dialogue, manage differences and avoid conflict.

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298. The Senate, Foreign Affairs, Defence and Trade References Committee, *Opportunities and challenges: Australia’s relationship with China*, November 2005, pp. 273-292; see also Kevin Rudd MP, Shadow Minister for Foreign Affairs, Trade and International Security, ‘The Rise of China: implications for Australia and the United States’, Address to the Australian-American Association, The Harvard Club, New York, 16 September 2005, pp. 12–13.
299. I am indebted to Dr Peter Van Ness for this view of China’s leaders’ interests and goals.

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