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Chinese SBI gets a jolt

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In a Fortnight

By L.C. Russell Hsiao

ECONOMIC CRISIS SPURS CHINESE DEFENSE-INDUSTRIAL REFORMS

Following a dismal H1 performance (January – May) for China’s shipbuilding industry (SIB)—new orders received by Chinese shipbuilders decreased by 96 percent year-on-year (yoy), with a net of 1.18 million deadweight tons (DWT)—the sector posted a substantial boost of 8.8 million DWT in new orders for the months of June and July combined. According to statistics released by the China Association of the National Shipbuilding Industry (CANSI), a national association of the shipbuilding trade, in July, the country’s new shipbuilding orders of 4.1 million DWT accounted for nearly 70 percent of the world’s total (*People’s Daily*, August 17; *China Economic Net*, August 18). The surge in orders has some observers in the Chinese media hailing a recovery for the ailing industry, which faced a shortage of credit and looming job cuts if the conditions did not improve. Yet, according to some industry insiders and analysts, recovery is far from certain and the real hurdle ahead for the industry will surface in the coming months, when small- and medium-scale ship builders may have to stop production or close down factories, and large builders will be forced to lay off workers and cut salaries (*China Daily*, July 30). These challenges, however, are buoyed by another trend that may signal changes in the Chinese leadership’s thinking toward further reforms of its defense-industrial complex, in particular, the ability of its defense assets to solicit private funding—starting with the SBI. As a case in point, in the past month, the China Securities Regulatory Commission, the main securities regulator of the country, approved an initial public offering (IPO) in the Shanghai Stock Exchange by China Shipbuilding Industry Corporation, a state-controlled conglomerate that is the largest supplier of capital ships to the Chinese Navy, to issue 1.995 billion shares, or a 30 percent stake, with plans to raise 6.4

billion yuan (\$936 million) to expand its capacity (China Economic Net, August 18; Bloomberg, July 23).

At the apex of the sector's lagging performance, which was due to overcapacity of the shipping market, was a stagnating trade volume in new ships. China's SBI was also struck by a number of compounding problems, such as order cancellations, ship delivery delays and financial strain. A Ministry of Industry and Information Technology spokesperson described the situation of overcapacity as "acute," and observers placed the blame of the SBI's falling orders at the feet of the global economic slowdown (*China Daily*, July 30). These problems, however, may point to further indication of the need for the industry to enact sweeping reforms to overcome its three major bottlenecks: financial (1), technological (2) and managerial (3) (Hong Kong Trade Development Council, April 6). As one industry specialist candidly explained back in 2003: "At the present time, China's shipbuilding industry has the following problems: obsolete production modes, yet-to-be formed effective technological innovation systems, lack of experienced scientific research personnel, and lack of administrative and management personnel, etc." [1].

In response to the crisis, the central government committed a considerable stimulus to shore up the ailing SBI. In February, China's State Council approved a stimulus package for the country's SBI aimed at encouraging financial institutions to lend more to ship buyers and also offer incentives for purchasers of ocean-going ships. According to one industry expert: "The policy of encouraging financial institutions to lend more to ship buyers has actually helped Chinese shipbuilders to maintain orders. Because of the unfolding financial crisis, many ship buyers feel incapable of forking out the money. This policy has undoubtedly given them confidence and helped cut order cancellations and payment delays" (China Radio International, February 13). Further measures to aid the weakening industry included a 20-billion-yuan (approximately \$3 billion) industry investment fund in Tianjin, which would aid in equity investment, ship leasing, supporting mergers and acquisitions among shipyards and purchasing vessels that are cancelled by buyers. Nevertheless, most domestic banks continued lending with caution, despite the country's top economic planner vow to fund the industry in early June (*China Daily*, July 2).

More telling of the economic crisis's implications on the SBI, however, is the effect that it appears to have had on the Beijing leadership's attitude toward China's civilian economy and its defense industrial complex—in terms of allowing its defense assets to vie for private funding. The listing of China Shipbuilding Industry Corporation may signal a new willingness by Beijing authorities to loosen

its mailed-grip on the sector and publically list its defense assets. The move would establish a "refueling pipeline" between the burgeoning Chinese capital market and its real economy, and boost the development of the real economy. Furthermore, industry specialists believe that the measure could incentivize management, and it gives it a new funding route for its defense budget—as long as it turns over a profit. It is worth noting, however, that commercial shipbuilding has always been considered a strategic industry, since its infrastructure can also support warship construction. Nonetheless, valid concerns over China's growing naval power may at least be alleviated to an extent by the transparency that listing may bring.

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NOTES

1. Liu Xiaoxing et al., "The Development Strategy of China's Shipbuilding Industry," *Chuanbo gongcheng* (Ship Engineering), Vol. 25, No. 4, August 2003.

Hu's Anti-Graft Drives Lack Institutional Checks and Reforms

By Willy Lam

While an anti-corruption campaign has been launched almost annually since the start of the reform era in 1978, there are reasons to believe the Chinese Communist Party (CCP) is committing more resources to tackling graft this year. Clean governance and the allied goal of "party construction" are key themes of the upcoming Fourth Plenary Session of the 17th CCP Central Committee set for late September. Moreover, General Secretary and President Hu Jintao is expected to announce achievements on the anti-graft front at events celebrating the PRC's 60th birthday on October 1 (AFP, August 6; China News Service, June 23). Yet doubts remain as to whether the Hu administration will go one step further and introduce institutional checks and balances, as well as allow scrutiny from the media and independent anti-graft agencies, in order to better eradicate the scourge of graft and related malfeasances.

According to the resolution of the latest Politburo meeting, the main agenda of the Fourth Plenum will be "to study the issue of strengthening and improving party construction under new circumstances." Apart from raising the level of the party's "leadership and governance capability," the priority of the Hu leadership is "to elevate [cadres'] ability to resist corruption, prevent [unwholesome] changes and

tackle and counter risks” (Xinhua News Agency, July 23). According to *Outlook Weekly*, party authorities are “clearly aware” that corruption among cadres “has seriously affected the party’s image ... and it is the phenomenon with which the masses are most dissatisfied with.” The theoretical journal disclosed that the Central Committee conclave would recommend “institutional arrangements to meet public expectations” such as stringent measures on the disclosure of the assets of party and government officials (*Outlook Weekly* [Beijing], July 25; Hong Kong Economic Journal, August 14).

While the world eagerly awaits the outcome of the plenum, it is noteworthy that every month for the past year, at least one cadre at the level of assistant minister or above has been nabbed for “economic crimes” and allied felonies. Foremost among them are the Assistant Minister of Public Security Zheng Xiaodong; head of the multi-billion dollar Binhai Development Zone in Tianjin, Pi Qiansheng; Mayor of Shenzhen Xu Zongheng; and the Vice-President of the Supreme People’s Court (SPC) Huang Songyou (Xinhua News Agency, August 11; *China Daily*, June 18). One notable feature of the ongoing anti-graft campaign is that apart from senior party and government officials, so-called “big tigers” among the miscreants have included the bosses of state-held conglomerates as well as globally known private firms.

The latest CEO to have fallen prey to the dragnet is Kang Rixin, the Communist Party boss and General Manager of China National Nuclear Corporation (CNNC), which is in charge of China’s nuclear energy program. As a member of the CCP Central Committee, Kang is one of 204 most powerful cadres in the country. The official Xinhua News Agency said earlier this month that Kang had received ill-gotten gains of 1.8 billion yuan (\$260 million). At about the same time, two ministerial-ranked chiefs of state-owned conglomerates, Li Peiying and Chen Tonghai, were respectively executed and given a suspended death sentence (*Wall Street Journal*, August 6; *Dazhong Daily* [Shandong], July 7). Li was the chairman of Capital Airports Holding Company, while Chen was the chief executive of Sinopec, the giant oil monopoly. Police chief Zheng, together with several high-profile cadres including the former chairman of the Guangdong Province People’s Political Consultative Conference Chen Shaoji, was incarcerated earlier this year for having provided advantages to the disgraced Chairman of GOME Appliances, Huang Guangyu. Huang, 39, who has yet to be formally charged by police, was until recently considered one of China’s richest men (*Financial Times*, August 8; Reuters, April 16).

Equally significant is the fact that the CCP seems willing to finally come to grips with the astounding influence of triads, or the Chinese mafia – and their collusion with top

cadres and even judges. In early summer, three “billionaire mafiosi” based in the centrally administered metropolis of Chongqing, Li Qiang, Chen Mingliang and Gong Gangmu were arrested by public security officers. The trios are veteran businessmen well known for their political connections and occasional philanthropy. Li Qiang, for example, used to run more than 20 enterprises in sectors ranging from transportation to real estate. He was elected a member of the municipal People’s Congress in recognition of his contributions to the community. According to Chongqing Police Chief Wang Lijun, a “political struggle against triads and evil elements” has begun. Wang added that law-enforcement officials “will get to the bottom of who have provided shelter and protection to the triads” (*Guangzhou Daily* [Guangzhou], August 10; Forbes.com, August 14). Wang’s statement, however, begs the question of why the illegal activities of Li and his ilk, who are hardly new arrivals in Chongqing’s political scene, seem to have been overlooked by the city’s leaders. This is particularly given the fact that since Chongqing was upgraded to the same administrative status as Beijing and Shanghai in 1997, its party secretaries have included luminaries such as Politburo Standing Committee member He Guoqiang (now China’s topmost anti-graft cadre), Politburo member Wang Yang, and current party boss and Politburo member Bo Xilai (*Ming Pao* [Hong Kong], August 11; *Apple Daily* [Hong Kong], August 14).

Irrespective of the apparent determination of President Hu and his Politburo colleagues to root out graft, there are misgivings as to the extent to which the party is willing and able to implement substantive institutional and political reforms. Chinese departments charged with fighting corruption and illicit business practices are themselves problematic. Take, for instance, the law courts. Since late 2008, a dozen or so senior judges at both the central and regional levels have been detained for none other than accepting bribes. Apart from the SPC’s Huang, suspects whose cases are being investigated include the Executive Director of the Guangdong Higher People’s Court Yang Xiancai; Vice-President of the Intermediate People’s Court of Qingdao, Shandong Province, Liu Qingfeng; Vice-President of the Chongqing Higher People’s Court Zhang Tao; and Director of the Chongqing Municipal Judicial Bureau Wen Qiang. Even more disturbing are allegations that several high-ranking judges are accomplices of noted mafia bosses. Chongqing’s Wen, a former vice-head of the Chongqing police force, has been identified by Chinese media as a “prime protector of triads” (*Ming Pao*, August 9; Caijing.com.cn [Beijing], May 4).

More significantly, even the usually subdued Chinese press has raised queries about whether top-level cadres can be made to disclose their assets, as well as those of their

family members. Last month, *Study Times*, the mouthpiece of the Central Party School, raised eyebrows when it ran an article suggesting that newly hired cadres should “set an example by publicizing their personal properties.” The piece pointed out that “fresh recruits should be subjected to higher demands ... [because] they are relatively young, more willing to accept new things, and are expected soon to shoulder heavy responsibilities.” For liberal commentator Sheng Xiong, however, the *Study Times* article is “an insult to the intelligence of the public.” He wrote in *Procuratorial Daily*, an organ of the Supreme People’s Procuratorate, that in China’s system, “it is always seniors and veterans who set an example for juniors.” “If we ask greenhorns but not all officials to disclose their personal holdings, this policy will become meaningless,” he wrote (*Study Times* [Beijing], July 23; China News Service, July 23; *Procuratorial Daily* [Beijing], July 24).

Yet it does not seem as though the CCP would be willing to subject its top cadres—and their kin—to the level of scrutiny prescribed by Sheng. A case in point is Hu Haifeng, the 38-year-old son of President Hu. Nuctech Company Limited, a manufacturer of high-tech scanning devices that Hu Haifeng headed until late last year, was last month accused by anti-graft agencies in Namibia of having used bribes and other illegal means to obtain a government contract worth \$55.3 million. There is no evidence that Hu, who has since been promoted party secretary of Tsinghua Holdings, which controls Nuctech and 30-odd other companies, either knew or approved of the shady deal. Yet Namibian authorities wanted to question him as a witness. The same day that the story broke in mid-July, however, the CCP Propaganda Department ordered all media and Internet websites not to carry the news. Chinese Netizens have also been blocked from reading or finding any reference to either Hu or Nuctech (*The Telegraph* [London] July 17; *New York Times*, August 1). This hush-hush approach on the part of Chinese authorities seems at variance with the spirit of transparency that is necessary for exterminating graft and related malfeasances.

Moreover, party and government departments have, since early this year, tightened restrictions on both the media and activist NGOs. For example, several activist lawyers and writers who have been at the forefront of exposing graft-related crimes among officials—or helping members of disadvantaged classes defend themselves through legal action—have been harassed or detained by state security agents. Foremost among them is Sichuan-based intellectual Tan Zuoren, who has earned international recognition for having helped expose the corruption behind the large number of shoddily built schools that collapsed like jigsaw puzzles during the Sichuan earthquake in May last year. He was earlier this month put on trial for “inciting subversion

of state power” (*New York Times*, August 5; BBC news, August 12). Last month, Beijing municipal authorities disbarred 77 lawyers, including famous activists such as Jiang Tianyong, Li Heping and Li Xiongbing, who have helped underprivileged groups sue the government for corruption and other offenses (Amnesty International, July 5; *Los Angeles Times*, August 13). In light of the freeze that Beijing has put on political and institutional reforms, the onus is on the Hu-led Politburo to prove to their citizens—and the world—that CCP authorities are willing to bite the bullet on graft through means that include exposing the misdeeds of the highest-level cadres and their kinsfolk.

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Is China a “Soft” Naval Power?

By James R. Holmes and Toshi Yoshihara

China created a stir late last year when it announced that the People’s Liberation Army Navy (PLAN) would commence policing the Gulf of Aden for Somali pirates. Two PLAN destroyers and a combat logistics ship arrived on station off the Horn of Africa this past January. By most accounts, Chinese commanders have coordinated their efforts smoothly with other antipiracy contingents, notably the U.S.-led Task Force 151, the European Union’s Operation Atlanta, and individual detachments dispatched by the likes of India and Russia. Nevertheless, skeptics saw ulterior motives at work in the Chinese expedition. China is finding that controversy follows great-power naval actions.

Chinese spokesmen cataloged various reasons for the extended Indian Ocean deployment. Senior Colonel Ma Luping, director of the Navy Operations Department in the PLAN General Staff Headquarters Operations Department, told reporters that the mission’s main goal was to protect Chinese (and Taiwanese) merchant ships and crews, as well as ships carrying supplies to Africa on behalf of the U.N. World Food Program. Xiao Xinnian, the PLAN deputy chief of staff, said the cruise would allow China to showcase its “positive attitude in fulfilling

its international obligations,” burnish its “image as a responsible power” (*fu zeren de daguo xingxiang*), and demonstrate the PLA’s capacity to enhance “world stability and peace” while “handling multiple security threats and fulfilling diverse military tasks” (Xinhua News Agency, December 23, 2008).

Beijing means to prove that it is a reliable defender of the global maritime order by tangible deeds. For some time Chinese strategists have debated the part that “non-war military operations” (*fei zhanzheng junshi xingdong*) can play in coping with nontraditional security threats like piracy. Analysts contend that combating such challenges will not only fulfill China’s responsibilities as a rising great power, but also help it accrue “soft power” over time, enhancing its attractiveness vis-à-vis fellow Asian nations [1].

Beijing was stung by its inability to contribute to tsunami relief in 2004-2005, for instance, and set out to correct the naval shortcomings exposed during the aid effort. Procuring transport aircraft, landing vessels, and a hospital ship has bolstered the PLAN’s capacity for this high-profile non-war military operation (*Washington Times*, January 26; *Jiefangjun Bao* [*Liberation Army Daily*], June 4, 2008). China’s soft-power strategy seems based on the premise that a nation can store up international goodwill by supplying “international public goods” like maritime security, which benefit all nations with a stake in the international order.

PLAN patrolling the Gulf of Aden, which will also buttress China’s ability to project power along the African seaboard and prosecute high-seas combat operations, is mentioned *sotto voce*—if at all—by the Chinese leadership. Portraying China as an inherently benevolent sea power—a power that Asians need not fear as it constructs a great navy—is central to Chinese maritime diplomacy. Yet as with all narratives, the reality is subjective and more complex. Good diplomacy is seldom good history.

THE “INEVITABLE OUTCOME” OF CHINESE MARITIME HISTORY

Counter-piracy is the archetype of an international public good. Ships remain the most economical way to transport bulk goods. On the order of 90 percent of world trade (by volume) travels aboard ship. Freedom of the seas, suppression of piracy and terrorism, and regional peace, consequently, are increasingly essential to the “good order at sea” on which globalization relies [2]. The PLAN leadership recently embraced good order at sea as one of the Navy’s core missions. Admiral Su Shiliang, the PLAN chief of staff, penned an article in the official Navy newspaper, *Renmin Haijun* (People’s Navy), that ordered his service to “strengthen preparations for maritime non-war military

operations in a targeted fashion” while further honing its capacity to fight and win conventional battles at sea (*Renmin Haijun*, June 6).

Influential Chinese officials and scholars are increasingly thinking in terms of soft power as a way to augment China’s comprehensive national power. President Hu Jintao told the 17th Party Congress, “Culture has become a more and more important source of national cohesion and creativity and a factor of growing significance in the competition in overall national strength” [3]. Fudan University scholar Shen Dingli contends, “China’s ‘harmonious diplomacy’ has been well received by countries in the region,” even as “U.S. influence in Asia has been diminishing.” Accordingly, President Barack Obama is attempting “to remold the image of the United States in the region with soft power and smart power,” reinvigorate relations with Asian nations, and “tactfully counter the impact of rising big powers in the region” (Phoenix TV [Hong Kong], July 23).

As Shen observes, China too can tap major reserves of soft power. Chinese leaders have invoked the Southeast and South Asian voyages of the Ming Dynasty admiral, Zheng He, with increasing frequency to justify Beijing’s claims that China’s rise poses no threat. Tales of the Ming “treasure fleet,” in effect the first foreign squadron ever forward-deployed to the Indian Ocean, appear to act as a proxy for China’s conduct at sea today. The rationale goes like this: dynastic China refrained from conquest even when it possessed a big navy. Thus, declares Chinese vice minister for communication Xu Zuyuan, Zheng He’s journeys to the Indian Ocean prove that “a peaceful emergence is the *inevitable outcome* of the development of Chinese history” (Xinhua News Agency, July 7, 2004) (authors’ emphasis). China’s peaceful rise, that is, is not only a matter of policy but a veritable law of history—or so Beijing would have target audiences believe.

Maritime security is interlaced with Chinese soft power. Speaking at Cambridge University in February 2009, Premier Wen Jiabao conjured up Zheng He’s “peaceful” missions to convey Beijing’s deeply embedded aversion to power politics and military dominion. “The idea that a strong country must be a hegemon does not sit well with China,” proclaimed Wen. “Hegemonism is at odds with our cultural tradition, and it runs counter to the wishes of the Chinese people” [9]. This was a startling claim, given that the tributary system Zheng rejuvenated had everything to do with power politics. Wen’s diplomacy was apt, his history shaky.

Similarly, while celebrating the 60th anniversary of the PLAN’s founding, PLAN commander Admiral Wu Shengli drew a straight line from Zheng He to contemporary

Chinese maritime strategy. That the “world’s strongest fleet [the Ming navy] at the time ... did not sign any unequal treaty, did not expand claims to any territory, and did not bring back even one slave,” declared Wu before 29 naval delegations, proved that “the Chinese people are active practitioners of the harmonious ocean worldview”—to this day (*Renmin Haijun*, April 22).

Whether or not Asian audiences accept the Chinese version of history will determine the efficacy of China’s naval soft power. Governments cannot deploy soft power the way they dispatch army brigades or impose economic sanctions. According to its proponents, however, soft power lubricates the diplomatic machinery, helping leading powers ease suspicions about their motives and gather support for initiatives they deem worthy of pursuit. If so, Chinese soft-power overtures could pay off handsomely.

SETTING THE BAR HIGH

Despite his enthusiasm for soft power, Harvard scholar Joseph Nye warns that the kinder, gentler approach has pitfalls if taken to excess. Public goods can become an excuse for meddlesome policies, he says, while “sometimes things that look good in our eyes may look bad in the eyes of others” [4]. Or a nation’s diplomacy can become *too* soft. For instance, India abounds in cultural appeal, and indeed, the late Sinologist Lucian Pye maintained that China “has come in a poor second to the Indian culture in attracting other peoples.” Yet, “India is now regarded as a soft state,” laments former Indian national security adviser Brajesh Mishra, because its physical might lags behind its power of attraction (*India Today*, July 23).

In portraying itself as a categorically benign nation, China has set itself an almost unreachable standard. If its behavior falls short of the Zheng He standard, it will be held to account. For instance, historians depict Zheng’s voyages as more than a gesture of goodwill. The size, sophistication, and combat power of the Ming fleet, declared the late Edward Dreyer, were deliberately calculated to overawe audiences in the South China Sea and the Indian Ocean—to the extent that using force was unnecessary to impose Chinese emperors’ political will [5].

If the Zheng He voyages were in fact an exercise in power projection, it would help explain why some Asian observers read dark meaning into the PLAN counter-piracy deployment rather than accepting it as the act of a benign China. The PLAN has acquitted itself well off Somalia, rendering useful service from a public-goods perspective. Yet at the same time, the Navy has shown it is no longer a coastal defense force, short on the capacity to replenish fuel, arms, and stores at sea or relieve deployed forces on

station. It has been experimenting with a more ambitious fleet.

That fleet is now making its debut. This is not lost on wary Indian commentators, who depict counter-piracy as China’s first step onto a slippery slope toward a permanent naval presence in the Indian Ocean. Many in New Delhi appear utterly convinced that Beijing intends to militarize its “string of pearls,” or network of basing agreements with South Asian states. One well-known analyst sketches a Sino-Indian “rivalry arc” all the way from Japan, along the first island chain, and through the Indian Ocean. Not so coincidentally, the arc’s western terminus lies off of Somalia [6].

For India, which fancies itself South Asia’s foremost power, signs of Chinese naval skill and capability portend future trouble—trouble that might require India not only to fortify its defenses in the Indian Ocean but also to project power into the Pacific, delivering a riposte to Chinese deployments near the subcontinent. It is no accident that this year’s annual Malabar exercise will take place not off India’s Malabar coast but off the coasts of Japan and Okinawa, bringing together the Indian, U.S., and Japanese fleets. Nor is skepticism confined to the Indians. The efficacy of China’s charm offensive in the South China Sea remains an open question.

LINGERING QUESTIONS

Three issues associated with soft power deserve close scrutiny. Chinese counter-piracy provides a test case for this approach to diplomacy. First, to what extent does soft power yield hard results? Soft-power advocates appear to assume nations will set aside their interests if provided enough public goods or if a nation boasting sufficient power of attraction asks them to do so.

That is doubtful. Beijing may well find that fellow Asian leaders respond politely to their Zheng He narrative yet still abstain from Chinese-led ventures. Perhaps soft power eases qualms about a nation’s actions—a useful thing in itself from China’s standpoint—but cannot summon forth positive action. Standing by passively while big powers do something is easy; expending lives and treasure on another’s behalf can be both hard and politically hazardous.

Second, is any nation’s appeal universal? Council on Foreign Relations scholar Walter Russell Mead says no, pointing out that not all people feel the tug even of America’s open, liberal society. Evidence emerging in the Indian Ocean and South China Sea supports Mead’s claim. China’s “smiling diplomacy” seems destined to meet with some combination of enthusiasm, indifference, and—as the Indian case shows—disbelief. How Beijing conducts

itself over time will determine whether it succeeds.

Third, how can a nation sustain its soft power once it begins to use hard power? It is relatively simple to sustain an attractive image when that image remains an abstraction, pure of messy realities. Beijing can tell its story however it wants. Yet as it starts deploying naval power in new theaters, China's beneficent image will be tested against empirical evidence. What appeals to one foreign audience may not appeal to another, and Chinese soft power may decay as Beijing acts in its own interests.

China's admittedly attractive civilization, then, provides no guarantee of diplomatic and military success. If Beijing—or any other government—sees soft power as a talisman to brandish in the face of stubborn challenges, its hopes are apt to be frustrated.

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NOTES

1. Jonathan Holslag, "Embracing Chinese Global Security Ambitions," *Washington Quarterly* 32, no. 3 (July 2009): p. 109; Joel Wuthnow, "The Concept of Soft Power in China's Strategic Discourse," *Issues & Studies* 44, no. 2 (June 2008): pp. 1-28.
2. Joseph S. Nye Jr., "The American National Interest and Global Public Goods," *International Affairs* 78, no. 2 (2002): p. 239.
3. Wen Jiabao, "See China in the Light of Her Development," Speech at Cambridge University, United Kingdom, February 2, 2009, Foreign Ministry Website, <<http://www.fmprc.gov.cn/eng/wjdt/zyjh/t536420.htm>>.
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5. Edward L. Dreyer, *Zheng He: China and the Oceans in the Early Ming Dynasty, 1405-1433* (Old Tappan, N.J.: Pearson Longman, 2006), p. xii.
6. Gurpreet Khurana, "China-India Defense Rivalry," *Indian Defense Review* 23, no. 4 (July-September 2009), <<http://www.indiandefencereview.com/2009/04/china-india-maritime-rivalry.html>>.

Peace-Mission 2009: A Military Scenario Beyond Central Asia

By Stephen Blank

Most analyses of the Sino-Russian strategic partnership focus either on Russian arms sales to China or on the joint military exercises conducted by Moscow and Beijing under the auspices of the Shanghai Cooperation Organization (SCO), which limits the scope of the analytical framework to a consideration of Central Asian scenarios. Given the recent outbreak of ethno-sectarian violence in Xinjiang in early July, such a scenario may seem appropriate, but according to the Shenyang Military Area and head of the Center for Commanding and Decision-making for "Peace Mission 2009," Senior Colonel Zhang Xudong, his military command was ordered to prepare for this exercise in February, but "Due to the late decision to hold the drill, we only had three months to prepare for it" (*China Daily*, July 27). This was at the height of regional tensions over Pyongyang's brinkmanship. Experts debate the strategic implications of this military partnership, which arguably go beyond just Russian arms sales to China, and appears to be clearly tied to an anti-American military scenario, and probably connected to Taiwan or to ousting the United States from Central Asian bases, or to a common opposition to U.S. missile defenses. A less discussed but increasingly plausible scenario includes the possibility of joint military action in response to a regime crisis in the Democratic Republic of North Korea (DPRK). An examination of their most recent military exercise, "Peace Mission-2009," suggests as much, and furthermore is not the first such exercise allegedly conducted under SCO auspices to raise that possibility.

In 2005, the "Peace Mission" exercises featured large-scale combat operations by both forces. Specifically these exercises involved:

A substantial naval contingent from the Russian Pacific Fleet, including a large BDK-11 assault ship; an anti-submarine vessel, the Marshal Shaposhnikov; the destroyer Burny; and diesel submarines. The naval squadron joined with the Chinese forces to simulate a major amphibious landing on a beachhead in the Jiaodong [Shangdong] peninsula. Russian bombers (TU-95S Bear strategic bombers and TU-22M3 Backfire long-range bombers) also staged an air landing near Qingdao City, including air cover by SU-27SM fighters armed with AS-15, 3,00 kilometer cruise missiles against naval targets.

As experts noted, this exercise sent Japan (and by implication

the United States) a message regarding Russia and China's capability to defend their interests in the Korean peninsula against both allies and second, in China's case its capability to defend itself against Japan in any territorial disputes [2]. While such operations have been conducted against so-called "separatists" in the past, it is likely that the exercises were intended for other audiences as well.

Indeed, both sides had previously considered military intervention in North Korea both individually and jointly. "In conversations with JIR (Jane's Intelligence Review) in 2003, Russian officials were candid about the scope of a "Ceausescu scenario" if conditions worsened in North Korea and Kim Jong Il lost control over some of the security forces" [3]. Russian officials also showed concern about a North Korean collapse by holding maneuvers with Japan and South Korea on a refugee scenario as far back as 2003 [4], but they also made veiled statements in 2004 indicating their concern for the future of the DPRK's regime [5]. Similarly, some Western experts claim that China made contingency plans for a possible invasion of North Korea in 2003, when it was alerted by rumors about a U.S. strike against the DPRK's nuclear facilities, with the aim of installing a pro-Chinese regime that would forsake nuclearization, but he reported that China's military chiefs said this was not feasible [6].

A noted Japanese military correspondent for the Asahi Shimbun, Shunji Taoka, recently suggested that the recent joint Sino-Russian exercises of 2009 in China's Jilin province may be intended to intimidate the DPRK. The five-day joint military exercise, dubbed "Peace Mission 2009," took place from July 22 in the Russian Far East and the Shenyang Military Area Command in northeast China, and were intended "to verify operation plans and capabilities to respond to unexpected incidents under the unstable environment of countries and regions." The exercise involved paratroops, tanks, self-propelled guns, armored personnel carriers, helicopter gunships, fighter planes, and jet transports, which led Taoka to conclude that the scope of the operations extended beyond an anti-terrorist measure, which are the SCO's remit. Taoka further asserts that there may be a joint plan of action for "unexpected incidents" in North Korea and that these exercises verify that claim [7].

Indeed, the supposed terrorists that were targeted in the operation possessed combat aircrafts—a very uncommon asset for any terrorist force—and a major electro-magnetic operation took place, signaling a very intricate, large-scale, and even atypical counter-terrorist operation [8]. These large-scale conventional exercises involving combined arms operations against terrorists in an urban setting, while deploying missiles, air assaults, aerial bombings, air

defense forces and ground attack all point to the fact that these operations could easily be duplicated to scenarios extending beyond Central Asia [9]. Not surprisingly, a number of commentators on international affairs have argued that the SCO either should or could take the lead in dealing with the North Korean issue [10]. Finally, at the latest SCO summit the six members agreed that Pyongyang's threats were unacceptable [11]. Certainly venturing into the Korean issue would mark a major step forward for the SCO and by extension China and Russia in terms of their influence in Asia.

The Russo-Chinese interest in linking their relationship to developments in and around North Korea did not end here. The 2009 exercises had overt signs of attempts on both sides to connect those large-scale operations that both sides rehearsed to North Korean scenarios. In kicking off the exercises, Russian General Nikolai Makarov and Chinese General Chen Bigde, the two Chiefs of Staff of their respective armed forces, appeared together to address the press about the aim of the exercise. The Chinese were characteristically vague, but Makarov went further and said that "Russia and China should develop military cooperation in the wake of North Korean missile threats that prompted intensified military preparations in Japan and South Korea." That cooperation was necessary in addition to the "complicated" situations in Afghanistan, Pakistan and Central Asia as rationales for this cooperation [12]. Makarov went further and highlighted the need for interoperability in command and control of future common groups of Russian and Chinese troops. While Chen Bigde denied that these exercises are targeted at a third party, Colonel Li Jiang, Deputy Chief of the Foreign Affairs Office of China's Ministry of Defense stated:

"The world order must be multipolar, which would rule out the possibility of any diktat of any country with regards to other members of the international community." Consequently, it is not ruled out that, as was the case during the Mirnaya Missiya-2005 training exercises, a situation in which the armed forces of the two countries receive the order: "Not to allow the navies of third countries to have access to the place of conducting a peacekeeping operation" will be a scenario of the current peacekeeping exercises [13].

Since there are no navies or third party naval operations possible in Central Asia, the operation can only be applied to a Taiwan or Korea scenario. Further, since it is quite unlikely that Russia would send forces to a PLA operation in Taiwan—and it is currently inconceivable that a "peacekeeping" operation is needed in Taiwan—this most likely applies to Korea and fears of a succession

contingency involving violence in North Korea, or a United States and allied operation against it. Since the United States has admitted that it has contingency plans for any crisis that may develop in the wake of a succession to Kim Jong Il (and presumably other threatening events), it is not surprising that both Moscow and Beijing have such plans of their own [14]. Yet, what is noteworthy is the fact that they have been rehearsing quite extensively what appears to be a plan for a joint operation there. In view of this growing body of evidence, U.S. policymakers need to rethink the potential contingencies and purposes to which a Sino-Russian military partnership may be applied. Furthermore, determine whose interests would most be served by a military intervention in Korea? Only after having answered that question could we then ask ourselves—given the answer to the first question—using Bismarck’s analogy of alliance, who then is the rider and who is the horse in this partnership, Russia or China?

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China-ASEAN Free Trade Area: A Chinese “Monroe Doctrine” or “Peaceful Rise”?

By Vincent Wei-cheng Wang

China’s economic ascent since the early 2000s has generated more equanimity than the fear its military rise caused in the mid-1990s, which led to accelerated concerns in the international community about a “China threat.” While the Chinese military continues to modernize and its defense budget grows by double digits, China’s expanding economy is now regarded more as an opportunity than a threat, and helps the country conduct a savvy “new” diplomacy with confidence.

Nowhere is this shift in perceptions toward China’s rise more evident than in Southeast Asia, especially in terms of the changing attitudes of ASEAN (Association of Southeast Asian Nations), which was formed in 1967 partly as a collective response to China—which supported communist insurgents in the region—and did not normalize relations with China until the 1990s. Thus, the plan to create an ASEAN-China Free Trade Agreement (ACFTA) by 2010 for the ASEAN 6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) and 2015 for the newer members (Cambodia, Laos, Myanmar [Burma], and

Vietnam) signaled a profound change in the relationship between China and Southeast Asia. Covering a total population of 1.7 billion people and a combined GDP of about \$2 trillion, ACFTA is billed as the largest free-trade zone in the world. ACFTA is estimated to boost ASEAN's GDP by 0.9 percent and China's by 0.3 percent [1].

China's emergence as an avid pursuer of FTAs happened in spite of its latecomer status. China did not begin its pro-market economic reform until 1978-9 and did not join the World Trade Organization (WTO) until the end of 2001. Beginning in 2002, China has signed FTAs with Chile (2005), Pakistan (2006), New Zealand (2008, its first with a developed country), and Peru (2009) and is currently studying, negotiating, or implementing FTAs with over 20 countries or regions (*China Daily*, April 29; *People's Daily*, February 9, 2006) [2].

China's impressive trade offensive typifies its "new" foreign policy thinking. Yet, it is not clear whether this "trade diplomacy" represents a long-term and fundamental shift in Chinese statecraft or only a short-term tactical expedient aimed at buying the crucial time that Beijing needs in order to become the preeminent actor in the region capable of securing its military interests and projecting its power. It also raises the question of whether China's active economic diplomacy in East Asia will spur commercial competition in this region where great-power conflict is still possible.

Despite the standard economic rationales offered by Chinese officials (such as helping increase Chinese exports, ensuring access to markets and raw materials, and attracting foreign investment), the main motivation for China's trade activism appears strategic. In the case of Southeast Asia, China's FTA with the ASEAN is driven by a political logic that responds to challenges posed by competitive regionalisms in the world economy, to cement growing economic ties with Southeast Asian nations and to alleviate their fear of a rising China, to secure raw materials crucial to China's economic development, and to ensure a peaceful and stable environment close to home so as to buttress China's growing influence and counterbalance American and Japanese power. It has thus been interpreted as a concrete example of economic statecraft employed to bolster the image of China's "peaceful rise."

ASEAN nations are attracted by the opportunities brought about by China's economic expansion and trade liberalization; they also seek to leverage their FTA with China to additional FTAs with important trading partners within (e.g. Japan) or outside (e.g. the United States) the region.

Although there are economic benefits for pursuing FTAs,

nations often pursue them for *non-economic* reasons (e.g. strengthening alliance, increasing peace and security, enhancing collective bargaining power, locking in institutional reform, and sharing resources). Regionalism (and FTAs in particular) plays a critical role in China's current grand strategy—"peaceful rise."

The policy of "peaceful rise" is based on an embrace of globalization as part of the solution to China's growth imperatives. It relies both on China's domestic economy and the international marketplace to sustain and fuel economic growth. To achieve the goal of rising to great power status, Chinese leaders believe that it must secure a peaceful international environment that is crucial to sustaining China's economic development and augmenting China's power. Ensuring stability in China's periphery and avoiding a premature showdown with the United States are thus essential [3].

To achieve the goal of "peaceful rise," China has refashioned its diplomacy. Rather than continuing to act like an aggrieved victim, China now aspires to be a responsible great power and is acting increasingly like one. Whereas China used to distrust "multilateralism" for fear that multilateral institutions could be used to constrain or punish it, now Chinese leaders recognize that deeply engaging these organizations help promote the country's trade and security interests and limit American power. On many contentious and intractable issues, China has adopted more pragmatic stances. China is more aware that its rise has consequences for the Asia-Pacific region and beyond. So it is keen on easing the concerns of various countries. Moreover, China has become much more actively engaged in, and seeks to shape, regional affairs. Its hosting of the Six-Party Talk over North Korea's nuclear issue is a good example. The major instrument used in advancing China's objectives is its economic power, which is buoyed by its phenomenal economic growth, rapidly expanding domestic markets, and driven by its voracious appetite for raw materials needed for its economic development.

To sum up, China's "peaceful rise" is a comprehensive long-term strategy leveraging globalization as a catalyst to accelerate China's economic development and elevate China's power and stature.

In this context, Southeast Asia is an important arena for China's new economic diplomacy and a test case of Beijing's credibility as a "responsible stakeholder." Some noted regional analysts are concerned that ACFTA may turn the region into a "backyard for Chinese raw material imports and manufactured exports, and hence a natural candidate for a Chinese sphere of influence" [4]. For example, Rodolfo Severino, former ASEAN secretary-

general, warned that such industries as textiles, toy, and motorcycle manufactures would be negatively affected in the short term, although he believed long-term benefits would follow (*Australian Business Intelligence* (October 8, 2002). Furthermore, because of its almost inexhaustible unskilled labor and huge amounts of FDI, China may pose a special challenge to the ASEAN-4 in their home or third-country markets.

There are also broader strategic implications of China's success in Southeast Asia that is worth noting. In light of China's activism in the ASEAN Plus Three (APT) and East Asian Summit (EAS) initiatives—both explicitly exclude the United States—will a Chinese version of the “Monroe Doctrine” loom over East Asia?

The first reason for this fear is a historical legacy of *hierarchy* that characterized China-Southeast Asian relations. Most nations in the region fell under China's tributary system—“a reciprocal foreign relationship between superior and inferior” in which tribute offerings were normally reciprocated by lavish gifts from the Chinese emperor. Some scholars argue that “accepting China's supremacy was materially worthwhile,” since the tribute system became the institutional setting and indeed “cover for foreign trade” early on [5].

In a modern twist, Chinese leader Hu Jintao, in his report to the 17th Congress of the CCP, singled out trade as an important instrument for China to achieve its goal of “peaceful development.” The same report reiterated that China would accommodate the “legitimate concerns” of developing countries (hinting early harvest) and support efforts to close the North-South gap [6].

The other important reason is the *size asymmetry* between China and Southeast Asia. China towers over each individual ASEAN member and all of them combined. AFTA (ASEAN Free Trade Area) intends to create a regional market of over 500 million people. Yet even this combined ASEAN magnitude would only constitute 29 percent of the population, 32 percent of the GDP, and 46 percent of the trade volume, of the combined ASEAN-China FTA. This is why there is a widely accepted view, expressed by Singaporean Trade and Industry Minister George Yeo, that an integrated ASEAN is the only viable response to an economically-rising China (*The Straits Times*, November 12, 2002).

Thirdly, in contrast to China's *coherent* strategic goal, ASEAN does not have a clear picture about its place in the new strategic environment of an emergent China. Lured by the China market (especially the so-called “early harvest” provisions for the ASEAN-4), some analysts worry that

ASEAN risks becoming a fringe player on the spokes of China's regional trade architecture, while further enhancing the attractiveness of China as the hub for regional investment and production (*Australian Financial Review*, November 12, 2002). In this view, ASEAN will be reduced to a role of auxiliary actor in the main show—China's rise. China can also turn out to be a fierce competitor—having already attracted the lion's share of FDI into developing countries and having posed special challenges to manufactured goods from ASEAN. Furthermore, there are real concerns that ACFTA may undermine ASEAN's own FTA thanks to China's “divide and conquer” negotiation tactic, because individual ASEAN members may now pay more attention to ACFTA than AFTA.

Admittedly, under the sovereign state system, a return to a modern version of the tributary system is not very plausible. China's economic diplomacy has presented opportunities and challenges for East Asia. On the one hand, ASEAN nations have tried to “bind” China through regional institutions, such as ACFTA, APT, EAS, and ARF (Asian Regional Forum), raising the cost of Chinese belligerence. Indeed, China's FTA activism has spurred measures by Japan and India to strengthen their own economic diplomacy in Southeast Asia. For instance, since the ACFTA was enacted, Japan has signed FTAs with Singapore, Malaysia, Indonesia, Thailand, and the Philippines.

In contrast, the interest of the United States in the region, as shown through the lens of economic diplomacy, pales in comparison [7]. Since 2004, China has replaced the United States as the largest trading partner of Japan, South Korea, Taiwan, India, Australia, Brazil, and Chile. Admittedly this is mainly due to the rise of China as a world trader, but it is also an indicator of America's relative declining influence. The United States has only signed FTAs with Singapore and South Korea (the latter still not ratified by Congress). The United States' hope of engaging in a FTA with the entire membership of APEC (Asia-Pacific Economic Cooperation) also looks less appealing or feasible than China's bilateral FTAs, especially against the backdrop of the failed Doha Round of WTO multilateral talks.

China's economic statecraft toward Southeast Asia will provide the material support for its stated goal of “peaceful rise,” augment its stature and influence in regional and world affairs, and present a challenge to the United States that calls for the need for Washington to shore up its economic competitiveness and attention toward this key region.

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NOTES

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