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Session I: China's External Grand Strategy

Pursuing a *Yousuozuowei*(有所作为) within the Existing International Framework: China's External Strategy for the Next Decade

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“China’s strengths and drawbacks were completely exposed to the outside world in 2008, not only pushing us to make reflection, summarize experience and lesson, and comprehensively work out a new grand strategy for the next 30 years, but triggering another round of concern by other countries about China’s rise.”¹

The year of 2008 was significant for the world. In August, China successfully sponsored the Olympic Game, signaling China’s development achievement and rising national power; In September, China’s astronauts made first space walk, making China the third country in the world control that technology; the year of 2008 marked the 30th year anniversary of China’s economic reform launched in 1978, substantially lifting China’s international status, and it was widely expected that China will continue rising.²

Roughly at the same time, the US was seriously hurt by the economic crisis. Many US’ worldly known banking institutes experienced heavy loss or bankruptcy;³ US economy encountered negative growth; unemployment rate rose to a record high around 10%; and US currency depreciated substantially. All those problems would inevitably lead to declined US national power, impacted US dominant status in international financial field, and, worse, resulting potential international power re-structure.⁴

Such a contrast outcome bought a serious question. That was, in light of tremendous change, how will China adjust its approach? Will China adopt a more aggressive and ambitious approach to shape international agenda or expand influence? Or

¹ Yuan Peng, “Guoji tixi bianqian de 2008 duanxiang” [Change in international system: a 2008 thought], *CIR*, No. 9, 2008, p. 14.

² It should be noted that China also experienced from several events, including snow storm during the Chinese New Year period in January-February which blocked thousand migrant workers from returning home, the Sichuan earthquake in May which caused thousand of tolls, unrest in Tibet in March, and protest in Europe against China in the Olympic Torch relay. These, bright and negative aspects together, aroused heated discussion in China.

³ For instance, among the top ten banks in the world, China’s three major banks, China Industry and Commerce Bank, China Construction Bank, and China Bank have elevated to the 1st, 2nd and 4th respectively in the world. *China Times*, July 1, 2009, <http://news.chinatimes.com/2007Cti/2007Cti-News/2007Cti-News-Content/0,4521,5050815+112009070100214,00.html>.

⁴ Qiao Weibing, “Meiguo cidai weiji dui guoji geju de yingxiang,” [Impact of US’ sub-prime crisis on international system], *Xiandai guoji guanxi* [Contemporary International Relations] (*CIR*), 2008, No. 4, pp. 31-35. Involvements in Iraq and Afghanistan also exhausted US tremendous resources, along with US reputation and national power.

China seeks a cooperative approach with others? Will China continue pursuing a *taoguangyanghui* (韬光养晦) approach?

For long, Chinese government has reiterated and echoed the statement made by Deng Xiaoping. Deng said in 1990 that China opposes hegemonism, and will not pursue hegemony forever.⁵ Party Secretary General Hu Jintao said at the Chinese Communist Party's 17th Congress that China opposes all kinds of hegemonism and power politics, will never pursue hegemony and will never seek expansionism.⁶

Nevertheless, these reiterated statements cannot alleviate concern. In fact, China's rigorous analysts know well the limitation of this kind of argument. As one known Chinese analyst points out that many factors shape China's choice, and they are international, bilateral (involving China and major powers), domestic (involving political, economic and psychological) factors, as well as interactions among all these factors.⁷

This paper cannot offer any definite answer to China's strategic choice in the long term, either. Rather, this paper tries shedding some light on the above questions by focusing on Chinese analysts' perceptions and check if China's practices are in line with perceptions. This paper will be divided into three parts. The first part, relying on China's public sources of internal debates, examines perceptions of external world, security implications, and future strategic choice.⁸ Part two will review China's practices by examining two instances. Part three will conclude what have been found in the first two portions and make projection.

Briefly speaking, this paper will argue that China will take cautious and gradual steps stretching away from Deng Xiaoping instructed *taoguangyanghui* (hiding oneself and keeping low profile)⁹ and moving toward *yousuozuowei* (attempting to achieve some

⁵ "Zhenxing zhonghua minzu" [Revitalizing Chinese nationals], Selected Works of Deng Xiaoping, Vol. 3 (Beijing: People's Publisher, 1993), p. 358.

⁶ Hu Jintao, "Gaoju zhongguo teshe shehui zhuyi weida qizhi, wei duoqu quanmian jianshe xiaokang shehui xinshengli erfendou" [Hold high the great flag of socialism with Chinese characteristic, strive for the new victory of winning all around construction of well-to-do society] http://news.xinhuanet.com/newscenter/2007-10/24/content_6938568_10.htm.

⁷ Jia Qingguo, "Jiyu yu tiaozhan: danji shijie yu zhongguo de heping fazhan" [Opportunities and challenges: unipolar system and China's peaceful development], *Guoji wenti luntan* [International Review] (IR), Spring 2008, pp. 58-59.

⁸ This approach assumes that Chinese leadership shares similar perception of external world and will translate their perception into foreign policy without taking other more urgent issues into consideration.

⁹ In fact, there are different interpretations among analysts/scholars on *taoguangyanghui* over circumstance. 38th Taiwan-U.S. Conference on Contemporary China: *China Faces the Future* 3
CNAPS-IIR, The Brookings Institution, July 14-15, 2009
Ding – Pursuing a Yousuozuowei within the Existing Framework

goal, though limited). In fact, China has gradually moved in the direction of *yousuozuowei* in the context of internationally recognized framework and/or norms, and as China keeps growing in the future, China will be more confident to move in that direction. Nevertheless, it is unlikely for China to pursue an expansionism path in the sense of systemic change in the short term.

China's Perception of the post-Olympic Era

Debates in China over China's external foreign policy entered a new period after the Olympic Game had concluded. *Xiandai guoji guanxi* [Contemporary International Relations] sponsored a meeting on August 31, 2008, "Relations between China and the World in the post-Olympic Era," to discuss China's challenges and strategic choice.

It has to be emphasized that related debates and discussions have been going on, and there have been many continuities in these discussions/debates. The Olympic Game artificially served as a good turning point to observe China's perception and policy choice.

Most perceived that, taking the changing external environment into consideration, the trend toward a multi-polar system could be further confirmed.¹⁰ The emerging multi-polar system can be understood in two senses. On the one hand, other powers, whether developed or developing countries, are playing a more active role in world politics. These include some European countries which, attempting to demonstrate a different Europe by advocating "value diplomacy" and European's presence, led to frictions with China over the 2008 Olympic Game,¹¹ and India, Brazil, and, of course, China, which have long been regarded as developing countries, but, after experiencing high economic growth in the past decade, now attempted to have more say in global power distribution.

Some argued that it was a temporary policy for Deng in the wake of the 1989 crackdown and subsequent the collapse of the Soviet Union and East European communist parties. Some argued that it is impossible for China to adopt this policy as China has emerged as a rising power. There are some others who advocate it has been a long term policy for Deng Xiaoping so that China can concentrate on development.

¹⁰ It seems that there is no consensus over the role of the US in the post-Olympic Game era. Most agreed the trend toward multi-polar system is further confirmed, though some still articulated a "yichao duoqiang"[one superpower and multiple major powers] system, or even "danji tixi" [unipolar system].

¹¹ For instance, France President Sarkozy and German Chancellor Merkel met Dalai Lama before the Olympic Game. Yuan Peng, "Guoji tixi bianqian de 2008 duanxiang" [change in international system: a 2008 thought], *CIR*, No. 9, 2008, p. 14.

On the other hand, a variety of non-state actors mushroom in international stage as results of economic globalization and information technology revolution. Multi- or trans-national corporations, international civil groups, and mass media are the products which, in together, have made international relations more complex. Also, they are able to in one way or another erode states' sovereignty and neutralize states' capabilities, because many of these actors are ideation oriented as well as are skillful in making use of media and networking so that their ideation can be globally communicated and deeply penetrated into various localities.¹²

Chinese analysts perceived that nature of security threat has also changed. Non-traditional security (NTS) threat became more prominent, and China's first hand experience of the SARS in 2003, snow storms during the Chinese New Year period in January-February 2008 which blocked thousand migrant workers from returning home for holiday, the food safety issue as a result of toxic milk in Hebei Province in late 2008, and the Sichuan earthquake in May 2008 which caused thousand of tolls, reinforced their perceptions in this regard. They also perceived other prominent NTS issues such as environment and climate change, terrorism, transnational crime, and energy.

These perceptions of external environment are quite similar to those announced in some of China's official documents. *China's National Defense in 2008*, which was released at the end of January 2009, says:¹³

With the advent of the new century, the world is undergoing tremendous changes and adjustments. Peace and development remain the principal themes of the times, and the pursuit of peace, development and cooperation has become an irresistible trend of the times. However, global challenges are on the increase, and new security threats keep emerging.

Economic globalization and world multi-polarization are gaining momentum. The progress toward industrialization and

¹² Qin Yaqing, "shijie geju anquan weixie yu guoji xingweiti" [international system, security threat, and international actors], *CIR*, No. 9, 2008, pp. 2-3. Qin describes the current international system as "yichao sanwei duoyuan" [one superpower, three dimensions, and multiple actors]

¹³ *China's National Defense in 2008*,

http://www.china.org.cn/government/central_government/2009-01/20/content_17155577_3.htm.

38th Taiwan-U.S. Conference on Contemporary China: *China Faces the Future*
CNAPS-IIR, The Brookings Institution, July 14-15, 2009
Ding – Pursuing a Yousuo zuowei within the Existing Framework

informationization throughout the globe is accelerating and economic cooperation is in full swing, leading to increasing economic interdependence, interconnectivity and interactivity among countries. The rise and decline of international strategic forces is quickening, major powers are stepping up their efforts to cooperate with each other and draw on each other's strengths. They continue to compete with and hold each other in check, and groups of new emerging developing powers are arising. Therefore, a profound readjustment is brewing in the international system. In addition, factors conducive to maintaining peace and containing war are on the rise, and the common interests of countries in the security field have increased, and their willingness to cooperate is enhanced, thereby keeping low the risk of worldwide, all-out and large-scale wars for a relatively long period of time.

World peace and development are faced with multiple difficulties and challenges. Struggles for strategic resources, strategic locations and strategic dominance have intensified. Meanwhile, hegemonism and power politics still exist, regional turmoil keeps spilling over, hotspot issues are increasing, and local conflicts and wars keep emerging. The impact of the financial crisis triggered by the US subprime mortgage crisis is snowballing. In the aspect of world economic development, issues such as energy and food are becoming more serious, highlighting deep-seated contradictions. Economic risks are manifesting a more interconnected, systematic and global nature. Issues such as terrorism, environmental disasters, climate change, serious epidemics, transnational crime and pirates are becoming increasingly prominent.

Implications for China

What are the implications for China of these developments in world politics? Basically, China perceived a more complex world in which, on the one hand, as opportunities, China can politically, economically, and in traditional security field benefit from these development, while on the other hand, China has to adapt to new challenges as new developments brought new problems.

The above perceptions, if correct, led many analysts to conclude that China has to

take cautious step with regard to its foreign policy. One analyst's observation reflects this tendency: "China has to take realistic and sober attitude toward own capability and influence in international stage in the long term, and China can only take those responsibilities that China is able to take and China has to take...China has to make development in culture, politics, ideology, and value, and make progress in democracy, legal, and political civilization construction..."¹⁴

The first is that China is less threatened by traditional security issues. The US' involvement in Iraq and Afghanistan, the financial crisis and subsequent economic crisis from 2007 onward, the North Korean problem, and anti-terrorism movement in the context of declined international reputation, substantially reduced US' capability, risk the US hegemony, and the US would be inevitably forced to contract from global engagement.

This is particularly the case for the current financial crisis. China is the largest creditor of the US government bond, and China is to overtake Japan as the second largest economy in terms of GDP. Need for tackling the current financial crisis prompted the Obama administration to place priority on maintaining and developing close Sino-US relations, and this economic cooperation has become a new strategic basis which has further consolidated the Sino-US relations.¹⁵ A constrained US is unlikely to challenge China's core interest under this circumstance.

Secondly, related to declined hegemonic power of the US and emerging of multiple actors are the lack of international order. On the one hand, the US alone is not able to dominate and shape the world any more. No other major power is able to succeed the US, and major powers contend to wield their own influence in shaping the world. On the other hand, developing countries which experienced high growth attempt to have more say of their own future, while other transnational issues and concomitant actors are emerging.

¹⁴ Chu Shulong, "shijie yu zhongguo zhongguo yu shijie: guoqu 30 nian, weilai 30 nian" [The world and China, China and thine world: past 30 years and future 30 years], *CIR*, No. 9, 2008, pp. 16-17.

¹⁵ Guo Zhenyuan and Kuang Mei, "Zhongmei guanxi youyici zhanzhai xindelishi qidianshang" [Sino-US relations once again stands at a new historical turning point], *China Review*, No. 138 (June 2009), pp. 40-44,

<http://www.chinareviewnews.com/crn-webapp/doc/docDetailCreate.jsp?coluid=33&kindid=545&docid=101008424&mdate=0629163328>.

Under the above stated circumstances, world politics has become more complex than before. Major western powers and those emerging powers are competing with one another for influence, but at the same time, these countries have to cooperate to address issues that they alone cannot tackle. A likely outcome of this configuration is that likelihood for all out conflict among them is diminishing, because it takes extreme cost to have all out conflict. Nevertheless, competition among them would inevitably lead to changing international order and more time will be needed for building a new order, if any.¹⁶ In this case, shadow of all out conflict with any country is away from China.

Further, globalization has made cooperation among states necessary. Globalization has made all sovereign states more inter-dependent to one another, and this inter-dependence has spread to other fields, making sovereign states more vulnerable to a variety of issues. These issues are energy and resources, environmental pollution and population, terrorism and transnational crime, and financial crisis. Although the function of sovereign states is declining, cooperation among states remains important and necessary as states are primary international system actors. All these contribute to a peaceful external environment for China, making peace and development the main stream.

Thirdly, it is warned that China is not necessarily able to benefit from the anticipated multi-polar world. In fact, China will be faced many new challenges in such a complex world politics, challenges which were not foreseen previously and cannot be predicted. There will be shifting coalitions among states in which different issues and interests will be based on. The US is no longer the only target that China has to deal with as that during the Cold War era, and instead, China has to watch other states and actors, because shifting coalitions are likely to make China target of other states.

Another challenge, fourthly, that China is faced is related to the rising role of international civil groups. These groups, combined with information technology revolution and skill in using media, is able to disseminate their value and ideation globally and to shape agenda, and at the same time, relevant civil groups covering human right, environmental protection, climate change, and pandemic disease issues have been

¹⁶ Some estimated that a new international system will not be made until 2030. see “Zhuanxingqi guojitixi de tansuo han qianzhan—Yang Jiemian han jiouhan de duihua jilu” [Examination and perspective of international system in transition—a dialogue minute between Yang Jiemian and Robert Keohan], *IR*, No. 46 (Spring 2007), pp. 1-6.

established in emerging powers autonomously or under the assistance of international civil groups.

This brought China some problems. There is no doubt that China has achieved a lot on integration with current international system. For instance, in the past three decades, China has basically been integrated with international economic system (mainly on trade and investment) and international security system (North Korean and Iranian nuclear issues), and was beginning to become part of international financial system. Nevertheless, China has remained aloof from international community over political, social, and ideological issues. That partially explained why China could not harness sufficient sympathy over the unrest in Tibet and tension during the Olympic torch relay in 2008.¹⁷

This actually involves the issue and nature of “soft power,” a topic which has been heatedly discussed in China. It seems that many Chinese analysts agreed that China has persistently been short of discourse, innovative idea, and shared value able to shape or influence international relations,¹⁸ and one way to address this deficiency is to positively encourage the development of civil groups and non-government organizations(NGOs), and to allow them to construct discourse in international system. Doing so will help greatly transform China’s diplomacy from an “active participant” to an “active constructor.”¹⁹

To some extent, the above solution, if any, has to do with political system. One analyst explicitly points out this systemic nature. “Sources of those troubles in the field of trade, environment, the Olympic Game, and Dalai Lama that China has been faced did not originate from the executive branches of some sovereign states. Instead, the sources came from their parliamentary members, economic and trade interest groups, NGOs such as consumer and labor groups, social issue campaign groups, mass media, and civilian dignitaries. They were plural actors. China’s ability and skill in handling these plural

¹⁷ Chu Shulong, op. cit.

¹⁸ For relevant studies, see Zhang Pei, “Guoji tixi zhuanxing yu zhongguo ruanshili jianshe” [International system in transition and construction of China’s soft power], *IR*, Winter 2008, pp. 34-47, Shi Yinhong, “chengjiu yu tiaozhan: zhongguo heping fazhan, hexie shijie han guoji zeren” [Achievements and Challenges: China’s peaceful development, harmonious world, and international responsibility], *IR*, Spring 2008, pp. 50-57, Yang Jiemian, “Zhongguo dui ruanshili de tansuo: zuowei gonggong chanpin de guoji tixiguan” [An examination of China’s soft power: as a public product to international system], *IR*, Winter 2007, pp. 5-18, and Yu Xintian, “Zhongguo hexin jiazhi tixi jianshe de guoji shiyie” [An international perspective for the construction of China’s core value system], *IR*, Winter 2008, pp. 13-24.

¹⁹ Zhang Pei, *ibid*

sources is deficient due to China's own weakness on governance and political characteristic.”²⁰

Other analysis also made similar observations of increasing pressure posed to China in the field of non-traditional security in the post-Olympic Game era. As one analyst said “...on the one hand, international NGOs' pressure and challenge to China increased, and the more China's international status grows and heightens, the stronger the pressure and challenge will be. Relatively speaking, China is faced more difficult when dealing with these challenges, because NGOs is complex with plural forms...China's diplomacy is good at dealing with other governments or governmental organizations, but is deficient in experience dealing with NGOs, and in the end, Chinese government became passive and reactive in real practice.”²¹

China, as many Chinese analysts suggested, should refrain from being the leader (*bu dang tou*)(不当头) in international relations, at least, at present, although being the leader sounds attractive. Attempting to do so will be tantamount to challenge US leadership,²² fulfilling the long established prophecy in the western world: emerging power will definitely challenges established power and an inevitable outcome of war will ensue, an issue that has frequently been discussed in the past decade.

If cooperation among states in the context of inter-dependence and globalization is the trend in international relations, this trend will constrain those attempting to play a hegemonic role with “Cold War mentality”, and it will be costly to act against the trend and probability to achieve hegemonic status will be low, because this attempt will arouse other major powers' vigilance, and as a result that can be expected, China will definitely become the target. Further, learning from US practice of maintaining its hegemonic status in the past decades, Chinese analysts concluded that it is not cost effective and it is not worth, because it has to pay huge price to retain the hegemonic status and to maintain relevant order, although the US has also benefited a lot from the status.²³

²⁰ Shi Yinhong, op. cit.

²¹ Li Yonghui, “chuantong zhihui yu auyunhuihou de zhongguo waijiao” [Traditional wisdom and China's post-Olympic diplomacy], *CIR*, No. 9, 2008, p. 26.

²² Jia Qingguo, op. cit.

²³ Lin Limin and Chang Shanshan, “Guanyu zhongguo chengzhangwei shjie dierda jingjitihou de guoji zhanlue sikau” [Some thoughts with regard to international strategy after China became the second largest economy in the world], *CIR*, No. 10, 2008, pp. 32-40.

China's real capability also precluded many Chinese analysts from making that suggestion. Despite the fact that China has become the second largest economy in the world in terms of GDP, many scholars explicitly point out China's weakness in many fields. "...it requires capability to be leader. Our capability is still not enough, and we will stay at the preliminary stage of socialism for long term, approximately equivalent to the level of developing countries. China is ranked at the third in term of GDP, but the per capita of GDP is ranked 100th. China's population is huge, but we do not have sufficient resources, our education level remains low, technological innovation is pretty poor, market economic system can be further improved, democracy and legality are not healthy, and political institution needs to be reformed. All these constrain China's development in terms of quality and speed."²⁴

Other scholars cited other instances related to the Olympic Game to justify their argument against being the leader. "...however, China is still in development period, and it is neither a super power state nor a super sport state. Those eye-catching shining Olympic dorms and infra-structure facilities were designed by foreigners, reflecting a fact that science and technology, knowledge, concept, and soft capability still lag behind..."²⁵

In fact, these analysts/scholars' observations echo China's official statement. Again, *China's National Defense in 2008* states "In the face of unprecedented opportunities and challenges, China will hold high the banner of peace, development and cooperation, persist in taking the road of peaceful development, pursue the opening-up strategy of mutual benefit, and promote the building of a harmonious world with enduring peace and common prosperity; and it will persist in implementing the Scientific Outlook on Development in a bid to achieve integration of development with security, persist in giving due consideration to both traditional and non-traditional security issues, enhancing national strategic capabilities, and perfecting the national emergency management system. At the same time, it will persist in pursuing the new security concept featuring mutual trust, mutual benefit, equality and coordination, and advocating the settlement of international disputes and hotspot issues by peaceful means. It will encourage the advancement of security dialogues and cooperation with other countries, oppose the enlargement of military alliances, and acts of aggression and expansion. China will never

²⁴ Zhou Suyuan, "Jianshou 'juebu dangtou' fangzhen tuidong jianshe guoji xinzhixu" [Adamantly upholding the guiding principle of 'not being the leader' pushing for constructing international new order], *CIR*, No. 9, 2008, pp. 32-33.

²⁵ Chu Shulong, op. cit.

seek hegemony or engage in military expansion now or in the future, no matter how developed it becomes.”²⁶

The most important task, in these analysts’ mind, is to do well as the role of “*lao er*,” the number 2 power after the “Mr. Big,” the US, in the next decade,²⁷ and related to this task is to handle well the relations with the US. It is a daunting and extremely difficult task for China, a task that many Chinese analysts are fully aware. A known scholar made an analysis from theoretic approach with practical instances to illuminate this difficulty.

Assuming that the US remains the superpower, and the world is uni-polar system, this analyst says that emerging state’s peaceful development is faced serious challenges, because the “polar” state is highly sensitive to, keeps lowest tolerance to, but has the strongest constraint capability against the emerging state. It is also difficult for the emerging state to keep good relations with the polar state due to the polar state’s concern of its established status and value to be eroded as well as resistance by the emerging state to accept the polar state’s value and mounting pressure to request the emerging state government to protect their own interests and to act to demonstrate its rising status.²⁸

Faced with this daunting and extreme difficult task, there is a need for China to make careful choice. It is suggested that unless China’s core interest is directly threatened, China has to do it utmost effort to avoid a confrontation with the polar state so as to buy itself sufficient time. China, base on its capability and need, has to selectively engage in issues to articulate its interests, and China has to actively engage in international cooperation through existing international institutions and mechanism to jointly tackle problems commonly encountered by international community so as to reduce concerns posed by relevant countries over China’s rise.²⁹

In other words, these analysts argue for a principle or strategy of unification of dialectic oppositions. That is to keep a balance between, on the one hand, China’s integration with various international institutions so as to keep a stable and predictable

²⁶ *China’s National Defense in 2008*,

http://www.china.org.cn/government/central_government/2009-01/20/content_17155577_3.htm.

²⁷ Lin Limin and Chang Shanshan, op. cit.

²⁸ Jia Qingguo, op. cit.

²⁹ Ibid.

38th Taiwan-U.S. Conference on Contemporary China: China Faces the Future
CNAPS-IIR, The Brookings Institution, July 14-15, 2009
Ding – Pursuing a Yousuozuowei within the Existing Framework

environment, on the other hands, as well as China's rise so as to gradually "reform" current international institutions which have been dominated by the US and other western powers.

China's Practice

Two recent instances can show how will China practice the "unification of dialectic oppositions," and they are China's participation in international financial institution and China's handling of a maritime tension with the US in the South China Sea. They are chosen because the US is involved in the both cases, and these two instances can illuminate how China, as "lao er," is to deal with the "Mr. Big," *lao da*.

China's participation of the G-20 meeting held in London this past April can be a good starting point to observe China's foreign policy. At the G-20 summit meeting, China's president Hu Jintao made several points with regard to China's position on the global financial crisis. Hu put forward several proposals that international financial institutions should offer more aid to developing countries and the Financial Stability Forum should play a bigger role; the International Monetary Fund (IMF) should strengthen and improve its supervision over the macro-economic policies of various economies, major reserve currency issuing economies in particular, with a special focus on their currency issuing policies; measures should be taken to improve the governance structure of the IMF and the World Bank and give more say to developing countries; efforts should be made to strengthen cooperation in financial regulations, formulate as soon as possible widely accepted standards and norms of regulations. In addition, the Chinese president also introduced China's anti-crisis measures and preliminary achievements gained in tackling the economic downturn, and voiced strong opposition to protectionism and concerns over development issues.

Before President Hu fled to London, Zhou Xiaochuan, Governor of People's Bank of China, China's central bank, had made several statements on China's position on international financial crisis. He, in addition to introducing China's measures coping with the crisis, criticized current international financial system, and based on this criticism, advocated to establish a new international reserve currency, Special Drawing Right, to supplant the dollar as a global reserve currency.³⁰

³⁰ Zhou Xiaochuan, "Guanyu gaige guoji huobi tixi de sikau" [A thought on the reform of international 38th Taiwan-U.S. Conference on Contemporary China: China Faces the Future CNAPS-IIR, The Brookings Institution, July 14-15, 2009
Ding – Pursuing a Yousuo zuowei within the Existing Framework

Nevertheless, it seems that Chinese government refrained itself from being the leader in pushing the SDR related proposal. He Yafei, China's vice foreign minister, when accompanying President Hu to visit Roma for the G-8 meeting in early July, said that it is not Chinese government's position advocating to develop a supra international reserve currency; instead, he emphasized that it aimed for academic discussion. Vice minister He also reiterated China's another position that "the dollar is the most important reserve currency in the world. We believe it will remain to be in the future and this is a reality." With this recognition, he called for the US government to stabilize the dollar.³¹

On the other hand, China spared no time to diversify into other currency for trade settlement by signing currency exchange agreements with different countries. These included South Korea, Malaysia, Indonesia, and Belorussia.³² Further, People's Bank of China signed a supplant agreement with Hong Kong's monetary authority over Renminbi as the settlement currency in early July, and it was effective on July 6, 2009.³³ It is widely speculated that these kinds of agreements aims at internationalizing Renminbi and reducing risk of exchange between the dollar and Renminbi.

China did not sell the dollar reserve which approximately amount to US\$800 billion, and China has not opposed other countries to continue using the dollar as the settlement currency. What China has done was to gradually diversify into other currency, including Renminbi, as settlement currency so as to protect China's foreign exchange asset, lower exchange risk, and pave the way for making Renminbi an international settlement currency. Further, China attempted to be a board member of the major international financial institutions, such as IMF and World Bank, so that they can participate in the management and air their voice.³⁴

monetary system], March 23, 2009, <http://finance.people.com.cn/GB/1040/59940/63710/9010905.html>.

³¹ "Zhongguo guanyuan: she chaozhuquan guoji chubei huobi fei zhongguo lichang" [Chinese official: developing supra international reserve currency is China's position], *United Daily News* (UDN), July 6, 2009, <http://udn.com/NEWS/MAINLAND/BREAKINGNEWS4/5002059.shtml>, and Qi Leyi, "Jingji xuejia: zhongguo meiliyou kanshuai meiguo" [There is no reason for China to have the US declined], *China Times*, July 3, 2009.

³² "Zhongguo yinhang: lizheng niannei Baxi 'luozi' jiwang chengwei renminbi qingsuanhang" [Bank of China: striving to set up branch bank in Brazil by the end of this year], *Diyi caijing ribao* [First Financial Daily], May 22, 2009, <http://www.aastocks.com.cn/News/2009/5/22/gsd0142838.shtml>.

³³ "Hong Kong yu dalu maoyi shouci yi renminbi jiesuan" [Renminbi to settle trade between Hong Kong and China for the first time], *UDN*, July 6, 2009, <http://udn.com/NEWS/MAINLAND/BREAKINGNEWS4/5002109.shtml>.

³⁴ Anthony Faiola and Mary Jordan, "Developing nations set to get more say—G-20 plans new role for 38th Taiwan-U.S. Conference on Contemporary China: China Faces the Future CNAPS-IIR, The Brookings Institution, July 14-15, 2009
Ding – Pursuing a Yousuo zuowei within the Existing Framework

How should we interpret China's behavior? It conforms to the "unification of dialectic oppositions:" pursuing a balance between integration with international financial institutions so as to keep a stable and predictable environment, on the other hands, as well as China's rise so as to gradually "reform" current international financial institutions which have been dominated by the US and other western powers. China has also attempted to raise Renminbi's profile by signing currency swap agreements with various countries and issuing Renminbi bonds internationally so that Renminbi can gradually become an international settlement currency to protect China's asset.

Another case involves the maritime standoff between USNS Impeccable and five Chinese vessels on March 8, 2009. USNS Impeccable is an ocean surveillance ship with the mission to directly support US Navy by using passive and active low frequency sonar arrays to detect and track undersea threats. There is a large Chinese submarine base in southeastern Hainan Island which, completed in recent years, reportedly is able to anchor more than ten nuclear submarines.³⁵

The US complained that the Chinese ships manoeuvred dangerously close to the unarmed US navy surveillance vessel, USNS Impeccable, while this vessel was on routine operations in international waters 75 miles (120km) south of Hainan Island. This incident followed days of "increasingly aggressive" acts by Chinese ships. The Pentagon identified the Chinese boats as a naval intelligence-gathering ship, a Bureau of Maritime Fisheries Patrol Vessel, a State Oceanographic Administration patrol vessel, and two small trawlers. On March 12, 2009, President Obama gave the go ahead to send the guided missile destroyer USS Chung-Hoon (DDG-93) to the South China Sea to protect the *Impeccable* while operating in that area.

From China's perspective, USNS Impeccable broke international law and Chinese laws and regulations. China regards Exclusive Economic Zone (EEZ) as part of sovereign territorial water, and any intelligence data gathering by foreign governments within its EEZ is illegal, an argument that the US and many legal experts do not agree, and they claim that according to the UN Convention on the Law of Sea, China has no legal basis

emerging economies in IMF lending, bank regulation," *Washington Post*, March 31, 2009, p. A12, http://www.washingtonpost.com/wp-dyn/content/article/2009/03/30/AR2009033003025_pf.html.

³⁵ About the information of USNS Impeccable and related incident on March 8, 2009, see [http://en.wikipedia.org/wiki/USNS_Impeccable_\(T-AGOS-23\)](http://en.wikipedia.org/wiki/USNS_Impeccable_(T-AGOS-23)).

³⁸ *Taiwan-U.S. Conference on Contemporary China: China Faces the Future*
CNAPS-IIR, *The Brookings Institution*, July 14-15, 2009
Ding – Pursuing a Yousuo zuowei within the Existing Framework

for restricting other nations' naval vessels' operations in this area.³⁶

Related to the maritime issue was China's dispatch of warships to the Gulf of Aden in support of anti-piracy operations. This deployment, which was formally announced December 2008, marks the first time since the establishment of the PLA Navy that a force has been sent to conduct combat-like mission beyond the Chinese littoral waters.

In order to defend its interpretation of permissible operations in the EEZs of other countries, China cited UN Security Council (UNSC)'s decision. China awaited a UNSC decision before formally declaring intent to send a naval force. More importantly, China has noted the expressed request of the Somalia government for help in combating piracy. In citing these factors, China carefully constructed a legal basis to defend against assertions of a double standard: objecting to US military activities in its EEZ while conducting combat-like operation in other state's EEZ.

China's reaction toward the USNS Impeccable is not just an issue related to interpretation of relevant international law. It fundamentally has to do with Taiwan issue and potential US role in the Taiwan Strait. China is fully aware that the US is doing intelligence collection in Hainan Island area where a new and large naval base was constructed in recent years, and it is widely speculated that with this new base, Chinese submarines are easily to cruise to the Pacific Ocean without being detected.

That probably can explain why China has taken such a strong reaction in a row toward the USNS Impeccable and other ships. China attempted to deter US navy from detecting PLAN submarines actions through taking strong harassment measures. Taiwan is, as Chinese propaganda reiterates frequently, the most sensitive issue for Sino-US relations, and although the cross-strait relations has improved since May 2008 when president Ma took presidency, it remain to be a core issue before final re-unification can be reached.

On the other hand, China carefully took actions that comply with international norm and expectation. China did not mobilize warships to escalate the confrontation;

³⁶ For relevant analyses, see "Understanding the Impeccable Incident," a special issue of *China Security*, Vol. 5, No. 2 (Spring 2009), http://www.chinasecurity.us/index.php?option=com_csissues&secid=13&catid=69&task=catory&Itemid=8.

³⁸ Taiwan-U.S. Conference on Contemporary China: *China Faces the Future*
CNAPS-IIR, The Brookings Institution, July 14-15, 2009
Ding – Pursuing a Yousuo zuowei within the Existing Framework

instead, China mobilized Maritime Fisheries Patrol vessel, State Oceanographic Administration patrol vessel, and two small trawlers to conduct harassment actions so that tension and friction could be contained in certain level. At the same time, China agreed to have dialogue with the US over relevant issue under the Military Maritime Consultative Agreement³⁷ which was signed in January 1998.

Conclusion

It seems that there is a shared consensus between analysts/scholars and government officials over perceptions of external world, security implications of these perceptions, and national security policy priority for the post-Olympic era. Discussions of these issues have become sophisticated and thorough. More importantly, they have been able to identify new challenges and weakness that China is to encounter, and these new challenges, though less visible, are no less tough than traditional ones.

Overall security strategies with different names and different emphases were proposed. They range from peaceful development, *taoguangyanghui*, to harmonious world. Although emphases differ, nevertheless, there is a common theme among these strategies, and that is to place development as the priority so as to further boost up China's comprehensive national strength.

They proposed that continue development should be undertaken within the current international system. They are fully aware that China has benefited substantially from this system and will continue benefiting. It seems that no one proposed to make systemic change; instead, gradual reform was proposed by almost all scholars so that the US, the Mr. Big, will not be perceptively challenged, and at the same time, China's development strategy will not be ruined. They are fully aware that despite the fact China has achieved voluminous GDP figure in the past three decades, China's capabilities in many aspects remain lag behind.

Of comprehensive national strengths, lack of soft power has been emphatically pointed out by many, if not all, analysts as a serious drawback, an issue which, depending on definition and scope of soft power, probably is related to the regime nature of the

³⁷ The official name of the agreement is Agreement between the Department of Defense of the United States of America and the Ministry of National Defense of the People's Republic of China on Establishing a Consultation Mechanism to Strengthen Military Maritime Safety.

³⁸ *Taiwan-U.S. Conference on Contemporary China: China Faces the Future*
CNAPS-IIR, The Brookings Institution, July 14-15, 2009
Ding – Pursuing a Yousuo zuowei within the Existing Framework

Chinese government, because it demands initiatives by NGOs so that communications at non-government level with counterparts in the western world can be proceeded. This actually requires Chinese government to further open its political system.

They also realized a fact that non-traditional security is more complicated after having experienced the global financial crisis. Major General Qiao Liang, author of known book, *Chao Xian Zhan* [Unlimited War] when he was ranked senior colonel, reportedly pointed out recently that “financial security is the first security, more urgent than defense security.” He was quoted to say that with China’s current military capability, “it can be guaranteed that no inch of territory will lose, but no guaranteed can be made on potential loss of wealth.” It is very likely China loses tremendous wealth without losing any inch of territory.³⁸

What we can conclude from the above analysis, if the analysis is correct? It seems that all these point to a conclusion that China is taking a strategy seeking to change international institutions gradually within the existing framework of international institutions. There is no doubt that China has seen a rare opportunity for further rise and probably desires a drastically systemic change, if any, but political realities, including more challenging non-traditional security issues such as soft power and financial capability, constrain this desire at present.

In the circumstance of gradual transition, concern posed by some countries will probably further rise. One major reason leading to concern has to do with China’s integration with global economic system, because, as China further integrates with global economic system, its national interests further extend and expand, and geographical scope to be defended is likely to be further expanded in order to effectively defend China’s national interests.³⁹ With this backdrop, concern over China’s rise will remain constant.

This is a rough draft. Criticism and suggestions are welcome and can be directed to ding@nccu.edu.tw.

³⁸ Qi Leyi, “Qiao Liang: jinrong anquan bi guofang gengjinpo” [Qiao Liang: financial security is urgent than defense security], *China Times*, June 24, 2009. Qiao was quoted to complain that China has been financially kidnapped by the US.

³⁹ “Junshi zhuanjia: zhongguo yongyuan fengxing fangyuxing de guofang zhengce” [Military expert: China forever adheres to defensive defense policy], Xinhua News Agency, January 20, 2009, http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/newscenter/2009-01/20/content_10688797.htm