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Lowell DITTMER

China's Asian policy has changed significantly since the global financial crisis. Yet the argument here is that in essence, it has not changed. China's ambition, as first articulated by Mao Zedong, was and has remained to achieve national greatness. Over time, the goal itself has become more focused on China's own national interests and less on transforming the international order. The means to this end have always been flexible, depending on China's growth in capabilities and on the opportunities offered by the international environment. In the first decades of the 21st century, China perceived a strategic opportunity to achieve major advances towards achieving this goal, focusing on its immediate regional environment. To do so, it has devised tactics shrewdly designed to do so without precipitating a confrontation with the United States or impinging on its core interests. This "new course" in Chinese foreign policy, addressed primarily to the Asian neighbourhood, was confirmed with mostly cosmetic adjustments in the 2012–13 transition to the fifth generation of the Communist Party of China (CCP) leadership and seems likely to remain in effect for the foreseeable future. The implications of this new Asia policy have already achieved modest success and more importantly no convincing defence has yet been devised.

China seems to have undergone a transformation in its foreign policy behaviour in the last few years, particularly with respect to its Asian neighbours, shifting from "charm offensive" or "smile diplomacy" to a more "assertive" stance. Is this in fact the case, or is it merely a paranoid misinterpretation (i.e. the "China threat" theory)? Although there is both change and continuity in Chinese foreign policy, the former has taken the limelight (and also enjoys it here) precisely because it is new. But, in a sense, the most explosive aspect of China's new foreign policy is not new at all. Since at least the late 1950s, China has aspired to overtake and surpass the most advanced countries in the world. Mao first articulated this goal at a communist international convocation in November 1957 to celebrate the 40th anniversary of the October revolution: "Comrade Khrushchev has told us, the Soviet Union 15 years later will surpass the United States of America. I can also say, 15 years later, we may catch up with or exceed the UK." On 2 December 1957, Liu Shaoqi reiterated this aim at the Eighth National Congress of the All-China Federation of Trade Unions. The slogan of "surpassing Britain and catching up with the United States" then gained wide currency during the Great Leap

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Forward.¹ The Great Leap failed resoundingly, yet Mao's frequently repeated words have been internalised as the ultimate goal of China's developmental trajectory, particularly since the advent of "reform and opening" at the Third Plenum when so much of the rest of the Maoist package was quietly pared away. From this perspective, Deng Xiaoping's post-Mao admonition to pursue a modest foreign policy may be seen as a deviation from the norm, but even this was couched as a temporary expedient (e.g. "*taoguang yanghui*") leading to ultimate victory. The 2008 Beijing Olympics, followed by the 2010 Shanghai Expo and China's triumphant survival of the global financial crisis that engulfed the developed nations (thanks to a 4 trillion yuan stimulus package), provided convincing evidence that Mao's goals were finally on the brink. China's gross domestic product (GDP) surpassed that of Canada in 1993, Italy in 2000, France in 2005, the United Kingdom in 2006, Germany in 2008 and Japan in 2010. In 2012, it surpassed the United States as the world's biggest trading nation, ending American dominance of world trade, and in 2014 the World Bank estimated that China's GDP (in purchasing power parity) would surpass that of the United States. During the Hu Jintao decade, China accounted for some 24 per cent of all world economic growth, and the industrial powerhouse's annual consumption of many basic commodities such as aluminium, iron ore and copper neared half of the world total.² China has the world's biggest current-account surplus and foreign exchange reserve (and developed-country debt)—at around US\$4 trillion, roughly one-third of the global total.

China does not in principle like to concede policy changes because its policies are scientifically determined to be correct, but political realities tend to shift unpredictably and China's policies must be periodically adjusted if they are to remain correct. This is known as the synthesis of theory and practice, and at least since the end of the Maoist era, this synthesis has officially taken place at the five-year Party congresses, particularly those held at a 10-year interval when there is a generational elite succession. The most recent adjustments have been in the works since shortly after the 16th Congress but did not become publicly salient until the 17th Party Congress in 2007, as such changes must undergo an elaborate process of circulation and revision. They have remained, in effect, fairly consistent since then. Underlying this "new course" is the implicit recognition that China has indeed become a "great power", and an attempt to adjust its operational code accordingly—without, however, unduly upsetting the international community whose continuing trade and investment are necessary for China's continued rise. Thus China's diplomatic officials have had to perform a difficult balancing act. China must now comport itself with the majesty of a great power

¹ Nikita Khrushchev, *Khrushchev's Memoirs* (Boston: Little Brown & Co., 1974), pp. 250–7. Bo Yibo, *In Reflection of Certain Critical Decisions and Events* (Beijing: Central Party School Press), p. 692; cited in Shen Zhihua, "The Great Leap Forward, the People's Communes and the Rupture of the Sino-Soviet Alliance", in *Parallel History Project on NATO and the Warsaw Pact: The Cold War History of Sino-Soviet Relations* (Parallel History Project on NATO and the Warsaw Pact, Zurich, June 2005).

² See Guy de Jonquieres, "What Power Shift to China?", *ECIPE Policy Brief*, European Centre for International Political Economy, April 2012, at <http://www.ecipe.org/media/publication_pdfs/PB201103.pdf> [23 July 2013].

with correspondingly grander presumptions and demands, and yet at the same time it must do so without unduly upsetting the international community, whose continuing trade and investment remains *sine qua non* (e.g. by 2008, China's trade dependency ratio (the percentage of GDP that is dependent on foreign trade) had reached nearly 70 per cent and foreign-invested enterprises accounted for roughly half of China's exports). Diplomatic reassurance is mostly rhetorical, conveyed in frequent state visits and active engagement in Asia's many regional forums.

This article constitutes an early review and analysis of China's new Asia policy and its implications. The theoretical perspective of this policy mixes realism (power politics) and constructivism (Chinese characteristics). The first part briefly catalogues the new Asia policy's range of objective indicators, while the second presents my conception of the policy's strategic logic. The third part outlines the implementation of that strategy. The conclusion takes up the question of the strategy's broader implications and sustainability.

CHINA'S ASIA POLICY SINCE THE FINANCIAL CRISIS: A BRIEF OVERVIEW

We begin with concrete behaviour: China is more assertive because it is more confident that it can get its way by force if push comes to shove. Although China's official military budget is less than a fifth of the United States, it has been growing more rapidly. And its growth is more focused: whereas the United States conceives of itself as having global policing responsibilities, China's military ambitions are (for now) confined to Asia. Since the Tiananmen crackdown in 1989, there have been double-digit increases in the military budget every year but one, giving China the largest budget in Asia and the second-largest in the world.³ The Chinese justification for this is that China now has worldwide economic interests and that it needs to project force to protect those interests. Thus, there has been a particular effort to strengthen the PLA Navy (PLAN) and Air Force (PLAAF). This has in the past few years borne fruit in the proud unveiling of advanced new weapon systems. In January 2011, China scheduled the test of a J-20 stealth jet to coincide with the visit of US Defense Secretary Robert Gates, for example, and tested its J-31 Shenyang stealth fighter in September 2012 to coincide with the visit of Defense Secretary Leon Panetta. At the

³ According to a recent analysis by the Center for Strategic and International Studies (CSIS), the growth of China's military spending has outpaced that of all other countries in the region on all measures since 2000. From 2000 to 2011, Chinese military spending grew at a compound annual growth rate of 13.4 per cent, compared to 4.8 per cent for South Korea, 3.5–3.6 per cent for India and Japan, and 1.8 per cent for Taiwan. These order-of-magnitude differences are mitigated somewhat but by no means disappear when looking at spending in constant local currency. Chinese military spending has exceeded Japan's since 2005 and is now largest in the region. David J. Berteau et al., *Asian Defense Spending, 2000–2011* (Washington, DC: Center for Strategic and International Studies, 2012). According to the Pentagon, Chinese defence spending increased by a cumulative 120 per cent from 2005–10; *US Department of Defense Annual Report to Congress: Military and Security Development Involving the PRC, 2011* (Washington, DC: Office of the Secretary of Defense, 2011), p. 41. There has been a sustained effort to strengthen the People's Liberation Army (PLA), particularly the PLA Navy (PLAN).

strategic nuclear level, China has begun developing a new generation of solid-fuelled, mobile intercontinental ballistic missiles (ICBMs) with multiple independently targetable reentry vehicles (MIRVs) as well as submarine-launched ballistic missiles (SLBMs) that should enable it to strike US targets with several times more nuclear warheads than previously.⁴ Though the bilateral nuclear force structure remains asymmetrical, even with the reduction of US strategic strike forces from some 5,000 to about 2,200 ICBMs (1,550 by 2018, according to accords reached in strategic arms reduction talks with Russia), and China (unlike the United States) espouses a “no first use” policy, possession of a more secure second-strike deterrent may allow Beijing to launch conventional war on the bet that the United States would not risk nuclear escalation.⁵ China’s fleet of fourth-generation fighters has grown from 72 to 480 in the past 10 years and the growth of its submarine fleet and missile forces is the fastest in the world. Perhaps China’s most spectacular advances have been in its naval forces. In 2010, the second artillery is reported to have tested an anti-ship ballistic missile (ASBM), the Dongfeng DF-21D, capable of hitting US aircraft carriers at a distance of a thousand miles—bringing the entire South China Sea within range. The PLAN is also developing an anti-ship missile that can be launched from submerged submarines at three times the speed of sound over a 200-mile range. The PLAN also tested and commissioned its first aircraft carrier in 2012, the Liaoning, with plans to build four more indigenous carriers by 2022. China’s three regional naval fleets held joint manoeuvres in the South China Sea for the first time in 2011, and the Defence Ministry announced in December 2012 that the navy would conduct regular exercises in the western Pacific. To the north, where Beijing and Tokyo dispute ownership of Diaoyu/Senkaku islets (as well as Okinawa and the Ryukyus) in the East China Sea, Japan, Taiwan and the United States have all reported the far-flung meanderings of Chinese submarines (China now has about 60, the world’s largest submarine fleet). To conclude from this survey, China’s growing national self-confidence in Asia has formidable military grounding and it has become more willing to use it.

Threat assessment involves both capabilities and intentions. Chinese intentions have expanded along with its economic growth rate. While the first decade since the Cold War was focused on a Taiwan contingency, since that became less urgent with the election of a more accommodative Taiwanese leadership in 2008, China’s growing air and naval capabilities have focused on strategic denial, or what the Pentagon calls “anti-access and area denial” (A2AD)—that is, projecting force beyond the “first island chain”. China cannot yet sustain operations with larger formations in distant waters, or joint operations with other parts of China’s military; for the present, the PLAN is a two-layered force, with a more powerful near-sea than far-sea component (though acquisition of an aircraft carrier is a significant step towards a blue-water navy). It should also be noted

⁴ Keith Bradsher, “China is Said to be Bolstering Missile Capabilities”, *The New York Times*, 24 August 2012, at <<http://www.nytimes.com/2012/08/25/world/asia/chinas-missile-advances-aimed-at-thwarting-us-defenses-analysts-say.html>> [1 October 2012].

⁵ Thomas J. Christensen, “The Meaning of Nuclear Evolution: China’s Strategic Modernization and US-China Security Relations”, *Journal of Strategic Studies* 35, no. 4 (August 2012): 447–87.

that the first island chain, the PLAN's first and most modest objective, extends well beyond the 200-nautical mile exclusive economic zone (EEZ) to include Taiwan (of course), all of the Yellow Sea, the East China Sea and the South China Sea. These strategic goals are long-standing, first articulated by Liu Huaqing in 1982 when he was commander of the PLAN and later publicly reaffirmed by Jiang Zemin, Hu Jintao and Xi Jinping.⁶ While the United States has no territorial claims to any of these seas, it does have mutual security treaties with Japan, Korea, the Philippines and Thailand (as well as informal commitments to Taiwan), whose territorial waters or EEZs overlap China's claims. China's growing capabilities permit it to confront these rival territorial claimants with greater confidence and perhaps deter US intervention on behalf of its weaker allies.

Although China has long claimed a swathe of (largely uninhabited) territory beyond its own borders, since 2009 it has formalised its claims and taken more vigorous steps to enforce them against the overlapping claims of Japan, Korea, Taiwan and four Southeast Asian countries.⁷ China's recent assertiveness should not be viewed in isolation. There has been a scramble to occupy various islets, atolls and shoals since the detection of subsurface hydrocarbon deposits—Vietnam, for example, which made no claims before 1975, has since occupied 29 of the islands and introduced foreign oil companies to exploit the mineral deposits. The Chinese fishing trawler that rammed two pursuing Japanese coast guard vessels in September 2010 became a patriotic *cause célèbre* in China, resulting in mass protests and an informal embargo of rare earth element (REE) exports to Japan. This was followed by another ramming incident in 2011, riots in some 200 Chinese cities and an informal consumer boycott of Japanese products following the Japanese state's 2012 purchase of three of the Senkaku/Diaoyu islets (to prevent their sale to Tokyo Mayor Ishihara Shintaro). In the first half of 2011, a spate of incidents in the South China Sea aggravated tensions between China and its Southeast Asian neighbours, including the firing on Filipino fishermen from Chinese vessels in February 2011, a confrontation between the Philippine oil exploration vessel, MV Veritas Voyager, and two Chinese patrol boats in March 2011, and two confrontations between Chinese marine surveillance vessels and PetroVietnam survey ships in which an undersea cable was cut, sparking public demonstrations in front of China's embassy in Hanoi. China views calls for "freedom of navigation" as a red herring as it has not interfered with commercial shipping, but since the 2001 Hainan incident, there have been repeated confrontations with US or Japanese military vessels within the claimed Chinese EEZ, such as the 2009 harassment of the USNS Impeccable by five Chinese vessels in the South China Sea,

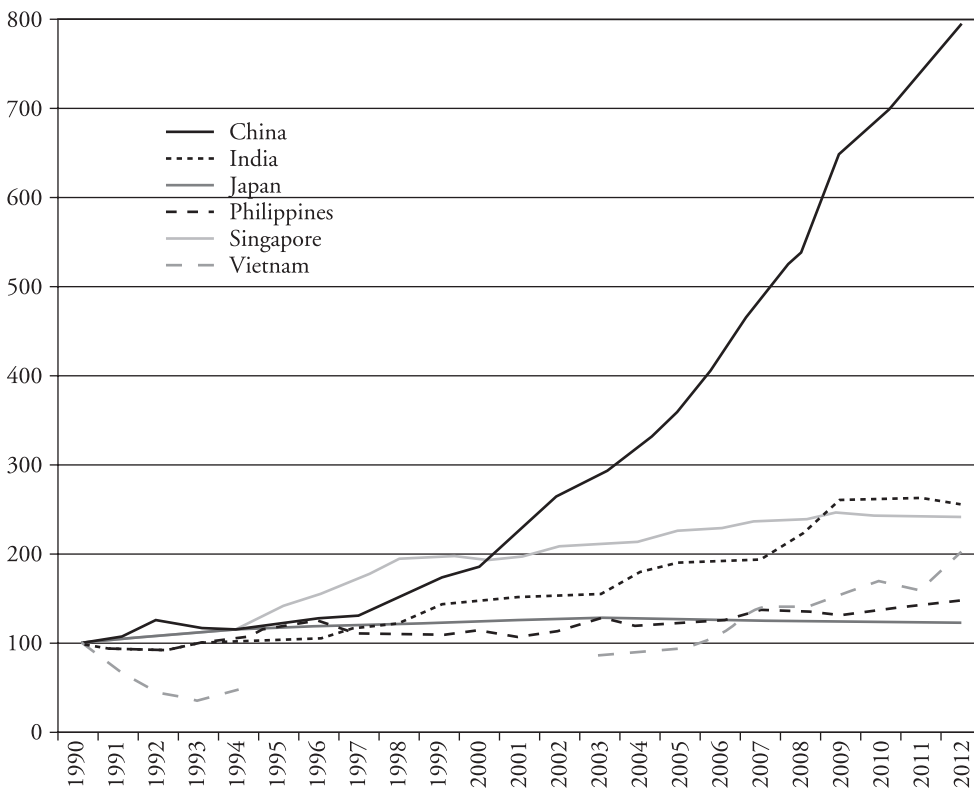
⁶ Liu Huaqing, China's most influential strategic thinker since Mao Zedong, was commander of the PLAN (1982–88), later deputy chair of the Central Military Commission (1989–97), and a Politburo Standing Committee member (1992–97). He outlined a vision in 1982 for China to have a navy of global reach by the middle of the 21st century. To do so, China should control the first and second island chains by 2010 and 2020, respectively. "The PLA Navy must be ready to challenge US domination over the western Pacific and the Indian Ocean in 2040," he said.

⁷ Chinese claims are partly based on the archaeological discovery of "Chinese" potshards and other artefacts but mostly the nine-dash line drawn by the Nationalist Government in 1947, which Beijing inherited upon "defeating" the Republic of China (ROC) in 1949.

the buzzing of the Japanese destroyer JDS Suzunami by a Chinese helicopter in April 2010, or the near collision with the USS Cowpens on 5 December 2013.

The reaction to China's assertiveness by rival regional claimants has varied, some yielding territory under duress, some engaging in external or internal "balancing". Defence spending by all major Asian powers has been increasing since 2001, but particularly since 2008. With the exception of South Korea, growth rates in defence spending (by all measures) were higher between 2005–11 than between 2000–05.⁸ In Japan, the confrontation contributed to the rise of conservative Prime Minister Abe Shinzo, who since his election in 2012 has established a National Security Council, announced Japan's first National Security Strategy and increased planned military spending by 2.6 per cent over the next five years, reversing a decade of decline. While these may complicate China's expansionist designs (particularly Vietnam's purchase of six advanced Russian submarines), they cannot shift the current power imbalance.

Figure 1. Asia's Military Expenditures Index, 1990–2012⁹



Source: Stockholm International Peace Research Institute (SIPRI).

⁸ Berteau et al., *Asian Defense Spending*.

⁹ Felix K. Chang, "Salutation to Arms: Asia's Military Buildup, Its Reasons, and Its Implications", *Foreign Policy Research Institute E-Notes*, September 2013, p. 1.

We now turn to changes in Chinese foreign policy language. The Chinese response may be divided into two phases: an initial stage (2008–11) of nationalist bluster and a second stage (2012–14) of more mellifluous diplomatic language. The early rhetoric (e.g. Foreign Minister Yang Jiechi at the mid-2010 ASEAN Regional Forum meeting in Hanoi: “China is a big country and other countries are small countries and that is just a fact”¹⁰) suggested that the Chinese were surprised by two things: the intensity of the adverse reaction in Southeast Asia to their behaviour; and that the United States should intervene in support of ASEAN based on a national interest in “freedom of navigation” despite having no territorial claims at stake. Since the 18th Party Congress in 2012, while maritime confrontations and sovereignty claims have not abated, the diplomatic language has become more irenic, accompanied by frequent state visits in which joint projects and moneymaking deals are unveiled. Meanwhile, domestic media, sometimes stimulated by the hawkish commentary of high military officials, became increasingly belligerent. Washington is accused of driving a “containment” policy and warned not to intervene. In 2013, the new leadership agreed to resume talks on a code of conduct for resolving disputes in the South China Sea, but these have gone nowhere.

In Northeast Asia, China's position has evolved slightly: in the first period, while criticising North Korea for breaking off the six-power talks and testing nuclear weapons, Beijing stood by Pyongyang (China's only ally) during the Cheonan and Yeonpyeong clashes, fearful lest the regime collapse after the sudden death of Kim Jong-Il. Since Pyongyang's third nuclear test in 2013, however, Beijing has taken an increasingly hard line against North Korea, both rhetorically and by more vigorously enforcing the United Nations sanctions it has endorsed (e.g. cutting crude oil shipments in 2014).¹¹ Trade between the People's Republic of China (PRC) and Democratic People's Republic of Korea (DPRK) has meanwhile increased, particularly mineral exports, as the latter has few alternatives.¹² This contrasts with an amazing flowering of Sino-South Korean diplomatic and economic relations. Meanwhile, China maintains a hard line against Japan, refusing to talk, evoking rhetoric from the Sino-Japanese War and attempting to split Japan from the United States and South Korea—unsuccessful in the former case, more successful in the latter.

CHINA'S GRAND STRATEGY

I contend that China's recent behaviour is the result of a deliberate strategy, conceived and put into place beginning with the 16th Party Congress with the rise of the

¹⁰ “China's Aggressive New Diplomacy”, *The Wall Street Journal*, 1 October 2010.

¹¹ It is possible the 2014 five-month cut-off in crude oil shipments is apolitical. Because the cut-off has coincided with an increase in shipment of oil products, some have speculated that it merely indicates a breakdown of the North Korean refining capacity.

¹² See Dominik Mierzejewski, “Idealism under Pressure: China's Foreign Policy Principles and the Korean Peninsula Crisis”, *China: An International Journal* 9, no. 2 (September 2011): 328–41; and David M. Lampton, “The United States and China in the Age of Obama: Looking Each Other Straight in the Eyes”, *Journal of Contemporary China* 18, no. 62 (November 2009): 703–27.

fourth-generation leadership of Hu Jintao and Wen Jiabao.¹³ Hu, the apparent epitome of the faceless technocrat, has been considerably underestimated. He actually had an ambitious (if not entirely coherent) vision. He aspired not only to revitalise Chinese political culture by reintegrating it with Chinese tradition but also to shift Chinese foreign policy from Dengist self-effacement to a stance more consistent with China's amazing economic achievements. His vision is essentially one of benign authoritarianism at home and nationalist expansion abroad, an iron fist in a velvet glove. He moved to realise this vision from the top down quite systematically, utilising the classic levers of the increasingly institutionalised Leninist Party power apparatus.

This vision is hardly secret and has been articulated clearly in authoritative Party documents. We must take into account that the Chinese leadership style has changed considerably since the Maoist era when Mao Zedong could, by uttering a few offhand remarks during an August 1958 inspection trip (viz., "*renmin gongshe hao*" i.e. the People's Commune is good) transform Chinese agricultural organisation overnight. It is now based on authoritative texts rather than dominant personalities, as ratified in a complex iterative review process typically culminating in the five-year Party Congresses.¹⁴ Hu Jintao's vision went through this complex process beginning with the 16th Congress and culminating with constitutional amendment at the 18th Congress. The goal is by the middle of the 21st century to make China the strongest nation in Asia, economically, commercially, scientifically, technically and diplomatically. The "general line" (*zongluxian*) is no longer "communism"—China will remain in the primary stage of socialism for more than a century—but realisation of the "great rejuvenation [*da fuxing*] of the Chinese nation".¹⁵ This "prosperous, strong, democratic, culturally advanced, and harmonious modern socialist state" is to be achieved by the centenary of the founding of the People's Republic in 2049. An interim goal, incorporated into the 16th Party Congress Work Report in 2002, is to quadruple China's 2000 GDP by 2020 (which will require an annual average growth rate of 7.5 per cent—lower than during the previous two decades) and to achieve "balanced development" and "social harmony". These two decades (2000–20) are conceived to be a "period of strategic opportunity".¹⁶ These bold goals mark a departure from Deng's famous "24-character expression" first uttered in the early 1990s, the essence of which was to keep a low profile and bide one's time (*taoguang yanghui*), never claim leadership (*juebu dang tou*), and accomplish something (*you suo zuowei*). In the wake of China's impressive rise, many in the Chinese leadership had come to view this expression as "too soft". In a speech

¹³ See Timothy R. Heath, "What Does China Want? Discerning the PRC's National Strategy", *Asian Security* 8, no. 1 (2012): 54–72; also Dirk Schmidt, "From the Charm to the Offensive", *China Analysis* 94 (March 2012).

¹⁴ Susan V. Lawrence and Michael F. Martin, *Understanding China's Political System* (Washington, DC: Research Service, Report no. 7-5700, 20 March 2013).

¹⁵ Xi Jinping, "On Several Experiences and Understandings in Studying the Theoretical System of Socialism with Chinese Characteristics", *Qiushi*, 1 April 2008.

¹⁶ In his 2002 report to the 16th Party Congress, Jiang Zemin foresaw a "20-year period of strategic opportunity", during which China could focus on building its domestic economy.

at a conference of diplomats in 2009, Hu Jintao thus subtly revised it, demanding greater international “influence” (*yingxiangli*) on his country’s behalf, suggesting that the admonition should be for China to “continuously keep a low profile and *proactively get things done* (*jiji zuowei*). The Work Report of the 17th Party Congress thus called on the Party to “promote world peace and common development” (*tuidong shijie heping yu gongtong fazhan*), signalling a growing appetite for international influence.¹⁷

This vision is based on three conceptual pillars: the “scientific developmental concept”, the value of “social harmony” and the defence of China’s “core interests”. The “scientific developmental concept” (*kexuefazhan guan*) was first put forward by Hu Jintao at the Third Plenum of the 16th Congress in 2003 but could not be officially adopted until the 17th Party Congress in 2007. In 2008, the Communist Party of China (CPC) launched an 18-month campaign to study Hu’s concept of “scientific development”: Party publishing houses published Politburo Standing Committee member speeches and all Party members were required to study a collection of Party documents. At the 18th Party Congress, the “Scientific Outlook on Development” was finally enshrined in the theoretical canon as an amendment to the Party Constitution. Domestically, it is aimed at economic development, specifically at a more “comprehensive, balanced and sustainable” form of development that relieves “peasant burdens” and lifts up those left behind by market reform. But the more vital function of the concept is epistemological: to reaffirm the infallibility of the CPC decision-making process. Socialism with Chinese characteristics is the “only correct theory” that can enable the country to achieve “national rejuvenation”. Because this policy-making process is “scientific”, producing the “crystallisation of the collective wisdom of the CPC”, it is correct and must be obeyed. The process is then implemented from the top down via “strategic guidance” (*zhanlue zhidao*), to which all policies must adhere. This “top-level design” is to function as a text-based generation of universal consensus. The most authoritative of these documents are (in descending order): the Party Constitution, the Party Congress Work Reports, “red-head documents” (*hongtou wenjian*), PRC government white papers, speeches by members of the Politburo Standing Committee, and finally the analyses by Party leaders and scholars as published in authoritative Party organs, led by *People’s Daily* (*Renmin ribao*) and *Qiushi* editorials.

The second pillar is “harmony” (*hexie*), a reincarnation of Confucian values, a “vital theoretical innovation” embraced as “the essential attribute of socialism with Chinese characteristics” at the 17th Party Congress. Beginning in the late 1990s, the Chinese leadership, increasingly concerned about growing social fractiousness at a time of rising living standards, departed from its post-Tiananmen pattern of viewing protest as an antagonistic contradiction inspired by Western imperialism (“peaceful evolution”), and reverted to Mao’s 1957 notion of “contradictions among the people” in order to introduce the idea of a “socialist rise/development” following by “socialist harmony”.

¹⁷ See Chen Dingding and Wang Jianwei, “Lying Low No More?: China’s New Thinking on the Tao Guang Yang Hui Strategy”, *China: An International Journal* 9, no. 2 (September 2011): 195–216.

Operationally, “harmony” contains both an explicit and an implicit meaning. Explicitly, it means cooperatively resolving contradictions without provoking conflict or instability. Implicitly, it means that the Truth (conflating empirical, logical and political truth), as scientifically determined by the Party, must be universally respected and obeyed, in the interests of both leaders and followers. Domestically, in a “socialist harmonious society” (*shehuizhuyi hexie shehui*), all dissident views must be “harmonised” (as they say on the Chinese internet) or induced to conform to that Truth. This accounts for the regime’s determination to silence such articulate dissident publicists as Liu Xiaobo or Ai Weiwei. The budgetary outlay for internet police and the internal security apparatus has exceeded the budget for defence since 2010, and the director of the public security organs, Zhou Yongkang, was exceptionally elevated to Politburo Standing Committee rank in 2002.¹⁸ Meanwhile, the chaotic international arena is in need of harmony as well. From the podium of the United Nations General Assembly in September 2005, Hu Jintao introduced “building a harmonious world of lasting peace and common prosperity” in order to foster a “favourable international environment” (*youli de guoji huanjing*) for China’s reform and further opening.¹⁹ Otherwise, in an era of globalisation, international disharmony will ultimately have adverse repercussions on China’s domestic harmony. Such critics as the Dalai Lama or Rebiya Kadeer must not only be kept out of China but also prevented from visiting other countries. And when the Philippines and Vietnam raised their territorial disputes with China at a July 2012 ASEAN Ministerial Meeting, China encouraged the Cambodian hosts to omit this disharmony from conference proceedings.²⁰ Harmony is to be reinforced by “win-win” (*huli gongying*) economic cooperation, by building pipelines, railroads, highways, dams and other infrastructure to foster regional integration with China (“connectivity”) and by cultivating a stronger sense of “Asian” cultural identity. Hu Jintao, in an important 2009 speech, said the PRC must “construct geopolitical strategic dependence” (*zhanlue yitwodai*) with the Asian periphery in order to become “a major pole in the world” and eliminate the opportunity for “outside forces” to intervene.²¹ The Party Constitution envisions a world “without hegemonism and power politics”, implicitly referring to an Asia relieved of the United States and its pentagonal Asia-Pacific bilateral alliance network, which is viewed as an ill-disguised attempt to encircle and contain China. Such alliances are as unnecessary as they are

¹⁸ The 2012 national budget planned to spend US\$111.4 billion on internal security (not including the PLA, which also has a domestic security maintenance role), compared to US\$106.4 billion on defence. “Chinese Domestic Security Spending Rises to \$111 Billion”, *Reuters*, 5 March 2012. Before the 16th Congress, a mere Politburo member managed the politics and law portfolio.

¹⁹ “Constitution of the Communist Party of China”, *Xinhua*, 25 October 2007.

²⁰ On that occasion, Cambodia used its prerogative as ASEAN chair to block the inclusion of any mention of the South China Sea maritime disputes in the joint communiqué at the end of the meeting, resulting in the organisation’s first-ever failure to release such a document.

²¹ Qian Tong, “The 11th Meeting of Chinese Diplomatic Envoys Convenes in Beijing: Hu Jintao Makes an Important Speech”, *Xinhua Domestic Service*, 20 July 2009; cited in Heath, “What Does China Want?”, p. 71, fn. 12.

counterproductive and should be replaced by China's "new security concept" based on the "five principles of peaceful coexistence". "Schemes which seek to band countries together to deal with and contain China", adjured Dai Bingguo, "are classic Cold War thinking" and "destined to failure". In other words, US "hegemony" is clearly out of tune with China's traditions of "harmony and neighbourly benevolence", drawn upon "thousands of years of political and cultural traditions".²² While the concept of "harmonious world" functions to induce other countries to jump on the bandwagon with China's policies and principles, the concepts of "international democracy" and "tolerance" (*baorong*) are employed more defensively to prevent other countries from interfering in China's internal affairs under the pretext of universal values or human rights. China's vision of a "harmonious world" is a multipolar system (under a strong UN Security Council) in which China, as the aspirational leader of an Asia relieved of "outside" intervention, constitutes one major "pole". While "harmonious" implies peaceful integration without any major wars disrupting China's self-sustaining growth dynamo, it also implies that the "smaller" states can all be induced to agree with China's benign leadership. To this end, in 2004 China began establishing a worldwide network of approximately 400 Confucius Institutes. There are echoes here of the hierarchical Confucian tributary state system, adding the Western concept of sovereignty.

Conceptually, however, the "harmonious world" does not travel well. Vocal international opponents can be ignored, denounced and if possible isolated, but they cannot be silenced like domestic dissidents. Democracy can be endorsed abroad but not at home. China's "scientific" claim to domestic Truth gives way abroad to moral relativism: as the Peaceful Development White Paper explains, all forms of political organisation and values are equally legitimate.²³ But in a harmonious world in which all truth claims are equally legitimate, why should the interests of other countries necessarily accede to those of China? Thus, despite China's investment in "soft power", China's image in Asia has not measurably improved lately.

Deng Xiaoping originally used the concept of "core" in the 1990s to characterise his informal position within the PRC leadership—he was the "core" of the second generation, just as Jiang Zemin would be the core of the third. China's first recorded official use of the term "core interests" overseas happened at a meeting between Colin Powell and Tang Jiaxuan in 2003, and since then its usage has steadily increased. In 2005, it was applied to Taiwan in the context of passing the Anti-Secession Law, and during the 2008 Olympics deployed to the unrest in Xinjiang and Tibet. It appears in the 17th Party Congress Work Report in 2007 as an adjuration to provide a greater degree of security for core interests, as "invincible" (*bukeqinfan de*) and "indestructible" (*bukepohuai de*) conditions for the achievement of national rejuvenation. According to the official commentaries by Hu Jintao (2009) and Dai Bingguo (2010), it consists

²² Dai Bingguo, "Persisting with Taking the Path to Peaceful Development", 6 December 2010. Available at the Ministry of Foreign Affairs of the PRC website, at <<http://www.mfa.gov.cn>> [1 August 2014].

²³ State Council Information Office, "PRC Peaceful Development White Paper", 2005, as cited in Heath, "What Does China Want?".

of three essential elements: the stability of the political system (i.e. upholding the leadership of the CPC and sustaining a self-sufficient socialist developmental path), the defence of national sovereignty and security as well as territorial integrity and national unity (referring to the defence of all territories claimed by the PRC or its historical antecedents including reunification with Taiwan), and the assurance of the preconditions for the sustained economic and social development of China; in short, “security, sovereignty and development”. The concept first came to Obama’s attention when an agreement to respect each other’s “core interests” appeared in the Hu-Obama communiqué following Obama’s 2009 visit to China, to be subsequently raised in indignant references to Taiwan (arms sales) and Tibet (Dalai Lama visit). In the spring of 2010, it was first raised in reference to Chinese claims to the South China Sea, though the roll-out seems to have been somewhat equivocal. American and Japanese media published reports that Chinese foreign policy officials had referred in closed session to the South China Sea as a core interest, which was later confirmed by then Secretary of State Hillary Clinton following talks with Dai Bingguo. There is no record of a Chinese official having made such a claim publicly, just as there is no record of an official public disavowal of such a claim.²⁴ Yet tough Chinese enforcement efforts do sustain this interpretation. Chinese interest is based on recent construction of a major naval base in Hainan, fertile fishing grounds, as well as Chinese estimates (possibly exaggerated) of vast subsurface hydrocarbon deposits. These rank it among “preconditions of sustained economic and social development”—a core Chinese interest.²⁵ Other Chinese sources, however, intimate that all core interests are not equal and that the South China Sea is not a “redline” issue with the same status as Taiwan or Tibet.²⁶ While China’s territorial claims in the South China Sea thus may leave some room for future negotiation, China’s claim to the Senkaku/Diaoyu islets in the East China Sea has hardened since Japan’s purchase of three of the islets in September 2012. China immediately submitted to the UN the baselines to demarcate Chinese territorial seas around the disputed islets, and in April 2013, top Chinese military officials informed visiting US General Martin Dempsey, chairman of the Joint Chiefs of Staff, that Beijing’s claim to the disputed Senkaku islets and surrounding parts of the East China Sea was a “core interest”, as confirmed by Chinese foreign ministry spokeswomen Hua Chunying at a press conference: “The Diaoyu Islands are about sovereignty and territorial integrity. Of

²⁴ Jeffrey Bader subsequently clarified that the Chinese had called it a “national priority”, not necessarily a “core interest”. Chinese interview informants contend that the latter assertion was never made, but that once it had been publicly reported, it could not be officially disavowed. I personally suspect it was made on camera but then publicly denied (with US support) once it became nettlesome.

²⁵ Estimates for proven and undiscovered oil reserves in the South China Sea range from 28 billion to as high as 213 billion barrels of oil, according to a March 2008 US Energy Information Administration report. Randy Fabi and Chen Aizhu, “Analysis: China Unveils Oil Offensive in South China Sea Squabble”, *Reuters*, 1 August 2012, at <<http://www.reuters.com/article/2012/08/01/us-southchinasea-china-idUSBRE8701LM20120801>> [1 August 2014].

²⁶ Da Wei, “A Clear Signal of ‘Core Interests’ to the World”, *China Daily*, 2 August 2008, at <http://www.chinadaily.com.cn/usa/2010-08/02/content_11083124.htm> [1 August 2014].

course, it's China's core interest".²⁷ On 23 November 2013, China rolled out an Air Defence Identification Zone (ADIZ) overlapping Japan's (as well as Korea's) territorial claims to include the islets, refusing to deny speculation that an additional ADIZ would cover the South China Sea. All this makes compromise difficult.

At the 18th Congress, China achieved a second seemingly smooth transition from the fourth to the fifth generation of CPC leadership, despite the Bo Xilai prologue. Although Xi Jinping is a more charismatic leader than Hu Jintao and proclaimed his intention to introduce ambitious domestic economic reforms, Hu's new Asia policy survives with only minor revision. At the rhetorical level, the "peaceful rise/harmonious world" line continued to dominate the presentations at the 18th Congress and the 12th National People's Congress (NPC): based on a "win-win strategy of opening up", China's foreign policy will "... continue to hold high the banner of peace, development, cooperation and mutual benefit and strive to uphold world peace and promote common development. China will unswervingly follow the path of peaceful development and firmly pursue an independent foreign policy of peace".²⁸ Xi Jinping continues to call for the "rejuvenation" of China in two phases culminating in the 100th anniversary of the PRC in 2049, introducing "China dream" symbolism to encompass assembled end goals, including the "realisation of communism".²⁹ However, these objectives are depicted as confronting strong opposition from the forces of "hegemonism", "power politics" and "neo-interventionism". Though never named, this obviously refers to US "meddling" since 2010 in the South and East China Sea disputes and its introduction of an East Asian "pivot" or "rebalancing". The premise is that China's "core interests" are firmly rooted in principle and that any infringement on them is an aggressive act warranting resolute (and possibly violent) defence. This message is clearly conveyed in such passages of the Congress Report as: "We are firm in our resolve to uphold China's sovereignty, security and development interests and will never yield to any outside pressure". While China thinks the United States is in decline, it does not desire confrontation but rather a "new type of great power relations" in which the latter will respect China's core interests: the Report declares that China will "strive to establish a new type of relations of long-term stability and sound growth with other major countries". It also resolves to "build China into a maritime power", setting a deadline of 2020 for the modernisation of the PLAN.

IMPLEMENTATION

Since 2009, China has pursued a two-track policy to implement these ideas. Beijing has been tactically assertive but cautious, keeping the level of violence at a sub-threshold

²⁷ Michael Richardson, commentary, *Japan Times*, 6 June 2013, at <<http://www.japantimes.co.jp/opinion/2013/06/06/commentary/chinas-troubling-core-interests/#.UrJYSdJDuE4>> [1 August 2014].

²⁸ See "Full Text of Hu Jintao's Report at the 18th Party Congress", *Xinhua*, 17 November 2012, at <http://news.xinhuanet.com/english/special/18cpcnc/2012-11/17/c_131981259.htm> [1 August 2014].

²⁹ *People's Daily*, 30 November 2012.

level and using stealth and salami tactics to move forward at opportune moments with unarmed fishing boats, coast guard or maritime surveillance ships rather than the PLA navy.³⁰ China's local superiority in military hardware has not yet been brought into play, except as a backdrop deterrent against escalation. In the case of the Philippines, the PRC moved first in 2005, three years after the forced evacuation of American forces from Subic Bay and Clark Air Force Base, fortifying Mischief Reef before the Philippine coast guard noticed. In the spring of 2012, when Manila sent a warship to arrest Chinese fishermen for predatory fishing near the disputed Scarborough Shoal, China sent marine surveillance vessels and an armed Fishery Law Enforcement Command ship to block the Philippine boats. Both sides launched diplomatic protests and allegedly agreed that both sides should evacuate the tiny semi-submerged shoal, but Chinese ships then returned and roped off the mouth of the main lagoon and began regular patrols. The result is that, in waters where neither country had a permanent presence, China has established de facto control—whereupon the Philippines lodged a formal legal claim with the UN to establish an arbitral tribunal under United Nations Convention on the Law of the Sea (UNCLOS). Similarly, in June 2012, after Vietnam passed new navigation regulations covering the disputed Spratly and Paracel Islands, China established a new administrative area, complete with a military garrison, Sansha city, to encompass the islands. In the East China Sea, when the Noda administration “nationalised” (purchased from their private owner) three of the Senkaku/Diaoyu islets in September 2012, China permitted mass demonstrations in some 200 Chinese cities leading to vandalism on a scale not seen since the Cultural Revolution. In the fall and winter of 2012–13, China sent repeated patrol boats and aircraft into the territorial space surrounding the islets, provoking Japan to launch jets to drive them away and Chinese jets to defend them, while the Chinese press warned Japan not to intrude on Chinese territorial waters. China has recently publicly considered sending drones to patrol the islets, which Japan has threatened to shoot down, prompting Beijing to declare an ADIZ over the islets. In May 2014, following several months of conciliatory talks with Vietnam, the China National Offshore Oil Company deployed its Haiyang Shiyou 981 oil rig about 130 miles off Vietnam's coast (closer to the Paracels, which China claims since a 1988 naval battle with Vietnam), accompanied by a flotilla of protective coast guard and naval vessels, thereby sparking lethal riots and anti-Chinese arson and vandalism in Vietnam.

Meanwhile, on the diplomatic track, China has accelerated its economic integration with the region. And despite the escalation of coercive maritime diplomacy, these initiatives seem to have been welcome. China first became interested in Southeast Asia around the time of the Asian financial crisis in 1997–98, when China responded with a bilateral loan to Thailand. General discontent with the terms of International

³⁰ PLA General Zhang Zhaozheng calls this the “cabbage strategy”, surrounding a contested area with many boats—fishing trawlers, maritime surveillance ships, fishing administration boats, the PLAN, etc.—so that the area is eventually wrapped up layer by layer like a cabbage. As quoted in the *New York Times*, 27 October 2013, at <<http://nytimes.com/south-china-sea/newsgraphics/2013/10/27>> [1 August 2014].

Monetary Fund (IMF) loans aroused greater interest in regional financial solutions, and in 1997, ASEAN plus Three talks were initiated, out of which developed the China-ASEAN free trade agreement (CAFTA). CAFTA came into effect in 2010 as the most populous FTA in the world and third-largest in terms of GDP, encompassing some two billion customers. China has since displaced Japan as first- or second-leading trade partner of the 10 ASEAN states. Chinese foreign direct investment (FDI) also started pouring in, contributing US\$307 billion of the total \$875 billion received intra-regionally by Asian economies in 2008.³¹ Meanwhile, despite the tense standoff over the Diaoyu/Senkaku islets, Sino-Japanese trade has more than tripled over the past decade, making China Japan's largest trade partner with 21 per cent of Japan's total trade. Sino-Japanese trade did decline in 2012 for the first time since 2009, from US\$345 billion in 2011 to US\$333 billion and continued to fall in 2013. Yet Japan's investment in China is more than twice the total contracted investment of the United States plus South Korea. Japan has over 30,000 companies investing over US\$60 billion in China; South Korea also over 30,000, investing more than US\$35 billion; Singapore is involved in over 16,000 projects with investments of over US\$31 billion; and Taiwan leads all with over US\$110 billion invested. In 2012, China initiated negotiations to launch a China-Japan-Korea FTA and to form the Regional Comprehensive Economic Partnership, both of which include Japan.

What is the relationship between these two tracks, reaching out with trade and investment on the one hand while spurning Japan's call for talks and stalling talks with ASEAN on a code of conduct for the South China Sea, and relentlessly pressing forward with sovereignty claims on the other? Despite warnings of the damage contested sovereignty disputes could inflict on trade and investment, regional economic intercourse has not yet been significantly degraded. Although it is hard to argue that China became engaged in economic integration as a form of Hirschman-type economic statecraft, Chinese media interpret the linkage between economic integration and territorial demands as more advantageous to China than it is to its East Asian trade partners. Beijing has not hesitated to use economic leverage to punish trade partners, as in the 2010 shutdown of REE exports to Japan or the 2012 boycott of Philippine bananas. It is hard to say who would be most hurt if territorial disputes begin to impact financial flows more than they have, but if each side confidently infers that the other side will be hurt most, it may have no effect at all. After all, the outbreak of World War I pitted close trade partners against each other on the battlefield.

CONCLUSIONS

The central argument of this article has been that China's new Asia policy is the first considered strategy to fully take into account and attempt to plan for China's new role

³¹ Gao Ting, "Foreign Direct Investment from Developing Asia", *Economic Letters* 86, no. 1 (2005): 29–35, as cited in Dilip K. Das, "China and the Asian Economies: Mutual Acceptance, Economic Interaction and Interactive Dynamics", *Journal of Contemporary China* 22, no. 84 (November 2013): 1089–105.

in the world attendant upon its “rise” as a “new type of great power”. Combining a low-key personal style with cautious, long-term planning, Hu Jintao seemed to personify Deng’s 24-character expression. Although his domestic reform plans were largely derailed by the global financial crisis, Hu overcame that crisis with a massive fiscal stimulus package and presided over the highest growth decade since the death of Mao: according to Chinese statistics, the country’s GDP in 2011 was four times larger than in 2002, a dazzling pace of growth by any standard. As the first Chinese leader to serve a 10-year apprenticeship as chair of the Party school before his accession to power, Hu made full use of the Party’s text-based policy formulation process to craft an ambitious and enduring vision of a rising China’s role in the world. No doubt his greatest single foreign policy achievement has been to consolidate the ongoing economic integration of Taiwan with a diplomatic institutionalisation of the relationship, thereby neutralising the prospect of a war against Taiwan independence and freeing China’s foreign policy ambitions to move beyond the “first island chain”. Beyond that, Hu sought to synthesise Mao’s vision of China overtaking the world’s leading nations with Deng Xiaoping’s pragmatism and Jiang Zemin’s great-power diplomacy. Anchoring Marxism-Leninism in such traditional ideals as “harmony”, Hu sought to build a sounder moral and philosophical foundation for China’s ideological superstructure. Yet Hu’s ambitions have by no means been confined to “soft power”. While ostensibly aiming for balanced and sustainable development, he presided over China’s most rapid average annual GDP growth since the liberation, pushing China past Japan as the world’s second-largest economy and largest trading nation. China has become the Asian growth locomotive, a credible model of rapid modernisation throughout the developing world. However, embracing China’s historical legacy has also entailed a revival of sweeping imperial territorial claims. After Admiral Liu Huaqing, Hu contributed more to China’s naval build-up and maritime expansiveness than any other PRC leader.³² Finally, thanks to Hu’s salami-slicing approach, the recovery of long-lost territories claimed in the East and South China seas has begun to achieve modest success.³³

A noted above, Xi Jinping has carried Hu Jintao’s bold new Asia policy forward with only slight modification. His implementation is, in some respects, more effective: as a more charismatic representative of military interests and an adroit power politician (e.g. by concentrating power, as with a State Security Commission), he seems to have

³² For example, in December 2011, Hu told Chinese naval officials to “accelerate its [the PLAN’s] transformation and modernization in a sturdy way, and make extended preparations for warfare in order to make greater contributions to safeguard national security”. *BBC News*, 7 December 2012, at <<http://www.bbc.co.uk/news/world-asia-china-16063607>> [1 August 2014]. Having been first to inspect the new Liaoning aircraft carrier, Hu in his report to the opening session of the 18th Party Congress in November 2012 adjured his elite audience to “resolutely safeguard China’s maritime rights and interests, and build China into a maritime power”. Kathrin Hille, “Hu Calls for China to be a ‘Maritime Power’”, *Financial Times*, 8 November 2012, at <<http://www.ft.com/cms/s/0/ebd9b4ae-296f-11e2-a604-00144feabdc0.html#axzz2BekEmVxR>> [1 August 2014].

³³ M. Taylor Fravel, “China’s Strategy in the South China Sea”, *Contemporary Southeast Asia* 33, no. 3 (December 2011): 292–319.

quieted or co-opted the upsurge of unofficial commentary by hawkish military celebrities. Beijing's new course is a high-risk, double-track strategy with obvious contradictions between quasi-military and diplomatic tracks. Nonetheless, the new course seems to have been quite successful so far. For the strategy to continue succeeding, it depends on three factors.

First, the various Southeast Asian claimants to the islets and maritime "territory" now claimed by China must be prevented from combining forces or otherwise posing a serious threat. So far, China has been successful in preventing ASEAN from acting as a unit, and using economic blandishments and clever timing to find collaborators (e.g. Cambodia) and split off its most vociferous opponents, Vietnam and the Philippines. But creating a *cause célèbre* like the rig incident risks providing assorted China critics with an effective rallying point for some form of coordinated resistance.

Second, China must induce the United States to play its proper role in a "new type of great power relations" and not intervene, for the US 7th Fleet still remains superior to the PLAN and Beijing knows that. Although intervention (i.e. "pivot"/"rebalancing") seemed all but certain during State Secretary Clinton's tenure, the "air-sea battle concept" may not have been the most appropriate response to Beijing's sub-threshold salami tactics. In any event, while admonitory US rhetoric continues, Washington since 2012 seems to have lost its appetite for new military engagements and has been careful not to draw any "red lines". Washington has strengthened its five-pillar alliance network, but when China achieved its *fait accompli* at Scarborough Shoal, barring Philippine ships from approaching, Washington made no effective response and the shoal remains in Chinese hands. Secretary Clinton's outspoken appearance at the ASEAN Regional Forum in Hanoi in 2010, visits by defense secretaries Gates and Panetta and annual US-Vietnamese naval exercises from 2010 to 2012 all hinted at US support for the Vietnamese challenge to China's maritime claims. But negotiations for a "strategic partnership" then bogged down (instead, a "comprehensive partnership" was signed in 2011) and no further USN visits to Cam Ranh Bay have occurred. During the May 2014 HS 981 oilrig incident, Washington expressed only mild disapproval and did nothing. While reaffirming its alliance commitment to defend Japan's administration of the Diaoyu/Senkaku islets, neither the United States nor Japan seems to have figured out how to halt China's de facto annexation of the islets via frequent air and naval patrols without risking a blow-up.

Third, China must continue the powerful economic growth rate on which its expansive nationalistic confidence rests. But China's growth has declined annually for the past three years in a row and although seven per cent per annum is still impressive, according to some analysts, it may decline further. In 2007, Wen Jiabao characterised the Chinese economy as "unstable, uncoordinated, unbalanced and unsustainable".³⁴ Why? Not because of lagging growth rates. To override the global financial crisis,

³⁴ "Premier: China Confident in Maintaining Economic Growth", 16 March 2007, at <<http://www.chinaview.cn>> [1 August 2014] and *Xinhua*, at <http://news.xinhuanet.com/english/2007-3/16/content_5856569.htm> [1 August 2014].

Hu and Wen in 2009 launched a US\$600 billion fiscal stimulus, proportionately the biggest ever launched. For the next five years, loan growth continued at approximately 20 per cent per year, accumulating some US\$14 trillion in loans over the next five years, some 200 per cent of China's GDP.³⁵ The result has been a rise in the incremental capital output ratio (ICOR), meaning that the efficiency of investment has declined and more debt is required to produce the same increment of growth (partly because part of the debt is needed to service existing debt). The inefficiency of investment is reflected in the construction of facilities beyond the foreseeable need for them and a steep inflation in asset prices (primarily housing) or "bubble". In short, China's economy, because of its narrow focus on GDP growth, has run into a number of serious problems that China's top economists have agreed require a major restructuring of the "China model" (e.g. a shift from export-led investment to consumption-led growth, greater attention to environmental pollution and liberalisation of the financial sector). Major reforms were launched to deal with such problems at the Third Plenum of the 18th Congress in December 2013; although the results so far have been encouraging, it is too soon to say whether they will work and whether they can work to achieve the necessary reforms without a decline in GDP growth. Indeed, some economists think the reforms can work only if growth slows further. But a plunge in growth risks not only internal instability but also the sustainability of the bold new course in Asia. In that case, China might lose confidence in its sovereignty claims, contending countries might lose some of their awe for China, and the slowing Chinese growth engine could spare less capital to subsidise lucrative financial deals to smooth the way to cooperation. Conducting meaningful reform while at the same time rooting out corruption, sustaining a high (and more efficient) growth rate and maintaining an offensive posture on the maritime front will be very difficult for the new leadership to achieve.

We have argued that China's new course in Asia was boldly conceived and executed and stands a reasonably good chance of success. Yet even in the best case scenario, experience to date suggests that success is likely only after a long and perhaps embittered struggle. The only Asian country that fully agrees with China's territorial claims is Taiwan, which has however declined Beijing's invitation to help reclaim them. It may have been a tactical error to disclose the full dimensions of China's ambitions in advance: incremental land grabbing is more likely to slip under the radar if the cumulative objective remains veiled. This was perhaps done to revive domestic legitimacy, but the nationalist ardour whipped up has also proved difficult to control.

³⁵ Sovereign debt remained low (25 per cent of GDP), and so did consumer debt (20 per cent) and local government debt (20–25 per cent). Corporate debt, however, rose to some 145–160 per cent of GDP and has continued to rise. The debt in the "shadow banking" sector is essentially unknown.