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**AN ANALYSIS OF CHINA AS A RISING POWER
IN THE NEW WORLD ORDER**

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Danışman
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ABSTRACT

Master of Science Thesis

An Analysis of China as a Rising Power in the New World Order

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This thesis analyzes the major developments in economic, diplomatic-military issues in Chinese politics in the 1990s. It is obvious that China's growth is amazingly rapid in this period. With its expanding economy, growing military capabilities and diplomacy in recent time China is inclined to be a real hegemony and thus, will have a competition with the superpower of the world, the US. In this respect, rise of China poses a major challenge to US hegemony. Besides the changing foreign relations of China, in the thesis there discussed China's controversial issues with the US which are possibly the most compelling issue in the current international relations. China's competition with the US proves that China is not yet in a position to fulfill the conditions necessary to become a global hegemony, but has a huge potential to become a regional hegemony. In this regard China's relations with Central Asian countries and Russia within the framework of Shanghai Cooperation Organization are analyzed in detail. The thesis argues that even if China fails to be a global hegemon in the classical sense, it has the potential to create radical systemic changes in international system by becoming a regional power.

Key Words: China, the US, Hegemony, Regional Power, Reforms, Capitalist World Economy.

ÖZET

Yüksek Lisans Tezi

Yeni Dünya Düzeninde Yükselen Güç Olarak Çin'in Analizi

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Bu tez 1990'lardan itibaren Çin siyasetindeki ekonomik, diplomatik-askeri meselelerdeki temel gelişmeleri araştırmaktadır. Bu dönemde Çin'in büyümesi şaşılacak derecede hızlıdır. Gelişen ekonomisi, büyüyen askeri gücü ve diplomasi ile gerçek bir hegemon olma eğilimine giren Çin, böylece süper gücü olan ABD ile rekabete girmektedir. Bu minvalde Çin'in yükselişi Amerikan hegemonyasına bir tür meydan okumadır. Çin'in değişen dış ilişkilerinin yanı sıra bu tezde, günümüz uluslararası ilişkilerinin muhtemelen en zorlayıcı konularını oluşturan Çin ve Amerika arasındaki anlaşmazlıklar da tartışılmaktadır. Çin'in Amerika ile rekabeti, onun henüz küresel bir hegemonya olmak için gerekli şartlara sahip olmadığını, ancak aynı zamanda bölgesel bir hegemonya olmak için de büyük bir potansiyele sahip olduğunu göstermektedir. Bu çerçevede Şanghay İşbirliği Örgütü içinde Çin'in Orta Asya ve Rusya gibi bölgesel ülkeler ile kurduğu ilişkiler ayrıntısıyla incelenmektedir. Sonuç olarak bu tez, klasik anlamda küresel bir hegemon olamasa da Çin'in, bölgesel bir güç haline gelmesi neticesinde uluslararası sistem üzerinde köklü sistemik değişiklikler yaratma potansiyeline sahip olduğunu iddia etmektedir.

Anahtar Kelimeler: Çin, ABD, Hegemonya, Bölgesel Güç, Reformlar, Kapitalist Dünya Ekonomisi.

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TABLE OF CONTENTS

YEMİN METNİ	ii
TUTANAK	iii
ABSTRACT	iv
ÖZET	v
ACKNOWLEDGEMENT	vi
TABLE OF CONTENTS	vii
LIST OF ABBREVIATIONS	x
LIST OF FIGURES AND TABLES	xii

INTRODUCTION	1
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CHAPTER I

CHINESE POLITICS IN TRANSFORMATION: FROM THE 1900S TO THE 1990S

1.1 CHANGING ROLE OF THE COMMUNIST PARTY	8
1.2 SOURCES OF STABILITY AND INSTABILITY IN CONTEMPORARY CHINESE POLITICS	15
1.2.1 Stability in China prior to the Reform Era	15
1.2.2 Weaknesses of Political System during the Reform Era	18
1.2.2.1 Economic Instability	18
1.2.2.2 Ethnic Unrest	23
1.2.2.3 Human Rights Violations	25

CHAPTER II

OPENING UP THE ECONOMY: CREATING NEW SOURCE OF INSTABILITY OR MEANS FOR INTEGRATION TO THE WORLD CAPITALIST SYSTEM

2.1 ECONOMIC REFORMS FOR STRUCTURAL ADJUSTMENT TO CAPITALIST WORLD ECONOMY	32
2.1.1 Privatization	34
2.1.2 Reform in Financial System	38
2.1.3 FDI and International Trade	41
2.2 WTO ACCESSION	44
2.3 CHINA IN ASIAN REGIONAL ECONOMY	47

CHAPTER III
MILITARY-DIPLOMATIC ISSUES IN CHINA'S REGIONAL POLICY
BEFORE AND AFTER REFORM PERIOD

3.1	SINO-ASEAN RELATIONS	55
3.2	REUNIFICATION WITH TAIWAN	60
3.3	CHINA AND TWO KOREAS	66
3.4	JAPAN: A RIVAL OR A PARTNER?	70
3.5	INDIA: A GROWING GIANT?	76
3.6	SINO-AUSTRALIAN RELATIONS	81

CHAPTER IV
CHINA AS A NEW HEGEMONIC POWER?

4.1	POTENTIAL FOR BECOMING A HEGEMONIC POWER	85
4.1.1	From Pax Britannica to Pax Americana	93
4.2	US HEGEMON VERSUS CHINA	98
4.2.1	China's Confrontation with the US	99
4.2.1.1	Controversial Issues in Asia Pacific	99
4.2.1.2	Tough Issue: Nuclear Weapons Development	105
4.2.1.3	International Politics of Human Rights	110
4.2.1.4	Energy Policy	112
4.2.1.5	The SCO and the US	114
4.2.2	Sino-US Collaboration	117
4.2.2.1	Economic Interdependence	117
4.2.2.2	Counterterrorism Dialogue	119

CHAPTER V
CHINA AS A RISING REGIONAL POWER

5.1	CHINA AS A REGIONAL POWER? POTENTIALS AND THREAT	122
5.2	FORMING REGIONAL BLOCS HAVING A SYSTEMIC IMPACT	132
5.2.1	Sino-Russian Relations	132
5.2.2	China in Central Asia within the Context of the SCO	142

5.2.2.1 Kazakhstan in China's Foreign Policy	147
CONCLUSION	157
BIBLIOGRAPHY	165

LIST OF ABBREVIATIONS

ABM	Anti-Ballistic Missile
ACFTA	ASEAN-China Free Trade Area
ANZUS	Australia, New Zealand, the United States
APEC	Asia-Pacific Economic Cooperation
APT	ASEAN Plus Three
ARF	ASEAN Regional Forum,
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meetings
CBM	Confidence Building Measure
CCP	Chinese Communist Party
CTBT	Comprehensive Test Ban Treaty
DPP	Democratic Progressive Party
DPRK	Democratic People's Republic of Korea
EDCF	Economic Development Cooperation Fund
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
IR	International Relations
KMT	Kuomintang
MFN	Most Favored Nation
NAFTA	North American Free Trade Agreement
NAM	Non-Aligned Movement
NATO	North Atlantic Treaty Organization
NPC	National People's Congress
NPT	Non-Proliferation Treaty
ODA	Overseas Development Assistance
PKO	Peace-Keeping Operation
PLA	People's Liberation Army
PMC	Post-Ministerial Conference

PRC	People's Republic of China
ROC	Republic of China
SAR	Special Administrative Region
SCO	Shanghai Cooperation Organization
SDF	Self-Defence Forces
SEZ	Special Economic Zones
SOE	State-Owned Enterprises
TMD	Theater Missile Defense
TVE	Township and Village Enterprises
UN	United Nations
UNSC	UN Security Council
US	United States
USSR	Union of Soviet Socialist Republics
WMD	Weapons of Mass Destruction
WTO	World Trade Organization

LIST OF FIGURES AND TABLES

Figure I: Income Inequality, 1978-1998	20
Table I : Trade in Goods and Services for Six Large Economies	47

INTRODUCTION

By the end of the Cold War, international system with two dominant nations - the United States and the Soviet Union - disintegrated. The US has become the major leading power of the new world order with its strong economy, advanced technology and superior military forces. The US has attempted to form such an international order where its global influence and interests will be sustained. It has expanded its global influence to many regions including the Asia Pacific and Eurasia in different means such as in the areas of free market economy, democracy, energy, and security policy. However, whether the US will further be able to stay the only hegemony in the international system depends on economic, political, military and diplomatic developments of other countries. In the next decades it seems that China has the potential to change the international system by competing with the US in all dimensions of power.

China is one of the most ancient civilizations in the world that recorded about 3,000 years old. It has only in recent historical times become part of the “known world”- that is known to the West. More books had been published in Chinese than in all of the other world’s languages combined in recent time. Yet, even today Chinese literature remains unknown in the West except to specialists. The West was long ignorant of China, and the Chinese state was not inclined to initiate contacts with the West. The isolation and self-contained character of Chinese culture is epitomized by the Great Wall erected by the Chin dynasty, which made China more mysterious and attractive for other countries.

Today’s China differed from old China greatly. Today’s China is the world’s fastest growing large economy, has the world’s largest army and modernized missiles. It continues to raise its concerns in the region and the world. It is becoming one of the predominant actors in the Asia Pacific and is posing a threat to Western countries particularly to the US and its hegemonic power. Thus if China is becoming a peer competitor to the only superpower, the US, it is necessary to trace recent

Chinese development in politics, economy and its military-diplomatic issues at the end of the 20th and the beginning of 21st centuries. Therefore, the purpose of this thesis is to analyze China's rise in world politics and its relations with the US.

The first chapter of the thesis narrates shortly country's political development before the establishment of the People's Republic of China. It mentions the potential of China and gives the idea of emergence of modern China. Turmoil in China till communist rule was established in 1949 is increasingly important to evaluate some aspects of foreign policy of modern China especially for understanding the issues regarding Taiwan, high motivation of Chinese government to preserve country's economic growth and independent foreign policy in strategic issues.

Till the middle of 1970s the ideas of Chinese leader Mao Zedong shaped the face of China on almost all grounds. The Mao's period is characterized by centrally planned economy, ideological mobilization of people and army, heavy industry and suppression of opposition. In the country there has been authoritarian leadership of the Chinese Communist Party and its strong control over society. Mao's policies brought about closed economy and up and downs in economic performance.

After Mao's death various opportunities in politics and economy emerged for Chinese leadership. The new pragmatic leader Deng Xiaoping with his various pragmatic ideas changed the face of China. His practical economic considerations underlining private ownership, foreign investment, foreign trade, more scientific education, market economy as opposed to a planned economy, international cooperation made China the fastest developing country in the world. As a result China has become an economically strong country with significant foreign trade volume, attracting very serious amount of foreign investment. The chapter tries to make a strong stress that despite economic progress China managed to achieve under Deng leadership, China faced with various difficulties. The reforms engender great economic disparities, growing unemployment, and problems in rural sector. New economic system dictated new rules which required quick absorption of the Chinese people. In this context, time and government's skills in solving these problems are

crucial. The reforms shook party's ideological and military control over society that was so powerful during the Mao period. This caused disorder and mass movements around the country which were brutally suppressed by the government. Ethnic nationalism, separatism and religious fundamentalism have come out as new security challenges for China, since within its territory there live many ethnic nations with different religions and culture. Thus ethnic unrest and human rights violations such as following the Tiananmen Square students' demonstration became the main sources of instability for China's society during Deng's government. His reforms had been contradictory because they led the country to great prosperity which prompted its rapid integration with the economies of the capitalist system and at the same time they became a catastrophe for many masses in China.

The second chapter is devoted to the process of China's transition from planned to free market economy. It analyzes reforms of state-owned enterprises (SOEs) and financial system and its policy for trade and foreign direct investment (FDI). The implementation of economic reforms has become the primary task in both China's domestic and foreign policy. China viewed private business as important element of modern market economy, thus encouraged those who conduct or just have started own business. In chapter the development of private sector, process of the SOEs restructuring and difficulties that privatization reform faced with have been discussed. Since Chinese government pursued the aim of escaping inflationary explosions it started to improve financial system. There given information about monetary, financial and fiscal policies and how they were developed under Deng and his followers. The chapter tries to underline the fact that the reforms in China have been implemented gradually with intermediate mechanisms in order to provide successful transition.

Trade and FDI are important measures for Chinese policy of openness. In order to promote capital inflow and attract investment China's leadership established special economic zones (SEZs), contacts with European and Asian countries, thus China began to attract millions tourists and FDI. The chapter examines the recent development of China's international trade and inflow. For a short period of time

China has achieved visible results, China's foreign trade volume has grown with surplus in the 1990s, and it has become the largest recipient of FDI second only after the US. China formally entered the World Trade Organization (WTO). The accession to the WTO gives China new opportunities for trade and FDI and as a whole may improve many Chinese spheres leading the country to modern capitalist system. Chinese membership of WTO can be regarded as inclusion of China into global economy.

The second chapter of this study is also devoted to China's regional economy. Due to Deng's policy of openness China was inserted into regional economy of the Asia Pacific. It established economic relations with Association of Southeast Asian Nations (ASEAN). Since China wanted to facilitate its trade with Asian states it sought to create more regional forums. In the chapter there discussed ASEAN-China Free Trade Area (ACFTA) mechanism that was built between China and ASEAN. For China participation in meetings of other regional and multilateral economic organizations such as ASEAN Plus Three (APT), North American Free Trade Agreement (NAFTA), ASEAN Regional Forum, (ARF), Asia Pacific Economic Cooperation (APEC) is also very important. The chapter gives information on Chinese economic ties with Japan, India, Hong Kong and South Korea which are of great significance today in the Asia Pacific. In recent time China has improved economic relationship with many of them and has become an important export and import trader for them. The chapter concludes that China today plays the leading role in the economies within Asia. China's transition to capitalism has become vitally important for Chinese economic growth and its ambition to become a regional power in the Asia Pacific.

As a result of economic and political reforms China has made shifts in its foreign policy towards the region. So, the third chapter of this study is devoted to the foreign policy of China, it examines Chinese diplomatic-military relations with the countries in the region before and after the reform period. The chapter explains historical ties and relationships between China and the ASEAN, Taiwan, South and North Korea, Japan, India and Australia. It stresses the dramatic change in China's

policy toward region because before the reform period many of them had not been the allies of China but during and after the reform period they established not only diplomatic relations with China but began to accept it as a regional power in the Asia Pacific. Information in this chapter would be important to analyze how China's policy differed from the pre-reform period and whether these changes in Chinese diplomacy serve its policy to become a regional power. The chapter emphasizes China's strained relationship with Taiwan and Japan and mentions the US presence in the region which is discussed more detailed in the next chapter.

The fourth chapter examines whether China's transformation into hegemonic power is actual in present time and, if not what impediments it has on its way to become hegemony. Firstly, the chapter gives information about the concepts of hegemony and the hegemonic stability theory in order to shed light on the potentials of China to become a hegemon. It focuses on the ideas of hegemony of neo-Gramscian and neorealist schools. To understand better the dynamics of the establishment of hegemon the chapter explains how the term hegemony was used in the move from Pax Britannica in the 19th century to Pax Americana in the 20th century. Thus the trade, markets, institutions and social capacities of the British and American hegemonies have been discussed in detail in this chapter. Secondly, the chapter analyzes Sino-US relationship. The relationship of these two nations is important to evaluate the possibilities of Chinese hegemony. The Sino-US ties have been always not easy. They are characterized by complicated character before and after the Soviet disintegration. With the end of the Cold War the relations became especially critical. The US began to see China as a competitor to its hegemonic power because of China's economic and military growth and its diplomacy in the region last time. Even if the US and China share some common interests in economic sphere, the US is aware and capable of dealing with China's rising power. There is the US permanent presence in East Asia playing the role of a regional stabilizer. Regional development became the legacy of distrust between China and the US. The US security presence in the region has been sustained by bases in Japan, South Korea, by cooperation with ASEAN countries, and support for Taiwan's independence. Except the region, China's non-proliferation, human rights violations

and huge hunt for energy worry the US making the relations of the two more difficult. In the chapter there has been discussed China's effort to form regional organization such as Shanghai Cooperation Organization (SCO) in order to counter the US presence in Central Asia.

China is now the most significant country whose future path is uncertain. It is a unique country because it went on the way of capitalist system under a communist regime. Chinese foreign policy makers always try to emphasize China's policy of good-neighborliness and non-hegemonic stance, however, China's real objectives have never been officially stated. The future possibilities can be either China's economy continues to boom while the political system becomes more liberal and China becomes a positive force in the world and the region, or China manages to regain Taiwan, displacing the US power in Asia and challenging Japan. Therefore, the relations between the US and China are not easy to predict as it was after the September 11 terrorist attacks which could produce an atmosphere for improving relations between the US and China. The September 11 events have largely reshaped China's foreign policy. China supported the US in combating international terrorism, since it has its own terrorist threat posed by the East Turkistan terrorists in Xinjiang. China has intensified its counterterrorism efforts in the aftermath of September 11 through diplomatic measures. However, this collaboration can be just temporary.

This chapter tries to embrace all today's issues of conflict and cooperation between the US and China, since they define China's potential to become hegemony in the international system. Thus it concludes that China fails to become hegemony for the present time because of China's undemocratic regime and its problems with Taiwan.

What is argued in the next chapter is that even though China fails to become hegemony, it has the potential to become a regional power. The fifth chapter discusses the term of regional power and gives the main criteria for defining regional power. The six criteria of regional power have been applied to the Chinese case. The second part of the chapter is devoted to foreign policy of China making special

emphasis on China's formation of regional blocs with Russia and Central Asian countries. In the new world order Sino-Russian relationship has been very important for China. Russia is one of the major players in Eurasia and China has concentrated on Russia to counterweight the US role in Central Asia, thus it tries to expand its ties with Russia in terms of political, economic and security dimensions in the region. China strengthened its strategic partnership with Russia. As for Central Asian states China immediately after the disintegration of the Soviet Union established diplomatic relations with all of them. Among the Central Asian states a special stress in its foreign policy China made on Kazakhstan. China needs Kazakhstan economically since it possesses the desired energy and raw materials and is interested in the peaceful development of their relations for its autonomous region Xinjiang. China formed the SCO, the regional organization with Russia and Central Asian countries. It is discussed in the chapter how China uses the SCO in its foreign policy within the region posing itself as the leader in Central Asia.

This study analyzed China's domestic and foreign policy in recent time, from which it is clear that there are dramatic changes in its politics, economy, and military issues which made China to reconsider its concerns towards the world and neighboring regions and which have great impact on the US hegemony and finally concludes that such analysis has lead to a new formula of regionalism that is if China is able to overcome the problem which hinders it from becoming a regional power then it is expected to have a systemic impact.

CHAPTER I

CHINESE POLITICS IN TRANSFORMATION: FROM THE 1900S TO THE 1990S

1.1 Changing Role of the Communist Party

China since 1949 is a unique phenomenon in the world as communist regime came to power in the most populous country on earth after a generation of armed struggle against domestic and foreign enemies and with support of a considerable part of Chinese people. Domestically the Chinese Communists were able to consolidate their power more rapidly than the Bolsheviks in Russia during its first years after their seizure of power in 1917. The Bolsheviks had to fight a civil war after seizing power whereas in China the civil war came first.

Marxism was introduced in China during the years of the World War I, but had little attention that time; it became popular after the 1917 Bolshevik Revolution in Russia, accompanied also with the disappointment with imperialist activities of the West in China. This ideology was seen as the solution to China's political and economic problems. The Chinese Communist Party (CCP) was formed on July 1, 1921.¹ The early Chinese Marxists and the founders of the CCP were the students of the Beijing National University, most of who were interested in learning how to make the revolution but not in Marxism theorizing. The party at that moment consisted of fifty-seven members with its first secretary general Chen Duxiu, meetings of the first two party congresses were held secretly in the French concession in Shanghai in order to avoid police.² Thus the movement began and continued for many long years.

From 1921 to 1927 the CCP was under the control of the Third International, or the Comintern formed by Lenin. Lenin aimed at having a new international

¹ James C. F. Wang, **Contemporary Chinese Politics**, Pearson Education Inc., New Jersey, 2002, p. 15.

² Ibid., p. 16.

organization which would be controlled by Moscow providing direction for all proletariat parties with anti-imperialist revolutions all over the world.³ The leadership of the CCP before 1934 was controlled by the Chinese Bolsheviks, trained in Moscow by the sponsorship of the Comintern. The Comintern's doctrine required the participation of bourgeoisie in order to lead national revolutions. This Comintern strategy restricted the communist base to urban industrial workers and called for individual communists to join the Kuomintang, Nationalist Party under a united front. In 1912 Tung Meng Hui (the Alliance Society) amalgamated with other revolutionary groups and reorganized itself into an open political party which adopted the name of Kuomintang (Country-People-Party).⁴ Because of its adoption of nationalism as its first principle, the Kuomintang became known as the Nationalist Party. In May 1922 at the Second Party Congress the members of CCP joined the Nationalists. The common ground of a united front was that both CCP and the Kuomintang stood for the immediate objectives of national independence. The Communists thought that dual membership would not compromise communist ideals or interfere with communistic activities among the peasants, workers, students, and overseas Chinese. However the formation of the First United Front led to the tension within the CCP in its relations with Stalinist Moscow. By 1927 the united front alliance worked worse and the power of Chiang Kaishek as a head of the Kuomintang was threatened by leftist elements in control of the revolutionary government which was supported by the communists.⁵

In 1931 there had been taken the decision of the CCP to establish a Chinese Soviet Republic, with the belief that a revolution based on the urban proletariat was no longer possible in China. The leader of the peasant base became Mao Zedong. Mao's strategy contained three elements: the development of mobile peasant-based Red Army for a long armed struggle; the selection of a strategic terrain for military operations; the establishment of a sufficient economic base in the Red Army - controlled soviet areas to provide personnel and supplies for the armed struggle.⁶

³ Ibid., p. 16.

⁴ Claude A. Buss, **Asia in the Modern World**, The Macmillan Company, New York, 1964, p. 240.

⁵ James C. F. Wang, *Contemporary Chinese Politics*, p. 16.

⁶ James Chiuh Hsiung, **Ideology and Practice: The Evolution of Chinese Communism**, Praeger, New York, 1970, p. 61-62.

Thus, Mao tried to build a new base for the revolution. In 1935 Mao was selected as the leader of the CCP, including the industrial areas, marking the end of the Comintern dominance and the beginning of Mao's power as the political leader of the CCP that lasted until his death in 1976.

Since Kuomintang's dictatorship inhibited the growth of parties, those who were disillusioned with the Kuomintang had to go to the Communists, thus Kuomintang suffered continuous defeats at the hands of Communists. The Nationalist Government entered the civil war in 1946 with advantage in population, territory, and troops under arms and greater superiority in industrial potential.⁷ It also enjoyed diplomatic, economic, and military support from the United States, whereas the CCP is not known to have received any material aid from the Soviet Union during the civil war. However the Communists took advantage of their enemy's weaknesses by means of skilful organization, training, propaganda, strategy and tactics. By the end of 1949 the Kuomintang had transferred most of its party and governmental apparatus to Taiwan and the CCP took control over all China and the outlying regions except Taiwan and Tibet.

In his important work *On the People's Democratic Dictatorship*, published on July 1, Mao stated his intention to introduce into China the essentials of Stalinism: forced heavy industrialization, socialized agriculture, and a police state equipped to suppress "counterrevolutions."⁸ On 1 October 1949 Mao at last succeeded to declare the establishment of the People's Republic of China marking the period of a new era in Chinese history. The 1949 Communist victory over the Nationalists for millions people became the reason for the celebration but at the same time new difficulties waited China on its way of reconstruction being divided by long years of war. Thus the new government emerged.

Having established itself as the legitimate government of a unified China in 1949, the leadership of the CCP began the implementation of policies. The most urgent task of the CCP was to rehabilitate the economy. The approach was the

⁷ Ibid., p. 48.

⁸ Ibid., p. 51.

Stalinist strategy of centralized planning, a socialist model that had enabled the Soviet Union to emerge from World War II as the second most powerful nation in the world. The Stalinist model was the rapid buildup in the heavy industry sector through the concentrated allocation of investment into capital goods industries.⁹ In 1952 the Central People's Government announced the establishment of a State Planning Committee to supervise the First Five-Year Plan. When the First Five-Year Plan had been finished in 1957, Mao launched the Great Leap Forward (1958-1959) in an attempt to obtain a faster rate of growth and to develop an economic model. The Great Leap Forward was an ambitious economic plan to modernize all aspects of China's production capacity.¹⁰

In 1959 Mao played a decreasing role as a head of the government. In order to prevent the revolution Mao conceived the new campaign called Socialist Education Movement. The Socialist Education Movement was launched in 1962 and accepted by both party conservatives and party radicals since very serious problems had arisen in the countryside.¹¹ It became the prelude to the Cultural Revolution. The Socialist Education Movement consisted of three interrelated mass campaigns: an educational campaign to assist the formation of poor and lower-middle-class peasant associations in order to prevent the rise of a class of well-to-do middle-class peasants, a rectification campaign aimed at eliminating the corrupt practices of rural cadres, and a purification movement for the nation - with the People's Liberation Army (PLA) which stressed the self-sacrifice, the collective good, and endurance of hardship.¹²

The workers and farmers studied Mao's works and attended meetings whereas Mao himself was not satisfied with the way in which the campaign was carried out. The next campaign was initiated when Mao was 72. It became a violent campaign which set party member against party member and generation against generation to destroy the old society and replace it with a new socialist one with a

⁹ James C. F. Wang, *Contemporary Chinese Politics*, p. 21.

¹⁰ *Ibid.*, p. 22.

¹¹ Bill Bruggeri, **Contemporary China**, Croom Helm, London, 1977, p. 243.

¹² James C. F. Wang, *Contemporary Chinese Politics*, p. 25.

communist system. In August 1966, the Central Committee of CCP under the leadership of Mao issued the calling for the Cultural Revolution, to begin.¹³ Young people were directed to form revolutionary groups called Red Guards and the party facilitated the movement of young people around the country. In 1969 Mao was again the most powerful man in China; his views of being against all enemies who would be able to impede the progress of the country toward socialism were unchallengeable. In 1981 the CCP evaluated Mao upheaval as a mistake. Party general Hu Yaobang called the decade between 1966 and 1976 as an economic and cultural disaster for China.¹⁴ Nobody knew exact number of those party members who were persecuted by the radicals being labeled “counterrevolutionary,” tortured, being by mistake accused of crimes against the state during the period of the Cultural Revolution.

China was a communist country which like the Soviet Union posed the threat to other countries. Its leader Mao led it to socialist path with the Stalinist strategy of centralized planning. Mao’s state was characterized by highly personalized and concentrated power, an expansive and intrusive Leninist organizational apparatus that employed coercive techniques of rule, with autarkic approaches to development and foreign affairs.¹⁵ All the totalistic functions performed by the Maoist state changed fundamentally under Deng and are further devolving to subnational and non-state actors in post-Deng era.¹⁶ Deng and his supporters rejected Mao’s utopian visions of an egalitarian society which he had promoted in the Great Leap Forward, unending class struggle, which was Mao’s goal in the Cultural Revolution, but also the Stalinist model of state control of the economy, collectivization of agriculture, and emphasis on heavy industry that China had copied during its ten-year alliance with the Soviet Union in the 1950s.¹⁷

¹³ Linda Benson, **China since 1949**, Pearson Education, London, 2002, p. 38.

¹⁴ *Ibid.*, p. 49.

¹⁵ David Shambaugh, “The Chinese State in the Post-Mao Era”, **The Modern Chinese State**, ed. David Shambaugh, Cambridge University Press, Cambridge, 2000, p. 5.

¹⁶ *Ibid.*, p. 6.

¹⁷ John King Fairbank and Merle Goldman, **China: A New History**, The Belknap Press of Harvard University Press, Cambridge, 1992, p. 407.

When Deng Xiaoping came to power in 1978, his administration faced many problems, since economy and political system had been destroyed. Deng and his supporters understood that economic advances for the future of the CCP were necessary; therefore Deng implemented a series of reforms. In the 1980s agricultural production increased an average of 9 percent a year under the new policies.¹⁸ The further stimulus to the economy was Chinese first loans from the International Monetary Fund (IMF) and the World Bank, money became available to upgrade machinery and establish new manufacturing and industrial development.¹⁹ Deng opened the Special Economic Zones (SEZs). As Deng himself was the victim of Mao during the Cultural Revolution, he was familiar with all the shortcomings of CCP leadership. China suffered from the lack of the educated cadres, within the party leaders without education remained at the top of the government. Deng raised the overall level of the education of the cadres; there were expelled thousands from the CCP for different forms of the wrong-doing.

While the reform era continued, many thought that the economic liberalization would lead to the personal freedom and to more open and democratic political system. One of the leaders - Wei Jingsheng who required democracy, was arrested and sentenced. Such efforts to quiet those who were disagreed with the pace of the reforms did not work, the different leaders and students continued to challenge the government since it refused to establish personal and political freedom.

Following the bloody event of Tiananmen Square that occurred in 1989, the CCP pursued the policy of the continuation of the reforms. This time two names became popular in the party: Jiang Zemin and Li Peng. Deng weakened by the illnesses, in 1997 at the age of 92 died.²⁰ Jiang became the President and Li - Prime Minister. Jiang's administration remained dedicated to Deng reforms. China's economy continued to grow. Jiang provided funding for modernization of all branches of the military establishment as well. While the reforms of the 1990s deepened, the changes came in other spheres: there appeared new forms of the

¹⁸ Linda Benson, *China since 1949*, p. 47.

¹⁹ *Ibid.*, p. 48.

²⁰ James C. F. Wang, *Contemporary Chinese Politics*, p. 112.

literature, clubs and discos in the cities and towns with the Western style rock music, sport became popular activity among youth.

Jiang helped China to grow economically during 13 years. Hu Jintao became his successor, who was selected and put on the Political Bureau Standing Committee by Deng in 1992.²¹ Except Hu, all members of the old Political Bureau Standing Committee were replaced by young members. Jiang despite leaving the Central Committee and Political Bureau retained his position as a Chairman of the Party's Central Military Commission and continued to govern military and foreign policies. His continuing presence demonstrated that the combination of economic liberalization and political authoritarianism which characterized Chinese governance in reform era would not see any changes.²²

The party tightened control over the media and masses, controlling publications which often discussed the topics of crimes and corruption in the country, burdens of the peasants and income inequalities. But in the age of Internet this task has become difficult, the banned books about questionable political correctness continued to be sold, new anti-government groups such as Falungong²³ made its activities by sending fax and messages through Internet continuing to challenge the Chinese government. The Chinese authority felt the need for countermeasures. 15 Falungong members were arrested and sentenced to prison terms, more than 80,000 out of 200,000 commercial Internet cafes were closed.²⁴

As China entered the 21st century, the shadow of the past 50 years remained. During Mao period there was the sole authority of CCP in the country with the challenges it faced, as well as the failures of Mao to solve the issues within the party leadership and to provide stable economic development. His misguided policies of the Great Leap Forward and Cultural Revolution cost millions of lives and led to the

²¹ Ibid., p. 112.

²² Ibid., p. 113.

²³ Falungong is a system of "mind and body cultivation" introduced to the public in China by Li Hongzhi in 1992. The teachings deal with issues such as "cultivation of virtue and character", "moral standards for different levels", and "salvation of all sentient beings".

²⁴ James C. F. Wang, *Contemporary Chinese Politics*, p. 293.

greater tragedies of Chinese. Following Mao's death in 1976, the CCP shifted dramatically. The Deng administration and his followers Jiang Zemin and Hu Jintao implemented the number of reforms that improved the country's economy. The GDP increased, the standard of living improved, foreign investment continued to develop. However it is the topic of discussion whether China under leader Mao or under leader Deng had seen more success, because in fact, Deng's reforms brought chaos to the country like Tiananmen Square massacres and other mass movements that will be discussed further.

1.2 Sources of Stability and Instability in Contemporary Chinese Politics

1.2.1 Stability in China prior to the Reform Era

The image of Mao is important symbol for Chinese people. Beyond Chinese borders Mao can be portrayed negatively as a tyrant or dictator, but in fact his role is great in Chinese history since it was Mao who in 1949 was able to unify and strengthen the country after the years of war and led China out of an era of national division. The thinking of Mao was very complex, his ideas rooted in the Chinese tradition, in the Marxist-Leninist thought, and in the revolutionary experiences of the Chinese Communist Party. Mao thought that the workers and peasants - the masses could be the source of ideas and inspiration for leaders. To unite the power of the peasantry Mao tapped into views of authority and government that included loyalty and self-sacrifice.²⁵ Communism was presented as a set of modern scientific principles that could solve China's problems. Nationalism and efforts to fight Japan during the WWII were led by Mao and the CCP emerged as a strong unit that laid the foundation for their victory in 1949. Thus in 1949 Mao became the President of China, Chairman of the Chinese Communist Party, and chief military commander. As the CCP was now the most powerful force in China, the title Chairman came to present Mao's supreme status.²⁶

²⁵ James C. F. Wang, *Contemporary Chinese Politics*, p. 51.

²⁶ Linda Benson, *China since 1949*, p. 20.

The party was seen by Mao as the only instrument and the embodiment of legitimacy.²⁷ Mao was the principal creator of this political-military machine. Therefore, the party has become the source of all political power, which had the exclusive right to legitimize and control all other political organizations. It determined the social, economic, and political goals for society. The attainment of these goals is pursued through careful recruitment of members and their placement in party organs that supervise and control all other institutions and groups in society.²⁸ The values of Marxism-Leninism were the theoretical basis for the party.

The party also dominated the military. Its supremacy was confirmed by the new government: the civil government included a group called the Central Military Commission which was responsible to the National People's Congress. A parallel organization, the Military Affairs Commission was accountable to the CCP'S Central Committee.²⁹ The dual government and the party oversight of the armed forces meant that no military challenge to Mao or the party emerged. The PLA was used to support political agendas and it is important way differs it from the military establishment of Western states.³⁰ The military has always occupied a special position in Chinese Communist society.

Thus the party's leadership and military control over society was very strong during Mao. Mao's time was the time of the combination of ideology and coercion that held the elite and population in its grip. Mao considered his legitimate power over his subordinates very great if not absolute. He with exceptional skill as a political leader made both the elite and masses do over a long period of time what he wanted. It was in contrast to the leadership of the reform era when the party's demands on society and the demands of the party on its members were reduced.

²⁷ Stuart R. Schram, "The Party in Chinese Communist Ideology", *The China Quarterly*, No. 38, 1969, p. 11.

²⁸ James C. F. Wang, *Contemporary Chinese Politics*, p. 69.

²⁹ Linda Benson, *China since 1949*, p. 23.

³⁰ *Ibid.*, p. 24.

The role of Mao is based on the fact that he was not only a successful communist revolutionary but a major nationalist leader of the non-Western world.³¹ What troubled him was how to turn semi-feudal state into a socialist one. Basing on communist doctrine and Chinese pragmatism, he endeavored to build communist society in a closed country maintaining utopian strands of the Marxist ideas not allowing any access of foreign influence. After the establishment of communist power China started to develop its tough policies both at home and abroad. Since then China pursued Mao's revolutionary diplomacy openly supported armed rebellion in Thailand, Burma, Laos, Cambodia, India, and Indonesia.³² The countries in Asia began viewing China dangerous and alienated from the Beijing.³³ Mao presented China as the only true Communist movement and denounced the Soviet Union. China did not suffer from the international isolation; to the contrary it helped Mao to strengthen his communist ideas against American imperialists, Indian reactionaries, and Japanese militarists. The isolation from the world created the situation in the country where it was possible to keep tight control over society. Mao's period had been the time of brutal tortures, punishments and persecutions of those who was disobedient with his system of values and ideology. However despite all this, Mao's time turned to be more stable than China's later period under Deng. Party's ideological and military control over the society during Mao's leadership became the essential source of the stability. Indeed, comparing to Deng period during Mao corruption and crimes were not so popular, because the amounts of money were under control and Mao's practical ideology functioned as a guide by which individuals in Chinese society shaped their attitudes and regulated their behavior. The ideas of Mao served as societal values against which actions and thoughts were judged. Mao's impact on China must also be assessed in terms of economic and social changes after 1949. Regardless of effects of the Great Leap and the Cultural Revolution, the whole economy made advances during the Maoist period with comparatively narrow gap between rich and poor. Chinese industrial sector grew rapidly and agricultural output increased. China's infrastructure expanded with new

³¹ Howard L. Boorman, "Mao Tse-tung as Historian", *The China Quarterly*, No. 28, 1996, p. 96.

³² *Ibid.*, p. 66.

³³ Kikuzo Ito and Minoru Shibata, "The Dilemma of Mao Tze-tung", *The China Quarterly*, No. 35, 1968, p. 65.

railways and roads. The employment was determined by the government. Electricity became available in many villages. According to the new laws, women had the equal status with men and could work outside the home. During Mao's period the number of educated people increased because many began attending schools and colleges.³⁴

Mao's death symbolized the end of the senior generation of leaders in the Chinese Communist movement. The Mao generation played key roles in bringing together the three broad Chinese lessons of history-shaping the national and cultural lessons, creating the Chinese Communist lessons, and nationalizing the popular lessons. The confluence of these lessons contributed to the growing consensus that helped make and sustain Mao's revolution.³⁵ The national or cultural lessons taught the Chinese to adopt a love-hate relationship toward the dynastic past and the foreign imperialist past. The Chinese Communist lessons used Marxist historiography to show the importance of the CCP in Chinese and in world history. The popular lessons prompted all Chinese to see themselves as part of a momentous historical moment.³⁶ Mao's stature as a leader of Chinese people was ruined by the failure of the Great Leap Forward and chaos of the Cultural Revolution, but despite these setbacks, Mao remains the idol and the greatest leader for the Chinese people.

1.2.2 Weaknesses of Political System during the Reform Era

1.2.2.1 Economic Instability

After Mao Deng inherited a stagnant economy, alienated society, and paralyzed polity.³⁷ A new leader began implementing series of reforms in the country. During the period of Deng and his followers China's predominantly rural and relatively poor economy underwent a massive transition from a command to a market economy and from a predominantly agricultural-based to an increasingly

³⁴ Linda Benson, *China since 1949*, p. 26.

³⁵ Robert Oxnam, "The Past Is Still Present", **The China Difference**, ed. Ross Terrill, Harper & Row, Publishers, New York, 1979, p. 75.

³⁶ *Ibid.*, p. 75.

³⁷ David Shambaugh, "The Chinese State in the Post-Mao Era", p. 6.

urbanized economy.³⁸ The changes were transformative, but unlike the former Soviet Union, where the process was carried out relatively quickly and all at once, China has carried out its reforms gradually and in stages. In contrast to Russia which initially suffered from decline in production, employment, and standard of living, China's production increased and the standard of living for the majority of the population improved substantially.

Deng's program of reforms, called "socialism with Chinese characteristics," combined the move to a market economy with the existing Leninist party-state. This combination sought to adopt Western technology and economic methods while maintaining the traditional Confucian state and values. But the Western economic methods undermined the Chinese Confucian state, and China's absorption of Western science technology and economic practices as well as its expanding international trade were accompanied by an inflow of Western political ideas and values.³⁹

The Deng's reforms challenged not only China's economy but also party and its values, which had been battered before by the Cultural Revolution. Though the economic growth and rising incomes generated by the reforms directed to enhance the central authority, in practice they undermined them. Except area of economics, Deng and his supporters loosened the party's grip on personal, social, and cultural life – not only because of the move to the market but also because they wanted to repair the damage caused by all-encompassing politicization of everyday life imposed in the Mao era. Even in the political arena, where the central government continues to control more tightly than other areas the party's relationship to society have been transformed by the move to the market and the opening to the outside world.⁴⁰ Thus economic and political reforms set in motion processes in Chinese society, the political structure, the economy and culture that Beijing could not altogether control. Because the market reforms were not accompanied by regulatory framework of political reforms, they gave rise to inflation, corruption and regional disparities.

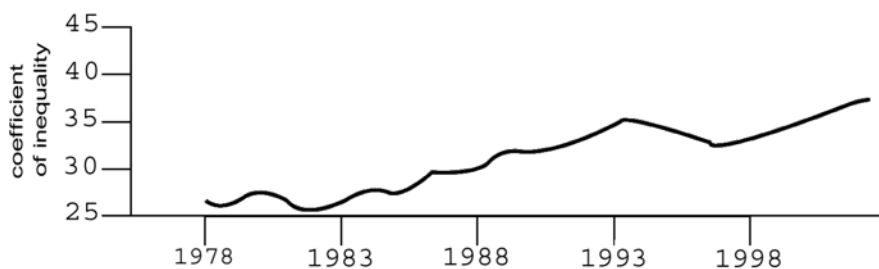
³⁸ John King Fairbank and Merle Goldman, *China: A New History*, p. 410.

³⁹ *Ibid.*, p. 408.

⁴⁰ *Ibid.*, p. 409.

The manifestation of the social fragmentation caused by the move to the market was growing gap between the rich and poor. During Mao period the workers in state industries were well paid, in the post-Mao era their status and wages rapidly declined. While their salaries were reduced or not paid, the salaries of those who worked in non-state foreign-joint enterprises increased. These effects of economic change produced collective resistance among masses. In the rural sector widening income disparities occurred between managers and workers in the collective industries and the farmers who still worked in the fields. The economic and social differences were intensified by the geographic disparities between the coastal areas involved in international trade and the poorer inland provinces:

Figure I. Income Inequality, 1978-1998.



Source: Shubham Chaudhuri and Martin Ravallion, “Partially Awakened Giants: Uneven Growth in China and India”, *Dancing with Giants: China, India, and the Global Economy*, ed. L. Alan Winters and Shahid Yusuf, The World Bank and the Institute of Policy Studies, Washington, 2007, p. 190.

The decline in state industry had a great impact on the Leninist party-state. Because the central government received 60 percent of its revenue from state-owned enterprises, this decline meant that it lost a substantial share of its revenue.⁴¹ Therefore, the central government’s revenue base became impoverished. At the same time because the local governments received less financial support from higher levels, they kept a larger proportion of tax revenues for investment in local projects.

⁴¹ David Shambaugh, “The Chinese State in the Post-Mao Era”, p. 14.

Since the money making capacities of the collective-private enterprises benefited both the local officials and enterprises, when directives of the central government diverged from local interests the officials and enterprises joined together to disregard them.⁴² This led to increasing economic and political decentralization.

While the growth of the non-state sector helped improve the livelihood of the majority of the population, it shifted political and economic power to local officials. Though Deng realized that in order to move to the market it was necessary to decentralize and to reduce the overconcentration of political and economic power in the central government, he did not foresee the extent to which such economic and political decentralization would result in a decrease in the flow of the taxes to the center, thus diminishing the reach of the party-state's authority.

The decentralization led not only to decreasing of central government revenues but to decreasing expenditures on education, health, and infrastructure which as a whole undermined economic growth. Thus budgetary revenues declined. As revenues declined, the government shifted much of the responsibility for investment to the local governments and enterprises. But while they were prepared to invest in economic projects, they were not ready to invest in education and health. This indicates that rural health and education gradually deteriorated during the reform period. The cities were less affected but the decline in government revenue had a serious impact on urban public services as well.

The disparities between the rural and urban sectors were widened by the easing the restrictions on the movement of people to the cities. In Mao period peasants were restricted to their farms in villages through a system of household registration that made it difficult to see employment elsewhere. But decollectivization, the move to the market and the growth of the non-state state and foreign-joint enterprises broke down the immobility of the system. Moreover, to make room for young workers the government encouraged women to retire at the age

⁴² Ibid., p. 15.

of 50.⁴³ The future of many families was jeopardized by the new economic system. Men with small pensions were not able to support their families and had to seek opportunities to maximize their income. Peasants began to leave their rural areas for towns, for cities along the coast and especially for Special Economic Zones. Young men from many China's rural areas in search of seasonal work joined what has come to be called the "floating population."⁴⁴ By the mid-1990s China's internal migrants or "floating population" were on the move everywhere. Non-state and foreign-joint enterprises recruited young people and adult males from poorer areas to work for low wages, these wages were relative high to their earnings at home. Though the migrant workers sent a portion of their pay to home to their families, thus helping to lessen the inequalities between the areas, the overall effect of the internal migration widened the rural and urban gap still further because farming villages came to be populated primarily by woman and the elderly. As peasants in some areas in the 1990s were paid for their quotas and subjected to additional taxes to finance rural industries they became anger with the local officials and tax collectors.

The "floating population" increased tensions in the urban communities. The urban residents discriminated the migrants. They resented the increased pressure on already burdened urban facilities such as schools, health care services and space in general. The migrant workers usually lived in shacks and shelters, many of them had no job, while rich local residents flaunted their wealth with modern phones, clothes and luxury goods. At the same time in China there appeared so-called "new rich" that was the new wealthy group of entrepreneurs who were the real beneficiaries of the economic reform.⁴⁵ The "new rich" was not a new capitalist class but had a close relationship with the party and government through which they were allowed to prosper. The social disparities were strikingly visible in China's large cities. Thus with no means of livelihood, unemployed workers had to organize demonstrations, demanding the government's support. The issue of employment for millions of Chinese remained the major threat to the stability of the country during the reform period. Deng's reforms thus had a contradictory impact, on the one hand they

⁴³ Linda Benson, *China since 1949*, p. 74.

⁴⁴ *Ibid.*, p. 74.

⁴⁵ *Ibid.*, p. 74.

improved standards of living, but on the other, they brought disaster. The reforms, in fact, produced the new Chinese Revolution.

1.2.2.2 Ethnic Unrest

As the official ideology became increasingly irrelevant to people's lives in the reform era, many turned to religion. In addition to the revival of Buddhism and Daoism and a resurgence of Islam, Christianity rapidly gained a new converts in the post-Mao era. Other forms of faith developed this time accentuated the growing diversity of Chinese society. Thus there appeared more religious believers than in the pre-Revolutionary period.

It is not worth forgetting that in China there live about 91 million people who are considered to be national minorities.⁴⁶ Though Chinese constitutions stressed that there is freedom of religion, the party extremely suppressed all religious beliefs in China in the past. However when party's ideology and military control over society had been challenged by economic and political reforms religious activities became more open. Muslim sites have been restored with support from the members of the affected congregation. Chinese Christianity provided religious ceremonies, churches reopened, because of the increasing number of foreigners in Beijing, and Shanghai. Protestant groups operated with comparative freedom. While the general population followed their religious beliefs, party members tried to end religious affiliation by persecutions of many minorities living in China.

Muslim revolt in the border area of Xinjiang resurfaced during the reform era. The problem of Xinjiang which shares the border with the former Soviet Union lied in the following issues. First, the region was under the influence of the Cultural Revolution radicals. Deng and other leaders made trip to the region in 1981 that caused the reappointment of Wang Enmao, a twenty-year party overlord for the region before the Cultural Revolution, as the party's first secretary.⁴⁷ Wang's return to the region aimed at restoring political stability and coping with the Russian

⁴⁶ Svat Soucek, **A History of Inner Asia**, Cambridge University Press, Cambridge, 2000, p. 275.

⁴⁷ James C. F. Wang, *Contemporary Chinese Politics*, p. 179.

military across the border. Second, more than 7 million Muslim Uighurs, Kazakhs, Kirghiz, Uzbeks and Tajiks live in the region, that is more than Chinese population of that region.⁴⁸ Muslims wanted to practice their religion, establishing the communities according to Islamic code under the leadership of imam without Chinese interference. The Muslims have opposed the use of Latin script, introduced by the Chinese authorities in the late 1950s for writing Uighur and Kazakh languages, instead of Arabic script. It was not until 1981 that the Latin script was officially replaced by Arabic.⁴⁹ Third, Chinese youth was sent to Xinjiang by the government to work on farms, pursuing the policy of assimilation. Consequently, many settled down in the region, found the jobs, married the local girls.

There have been many reports of human rights violations against the Uighurs. The thousands of Uighurs were detained and executed during the reform era. The dissidents from Xinjiang tried to form a united movement to oppose the Chinese by banding together Uighurs, Kazakhs, and Kirghiz. According to the 1982 state constitution ethnic minorities have the right to regional autonomy in those so-called autonomous areas. However, it is questionable whether there was a real autonomy in Xinjiang.

Chinese society in the post-Mao era became definably pluralistic in its values, religious beliefs and ways of living. At the end of the 20th century China had become an even more complex society in which the relationship between state and society were in greater flux than at any other time in its modern history. Although the party-state was still in charge and its corporatist structure tries to dominate society, it was weakened and no longer in command of its many constituencies. When China's leaders launched the economic reforms and the opening to the outside world, they realized that the reforms would give rise to an independent, pluralist society that they could not fully control. The reforms produced extraordinary economic growth but they also produced a fragmented society that was destabilizing.

⁴⁸ Ibid., p. 180.

⁴⁹ Ibid., p. 180.

1.2.2.3 Human Rights Violations

As China entered the international economy under Deng leadership, China began to change its banking, customs, communications and other institutions in order to comply with world standards. The government adopted a criminal code, criminal procedure code, and laws with provisions relating to human rights. In 1979 China began to attend meetings of the UN Human Rights Commission as an observer and in 1982 it became a member.⁵⁰ China participated in the Sub-Commission on Prevention of Discrimination and Protection of Minorities and in working groups concerned with the rights of population, human rights aspects of communications, the rights of children, the rights of migrant workers and the issue of torture.⁵¹ The constitution of China guaranteed basic political rights to citizens. Despite all the development of the human rights issues, in practice in China the rights were always ignored by the party and the government, and human rights violations did not stop. Moreover with the reform era Muslims, Catholics, Protestants, democracy movement activists were persecuted, imprisoned or sentenced with more scale of violence.

When ideological and military control in the society decreased masses sought different ways to reflect their dissatisfaction with the life either in the series of wall posters or democratic demonstrations. For the first time since 1949, various individuals and groups voiced their own views and pursued their own interests, rather than following the dictates of the party-state. Between 1978 and 1979 worldwide attention was focused on posting of handwritten messages on the wall in the western district of Beijing.⁵² Later this wall came to be known as the Democracy Wall. The first series of wall posters in the form of poems appeared in March 1978. The wall posters have been for the advocacy of democracy, justice and human rights. In December 1978 activists of the Democracy Wall movement became dissatisfied with the success of their poster campaign and looked for ways to expand the campaign. They formed dissident organizations and study groups with names such as

⁵⁰ Andrew J. Nathan, "Human Rights in Chinese Foreign Policy", *The China Quarterly*, No. 139, 1994, p. 627.

⁵¹ *Ibid.*, p. 627.

⁵² James C. F. Wang, *Contemporary Chinese Politics*, p. 270.

Enlightenment Society, China Human Rights Alliance, and Thaw Society.⁵³ Each published its own underground journals and offered them for sale at the Democracy Wall. Most publications were poorly produced with primitive machines. Nevertheless some of the publications attracted worldwide attention as American, British, Canadian and French reporters were given copies for overseas consumption. The publications discussed the freedom of speech, democracy, law, and justice, human rights, and modernization of science and technology. The new movement was spread to many provinces and cities in China.

In 1979 Deng informed the central government department about the ban on activities at the Democracy Wall. When news of Deng's decision leaked out, Wei Jingsheng, an editor, published an attack on Deng in special issue of his underground journal, *Tansuo* (Exploration).⁵⁴ Wei was sentenced to 15 years' imprisonment for having supplied military intelligence to Western reporters, for slandering Marxism-Leninism, and for encouraging the overthrow of the socialist system.⁵⁵ The Democracy Wall movement came to the end in 1980. Deng considered that the rights for freedom and speech caused the chaos in the country.

The end of 1986 year was culminated by massive student protests. On December 9, 1986 students at the Anhui provincial capital's China University of Science and Technology took to the streets slogans for democracy and political reform.⁵⁶ In the beginning the size of these protests was small, but then it reached 17,000 activists. This demonstration was followed by a much larger student gathering in Shanghai. The number of protestors was estimated from 10,000 to more than 35,000. World's attention was drawn to the Shanghai protests which involved students from 50 campuses in and around the largest city in China. On December, 21 the demonstrations in Shanghai were joined by industrial workers.

⁵³ *Ibid.*, p. 271.

⁵⁴ Linda Benson, *China since 1949*, p. 54.

⁵⁵ *Ibid.*, p. 55.

⁵⁶ James C. F. Wang, *Contemporary Chinese Politics*, p. 271.

Beijing authorities issued a set of regulations that made the demonstrations and parades illegal. Protests were also prohibited in the areas of party and government offices. Despite the ban more than 5,000 students from the People's University in Beijing staged their protests on Tiananmen Square on New Year's Day, 1987.⁵⁷ This parade signaled the direct challenge to the authorities who had banned such activities in the capital. Through a variety of means including appeals from families of students, official warnings, propaganda in the media, and deliberate isolation of the students from the press the wave of student protests was terminated. By analyzing slogans and interviews with the protestors it appears that students raised the issue of democratization of local election procedure, the question of the party's legitimacy to the rule, the exercise of basic freedoms, and accelerating the tempo of political reform. The student protestors pointed out the need for a multipart system as in Japan. The wall posters contain expressions such as: "Must we always obey the party?", "By party leadership, does it mean we cannot criticize the party?", "There must be separation of party and government."⁵⁸ These expressions challenged Deng principle which placed the party leadership at the center.

The students argued that it was necessary to put up the posters because it was the only way to express opinions. In many campuses it was a common practice to hold conferences discussing important issues. The issue that seemed to have been shared by all protesting university students was the lack of freedom and independence to choose their own careers. In universities they were not allowed to choose course work. The wall posters demanded the reform in higher education.

So, what were the consequences of the protests? The response to this unrest was that more ideological work for students was necessary. But Deng realized that more ideological study could put the party to dilemma. To revive ideological studies in the universities could only build more cynicism leading to discontent among China's youth. Thus the ideological studies were not included in the programs of the universities. Another possible consequence was the punishment by assigning

⁵⁷ John King Fairbank and Merle Goldman, *China: A New History*, p. 426.

⁵⁸ James C. F. Wang, *Contemporary Chinese Politics*, p. 275.

students to undesirable jobs after their graduation that is sending to do manual labor in factories or on farms in the countryside.

Reforms in China entered a critical period in 1988. The inflation, crimes and corruption became source of major complaint. The party's continued authoritarian rule was criticized. The writers and scholars demanded the release of political prisoners and observance of human rights. They also demanded political reform that would include proposals for a multiparty system and the speedup of the privatization of enterprises. There was a rising wave of intellectual discontent and criticism of the regime. In 1988 the students met to plan the demonstration that would bring to the attention of Deng leadership the problems of inflation, workers' living conditions and lack of improvements in education. The demonstration was planned on May 4. But on April 15 the death of Hu Yaobang made the students to move up the date of demonstration. Hu Yaobang, Deng's was hand-picked leader of the CCP, he was disagreed with the new rules of the government directing against China's students and common people.⁵⁹

On April 18 there were about 100,000 student demonstrators on Tiananmen Square.⁶⁰ They demanded public disclosure of party's leader's finances, freedom of the press, the increase in funding for education, the proper treatment of intellectuals, and cancellation of the city's regulations against demonstrators.⁶¹ By April 21 there were about 200,000 students on the square.⁶² The students gathered every day. On May 17 in support to students and for democratic reform more than a million people took the streets of Beijing and demanded the ouster of Deng and other leaders. Such occupations caused the demonstrations in other major cities of the country.

By June 2, it was estimate that there were about 150,000 PLA soldiers, backed by vehicles and tanks, taking position in various parts of the city. The decision to order the PLA into square was made by Deng. He saw the demonstrations

⁵⁹ Linda Benson, *China since 1949*, p. 56.

⁶⁰ *Ibid.*, p. 57.

⁶¹ James C. F. Wang, *Contemporary Chinese Politics*, p. 277.

⁶² Linda Benson, *China since 1949*, p. 57.

as a fundamental challenge to his and party's power and therefore decided that they had to be suppressed with military force. On June 3 and 4, the number of dead was impossible to count. The soldiers were chasing, beating and shooting at the students on the square. The military cleaned up the square from the mess next days. Some student leaders managed to flee abroad, some were caught and sentenced. Later estimates of the dead varied from the hundreds to the thousands and even a decade later the final number of fatalities was still disputed.

After the bloody crackdown on Tiananmen Square China's opening to the outside world was not slowed. But China's relations with other countries were not without troubles. In the aftermath of June 4, the human rights became the most charged issue between China and the United States. The US and other Western nations criticized China for human rights abuses. They condemned the imprisonment of democratic activists, religious leaders and organizers of independent labor unions. China's leadership rejected these criticisms. It stressed that the issue of human rights in China is used to justify its foreign policy emphasizing the rights of sovereignty and self-determination against colonial rule. To deny own political system and mistakes, Chinese officials pointed that in some other countries the violation was much more worse comparing to China's case, that the West tried to impose modern standards on a developing China and that the West itself committed human rights violations, such as the Holocaust and slavery. Thus China's leaders viewed Asian values superior to Western values because they based on collective rights rather than individual rights which they asserted were self-centered and responsible for the moral failings of Western societies.⁶³ China always emphasized the cultural difference between itself and other societies and that no right has other state to judge and interfere in China's politics.

It is clear that there are major differences between American and Chinese cultural backgrounds. The American system always stresses individuality, privacy, diversity, and protection of the individual from undue outside interference.⁶⁴ The

⁶³ Victor Li, "Human Rights in a Chinese Context", **The China Difference**, ed. Ross Terrill, Harper & Row Publishers, New York, 1979, p. 225.

⁶⁴ *Ibid.*, p. 226.

Chinese culture appreciates the importance of individuals but places greater emphasis on how a person functions within the context of a larger group.⁶⁵ There is no Chinese word for “privacy”, nor is there a clear sense of a concept of “rights” as that term is used in the West. On the contrary the emphasis was on the idea of duty, that a person through social pressure must perform his duty with having no rights to use them in a court or elsewhere. However differences in cultural background cannot explain every difference in approaches to problems, nor can they be excuses for everything occurring in China.

The tragedy of June 4 was the interruption of the gradual political democratization in China. The later suppressions of relatively independent organizations of intellectuals who have been concerned with political issues ensured that there would be no alternative to the party or the PLA. Independent citizens’ associations, professional groups and trade unions were crushed. Nongovernmental organizations sprang up in the 1990s to deal with a wide range of social, professional, environmental, and academic questions could survive only as long as they stayed away from political issues. The Chinese in the 1990s could change jobs, travel abroad, vote for their leaders out office but they could not publicly criticize the party-state and its leaders. Those who did were immediately silenced.

Although the military crackdown and subsequent persecution and imprisonment of the demonstrators revealed how little the leadership and political structure had changed, the demonstrators that provoked the crackdown made clear how much Chinese society had changed. The loosening of political controls, opening to the outside world, greater freedom of thought had led to demands of intellectuals, workers, entrepreneurs and ordinary residents to be treated as citizens rather than as obedient party comrades or passive subjects. For the first time the common people in China participated with students in the protests.

It is seen that reform era changed China dramatically. Before the reforms China had strong party’s and military control over society, and the ideas of service

⁶⁵ Ibid., p. 226.

and self-sacrifice were the value system for people, while with the advent of the reforms there appeared the decline of Maoist communist ideology and his value system which let China go to capitalist path. Mao pursued the aim to build communist society in an isolated country while Deng wanted to open China to the world, to build a market economy and stimulate China's integration with the capitalist world system. It turned out that due to Mao's party ideology and military control the society remained stable, while with Deng's reforms there came great economic disparities, ethnic unrest and human rights violations.

CHAPTER II

OPENING UP THE ECONOMY: CREATING NEW SOURCE OF INSTABILITY OR MEANS FOR INTEGRATION TO THE WORLD CAPITALIST SYSTEM

2.1 Economic Reforms for Structural Adjustment to Capitalist World Economy

At the end of the 20th century the world waked up by the fact that China is becoming an economic giant. China has undergone a process of industrialization and has become one of the fastest growing economies in the world. In the 1950s and 1960s, China was very poor; most of population lived in rural areas and was heavily taxed to support industry.⁶⁶ Economic growth as envisaged by the Chinese communist leaders is a process of transforming a preponderantly agricultural society into a modern industrial economy with a high degree of self-sufficiency in basic industrial materials and manufactures.⁶⁷ Thus since 1978 China underwent a process of transition from a centrally planned economy to a market orientated economy, China reached certain results: during 1978-96 real gross domestic product (GDP) grew on average by 9.7 percent a year, market forces came to play important role in economic decision making, employment in agriculture declined, manufacturing sector emerged, so that it managed to achieve income levels of the economies of East Asia, Thailand, Malaysia, Indonesia. If before China's role in the world economy was insignificant: its share of world trade was barely half of 1 percent in 1978, lower than in the 1950s, by 1994 it is the tenth largest, excluding Hong Kong.⁶⁸

Trade performance is another manifestation of the Chinese policy of the "open doors": Chinese trade turnover grew from 15 billion dollars in 1977 to 165

⁶⁶ Charles Harvie, "Economic Transition: What Can Be Learned from China's Experience", **International Journal of Social Economics**, Vol. 26, No. 7, 1999, p. 1104.

⁶⁷ Ronald Hsia, "The Concept of Economic Growth", **The Chinese Model**, ed. Werner Klatt, Cathay Press, Hong Kong, 1965, p. 83.

⁶⁸ Vincent Cable and Peter Ferdinand. "China as an Economic Giant: Threat or Opportunity", **International Affairs (Royal Institute of International Affairs 1944-)**, Vol. 70, No. 2, 1994, p. 243.

billion dollars in 1992.⁶⁹ Foreign investment flowed through opened doors; that is in 1992 estimated 58 billion dollars, of which 11 billion dollars was invested.⁷⁰ China began to be seen as a trading partner and competitor by other countries.

In discussions of the transition from a socialist to a market economy, those favoring a gradualist approach usually point to the experience of China and it is still shocking that China managed to make significant progress towards market reforms without suffering the large output declines that faced countries in Eastern Europe and the former Soviet Union. In fact, gradualism in market reforms has become the key to China's rapid growth. The Chinese leadership after Mao's death initiated economic reforms because it was dissatisfied with the pace of growth. Deng wanted to catch up China's Asian neighbours' economies, and improve standards of living in the country. Thus Deng leadership chose gradualist approach that is a sequential implementation of a set of reforms.⁷¹ The gradualist approach may avoid excessive cost especially for the government budget, and excessive reduction in living standards at the start of a reform.⁷² The reform process used intermediate mechanisms in order to make transition from one economic system to another in a more smooth way, thus escaping from the disruptions during the shift. One reform is implemented independent from other reforms. The gradualist approach provides the government with credibility that reforms would be implemented without failure.

Gradualism is preferred in terms of both political support and economic sufficiency. What was peculiar to China's transitional period is that it changed the economic system first, moving towards a free market before leaving the political security of a socialist system, while in the former Soviet Union the political system was changed first, then the economic system which led to the hardship with consumer shortages and inflation. Thus unlike the Soviets, China had comparatively low inflation.

⁶⁹ Ibid., p. 245.

⁷⁰ Ibid., p. 246.

⁷¹ Shang-Jin Wei, "Gradualism versus Big Bang: Speed and Sustainability of Reforms", **The Canadian Journal of Economics**, Vol. 30, No. 4, 1997, p. 1235.

⁷² Ibid., p. 1236.

In 1978, under Deng leadership the Third Plenary Session of the 11th National Congress of the Chinese Communist Party opened China to the outside world and launched economic reforms.⁷³ Basing on the gradualist approach Deng leadership firstly implemented experimental reforms without ultimate goals and then after reforms proved to be successful they have been applied widely. The implementation of economic reforms in China referred to certain periods of time: from 1978 - 1984; from 1984 - 1988; from 1988 - 1991, and from 1992 till later time. From 1978 agricultural and rural reforms have been implemented, because agricultural sector was repressed under central planning. Next reforms from 1984 to 1988 included the urban-industrial sectors. From 1988 to 1991 there have been implemented rectification program which planned to re-centralize price controls with strong measures in order to reduce the inflationary pressures within the economy. By 1992 the rectification program was finished, while the reform process and the opening up of the country's economy continued.⁷⁴

2.1.1 Privatization

Privatization is the process of structural change that involves non-nationalizing and liberalization of regulations and utilization of private sector capabilities in service provision.⁷⁵ After Mao's death the role of the private sector in China's economy was redefined as "complementary to state and collectively owned enterprises."⁷⁶ By development of private sector Deng leadership aimed at employment and market supply. In 1981 China adopted the policy which called for the growth of private business. Since then there have been continuous improvements in China's policies for further privatization. Urban residents including unemployed workers and retired staff were allowed to conduct own business. The private businesses were allowed to hire assistants and to use mechanical tools and motor vehicles. The local governments were instructed to support the private businesses by

⁷³ Sharon Moore and Julie Jie Wen, "Reform of State Owned Enterprises and Challenges in China", **Journal of Technology Management in China**, Vol. 1, No. 3, 2006, p. 280.

⁷⁴ Charles Harvie, "Economic Transition: What Can Be Learned from China's Experience," p. 1107.

⁷⁵ Sun Sheng Han and Clifton W. Pannell, "The Geography of Privatization in China, 1978-1996", **Economic Geography**, Vol. 75, No. 3, 1999, p. 272.

⁷⁶ *Ibid.*, p. 276.

providing them with necessary inputs. The number of employees in the urban private sector grew rapidly.

The collective sector that is the township and village enterprises (TVEs) stimulated the great rise in the industrial output of China's economy. The TVEs sector has been under ownership of local governments in the towns and villages. It faced incentives similar to private owners and thus considered to be non-state sector. Since China's agricultural reforms were directed to develop the supply of rural savings, the TVEs benefited greatly. The development of the non-state sector of the economy was so successful that TVEs accounted for 39 percent of the industrial output in 1996.⁷⁷ They were very important in China's economic transformation to a market economy since they were operating in market conditions, were employing the high skilled labor and were managed by professional managers.

In China there are large, medium-sized and small state-owned enterprises known as SOEs. The SOEs dominated basic industries in China which engaged in the production of energy, electricity, heavy machinery, iron, steel, chemicals, and transportation. About 60 percent of the state's revenue came from the SOEs.⁷⁸ Many of the SOEs were built with Soviet aid in the 1950s and their machineries have become obsolete. For the decades they operated under tight state control. As the non-state sectors, individual and private enterprises grew during Deng period, the work of SOEs became difficult. Most managers of the SOEs admitted that serious competition for SOEs came from the non-state enterprises, particularly from the TVE because of their competitive price, quick adoption of innovation and adaptation to the market economy.⁷⁹ The competition forced the SOEs to work hard in order to avoid losses. In this context, in the 1990s Deng leadership took a decision of restructuring and privatizing the SOEs. Privatization was accompanied by the slogan "grasping the large and letting go the small."⁸⁰ Reform of China's SOEs became the main objective

⁷⁷ James C. F. Wang, *Contemporary Chinese Politics*, p. 304.

⁷⁸ *Ibid.*, p. 324.

⁷⁹ Wu Zengxian, "How Successful Has State-Owned Enterprise Reform Been in China?", **Europe-Asia Studies**, Vol. 49, No. 7, 1997, p. 1243.

⁸⁰ John Marangos, "Were the Chinese Reforms a Feasible Alternative for Transition Economies?", **International Journal of Social Economics**, Vol. 33, No. 3, 2006, p. 227.

since urban reforms have been implemented from 1984. The government's major stress was on changing the internal governance of SOEs and making the market environment better where they have been functioning.⁸¹ China's leadership rejected mass privatization preferring partial and gradual process of privatization. Thus the largest SOEs remained under state control, whereas medium-sized SOEs and small companies were leased or sold.⁸² The SOEs were sold to private individuals or foreigners by auctioning. Some local SOEs have become joint stock companies. A small number of SOEs have been transformed into shareholding companies. In shareholding companies there were three shares: state-owned, those held by legal entities and those held by employees.⁸³ The employees could hold only a small part of the shares while the state holds the majority of stock in the shareholding company. For large SOE China's leadership offered instructional guides such as receiving bank credits or financial support with close supervision by the bank on the use of credits, imposing the practices of modern managerial techniques so that their performance could be up to standard.⁸⁴

The SOE privatization was in the interests of local governments because of their hard budget constraints but was encouraged by the central government. Since reform was gradual, the central government did not require from local governments the quick implementation of the reform. When the local government found that workers had not been ready to be involved in a process quickly, it slowed down the pace of privatization. Thus the reform was slow.

It was expected by the government that internal governance of the SOE would be changed and SOE staff could be gradually absorbed by the private enterprises during SOE's privatization, however the reform has not accomplished this task. Though SOE had the hierarchical structure where the executives can dismiss the workers, the staff was reluctant to move to the private sectors because to

⁸¹ Ross Garnaut, et. al. **China's Ownership Transformation: Process, Outcomes, Prospects** The World Bank, Washington, 2005, p. 2.

⁸² John Marangos, "Were the Chinese Reforms a Feasible Alternative for Transition Economies?", p. 227.

⁸³ Wu Zengxian, "How Successful Has State-Owned Enterprise Reform Been in China?", p. 1256.

⁸⁴ James C. F. Wang, *Contemporary Chinese Politics*, p. 326.

work in private companies is more risky than in state enterprises. The SOEs usually are responsible for providing education, healthcare and housing for their workers while many private companies do not supply such social services.⁸⁵ The reforms of the SOE generated significant challenges to the groups in China, because they experienced sense of insecurity and stress with all the changes of the transformation process.

Another problem was the lack of well-trained business executives who could easily adjust to the mechanism of private sector. There was the tendency to use old ways in the work. In many state enterprises that had been transformed into private ones the same staff was elected to the governing position, which did not brought any change to new private company. Though there was expected more SOEs to restructure, the shareholding companies with the great share of government meant that the SOEs sector was still dominant in total industry property. Many joint stock companies were not foreign but simple combinations of original SOEs. No doubt, that to these joint stock enterprises the directors and general managers were appointed by the state.⁸⁶ So, there emerged two problems of how to form a good system of social service and how to change the bureaucratic apparatus in the SOEs that were transformed into private enterprises.

In China the policy of privatization was believed to lead to a greater productivity of production, increased profits and opportunities for workers and entrepreneurs, more access to raw materials and production input through open market channels and improvement of living standard. Indeed, with the privatization the productivity and foreign investment have been increased, there appeared more opportunities in the employment and market in recent time and living standard has been significantly improved. As a whole the process of privatization in China has been more successful than in other countries of the former Soviet Union and Eastern Europe during their period of transition. It happened because China did not apply mass privatization as those countries did. Instead it applied slow and partial

⁸⁵ Sharon Moore and Julie Jie Wen, "Reform of State Owned Enterprises and Challenges in China", p. 283.

⁸⁶ Wu Zengxian, "How Successful Has State-Owned Enterprise Reform Been in China?", p. 1257.

privatization which allows China to make one more step to capitalist economy. However the privatization in China did not solve all problems associated with the SOEs. It has failed to restore the bulk of the enterprises and created environment in which a bureaucratic elite continues to dominate.

2.1.2 Reform in Financial System

The Chinese leadership started the reform in the financial system. One of the objectives in the reforms of the financial sector has been the improvement banking system. Before 1979 in China there had been the single-bank system, while with the reform era the financial system under central bank was established. The system includes big commercial banks and small universal banks, network of urban and rural credit cooperatives and of finance and investment companies.⁸⁷ The People's Bank was changed into a central bank and the Industrial and Commercial Bank, the Agricultural Bank, the People's Construction Bank, the Bank of China became commercial banks.⁸⁸ The banks accounted for most of the total deposits and loans; they also provide priority sectors with soft credits and a large number of urban and rural credit cooperatives. The Chinese banks began to specialize in industry, commerce, agriculture, foreign trade, and international capital flows. The Chinese government by gradual reform in financial sector pursued the aim of escaping inflationary explosions and not repeating the experience of other transition economies which permitted unrestricted banking, leading to such explosions.⁸⁹

The fragility of banking sector was the result of decades of funding of the SOEs which operate at low productivity and profitability levels. Banks' lending bias in favor of SOEs is in part a policy choice by the government to commit massive financial resources to the state sector; it is rooted in the standard operating procedures of the Chinese financial institutions.⁹⁰ Funding of these public enterprises

⁸⁷ John Marangos, "Were the Chinese Reforms a Feasible Alternative for Transition Economies?", p. 231.

⁸⁸ James C. F. Wang, *Contemporary Chinese Politics*, p. 308.

⁸⁹ John Marangos, "Were the Chinese Reforms a Feasible Alternative for Transition Economies?" p. 231.

⁹⁰ James C. F. Wang, *Contemporary Chinese Politics*, p. 309.

brought risks into the stability of the banking sector because of non-performing loans at the state owned commercial banks. These structural problems have not caused any problems since economy grows at high rates and since Chinese people, who have a high savings rate, continued to prefer state owned commercial banks to deposit their savings.

Chinese government decided to list state owned commercial banks in the equity markets, a move that aimed to impose market discipline on them and improve their non-performing loans ratios, which posed risks to the economy in general. Another method to improve non-performing loans ratios was to dispose non-performing loans to asset management companies. While trying to restructure the banking sector and improving conditions in the supply side, Chinese government tries to improve conditions in the demand side by restructuring the SOEs. These two sectors of the economy are interlinked since improving productivity, efficiency, and corporate governance lead to better performing loans in the banking sector and may solve some of the structural problems of the banking sector. A better functioning banking sector may lead to better loan conditions and higher profitability rates for the SOEs.

One of the main characteristics of China's financial system was the desire of enterprises for investment resources that was motivated by low, negative interest rates. The distortions in product and factor markets and the fact that the managers followed government instructions provided the state enterprises with legitimate excuses for demanding government subsidies and preferential credits.⁹¹ Therefore, only some enterprises made bankrupt and as a whole the budget constraint was not significant. However despite all the success there have been the shortcomings in the financial system: it is weak, because financial and fiscal functions are not distinct and banks are independent from fiscal budget deficit financing, even if a financial framework is in place, they will be ineffectual in supporting a developing market economy. The planned distribution of economic resources, particularly credit is contradictory with the structure and functions of a market economy. An effective

⁹¹ Dwight Heald Perkins, "Reforming China's Economic System", *Journal of Economic Literature*, Vol. 26, No. 2, 1988, p. 618.

financial and monetary policy transmission is important to a market economy because China's control over price level depend mostly on the control it can exert over money supply.⁹²

During the process of fiscal decentralization China did not see inflationary pressures and imbalances. It was because Chinese reformers did not see the purpose of fiscal policy in maintaining the balance between revenues and expenditures, but in promoting economic growth. China's central government collected very few taxes that was the main difference of China from other countries in implementing fiscal reforms. The local government was responsible for collecting tax revenues. Some part of tax revenues that collected locally has been remitted to the central government, stipulated by a system of financial contracts.⁹³ In other words, the collection of taxes was mostly local rather than central, and the revenues were squeezed which resulted from the falling state enterprise profits, the efforts to avoid paying taxes, and the soft budget constraint.⁹⁴

The tax structure created new problems, therefore new economic regulations that were issued in 1993, included a shift from government dependence to a more tax based system and distribution of the tax revenues between central and local levels. In 1994 Chinese leadership introduced a new tax reform which made distinctions between taxes on central and local levels. There has been also established central tax bureau and local tax bureau, and now each was responsible for its own tax collections. In fact, the series of reforms concerning the tax law and tariff rates during transition period have led China to have a fiscal structure more similar to that in developed economies.⁹⁵ From 2002 the central government took a share of the personal income tax. The center's share was set at 50 percent for 2002 and 60

⁹² Maria Manuela Nevada DaCosta, "China's Financial System: Two Decades of Gradual Reforms," **Managerial Finance**, Vol. 28, No. 10, 2002, p. 13.

⁹³ John Marangos, "Were the Chinese Reforms a Feasible Alternative for Transition Economies?", p. 233.

⁹⁴ Dwight Perkins, "Completing China's Move to the Market", **Journal of Economic Perspectives**, Vol. 8, No. 2, 1994, p. 38.

⁹⁵ Roger H. Gordon and Wei Li, "Taxation and Economic Growth in China", **Critical Issues in China's Growth and Development**, ed. Yum K. Kwan and Eden S. H. Yu, Ashgate Publishing Limited, Hampshire, 2005, p. 38.

percent for 2003 with future rates.⁹⁶ Now the central government had to combat tax evasion phenomenon. The tax authorities under Premier Zhu began action by bringing tax cheaters to criminal persecution, so that this fight against tax evasion brought changes quite quickly, because many Chinese started to see themselves as taxpayers at last.

2.1.3 FDI and International Trade

Of the reforms instituted by China's pragmatic leaders under Deng, the policy of opening China's doors to foreign investment has been one of the most significant departures from the decades of Mao. In 1978 Deng steered the party to adopt a policy for foreign investment. Since then trade liberalization policies have been introduced to facilitate exports. China for the first time began to allow foreign investment. China's rapid economic growth and high incomes depended on the input of amounts of capital from abroad and expatriate investors became potentially important source of linkage with the world economy.⁹⁷ Foreign direct investment (FDI) until 1991 was small. The FDI came from small enterprises in Hong Kong and mostly were concentrated in Guangdong province. However by the 1990s China had become the second-largest FDI recipient in the world, after the United States, and the largest recipient among developing countries, accounting for about 25-30 percent of FDI flows to all developing countries.⁹⁸ In the next 9 years annual contractual investment increased from 11.977 billion dollars in 1991 to 62.380 billion dollars in 2000, and annual actual investment rose from 4.366 billion dollars in 1991 to 40.715 billion dollars in 2000.⁹⁹ Economics in Southeast Asia played a great role as important sources of Chinese FDI. In addition, FDI in China increasingly consisted of

⁹⁶ Dali L. Yang, "China in 2002: Leadership Transition and the Political Economy of Governance," *Asian Survey*, Vol. 43, No. 1, 2003, p. 36.

⁹⁷ John Marangos, "Were the Chinese Reforms a Feasible Alternative for Transition Economies?," p. 234.

⁹⁸ Wanda Tseng and Harm Zebregs, "Foreign Direct Investment in China: Some Lessons for Other Countries", *China: Competing in the Global Economy*, ed. Wanda Tseng and Markus Rodlauer, International Monetary Fund, Washington, 2003, p. 69.

⁹⁹ Lai Pingyao, "Foreign Direct Investment in China: Recent Trends and Patterns", *China and World Economy*, No. 2, 2002, p. 26.

investments by European, Japanese and US multinationals seeking to supply the Chinese domestic market through local production capacity.¹⁰⁰

The World Bank has been the biggest source of foreign investment. Between 1980 and 1986 it committed over 25 billion dollars to 175 development projects in China. China was the largest borrower from World Bank in the 1990s and in 1993 received 15 percent of all International Development Association lending for that year.¹⁰¹ Much of the investment has been directed to the less-developed western regions of China.

Another China's strategy in promoting capital inflow was to attract investment from Chinese living outside mainland China. In 1979 the Deng government opened four southern coastal towns and villages as special economic zones (SEZs): Zhuhai, near Macao; Xiamen, across from Taiwan; Shantou; and Shenzhen, across the border from Hong Kong.¹⁰² The fifth, Hainan Island was added in the 1980s. The zones are populated with Cantonese speaking Chinese who are descendents of emigrated from Guangdong province. Shenzhen has been the most successful which benefited from its proximity to Hong Kong. The primary foreign investors were Hong Kong and Taiwan Chinese whose investment created a boom town out of a small rural village in a few years. Attracted by good training and high rates of pay, workers flocked to the town which boasted the highest annual economic growth rates in all of China by the end of 1980s.¹⁰³ The other SEZs developed slowly but each boosted local industry to some degree as well as attracting foreign investments. In 1984, 14 additional coastal cities and in 1991, 4 border cities on China-Russian frontier were opened.

As Chinese policy of openness includes the development of trade and capital flows, China implemented the decentralization of its foreign trading system, applied

¹⁰⁰ Harm Zebregs, "Foreign Direct Investment and Output Growth", **China: Competing in the Global Economy**, ed. Wanda Tseng and Markus Rodlauer, International Monetary Fund, Washington, 2003, p. 91.

¹⁰¹ Alan Hunter and John Sexton, **Contemporary China**, St. Martin Press, New York, 1999, p. 88.

¹⁰² Shengliang Deng and Jack Dart, "The Impact of Economic Liberalization on Marketing Practices in the People's Republic of China", **European Journal of Marketing**, Vol. 29, No. 2, 1995, p. 20.

¹⁰³ *Ibid.*, p. 21.

the corporate system to foreign trading companies, introduced the market system into foreign trade, and reform of the foreign exchange system. The Chinese currency became convertible under current account, non-tariff barriers have been cut and tariffs reduced. China improved its law and regulatory system, and began to guide foreign capital to regions or industrial sectors preferred by China. The joint venture law was issued. In 1978 Deng stated in one of the communiqués that China adopted a number of new economic measures, on transforming the system and methods on terms of equality and mutual benefit with other countries, striving to adopt the world's advanced technologies and equipment.¹⁰⁴ Thus China adopted a joint venture law governing both Chinese and foreign investments. The joint venture law serves as a framework allowing foreign investors to negotiate and enter into contracts with the Chinese government. The Chinese provide land, labor, and the necessary infrastructure and the foreign investor provides the investment capital and equipment. Since 1979 there have been concluded more than 2,000 joint venture agreements totaling about 16 billion dollars.¹⁰⁵ Most investment came from Japan, the US, France, Germany, Australia and Switzerland.¹⁰⁶ China has become a land of joint ventures, enterprises with foreign funding and investors.

China's accession to the World Trade Organization (WTO) in 2001 decreased the tariffs and obstacles for foreign trade and increased foreign companies' competition power in China's domestic market. As China became a formal member of the WTO, China promised to follow the WTO's basic principles. China can provide privileges for WTO members. The world export market with China being as a WTO member is bigger, and its membership gives incentives for more export-oriented FDI.

China's foreign trade volume grew fast since the opening of the economy in 1978. Its foreign trade volume was 21 billion dollars in 1978 whereas in the 1990s it reached 324 billion dollars.¹⁰⁷ China had foreign trade deficit by 1980s while after 1990 it had a surplus. China has increased its penetration into the markets of

¹⁰⁴ James C. F. Wang, *Contemporary Chinese Politics*, p. 359.

¹⁰⁵ *Ibid.*, p. 359.

¹⁰⁶ *Ibid.*, p. 360.

¹⁰⁷ Harm Zebregs, "Foreign Direct Investment and Output Growth," p. 95.

developed countries and has become an important export trader for regional economies. The imports with the developed countries have risen over the last two decades, particularly with Japan, the US, and the EU. China's role in Asian regional economy has become significant. A rising share of China's imports come from the Asia Pacific region and now it is among the most important export destinations for Asian countries.

The last two decades the distribution of FDI has seen significant changes. Before the 1990s the investment was mostly concentrated on labor-intensive manufacturing industry, while after the 1990s it extended to every sphere of the economy: for example, capital and technology sectors such as chemicals, machinery, transport equipment, electronics, and telecommunications. Many believed that foreign capital in China played a positive role in Chinese economic development during the reform. They argue that FDI can generate benefits in such country like China. Multinational firms may increase competition in markets which will force inefficient firms to invest more in physical or human capital.¹⁰⁸ Some others claim that foreign capital inflows can influence China's economic development negatively by substituting for domestic savings. There is also the opinion that FDI trends exacerbate countries' balance-of-payment deficits as a result of rising debt repayment obligations.¹⁰⁹

To what extent Chinese policy of openness succeeded can be judged by its foreign trade and capital. Today it has a surplus in foreign trade and attracted billions dollars of foreign capital.

2.2 WTO Accession

China's economic performance in recent years has been impressive by most standards. Successful reforms help China to move away from agricultural communist economy towards modern industrial one. Another key driving forces of China's

¹⁰⁸ Lai Pingyao, "Foreign Direct Investment in China: Recent Trends and Patterns," p. 32.

¹⁰⁹ Ibid., p. 32.

growth and transformation has been the openness of the economy to foreign competition and investment culminating in China's recent accession to the WTO.

After 15 years of negotiations, China acceded to the WTO at the end of 2001.¹¹⁰ During those negotiations, China was continually opening up and reforming its economy and further reforms in order to fulfill its legal obligations under its WTO Protocol Accession.¹¹¹ The final stages of the China's accession process had been under three conclusions: conclusion of bilateral market-access negotiations, conclusion of multilateral negotiations in the Working Party and the corresponding documents that stipulate the terms of China's accession, including the draft Protocol and its Annexes, and the Working Party Report, approval and acceptance of these terms of accession by WTO members and by China.¹¹² Chinese leadership was well aware of the challenges of achieving full compliance of the requirements of WTO accession and it was also aware that accession to the WTO could embody possible tensions both within China concerning development priorities and policies between China and the world trading system in the area of regulatory norms, institutions and processes.¹¹³ China gave duty cuts or import liberalization against US goods especially for service sector like telecommunication, transportation, foreign banking, insurance, leasing, technical testing, agricultural products, car industry and other activities.¹¹⁴ It promised liberalization of its duties against EU goods especially for cosmetics, glass and ceramic products, leather products, textile machinery, car industry, telecommunication, service sector.¹¹⁵ Further China lowered its average tariffs, and agreed to eliminate import quotas, licenses, designated trading practices and other non-tariff barriers.

¹¹⁰ Kym Anderson, Jikun Huang and Elena Ianchovichina, "The Impacts of WTO Accession on Chinese Agriculture and Rural Poverty", **China and WTO: Accession, Policy Reform, and Poverty Reduction Strategies**, ed. Deepak Bhattasali, Shantong Li, and Will Martin, The World Bank, Washington, 2004, p. 101.

¹¹¹ *Ibid.*, p. 101.

¹¹² Jeffrey L. Gertler, "What China's WTO Accession Is About", **China and WTO: Accession, Policy Reform, and Poverty Reduction Strategies**, ed. Deepak Bhattasali, Shantong Li, and Will Martin The World Bank, Washington, 2004, p. 22.

¹¹³ Pitman B. Potter, "The Legal Implications of China's Accession to the WTO", **The China Quarterly**, No. 167, 2001, p. 608.

¹¹⁴ Jeffrey L. Gertler, "What China's WTO Accession Is About", p. 23.

¹¹⁵ *Ibid.*, p. 26.

China's accession to the WTO affects the operations of this organization, since China joined the organization as the seventh largest exporter and eighth largest importer of merchandise trade and as the twelfth leading exporter and tenth leading importer of commercial services.¹¹⁶ China has the largest population and largest potential market of any WTO member. As a member of WTO it can have trade with its major trading partners and take part in the new rounds of multilateral trade negotiations and seek increased market access for its exports of farm products abroad. The WTO membership offers China the conditions and environment to continue its economic reforms. China can take full advantage of WTO mechanisms to improve its industry, trade and FDI. But China's entry to the WTO is of great importance not only to the Chinese economy, but also to the whole world economy. As WTO membership provides Chinese products with greater access to the world market the other WTO member countries are guaranteed to have increased access to the huge Chinese market. China has become more attractive for international investors in the WTO when its investment barriers were removed. While FDI provides a steady flow of additional capital to China, it brings in valuable market information, management techniques, and distribution networks.¹¹⁷ WTO member countries believe that China's membership could stabilize foreign economic relations with China.

There could be the competition between Chinese and foreign firms due to trade and investment liberalization under the WTO. There will be the pressure on China to undertake further institutional reforms to supplement economic reforms in order to meet its WTO obligations. However it is believed in the long term WTO membership will improve efficiency in China's resource allocation, thus enhancing the competitiveness of its economy. In other words, China's economy can benefit from its accession to the WTO as well as the economies of the developed and developing countries. The future development and benefits of the China's WTO membership also depends on the right decisions of Chinese leadership who can

¹¹⁶ Ibid., p. 26.

¹¹⁷ James Agarwal and Terry Wu, "China's Entry to WTO: Global Marketing Issues, Impact, and Implications for China", *International Marketing Review*, Vol. 21, No. 3, 2004, p. 297.

prepare the country for global economy resulting from WTO accession and sustain China's further growth and social stability.

However, the fact that China entered the organization not long ago should be kept in the mind, since it is a new process for the country and many Chinese people are still strangers to this process. The adjustment to new, more competitive market conditions can lead to problems in state-owned banks and enterprises, cause growing unemployment, income disparities and weak governance which will take much time for China to establish a new equilibrium.

2.3 China in Asian Regional Economy

China's economy has been growing very fast for at least 10 years. Its expansion since 1978 already has been the largest growth "surprise" ever experienced by the world economy.¹¹⁸ Turning to the growth of output and income, China has performed very strongly since 1995. Over 1995-2004 China accounted for 3 percent of the world growth in output.¹¹⁹ China's trade expansion since the early 1990s has been huge. China's share of world goods and services trade exceed share of other large economies except the United States:

Table I. Trade in Goods and Services for Six Large Economies.

Economy	Exports of goods and services		Imports of good and services	
	Share (2004)	Share of growth (1995-2004)	Share (2003)	Share of growth (1995-2003)
United States	11,2	10,7	16,5	24,1
China	5,7	8,9	4,8	7,8
Germany	9,1	7,7	8,2	3,6
Japan	5,4	-3,7	4,7	-0,8
India	1,2	1,8	1,1	1,8
Brazil	1,0	0,5	0,7	0,3

Source: L. Alan Winters and Shahid Yusuf, "Introduction: Dancing with Giants," *Dancing with Giants: China, India, and the Global Economy*, ed. L. Alan Winters and Shahid Yusuf, The World Bank and the Institute of Policy Studies, Singapore, 2007, p. 15.

¹¹⁸ L. Alan Winters and Shahid Yusuf, "Introduction: Dancing with Giants", **Dancing with Giants: China, India, and the Global Economy**, ed. L. Alan Winters and Shahid Yusuf, The World Bank and the Institute of Policy Studies, Singapore, 2007, p. 1.

¹¹⁹ *Ibid.*, p. 7.

With annual growth at 15.1 percent over 1995-2004, China provided almost 9 percent of the increase in world exports of goods and services second only to the US, and 8 percent of the increase in imports also second to the US.¹²⁰ In other words, China has made a big progress in economy; moreover it managed to obtain all characteristics of a capitalist system becoming one of the world's very largest economies. Thus China was inserted into global economy, and reconfigured the regional economy. Of all the different policies initiated to attract investment and promote Chinese exports is the role of Asian Pacific countries. Much of what has been done in China was inspired by other regional states in attracting investment and promoting export-based growth.

The impact of China on the region varies by country and by types of economic activity within individual countries. Those who occupy higher levels in the production in terms of technology, finances and services have been the main beneficiaries of China's rise.¹²¹ Among Association of Southeast Asian Nations (ASEAN)¹²² almost all states over the years operated on a free market basis. They are open and outward-looking. Foreign investment has been an important source of capital and technology. Having capitalist economies ASEAN countries were eager to speed up their own economic growth. As China adopted economic policies conducive to international marketplace the states in Asia began to view China more as a partner than a competitor in the development of regional economy. From 1978 till 1989 imports coming into ASEAN countries increased at rate of 12.8 percent, and export grew at rate of 13.4 percent.¹²³ As for Chinese side, exports and imports have also grown over the same years. During that period Malaysian exports to China were particularly dominated by electrical components, chemicals, machinery parts, and petroleum.¹²⁴ ASEAN experience was very important for China's foreign trade

¹²⁰ Ibid., p. 14.

¹²¹ Shaun Breslin, **China and the Global Political Economy**, Palgrave Macmillan, New York, 2007, p. 151.

¹²² Original ASEAN members are Indonesia, Malaysia, Thailand, Singapore, and the Philippines. Brunei joined in 1984, Vietnam in 1995, Myanmar and Laos in 1997, Cambodia in 1999.

¹²³ Fred Herschede, "Trade between China and ASEAN: The Impact of the Pacific Rim Era", **Pacific Affairs**, Vol. 64, No. 2, 1991, p. 180.

¹²⁴ Shaun Breslin, **China and the Global Political Economy**, p. 152.

whereas ASEAN countries as well agree that a closer relationship with China is an important component for their future.

The recent trade between China and ASEAN mostly was influenced by the growth of both economies. The trade from 1990 to 2001 between China and ASEAN reached 40 billion dollars. That year among ASEAN states China's trade especially grew with Thailand, Indonesia, Singapore and the Philippines. ASEAN has become China's fifth trading partner after Japan, the US and the EU.¹²⁵ China's exports ranged from agricultural products to manufacturing goods. In 1993 machinery equipment, minerals, vegetable commodities, base metals, textiles, and footwear were the main items in bilateral trade which collectively constituted about 70 percent of China's exports to ASEAN, while by 2001 machinery equipment, as well as textiles, clothing, and footwear, continued to be among the main commodities traded, but their share had jumped increasingly and constituted more than half of all China's exports to ASEAN.¹²⁶ In the 1990s Chinese structure of export if compared to ASEAN countries has been more significant. It is explained by China's quick export growth in the recent time, though in the 1970s China lagged behind the ASEAN export policy. China's growth and its economic superiority may allow it to play a leading role in the future of the region.

In the 1990s FDI and trade in China significantly grew. China joined the WTO which gave China an opportunity to lead multilateral trade negotiations. China has always participated in conferences and meetings of multilateral and bilateral frameworks. It joined the North American Free Trade Agreement (NAFTA) where could made ASEAN to reconsider their concerns about access of Western markets offering its cheap labor and resources. It participated in the ASEAN Regional Forum, (ARF) South China Sea Workshops, Asia-Europe Meetings (ASEM), Asia-Pacific Economic Cooperation (APEC), and the ASEAN Plus Three (APT) meetings. For example ASEAN Plus Three (APT) meetings created a formal process through which China together with Japan and South Korea came in dialogue with ASEAN states.

¹²⁵ John Wong and Sarah Chan, "China-Asean Free Trade Agreement: Shaping Future Economic Relations", *Asian Survey*, Vol. 43, No. 3, 2003, p. 512.

¹²⁶ *Ibid.*, p. 514.

China wanted to create a free trade between China and ASEAN. It has embraced moves beyond financial regionalism towards trade based on regionalism in the proposals to create an ASEAN-China Free Trade Area (ACFTA). First proposed at the Manila summit in 1999, the ACTFA initiative took on a new impetus with signing of the Framework Agreement on ASEAN-China Comprehensive Economic Cooperation at the Eighth ASEAN Summit Meeting in Cambodia in 2002. ACFTA is conceived as a dual speed process, with common tariff reduction and a full free trade, intended to intra-regional investment and to increase access to the Chinese market for ASEAN producers.¹²⁷ The main forms of collaboration also include participation in the Asia Pacific Economic Cooperation (APEC) framework for the liberalization of trade and investment and for economic and technology cooperation, collaboration with ASEAN on the basis of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China.¹²⁸ ACFTA has become a significant pact for both sides. For China it is a pact to foster economic and regional cooperation with Southeast Asian countries, whereas for ASEAN this pact also an opportunity to get benefits from China's resources and market. Since ACFTA is an arrangement where tariffs and non-tariff barriers, quotas, licensing requirements, and product-safety regulations are abolished among members, it is advantageous for all member states.¹²⁹ ACFTA also increases intra-regional trade, competitiveness, productivity, and efficiency. It was expected that ACFTA would improve productivity of firms, and the abolition of intra-regional barriers would allow firms from Southeast Asia and China to be more competitive and efficient. Moreover, the reduction of tariffs and non-tariff barriers in ACFTA facilitates trade and investment flows among member countries allowing them to improve market access to goods and services sectors.¹³⁰

¹²⁷ Shaun Breslin, *China and the Global Political Economy*, p. 156.

¹²⁸ Hsiu-Ling Wu and Chien-Hsun Chen, "The Prospects for Regional Economic Integration between China and the Five Central Asian Countries", *Europe-Asia Studies*, Vol. 56, No. 7, 2004, p. 1059.

¹²⁹ John Wong and Sarah Chan, "China-Asean Free Trade Agreement: Shaping Future Economic Relations", p. 512.

¹³⁰ *Ibid.*, p. 509.

China was in search of more regional rounds to establish new trading arrangements with the countries. Thus the considerations were regional. Strengthening economic and trade cooperation with neighboring countries, especially by establishing regional cooperation mechanisms has been an important element of Chinese foreign policy. The financial crisis of 1997-99 offered China an opportunity to demonstrate its regional leadership in Southeast Asia. The crisis began in July 1997 when taking advantage of financial distortions and the massive external debt of government and private sectors, currency traders attacked the Thai baht. The currency crisis spread through the financial market of Asia. Banks stopped lending in Indonesia, South Korea and Thailand.¹³¹ The Philippines, Malaysia were the next states who suffered from the crisis. The root of the financial crisis was rapid growth and the manner in which most ASEAN countries approached globalization, a process in which pace and scope of economic activities taking place across national boundaries have expanded in recent years, alongside the increasing integration of financial and capital markets of other countries, leading to volatility in capital flows, particularly those of bank lending and portfolio investment.¹³² China's economy performance during the Asian financial crisis was stable. GDP growth remained high, the external current account in surplus, official foreign reserves and the exchange rate have been at comfortable levels.¹³³ Its stability was seen as important factor in limiting the impact of the crisis on the region's economies. During the crisis China rapidly provided support to the countries in the form of unconditional loans, which greatly improved China's reputation in the region. The Asian countries realized the importance to strengthen the regional cooperation with China.

Except ASEAN China expanded economic ties with other countries in Asia in order to develop regional trade and provide its economy with a flow of additional capital. Sino-Japanese economic relations are significant in the region. They are of trade, FDI, private technical cooperation, credits and cooperative services. Economic

¹³¹ Zakaria Haji Ahmad and Baladas Ghoshal, "The Political Future of ASEAN after the Asian Crisis", **International Affairs (Royal Institute of International Affairs 1944-)**, Vol. 75, No. 4, 1999, p. 764.

¹³² Ibid., p. 765.

¹³³ Paul Gruenwald and Jahangir Aziz, "China and the Asian Crisis", **China: Competing in the Global Economy**, ed. Wanda Tseng and Markus Rodlauer, International Monetary Fund, Washington, 2003, p. 101.

relations between two states especially improved after China adopted policy of openness in 1978. Trade and FDI between two countries have increased dramatically from 1978 till 1998. Both participated in different associations and forums in the region such as ASEAN Plus Three (APT). Both played important place in the economies of each other. Some leaders in China called for bilateral ACFTA of China and Japan. In recent time China's economic relations improved with Korea. In the 1990s, China became South Korea's third-largest trading partner, while South Korea - China's sixth-largest trading partner. The Sino-South Korean trade reached 31.2 billion dollars in trade. China has urged the conclusion of ACFTA with South Korea in order to boost the trade and investment between the two countries.¹³⁴ South Korea and China agreed to make efforts to double the bilateral trade. Recently Hong Kong emerged as an important exporter in the trade with China in the areas of processing and packaging; the value of exports reached more than 52 billion dollars in textiles, clothing and electronics.¹³⁵ Economic relations with India are of great importance for China. The economies of both countries have grown very fast for last 10 years. They account for about 5 percent and 2 percent of world GDP at current exchange rates.¹³⁶ In 2005 Sino-Indian trade has reached 18.7 billion dollars.¹³⁷ China is India's largest trading partner and India is China's largest trading partner in South Asia.

China's participation in the world market is a relatively recent phenomenon. Not long ago China's imports and exports amounted only to 104 billion billions that is about 30 percent of its GDP.¹³⁸ However after 1990, China's government progressively liberalized trade in a series of measures including the reduction of MFN tariffs and non-tariff barriers of imports, its formal accession to the WTO also allows China's trade to reach 570 billion dollars. China has become the second largest recipient of FDI after the US in recent time. By this time China's engagement with Asia pointed to a growing self-awareness within China of China's importance to region. It is still surprising that a communist China pursuing a capitalist economy

¹³⁴ Longyue Zhao, Mariem Malouche and Richard Newfarmer, "China's Emerging Regional Trade Policy", *Journal of Chinese Economic and Foreign Trade Studies*, Vol. 1, No. 1, 2008, p. 28.

¹³⁵ James C. F. Wang, *Contemporary Chinese Politics*, p. 212.

¹³⁶ L. Alan Winters and Shahid Yusuf, "Introduction: Dancing with Giants", p. 1.

¹³⁷ *Ibid.*, p. 6.

¹³⁸ Longyue Zhao, Mariem Malouche and Richard Newfarmer, "China's Emerging Regional Trade Policy," p. 22.

from 1978 has achieved visible results in the region. What has happened now in China has already influenced region in production, investment and trade patterns. China's policy of openness let it to play a great role in the economies of the Asia-Pacific region as a country with regional power status.

China has been the unique country that was successful in stimulating economic growth, and achieving an economic development process during its transition period. Despite Communist role, building capitalism of state socialist system seemed to be more workable in China than in other socialist countries during transition period. As it has been mentioned above firstly China changed the economic system, and only then political and socialist systems, while in the former Soviet Union it has been vice versa. China's transition stressed liberalization of the market, associated with competitive pressure of SOEs, and expansion of managerial autonomy. China did not follow the way of privatization by the Soviets who privatized state enterprises at the beginning of reform process; the Chinese leadership sustained state ownership, management and planning for the bulk of the industrial economy by gradual pace of the reforms.¹³⁹ China rejected mass privatization because it created a hybrid economy without real space to market freedom. It also managed to implement other reforms in a quite successful way. At the same time China could achieve dramatic progress in developing regional economy. It entered the WTO in the framework of which it is easy for China to develop trade and FDI with other states. China in recent time has established economic relations with many countries around the Asia Pacific. It created regional mechanisms such as ACFTA and is going further to develop them. In other words, today China occupies an important place in the economies of Asian neighboring countries.

China has gone liberation from capitalism in the 1950s, liberation from communism in the 1990s, free market to planned, and a return to free market in 50 years. Looking back over these years, Chinese leaders made enormous upheavals inside and outside the country, which forced China to go through significant and sometimes painful reforms. The further economic reforms and their results depend, of course, on a new generation of leaders, because there are things remained to be

¹³⁹ Nancy Holmstrom and Richard Smith, "The Necessity of Gangster Capitalism: Primitive Accumulation in Russia and China", **Monthly Review**, Vol. 51, No. 9, 2000, p. 11.

done. However, the new generation of leaders shows no sign that they will depart from the economic liberalization.

CHAPTER III

**MILITARY-DIPLOMATIC ISSUES IN CHINA'S REGIONAL POLICY
BEFORE AND AFTER REFORM PERIOD**

3.1 Sino-ASEAN Relations

From the late 1970s China was preoccupied with reforms which brought many changes to country. From 1989, the world entered a period of changes. Germany reunified, the East European countries turned to the capitalist track, the Soviet Union and Yugoslavia disintegrated and many newly independent countries emerged. The Cold War came to an end. Facing post-Cold War world, many countries rethink their foreign policies. Thus internal and external factors made China reexamine its approaches in foreign affairs as well. Whether its policy has changed in the reform period or not we will see below.

In last years China increased appreciation for diplomacy. Since mid-1996 Beijing made efforts to improve China's relations towards regional neighbors and to enhance the China's reputation as a more responsible and cooperative player. These policies are important features of Beijing's current approach, where the strategic focus was made on diplomacy. Since 1996 China broadened effort to cultivate partnerships. Cultivating partnerships has been also the part of China's attempt to cope with the constraints of American power in the post-Cold War era.¹⁴⁰ Of all powers, China has made the most gains in its relations with Southeast Asia. Even in the early post-Cold War period Beijing was keen to become a dialogue partner of ASEAN.

The decade 1959 to 1969 witnessed the attempt at regional cooperation among five of the eleven Southeast Asian states. These were Indonesia, Malaysia, the

¹⁴⁰ Avery Goldstein, "The Diplomatic Face of China's Grand Strategy: A Rising Power's Emerging Choice", *The China Quarterly*, No. 168, 2001, p. 846.

Philippines, Singapore, and Thailand.¹⁴¹ Brunei, Vietnam, Myanmar, Laos and Cambodia joined association later. In 1967 the Cold War and Western military retrenchment, including the US withdrawal from Vietnam, provided the context for relations between China and ASEAN. Both were preoccupied with domestic matters. For ASEAN's post-colonial, heterogeneous states, political unity was an especial preoccupation. Their ethnic, regional, and political divisions opened the door for outside powers to manipulate one group against the other, creating domestic instability.¹⁴² Each of ASEAN's members faced the threat of domestic insurgency from local and communist groups, including some with significant ethnic Chinese membership. Among the ASEAN especially Indonesia did not trust China, because of its support for the Communist Party in Indonesia, and Beijing's involvement in Indonesia's controversial coup of 1965.¹⁴³ During the 1970s China's relations with the ASEAN was damaged because of domestic and international problems. At home, Cultural Revolution consequences; abroad, problems with the Soviet Union.

With Sino-American rapprochement, China, Japan, and the former Soviet Union began to play large roles in Southeast Asia. While domestic considerations also were important, the new Sino-American relationship forced ASEAN states to reconsider their relations with China in anticipation of a post-Vietnam Southeast Asia, less enmeshed in American affairs.¹⁴⁴ Malaysia normalized relations with China in 1974, as did Thailand and the Philippines in 1975. Singapore expanded trade relations and engaged China at official levels. Even in Indonesia, where the army continued to resist the normalization of relations until 1990, developments in US-China relations intensified domestic and intra-bureaucratic debates about relations with China.¹⁴⁵

¹⁴¹ H. Monte Hill, "Community Formation within ASEAN", *International Organization*, Vol. 32, No. 2, 1978, p. 569.

¹⁴² Alice D. Ba, "China and ASEAN: Renavigating Relations for a 21st-Century Asia", *Asian Survey*, Vol. 43, No. 4, 2003, p. 624.

¹⁴³ Rizal Sukma, *Indonesia and China: The Politics of a Troubled Relationship*. Routledge, London, 1999, p. 106.

¹⁴⁴ Leo Suryadinata, *China and Southeast Asian States*, National University of Singapore, Singapore, 1985, p. 128.

¹⁴⁵ Alice D. Ba, "China and ASEAN: Renavigating Relations for a 21st-Century Asia", p. 625.

The decade of Sino-ASEAN relations from 1978 till 1989 was preoccupied with Vietnam's intervention in and subsequent occupation of Cambodia. Both Washington and Beijing were united in their opposition to Vietnam's intervention. This period was of difficult division within ASEAN, due to differences over China and questions of how best to respond to Vietnam's intervention. Members differed, over whether China or Vietnam constituted the larger threat to ASEAN security. Malaysia and Indonesia worried about Chinese influence in regional and domestic politics, while Thailand and Singapore were concerned about Vietnam. Especially Thailand saw Vietnam as its main security threat, and turned to China for military assistance. For China, working with Thailand and other ASEAN states against Vietnam served a number of interests. China wanted to counter Soviet and Vietnamese influence in Southeast Asia. Working with non-communist ASEAN also gave China's actions against Vietnam added legitimacy, in addition to raising its profile in the United Nations and demonstrating to the US China's value as a strategic ally vis-à-vis the Soviet Union. In November 1978 Deng Xiaoping went on a tour of Southeast Asia, seeking political allies against the Soviet Union and Vietnam, as well as support for recently introduced economic reforms. Trade and economics also gained importance during this second phase of relations. Even Indonesia reestablished direct commercial relations with China in 1985, despite their lack of diplomatic relations.¹⁴⁶ The year 1989 became important because Vietnam withdrew from Cambodia. In 1991, for the first time, China normalized relations with Vietnam and with all other members of ASEAN.¹⁴⁷

During the 1990s of greatest concern for ASEAN were Chinese activities in the South China Sea.¹⁴⁸ Beginning with the 1988 Sino-Vietnamese clash over the Spratly Islands, Chinese actions in the late 1980s and early 1990s suggested greater assertiveness to use force to protect its claims. China's actions were disturbed to prompt the statement on regional security by ASEAN, in the form of the 1992

¹⁴⁶ Ibid., p. 626.

¹⁴⁷ Qimao Chen, "New Approaches in China's Foreign Policy: The Post-Cold War Era", *Asian Survey*, Vol. 33, No. 3, 1993, p. 242.

¹⁴⁸ Lee Lai To, "ASEAN-PRC Political and Security Cooperation: Problems, Proposals, and Prospects", *Asian Survey*, Vol. 33, No. 11, 1993, p. 1097.

Declaration on the South China Sea.¹⁴⁹ Though the statement produced some concessions from China, its activities continued. This of course influenced the changing character of ASEAN's concerns about China. Where concerns had previously been domestic and political, they were now also military and territorial. Few in ASEAN believed that China posed an immediate territorial threat to ASEAN. Nevertheless, some in ASEAN, especially the Philippines and Indonesia, speculated that China was taking advantage of power vacuum left by the US.¹⁵⁰

This period is also associated with the opportunities for improved economic relations and cooperation. By the late 1980s, concerns about US and Western protectionism dominated in ASEAN countries. The 1992 North American Free Trade Agreement (NAFTA) increased ASEAN concerns about access to Western markets. These developments came at a time when ASEAN economies began to face competition from China, which had the advantage of cheaper labor and resources. In this context, ASEAN states were forced to reconsider their substantial economic reliance on the US market. Though China was also emerging as their most significant economic competitor, ASEAN began to consider the potential economic benefits of closer trade relations with China.

Developing economic ties could help sustain the region's economic dynamism and enhance security in the region. Of special importance was the emergence in East Asia of new and multilateral arrangements. ASEAN began by expanding its Post-Ministerial Conference (PMC) external dialogues to include new dialogue partners; this would form the basis for East Asia's first multilateral security dialogue, the ASEAN Regional Forum (ARF). China has been invited to join the ASEAN Regional Forum, which was initiated by ASEAN at the "informal" dinner after the 1993 AMM, hosted by ASEAN foreign ministers for their counterparts from the seven dialogue countries and five other regional states, including China.¹⁵¹ Other significant multilateral frameworks that emerged during this phase were the South

¹⁴⁹ Ibid., 1097.

¹⁵⁰ Alice D. Ba, "China and ASEAN: Renavigating Relations for a 21st-Century Asia", p. 628.

¹⁵¹ Lee Lai To, "ASEAN-PRC Political and Security Cooperation: Problems, Proposals, and Prospects", p. 1103.

China Sea Workshops, Asia-Europe Meetings (ASEM), Asia-Pacific Economic Cooperation (APEC), and the ASEAN Plus Three (APT) meetings.¹⁵² Each of these included China. China began to be seen by ASEAN as a potential trade ally and partner, as well as an economic opportunity. This was evident in many trade visits and diplomatic exchanges between China and various ASEAN countries during the 1990s. The 1990s thus was generally a good decade for China and ASEAN, which saw a dramatic increase in Sino-ASEAN. Even on contentious territorial and security issues, ASEAN states generally viewed Chinese moves as conciliatory steps in the right direction.

Between 1997 and 1999 Asian financial crisis occurred, which hit the ASEAN economies hard. China could demonstrate its intentions on recovering Southeast Asian economies by various trade agreements. This phase is also marked by a more assertive US foreign policy, including renewed attention to Southeast Asia after the September 11, 2001. Concerns about terrorism have refocused US attention on Southeast Asia. Anti-terrorism efforts have improved Philippine-American security relations and relations with Indonesia and Malaysia.¹⁵³

For ASEAN interests lie in good relations with both the US and China. ASEAN can only lose, if it forced to choose between them. At the same time, the US-ASEAN relationship cannot be taken for granted. Though the war against terrorism may strengthen US-Philippine relations, it may also complicate US relations with much of the rest of Southeast Asia. Not only are there important differences over terrorism, but also US policies, including the war against Iraq, may give rise to more extremist voices in Muslim Southeast Asia, which would limit the ability of ASEAN governments to work with the US. As for China, it takes much care about further cooperation with ASEAN, since it needs Southeast Asia for China's development and prosperity. However the US involvement in the region continues to affect Chinese diplomacy towards ASEAN.

¹⁵² Hsiu-Ling Wu and Chien-Hsun Chen, "The Prospects for Regional Economic Integration between China and the Five Central Asian Countries", p. 1059.

¹⁵³ Alice D. Ba, "China and ASEAN: Renavigating Relations for a 21st-Century Asia", p. 644.

3.2. Reunification with Taiwan

China's relation with Taiwan has been always difficult. Its diplomacy towards Taiwan can be characterized by continuous changes and uncertainties. China wanted to annex Taiwan on the ground that Taiwan was its territory. It was stated that Taiwan was a Chinese province and that many years ago it almost became a part of China with the Chinese people.

In 1886 Taiwan became a province of the Chinese empire. In 1895 China had to cede the island of Taiwan to Japan by the Treaty of Shimonoseki. For the next fifty years Taiwan was a colony that served the needs of the Japanese nation. In 1942 when the US was against Japan and on the side of China, the Chinese government made Taiwan's return one of its main objectives. At the Potsdam Conference held from July 17 to August 1, 1945, the leaders of the Allied powers - Harry Truman, Clement Attlee, and Joseph Stalin - dictated the terms of Japanese surrender to include implementation of the Cairo Declaration: namely Japan was to be confined to its home islands and Taiwan was to be returned to China.¹⁵⁴ From the 1930s in China there has been a civil war between Chiang Kaishek's government and the CCP led by Mao Zedong. The civil war ended in 1949, and millions from the Nationalist government fled to Taiwan. The People's Republic of China (PRC) was founded on the mainland by the communists with the leader Mao, while Chiang had established Republic of China (ROC) or the Kuomintang (KMT) government on the island.¹⁵⁵

Since 1949 the Chinese Communists made periodic peace with ROC, but did not stop criticizing Taiwan's capitalist economy and the KMT government. In economic development Taiwan was able to achieve one of the world's highest growths, though at the end of World War II the infrastructure and economy was ruined. The economic goals during the 1950s and 1960s were to improve living standards and to strengthen the nation. Since the 1970s the target has shifted to the

¹⁵⁴ James C. F. Wang, *Contemporary Chinese Politics*, p. 228.

¹⁵⁵ *Ibid.*, p. 230.

establishment of a self-reliant economic system.¹⁵⁶ Taiwan very quickly developed from an agricultural into an industrial society. However Taiwanese political development was not as successful as economic one. As the KMT retreated from the mainland in 1949, all political institutions that had been established there now were maintained in Taiwan. Members of national legislative bodies – the National Assembly, the Legislative Yuan, and the Control Yuan who were elected by the people on the Chinese mainland 39 years ago remained in office in Taiwan.¹⁵⁷ The population and government of Taiwan were silenced by the martial law since 1949, freedom of speech and associations were denied. There had been violations on the island, many innocent people were arrested and murdered by KMT agents. In 1971 more than two-thirds of the countries represented in the UN voted to withdraw the ROC's right to represent China in favor of the PRC.¹⁵⁸ In 1972 President Nixon and Premier Chou En-lai issued the Shanghai Communiqué, where the US stated that there was one China and Taiwan belonged to the Chinese mainland. In 1979 the US cut official ties with Taiwan.¹⁵⁹ The US move meant that it accepted “one China” mandate and abandoned its defense pact with the island.

From 1979 China focused particularly on the task of “national reunification.” By downplaying their Marxist analysis of Taiwan society and emphasizing traditional concept of the Chinese state and nationality, Beijing hoped to create a political atmosphere conducive to the start of negotiations.¹⁶⁰ On January 1, 1979, the Chinese National People's Congress (NPC) sent the letter to Taiwan, calling for the establishment of economic and diplomatic relations between China and Taiwan stating that Taiwanese people's wishes would be taken into consideration.¹⁶¹ Chinese Communists changed their attitudes toward Chiang Ching-kuo and his father Chiang Kaishek. The reason for the CCP and KMT struggle for many years was power - the

¹⁵⁶ John Fuh-sheng Hsieh and Chung-lih Wu, “Economic and Political Development in the Republic of China”, **China's Global Presence: Economics, Politics, and Security**, ed. David M. Lampton and Catherine H. Keyser, American Enterprise Institute Press, Washington, 1988, p. 38.

¹⁵⁷ Trong R. Chai, “The Future of Taiwan,” **Asian Survey**, Vol. 26, No. 12, 1986, p. 1310.

¹⁵⁸ Edward J. Lazzarini, **The Chinese Revolution**, Greenwood Press, London, 1999, p. 87.

¹⁵⁹ Michael Leifer, “Taiwan and South-East Asia: The Limits to Pragmatic Diplomacy”, **The China Quarterly**, No. 165, 2001, p. 173.

¹⁶⁰ Frank S. T. Hsiao, “The Politics of Reunification: Beijing's Initiative on Taiwan”, **Asian Survey**, Vol. 20, No. 8, 1980, p. 790.

¹⁶¹ *Ibid.*, p. 791.

right to rule China. In the past two ideologies were used by their leaders in order to justify their claims to legitimacy, while during the 1980s two sides were to rethink their positions towards each other.

During the 1980s Deng proposed a formula of Hong Kong based on “one country, two systems” or “one China” as a viable way for reunification of China and Taiwan. “One country, two systems” was within the territory of China on the mainland, where a socialist system was practiced, while in Hong Kong and Taiwan, a capitalist system was practiced.¹⁶² On January 1, 1985, Deng called for Chiang Ching-kuo to start the negotiations based on the Hong Kong formula. The Chinese believed that the Hong Kong experience was applicable to Taiwan and by applying it, they could unify the motherland. But Chiang and his KMT were not willing to accept such a proposal. They pointed to the fact that Hong Kong was a British colony without any sovereign power, while Taiwan under KMT was a completely independent sovereign state, and that economic, social and political conditions on the Chinese mainland and Taiwan were very different.¹⁶³ Taiwan offered its own formula of “two Chinas”-“one China, one Taiwan,” which claims that “Taiwan is an independent and sovereign state.” It was the main principle of the Democratic Progressive Party (DPP) - a largest opposition party, which among the three major political parties on the island had supported Taiwan’s independence.¹⁶⁴ China answered negatively on formula of “two Chinas”. Thus the issue of reunification appeared to be very long and complicated.

There have been, of course, inconsistencies in Deng’s reunification policy, such as his promises of a peaceful, nonmilitary approach to the Taiwan question, his occasional threats to use military means to “liberate Taiwan,” and the constitutional uncertainties and ramifications of the Chinese State Constitution, which authorized

¹⁶² James C. F. Wang, *Contemporary Chinese Politics*, p. 200.

¹⁶³ Frank S. T. Hsiao, “The Politics of Reunification: Beijing’s Initiative on Taiwan”, *Asian Survey*, Vol. 20, No. 8, 1980, p. 793.

¹⁶⁴ T. Y. Wang, “One China, One Taiwan: An Analysis of the Democratic Progressive Party’s China Policy”, *Taiwan in Perspective*, ed. Wei-Chin Lee, Brill, Leiden, 2000, p. 161.

the NPC to set up the SAR.¹⁶⁵ Although China claimed about peaceful settlement of the Taiwan issue, it had never ruled out of the use of force. Thus the contradictions that existed in the policy of Deng pointed to the fact that the Chinese mainland and Taiwan were not ready for reunification.

Some saw the benefits for both China and Taiwan from the reunification. First, as China would become a unified country, the demands of the whole Chinese nation on the mainland and island would be met. Second, with regard to economic development, for Taiwan it would be better to become a part of China. Taiwan, because of the economic difficulties during the Western economic recession, would be willing to establish economic ties with China which actually could benefit as well from such a development. Both sides could supply what the other needed: for example, the mainland could open its huge market to Taiwan, while Taiwan could provide technology and qualified economic and administrative personnel to the mainland. Another motive was that the reunification of China could maintain peace in the Pacific area since Taiwan occupied a strategic position.¹⁶⁶ If Taiwan would be able to achieve real independence, it could itself become one of the big powers. Finally, unification could promote smooth development of democratic processes. Democratization is important for both the mainland and the island. Since the end of the Cultural Revolution, China emphasized democracy and the rule of law instead of the rule of man.¹⁶⁷ Taiwan authorities were also under great pressure from the Taiwan people for democratization on the island. Unification can create atmosphere for democratic politics within both parties as well as for economic development.

The Taiwan question has also been one of the most important and sensitive issues in relations of China and the US. Since pursuing policy of reunification, Chinese Communist condemned the idea of Taiwan independence and criticized the US as a conspirator who continued supporting the independence movement. Chinese

¹⁶⁵ C.L. Chiou, "Dilemmas in China's Reunification Policy toward Taiwan", *Asian Survey*, Vol. 26, No. 4, 1986, p. 481.

¹⁶⁶ John Quansheng Zhao, "An Analysis of Unification: The PRC Perspective", *Asian Survey*, Vol. 23, No. 10, 1983, p. 1107.

¹⁶⁷ *Ibid.*, p. 1108.

government was certain that US wanted to create the system of “two Chinas”: one on the mainland, another on the island, while the US tried to prove the opposite.

In the beginning of 1995 Jiang Zemin proposed a peaceful offence in order to end the hostility between China and Taiwan and establish economic and cultural ties and negotiations across the Taiwan Strait.¹⁶⁸ In this context the world was surprised when Beijing launched military exercises and missile tests aimed at Taiwan from July 1995 to March 1996. The military exercises became a tool for the political purpose of warning the US to stop to intervene to what Beijing perceived as Chinese internal affairs.¹⁶⁹ Jiang’s initiative of peaceful offence was met with visa of Lee Teng-hui, the President of the ROC to the US. In May 1995 President Lee received a visa to visit Cornell University.¹⁷⁰ The issue of visa and Washington’s previous sales of jet fighter aircrafts to Taiwan in 1994 caused the policy shift of Beijing toward Taiwan. From Chinese perspective, Washington was eager to revise its Taiwan policy, encouraging Taiwan’s leaders to move to a declaration of its sovereignty and independence from the Chinese mainland. The negotiations over the US policy toward Taiwan were reopened and reached the climax with the Chinese military exercises and missile tests. The Taiwan Strait confrontation reflected the interaction of Chinese coercive diplomacy and US deterrence diplomacy. Chinese aim of using large-scale military exercises and missile tests was to coerce the US ending its indirect support for Taiwan independence by forcing the Clinton administration to reassess its relationship with the Taiwan leadership and its position on Taiwan’s role in international politics. While the Clinton administration did not use force against Chinese coercion, it based on deterrence diplomacy to discourage the Chinese military action and influence on its allies.¹⁷¹ Thus two powers had two different approaches in achieving their purposes.

¹⁶⁸ Shisheng Zhao, “Military Coercion and Peaceful Offence: Beijing’s Strategy of National Reunification with Taiwan”, *Pacific Affairs*, Vol. 72, No. 4, 1999-2000, p. 497.

¹⁶⁹ *Ibid.*, p. 498.

¹⁷⁰ Allen S. Whiting, “China’s Use of Force, 1950-1996, and Taiwan”, *International Security*, Vol. 26, No. 2, 2001, p. 121.

¹⁷¹ Robert S. Ross, “The 1995-96 Taiwan Strait Confrontation: Coercion, Credibility, and the Use of Force”, *International Security*, Vol. 25, No. 2, 2000, p. 89.

The 1995-96 Taiwan Strait confrontation became important in US-China relations in the 20th century. China regarded the Taiwan issue as its domestic issue and did not want to see intervention from the outside. While China wishes to solve the dispute with Taiwan peacefully under “one China” principle, it will not retreat from preserving its sovereignty and territorial integrity. From the Taiwan Strait Crisis it is clear that if Taiwan becomes independent under support of some foreign powers, China will use every possible means to reverse this, including the use of military force even at the risk of a military conflict with the US.

In 1997 Jiang called Taiwan again for negotiations to terminate the state of hostility between two sides. Before Chinese calls for the negotiations, Taiwan expected the further attacks of China and that tension with it would escalate, because Taiwan had not intention for reunification with China. These views made Taiwan review its national policy with China. China’s coercive missile tests led to temporary fissure in consensus among decision makers over whether “pragmatic diplomacy” - efforts to break diplomatic isolation and to win international recognition of Taiwan as a sovereign state - should remain Taiwan’s top national priority.¹⁷²

The year 1998 was dominated in Taiwan by the growing impact of the Asian financial crisis on the economy, the KMT success in the elections, and the change of the leadership in the DPP. However the presidential elections in 2000 marked the end of the KMT rule. Opposition DPP candidate Chen Shuibian won the elections. In 2004 the President Chen was reelected to his second four year term.

Today there is still no reconciliation between China and Taiwan on their formulas of “one China” or “two Chinas.” Shisheng Zhao for example suggested three possible scenarios for Taiwan issue. The first one is that Beijing’s peaceful offence works and Taipei gives positive response to normalize bilateral relations. This scenario may end hostilities.¹⁷³ The second scenario is that Beijing’s peaceful

¹⁷² Taifa Yu, “Relations between Taiwan and China after the Missile Crisis: Toward Reconciliation?”, *Pacific Affairs*, Vol. 72, No. 1, 1999, p. 41.

¹⁷³ Shisheng Zhao, “Military Coercion and Peaceful Offence: Beijing’s Strategy of National Reunification with Taiwan”, p. 513.

offence fails and Taipei continues to move to its independence and sovereignty. This scenario may increase tensions between two sides and provoke Beijing for coercive measures that could lead to war. The third scenario is that Taipei agrees to hold peaceful negotiations with Beijing, but negotiations will not meet Beijing's terms of national reunification and Taiwan will continue to work international recognition and independence. This scenario may continue the course of peace and coercion.¹⁷⁴ Therefore, the development of the Chinese-Taiwan relations is difficult to predict, since for Beijing the double task of not waging into war with Taiwan and achieving its reunification is almost impossible. Besides the US interference in the issue of Taiwan makes China's reunification with Taiwan more complicated.

3.3 China and Two Koreas

The Chinese initiated a gradual change in their relations with both Koreas toward the end of the 1970s. Guided by the expedient notion of the separation of economic and political spheres, China entered into indirect trade with South Korea in 1979 and explores a number of cooperative projects with South Koreans.¹⁷⁵ August 24, 1992, marked a historic turning point in China-South Korea relations when these two enemies in the Korean War established full diplomatic relations, thus putting an end to their Cold War hostility.¹⁷⁶ Seoul wooed Beijing for diplomatic recognition for several years. A key factor that inhibited Sino-South Korean normalization over the past few years was China's fear of offending its ideological comrade-in-arms, North Korea, with which it had maintained a close alliance since the Korean War mainly because of the latter's strategic position in China's security calculus.¹⁷⁷

For about four decades, Chinese influence on the Korean Peninsula was limited to North Korea. Now, by extending its official links to the South, China broadened the scope of its political and strategic role in regional affairs, which could

¹⁷⁴ Ibid., p. 513.

¹⁷⁵ Chae-Jin Lee, **China and Korea: Dynamic Relations**, Hoover Press Publication, The United States of America, 1996, p. 134.

¹⁷⁶ Hong Liu, "The Sino-South Korean Normalization: A Triangular Explanation", **Asian Survey**, Vol. 33, No. 11, 1993, p. 1083.

¹⁷⁷ Ibid., p. 1084.

best serve China's interests. Although Chinese leaders were aware of Pyongyang's displeasure about their move toward South Korea, they supposed that Pyongyang would not break its ties with China, which was now North Korea's last ally and on which it has become more dependent for political, military, and economic support.¹⁷⁸ Furthermore, Pyongyang will need China's support as it pursues its diplomatic and other goals vis-à-vis South Korea, Japan, and the United States.

China was always critically important for North Korea which was the North Korean key ally from the 1960s. China shared a long border with North Korea. In the 1950-1953 Korean War, China committed a large number of troops to resist US aggression and aid to Korea. The Democratic People's Republic of Korea (DPRK) would not have survived the war without China's help. The two countries signed the Treaty of Friendship, Cooperation, and Mutual Assistance in 1961, which contained provisions for a military alliance. For China interest in North Korea has always been strategic and political, nonetheless China had not ignored economic sphere. China was a useful partner for North Korean economic programs. China shared about 20 percent of North Korea's total foreign trade throughout the 1970s and 1980s.¹⁷⁹ While the relations of China and North Korea declined in the 1990s due to leadership changes in both countries and the China's economic reform path, they remained allies.

Chinese leaders reexamined its policy toward South Korea during the Cold War. As China grows economically during reform era with its modernization program and open door policy, it was no longer possible for it to dismiss South Korea as a mere colony of the US and Japan.¹⁸⁰ Thus China began to develop a gradual but constructive partnership with South Korea. In 1993, the year following their diplomatic normalization, China became South Korea's third-largest trading partner after Japan and the United States while South Korea was China's sixth-largest trading partner after Japan, Hong Kong, the United States, Taiwan, and

¹⁷⁸ Ibid., p. 1086.

¹⁷⁹ Chae-Jin Lee, *China and Korea: Dynamic Relations*, p. 134.

¹⁸⁰ Ibid., p. 143.

Germany.¹⁸¹ The two countries reached 31.2 billion dollars in trade.¹⁸² During 1991-2000, South Korea offered China a total of 197 million dollars from its Economic Development Cooperation Fund (EDCF), as well as 71 million dollars in overseas development assistance (ODA), making China the largest recipient of South Korea's ODA. South Korea, too, has depended heavily on China's provision of large-scale construction projects worth 4.4 billion dollars.¹⁸³ Social exchanges between the two countries also increased remarkably.

Inter-Korean relations have gradually improved. The first prime ministerial talks between North and South were held in 1990, and at the end of 1991, a breakthrough was achieved when the two sides formally signed a reconciliation and nonaggression pact. The relaxation of North-South tensions and the changing political atmosphere on and around the peninsula have encouraged Beijing to develop its relationship with both. China played an important role in urging North Korea to accept the four-party talks jointly proposed by South Korea and the US and in the preparatory negotiations for the North-South Korean summit in successive years.

The year 2006 saw important developments in relations between China and the two Koreas, since North Korea's ballistic missiles tests in July and nuclear weapon test in October dominated diplomacy on the Korean Peninsula. While many viewed the US as the party that needed to negotiate and come to agreement with North Korea on the nuclear and other security issues, the spotlight was on China, the one country widely regarded as a key to bring North Korea back to the negotiating table and the necessary power to broker a deal between North Korea and the US.

The days before the North Korean missile tests in July, after various published reports pointed to imminent missile launches, the Chinese government for

¹⁸¹ Ibid., p. 151.

¹⁸² Park Doobok, "Sino-Korean Relations since 1992: Achievements and Prospects", **East Asian Review**, Vol. 14, No. 1, 2002, p. 3.

¹⁸³ Jae Ho Chung, "South Korea between Eagle and Dragon: Perceptual Ambivalence and Strategic Dilemma", **Asian Survey**, Vol. 41, No. 5, 2001, p. 781.

the first time openly cautioned North Korea to avoid such actions.¹⁸⁴ North Korea ignored the warning and launched the test. North Korea gave China the next slap in October when it made the nuclear weapon test. China's displeasure and anger over North Korea's actions were evident. China's propaganda authorities allowed Chinese tabloids and Internet news sites to criticize North Korea's action. While China was clearly disturbed and offended by North Korea's attitude and actions in 2006, the fundamental question was whether China had shifted to a tougher policy toward North Korea. Some Bush administration officials suggested that North Korea's nuclear test had indeed changed China's perspective on North Korea. They said that China had come to regard the North Korean regime as a threat to its interests and predicted that China would begin to use coercive measures against the country if necessary. Thus, it was likely that North Korea's provocative actions in 2006 would alter China's longstanding basic stance.

The US and China had a joint interest in the prevention of war on the Korean peninsula as well as for denuclearization. But China's approach toward the DPRK nuclear test differed from that of the US because it pursues its own interests in the region. Despite China's anger with North Korean behavior, further it showed little interest in pressuring North Korea. Trade between China and the DPRK continued as usual and even increased. China also continued its policy of repatriating North Korean refugees.

Of course, North Korea's missile launches and nuclear test in 2006 caused North Korea and China to drift apart, but the two were still bound in a military alliance by a treaty signed in 1961. While there is this treaty, the survival of the North Korean regime remained a key China strategic interest, in part because of its lack of trust in the US. Analysts point out that China was motivated by a desire to keep North Korea as a "buffer state" between it and the US troops stationed in South Korea.¹⁸⁵ At the same time, North Korea's weapon tests appeared likely to continue to draw China and South Korea closer, since both opposed North Korea's nuclear

¹⁸⁴ Emma Chanlett-Avery and Sharon Squassoni, "North Korea's Nuclear Test: Motivations, Implications, and US Options", CRS Report for Congress, 24.10.2006.

¹⁸⁵ Ibid.

program but also opposed the Bush administration approaches toward Pyongyang. Close trade and investment relations further enhanced Sino-South Korean relations. South Korea and China have made progress in different spheres for the last time of their diplomatic relations. From Chinese diplomacy on Korean Peninsula it is seen that China in recent time developed good relations with both Koreas and intended on further cooperation with them, keeping military and economic alliances not allowing breaking its ties even by ballistic launches and nuclear tests.

3.4 Japan: A Rival or a Partner?

China and Japan are two prominent countries in East Asia, are geographically close to each other, separated only by the East China Sea. There is close cultural, linguistic affinity between the peoples of the two countries, who are of the same racial stock and belong to a common Sinitic civilization.¹⁸⁶ In recent time both grew economically and both began playing important role in the region. As a result of changes in the international environment and their domestic political structures Sino-Japanese relations have entered a period of competitive coexistence.

Since the founding of China in 1949, Sino-Japanese relations had different periods. During the 1950s China initiated “people’s diplomacy” in order to develop good neighborly relations with Japan and facilitate normalizations of relations between two countries.¹⁸⁷ Beijing and Tokyo relied upon economic diplomacy, with trade serving as a bridge of formal diplomatic relations. The Sino-Japanese joint communiqué of 29 September 1972 envisaged the holding of negotiations for the conclusion of a treaty of peace and friendship in order to consolidate peaceful relations between the two countries.¹⁸⁸ From normalization in 1972 to Japanese Emperor Akihito’s visit to China in 1992, the relationship can be marked by expanding economic links and frequent exchanges of visits by political leaders.

¹⁸⁶ Rajendra Kumar Jain, **China and Japan, 1948-1980**, Humanities Press Inc., The United States of America, 1977, p. 1.

¹⁸⁷ *Ibid.*, p. 11.

¹⁸⁸ *Ibid.*, p. 107.

Since 1992 both are becoming increasingly uncomfortable with the security aspects of their bilateral ties. Chinese perception of Japan was influenced by Japan's growing conservatism in domestic politics, its security policy, including the redefinition of Japan-US alliance, and the tougher stance, from the Chinese perspective, that Tokyo took in dealing with Beijing. Since the end of the Cold War, Japanese domestic politics have shifted in a conservative direction. There have been voices advocating a revision of Japan's postwar peace Constitution - because Article 9 forbids Japan to possess a regular army and deprives it of the right to declare war - that would enable the country to exercise the right of collective defense. On the matter of security issues, Tokyo changed the low profile it had during much of the postwar period and took a more active that is, within the context of the Japan-US alliance. Spurred by the Persian Gulf War and driven by the desire to become a major global political power, Japan dispatched minesweepers to the Gulf in April 1991. This constituted the first overseas operations by the country's Maritime Self-Defence Forces (SDF) in their history, and the Peace-Keeping Operation (PKO) Bill passed by the Diet in June 1992 legitimized making such overseas dispatches in the future.¹⁸⁹ Moreover, the reaffirmation of the Japan-US security alliance in 1995-96 provided Tokyo with a framework for building up its military capabilities and becoming more involved in regional security affairs. Beijing began to fear that this alliance is directed to constrain a rising China, given that Japanese politicians, academics spread the idea of a Chinese threat. This leads to the point that since 1994 Japan has moved away from dealing with the China in the conciliatory manner it had adopted in the 1970s and 1980s. So China's security concerns with Japan are those of the possibility that Japan might become a major military power; the agenda of US-Japan security alliance, which would constrain a rising China in the region; and the possibility that Taiwan might be incorporated within the scope of Japan-US defense guidelines.¹⁹⁰

¹⁸⁹ Wu Xinbo, "The Security Dimension of Sino-Japanese Relations: Warily Watching One Another", *Asian Survey*, Vol. 40, No. 2, 2000, p. 297.

¹⁹⁰ *Ibid.*, 298.

During the early period of Allied occupation following World War II, much was done to demilitarize Japan physically.¹⁹¹ However the nonnuclear policy has come under domestic and international pressures and attitudes towards the problems of Japanese demilitarization have change greatly both in the US and in Japan.¹⁹²

In contemporary time Japan has a small but highly professional force equipped with the most advanced conventional weapons in Asia. Since the collapse of the Soviet Union, Japan's defense expenditures after the US have been the second highest in the world. Although Japan has no nuclear weapons, long-range missiles, its strong technology base could in a very quick manner transform Japan into a nuclear power. The Chinese believe that since the end of the cold war, the Japanese government worked to turn the country into a major military power through their advocacy from removing Article 9 of the Constitution.¹⁹³ Despite the constraints imposed by the peace Constitution, the experts in China were certain that the reaffirmed Japan-US security alliance has provided Japan with a basis for further strengthening its militaries and pursuing a more active security policy. They have noted that Japan's new defense policy - formed on the basis of the New Defense Program Outline and the Mid-Term (1996-2000) Defense Forces Reconstruction Plan - calls Japan to improve its defense technologies and military equipment.¹⁹⁴ It seems that Japan used every opportunity to take actions aimed at improving its defense capabilities. For instance, when a North Korean missile flew over northern Japan in August 1998, Tokyo decided it needed to launch its own satellite and join the US in research and development on a theater missile defense (TMD) system. Thus China is concerned that Japan's participation in TMD development could revive latent Japanese militarism and suspects that Japan is trying to become both a political and military power by dint of TMD deployment.¹⁹⁵

¹⁹¹ Yasumasa Tanaka, "Japanese Attitudes towards Nuclear Arms", *The Public Opinion Quarterly*, Vol. 34, No. 1, 1970, p. 26.

¹⁹² Tsuneo Akaha, "Japan's Nonnuclear Policy", *Asian Survey*, Vol. 24, No. 8, 1984, p. 853.

¹⁹³ Wu Xinbo, "The Security Dimension of Sino-Japanese Relations: Warily Watching One Another", p. 298.

¹⁹⁴ *Ibid.*, p. 299.

¹⁹⁵ Kori J. Urayama, "Chinese Perspectives on Theater Missile Defense: Policy Implications for Japan", *Asian Survey*, Vol. 40, No. 4, 2000, p. 602.

The Chinese view Japan as a country of uncertainties. If in Germany, Nazism was completely disappeared after World War II; in Japan the same did not take place with respect to militarism. The efforts by some conservative politicians to deny Japan's aggression against Asian countries are interpreted in China as proof of Japan's failure to provide a correct view of history to its people. The Chinese strongly believe that Japanese still remain addicted to its aggressive past. China is also concerned that the reaffirmation of the Japan-US alliance contains a strong anti-China policy and that such alliance would have a great impact on China's strategies in regional political and security affairs. Chinese analysts also noticed that the alliance's redefinition occurred at a time when people both in the US and Japan were airing concerns about a potential Chinese threat.¹⁹⁶ As for the US the period of 1994-95 was also not easy time for its relations with China. Beijing and Washington constantly quarreled over human rights, arms sales, and Taiwan.

The Taiwan issue is the most important problem in Sino-Japanese relations. Because of Japan's colonization of Taiwan from 1895-1945, China is very sensitive to Japan's interactions with the island. After China's missile tests in Taiwan in 1996, Japan has demonstrated its support for military operations of the US on the island under US-Japan security cooperation guidelines.¹⁹⁷ The worries of China have been militarily, because it must be prepared to cope with a potential joint US-Japan intervention in the case of a military conflict across the Taiwan; and any hint of incorporating Taiwan into the guidelines' operational parameters may abet the secessionist momentum on Taiwan and make it even harder to secure a peaceful unification.¹⁹⁸

Japan's expanding economic relations with Taiwan also troubled China. Japan has strong commercial ties with the island. Taiwan has become an important

¹⁹⁶ Wu Xinbo, "The Security Dimension of Sino-Japanese Relations: Warily Watching One Another", p. 302.

¹⁹⁷ Qingxin Ken Wang, "Taiwan in Japan's Relations with China and the United States after the Cold War", *Pacific Affairs*, Vol. 73, No. 3, 2000, p. 353.

¹⁹⁸ Wu Xinbo, "The Security Dimension of Sino-Japanese Relations: Warily Watching One Another", p. 303.

market for Japanese exports, particularly for technology and machine tools.¹⁹⁹ Many Chinese believe that Japan does not want to see Taiwan return to China for both historical and pragmatic reasons. From a realpolitik perspective, if Taiwan reunites with China, China becomes stronger and the balance of power between China and Japan will tilt to the former.²⁰⁰

Defining the role of Japan in the region it is necessary to look at its relation to other countries in Asia. In recent years Japan's relations with states in Asia have undergone changes. Japan has become a global economic superpower, with the world's second largest economy.²⁰¹ Today it cooperated with countries in the region; it is a key player in the economic development of Taiwan, Hong Kong, Korea, and of ASEAN countries.

When ASEAN was formed their perceptions of Japan was shaped by Japan's activities during the World War II. The Japanese atrocities, cruelty and oppression affected Southeast Asians. After the war Japan returned to Southeast Asia under its first Prime Minister Shigeru Yoshida. He advocated the policy of economic diplomacy, which entailed avoiding taking any political initiative in international affairs, in order to restore Japanese power in the new international configuration.²⁰² Thus by developing economic relations in the 1970s Japan began taking an active interest in the affairs of Southeast Asia. Later during the post-Cold War period Japan was forced to reorient its general foreign policy and its role in international affairs. The redefinition of Japan's role led to the strengthening of Japan-ASEAN relations, and in turn led to a shift in ASEAN's perceptions of Japan.

Japan is also a leading donor of foreign aid. In 2001, Japan's ODA amounted to 9.85 billion dollars, making Japan the second-largest aid donor after the United

¹⁹⁹ Qingxin Ken Wang, "Taiwan in Japan's Relations with China and the United States after the Cold War", p. 358.

²⁰⁰ Wu Xinbo, "The Security Dimension of Sino-Japanese Relations: Warily Watching One Another", p. 303.

²⁰¹ Purnendra C. Jain, "Japan's Relations with South Asia", *Asian Survey*, Vol. 37, No. 4, 1997, p. 340.

²⁰² Bhubhinder Singh, "ASEAN's Perceptions of Japan: Change and Continuity", *Asian Survey*, Vol. 42, No. 2, 2002, p. 280.

States.²⁰³ This huge flow of money, if used strategically, could give the Japanese government economic leverage to influence the countries in the region. Japan provided aid to Cambodia and Burma during their crises. Japan could play the role of peacemaker in the region. All these developments of Japan and its relations with ASEAN increased Chinese trouble about Japan's growing role in the region.

In recent time Sino-Japanese had been complicated by the Shenyang Incident of 2002. In May, 2002 the Chinese armed police entered the Japanese Consulate-General in the northeastern city of Shenyang and took away five North Korean asylum seekers, triggering a major diplomatic dispute over whether China had violated Japan's sovereignty and how the two sides should deal with the asylum seekers.²⁰⁴ In a compromise, the five North Koreans left for South Korea via the Philippines two weeks later, while the Chinese and Japanese governments continued to disagree with each other. The two governments compromised in the end. Japan was in no position to force the Beijing government to release the North Koreans or apologize for the Chinese armed police action; Japan needed China's cooperation to achieve even minimal results. And China did not want what it considered to be a minor incident to damage its far more important commercial and political interests in maintaining a good relationship with Japan.²⁰⁵

Despite various political controversies between Beijing and Tokyo, Sino-Japanese economic relations have been always the ties that bind two countries. From the 1970s Japan has held first place in China's foreign trade. Japan has also offered more loans both governmental and private than any other country. Japanese economic representatives stationed in China, whether in banking or trading, likewise outnumber those from any other country.²⁰⁶ Progress has been particularly rapid since China adopted policies of reform and the open doors in late 1978. Economic relations between China and Japan comprised trade (exports and imports), credits,

²⁰³ Mikio Oishi and Fumitaka Furuoka, "Can Japanese Aid Be an Effective Tool of Influence? Case Studies of Cambodia and Burma", *Asian Survey*, Vol. 43, No. 6, 2003, p. 890.

²⁰⁴ Ming Wan, "Tensions in Recent Sino-Japanese Relations: The May 2002 Shenyang Incident", *Asian Survey*, Vol. 43, No. 5, 2003, p. 826.

²⁰⁵ *Ibid.*, p. 828.

²⁰⁶ Allen S. Whiting, *China Eyes Japan*, California University Press, Los Angeles, 1989, p. 93.

direct investment, financing by city banks, tourism, private technical cooperation and cooperative services.²⁰⁷

Trade between two countries has grown dramatically during the 1990s. Foreign direct investment increased. Economic interdependence grew given the combination of a rapidly growing Chinese economy and corporate Japan's never-ending search for cheap overseas production sites.²⁰⁸ The development of Sino-Japanese economy interdependence is an important key to the international economy, which means that management and communication between two countries are possible. Besides, different associations and forums in the region such as ASEAN Plus Three (APT) may reduce the misperceptions and build mutual trust. APT emphasizes the interest and need for regional cooperation. The regular meetings of China and Japan help to build a sense of common purpose and identity.²⁰⁹

Sino-Japanese relations have never been simple. Despite Sino-Japanese economic interdependence and interest in further development of economic cooperation, diplomatic-military sphere remains strained. In last time Beijing, Tokyo and Washington have dealt with each other more and more in a trilateral context. Thus considering its relations with Japan, China has to take into account both the US and the Japan-US alliance.

3.5 India: A Growing Giant?

Relations between India and China are of great importance to Asia's destiny. Both are powerful and dynamic civilizations in the region. The present Chinese-Indian relationship has its roots in history. When Japan waged aggressive wars against China in the 1930s, India's sympathy was with China. Similarly Chinese of all classes and of all political parties voiced their strong support of India's

²⁰⁷ Yoichi Yokoi, "Plant and Technology Contracts and the Changing Pattern of Economic Interdependence between China and Japan", **China and Japan: History, Trends, and Prospects**, ed. Christopher Howe, Clarendon Press, Oxford, 1996, p. 127.

²⁰⁸ Christopher B. Johnstone, "Japan's China Policy: Implications for US-Japan Relations", **Asian Survey**, Vol. 38, No. 11, 1998, p. 1072.

²⁰⁹ Richard Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?", **Asian Survey**, Vol. 42, No. 3, 2002, p. 453.

independence movement.²¹⁰ China's emergence as a strong Communist power created a new relationship for India. Chinese attitude toward New Delhi could not be governed simply by traditional friendship and hope for Asian solidarity. China and India established formal diplomatic relations in 1950. For almost one decade both countries enjoyed their productive bilateral relationship. However after 1959 the relations deteriorated leading to later border clashes in 1962 and the withdrawal of ambassadors by both countries.²¹¹

China and India share one of the longest and disputed borders in the world. The issue of territorial claims has generated profound discord between two countries: the rejection by the Chinese of the British-drawn McMahon Line of 1914 separating Tibet and India, the flight of the Dalai Lama to India in 1959, and the dispute remaining from the 1962 Sino-Indian border war – in which China occupied 14,500 square miles of territory in the Ladakh region of the Jammu and Kashmir state.²¹² Since the 1962 war the relations have been characterized by distrust and hostilities, China and India clashed several times in the 1970s and 1980s. The Sino-Soviet split of the 1960s and the Indo-Pakistani animosity and subsequent Sino-Pakistani alliance further exacerbated tensions and rivalry. Border skirmishes took place in 1965 during the India-Pakistan War and in 1967 on the Sikkim-Tibet border. Throughout the 1970s and 1980s, China aligned itself with Pakistan and small neighbouring states of Sri Lanka, Nepal and Bangladesh to undermine India's attempts to establish regional predominance in South Asia. India responded by establishing closer ties with China's rival in Indochina, Vietnam, and supported the Hanoi-backed Hun Sen government in Cambodia.²¹³

Beijing and New Delhi sought to resolve the issue through border negotiations. The first round of border negotiations was held in Beijing on December 10-14, 1981. The talks consisted of three plenary sessions and of subgroup meetings

²¹⁰ Shao Chuan Leng, "India and China", *Far Eastern Survey*, Vol. 21, No. 8, 1952, p. 73.

²¹¹ Wang Hongyu, "Sino-Indian Relations: Present and Future", *Asian Survey*, Vol. 35, No. 6, 1995, p. 546.

²¹² J. Mohan Malik, "China-India Relations in the Post-Soviet Era: The Continuing Rivalry", *The China Quarterly*, No. 142, 1995, p. 317.

²¹³ *Ibid.*, p. 318.

devoted to boundary issues, trade and economic cooperation, cultural exchanges, and science and technology.²¹⁴ The border negotiations were resumed in New Delhi in May 1982. Totally there held eight rounds between 1982 and 1987, but all failed to find solution. The period from June 1986 to May 1987 saw a marked deterioration in relations. Sino-Indian relation began to improve in 1989. Exchanges of visits at high levels have increased. Military intercourse between China and India, which had long been interrupted, has now been restored on a very high level. India's Defence Minister Sharad Pawar visited China in 1992, and in 1994 the defence ministers of both countries exchanged visits. At the same time, the volume of bilateral trade grew rapidly. The two countries have already begun to operate joint ventures and exchanges of culture and science and technology increase steadily.²¹⁵

In 1993 and 1996 China and India signed two confidence-building measure (CBM) agreements on limitations of military activities in order to reduce tensions. But the two agreements lacked specific force reduction, implementation, and verification measures.²¹⁶ Therefore, to verify the Sino-Indian CBM provisions seemed to be difficult. The end of special relationship between India and the Soviet Union brought also the improvement of Sino-Indian relations, since the former Soviet Union was India's main supplier of advanced weapon systems and largest trade partner. The former Indian-Soviet relationship was directed against China, but with the normalization of Sino-Soviet relations and the end of the Cold War, Russia no longer needed to maintain a strategic relationship with India. Therefore the collapse of the Soviet Union removed China's main enemy and India's most reliable source of external support.

When the United States stands out as the sole global power, its diplomatic style in pursuit of ideological and economic goals presses heavily on both China and India. But shared discomfiture with the United States does not add up to a shared platform between India and China because their situations and approaches are not the

²¹⁴ Jerold F. Elkin, "Sino-Indian Border Talks: The View from New Delhi", *Asian Survey*, Vol. 23, No. 10, 1983, p. 1132.

²¹⁵ Wang Hongyu, "Sino-Indian Relations: Present and Future", p. 548

²¹⁶ Waheguru Pal Singh Sidhu and Jing-Dong Yuan, "Resolving the Sino-Indian Border Dispute: Building Confidence through Cooperative Monitoring", *Asian Survey*, Vol. 41, No. 2, 2001, p. 363.

same.²¹⁷ The key difference is in the respective equations between the US and China on the one hand and the US and India on the other. China's investment of effort, time, and money in cultivating goodwill is enormous; India's is not. For historical reasons, American perceptions of China, despite distortions, reflect greater respect than of India. International status is another important difference. As a permanent member of the UN Security Council, a recognized nuclear power since 1964, and a major trading power with dynamic economy, China appears to deal confidently on terms of political parity with the US. India does not. Indeed, India's lack of self-confidence as a state during recent decades is palpable, though it continues to tackle its many and simultaneous problems with some success.²¹⁸

India has the ambitions of playing hegemonic role in the region and thus seeks the US recognition, while China's status in Asia and its relationship with the US made India's goal difficult. However for India stable relations with China are advantageous, since such relationship will help to improve India's image in the Non-Aligned Movement (NAM), become a permanent member of the UNSC and strengthen its international influence. As for China it is resentful of the US pronouncement on such issues as human rights, weapons sales, and nuclear technology transfers and is aware of its supremacy in the post-Cold War and its wish to dominate Asia. Therefore China prefers the alliance with India in the region. This is not to say that the post-Cold War world has turned the two "natural rivals" into "natural allies" but that post-Cold War realism demands peaceful co-existence with old enemies finding new areas of common interest.²¹⁹

China's major strategic interest in South Asia is to maintain a balance of power favorable to itself. With this strategic interest China takes into account Pakistan's existence as a strong center in South Asia. China realizes that to prevent India from consolidating its claims as a regional power in South Asia, it would be enough to support Pakistan. Chinese continuing close military relations between

²¹⁷ Surjit Mansingh, "India-China Relations in the Post-Cold War Era", *Asian Survey*, Vol. 34, No. 3 1994, p. 287.

²¹⁸ *Ibid.*, p. 288.

²¹⁹ J. Mohan Malik, "China-India Relations in the Post-Soviet Era: The Continuing Rivalry", p. 320.

Beijing and Islamabad demonstrated that China is not going to sacrifice its entente with Pakistan at the expense of Sino-Indian friendship. Therefore Beijing has been on the side to improve relations of India and Pakistan as China knows that the Indo-Pakistan conflict will present with difficult choice between the two subcontinental powers.²²⁰ In this context Beijing has been ready to do everything in order to escape such a choice as it was seen in May 1998.

Sino-Indian relations deteriorated following India's nuclear tests in May 1998. On 11 May India conducted nuclear tests. A new Indian government adopted policies to pressure Beijing over issues that grieved New Delhi, especially China's security links with Pakistan. India by nuclear tests in 1998 wanted China to roll back Pakistan's support as the price of Sino-Indian rapprochement. By 2000 Beijing had pressured New Delhi to agree to continue Sino-Indian rapprochement in the context of continuing robust Sino-Pakistan military cooperation. The interaction between China, India, Pakistan and the US in the period after May 1998 suggests emergence of a new dimension to the Sino-Pakistan entente cordiale. That remarkably durable partnership now seems to be assuming a new role in Beijing's South Asian strategy. Beijing's ability to tilt one way or the other in the Pakistan-India relation served during the period as leverage to keep New Delhi away from alignment with the US.²²¹

The maintaining good relationship with India is important for China because it makes a great stress also on economic development. The economies of both countries have been growing very fast for at least 10 years. Already they account for nearly 5 percent and 2 percent of world gross domestic product (GDP), respectively at current exchange rates.²²² At the end of 2005 Sino-Indian trade has reached and was pegged at 18.7 billion dollars.²²³ Today China is India's largest trading partner

²²⁰ John W. Garver, "Sino-Indian Rapprochement and the Sino-Pakistan Entente", **Political Science Quarterly**, Vol. 111, No. 2, 1996, 346.

²²¹ John W. Garver, "The Restoration of Sino-Indian Comity following India's Nuclear Tests", **The China Quarterly**, No. 168, 2001, p. 866.

²²² L. Alan Winters and Shahid Yusuf, "Introduction: Dancing with Giants", p. 1.

²²³ *Ibid.*, p. 6.

and India is China's largest trading partner in South Asia. Thus it is seen that for both China and India it would be beneficiary to have further stable relationship.

The two big Asian powers have been drawn together in the post-Cold War era. Despite all the hostilities China and India have succeeded in maintaining their unity for the recent time. They manage to cooperate in economic and strategic areas. China and India have achieved some results in border dispute: Sikkim was recognized by China as a part of India, while Tibet as a part of China. Sino-Indian alliance also gives both countries the opportunity to counter the US presence in the region. Thus despite India's target to become a regional power in Asia, for the present both understand that the cooperation with each other is much more advantageous than the rivalry.

3.6 Sino-Australian Relations

In the past there was not much contact between China and Australia. In China people remained uninterested and ignorant about Australia until normalization of relations, while the Australian people were misinformed about China and its policy. Unlike the US, Japan, Europe or the Soviet Union, Australia has never been a center where significant international events took place. But Australia is one of the nations in the Asia Pacific region and has been influential in the affairs of this region. In the postwar years, Australia played a role in the Suez Canal crisis, Korean War (1950-53), the Communist guerrilla war in Malaya (1950s), Sukarno's Indonesian Konfrontasi in Malaysia (1965), and in the divisive Vietnam War (1965-75). With the foundation of the United Nations Australia became more involved with the region and the problems facing the Third World.²²⁴ It began to improve relationships with many countries in the region including China. From 1971 till 1976 was a period when Australia and China began to get to know each other.²²⁵ Now it was the time to learn, because the early Sino-Australian relationship was characterized by hostility

²²⁴ Dora Alves, "Australia's Developing Relations with Southeast Asia", *Asian Survey*, Vol. 33, No. 5, 1993, p. 522.

²²⁵ Garry Woodard, "Relations between Australia and the People's Republic of China: An Individual Perspective", *The Australian Journal of Chinese Affairs*, No. 17, 1987, p. 143.

and mistrust. Due to the American anti-China propaganda, Australia had the fear of “yellow peril.”²²⁶

When China was established in 1949, Australia did not recognize it. A major reason why Australia did not recognize the Chinese government in the later 1950s was American pressure. The US made China the enemy of Australia. From 1953 onwards the ANZUS Council steadily opposed China’s recognition or admission to the UN.²²⁷ A second factor was the continuing series of crises in the region: Taiwan, confrontation with Indonesia, the Tibetan uprising and clashes with India. China was seen as the major threat in this part of the world. It was not until 1969 under the new Australian leader, Gough Whitlam, who developed the courage to support outright recognition of China.

The situation changed dramatically at the beginning of the 1970s. In 1971 Gough Whitlam, then leader of the Labor opposition, visited China. One of the first acts of the newly-elected leader was to recognize Chinese mainland as “one China.” This laid the foundations for rapid growth of diplomatic, cultural and economic links between Australia and China. After diplomatic relations have been established in 1972, there was much progress than digression in relationship of China and Australia. With the pace of economic globalization and regionalization, the Sino-Australian ties developed economically and politically. Australian economy has been internationalized and reoriented to new expanding opportunities in East Asia. Therefore, the market reform and internationalization of China that emerged this time was of historic importance for Australia.²²⁸ The Australian and Chinese policies in the 1980s gave the new trends for their further relationship development.

Australian interests in regional peace as well as its interest in Chinese human rights and in increasing importance with closer contact between the Australians and Chinese were seen as being well served by successful reform and internationally-

²²⁶ E. M. Andrews, “Australia and China, 1949: The Failure to Recognize the PRC”, **The Australian Journal of Chinese Affairs**, No. 13, 1985, p. 30.

²²⁷ *Ibid.*, p. 42.

²²⁸ *Ibid.*, p. 44.

oriented growth in China. In the 1980s Australia had especially a good access to the Chinese leadership, owing to the earlier leaders Whitlam and Fraser from Australian Foreign Affairs department who made first efforts to improve relations with China. In 1984 Premiers of both countries agreed on the principle that China and Australia should maintain good relationship making it as a model for countries with different social systems and at different levels of development.²²⁹ The Australian government always emphasized that to Australian defence policy its alliance with the US was central and the Chinese leaders never dissembled their view that China's socialist system would make it different from Australia, thus focusing on the policy that Sino-Australian relations were and would continue to be between countries with different social systems.²³⁰

Both China and Australia have the same views concerning important global and regional issues. In a global context, both are interested in multilateral trade and multilateral cooperation. Both have good relations with international organizations and play active role in the UN. Being the states of the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), China and Australia have been for the non-proliferation of nuclear weapons and biological and chemical weapons.²³¹ After the Cold War, Australia and China concerned with illegal immigration, drug smuggling, and organized crime, thus share similar views on terrorism, and security issues. In a regional context, the two countries are acting as key members who are responsible for peace and prosperity in the Asia-Pacific region. China as a rising world takes a greater responsibility of Asian-Pacific affairs, while Australia, as a mid-level power in the Asian-Pacific region, gradually widens its sphere of foreign affairs and further contributions to the region. This background helps both China and Australia to maintain closer ties.

Australia and China have neither a history of invasion nor colonization in the Asia-Pacific region nor territorial or ethnic disputes with each other. Therefore, today

²²⁹ Ross Garnaut, “**The Emergence of Substantive Sino-Australian Relations, 1983-88**”, Australian National University, Australia, at <http://rspas.anu.edu.au/economics/publish/papers/garnaut/Sino-AusRelations.pdf> (11.06.2008), p.6.

²³⁰ Ibid., p. 15.

²³¹ Ibid., p. 36.

they do not have conflicts; to the contrary both make focus on further cooperation in economics and trade. In recent time Australia and China have become major trading partners, with China's significant role in the Australian economy. Besides, Sino-Australian relations have expanded to fields of science, technology, culture and education and have been met with great success. For China, Australia is necessary in terms of its vast mineral and energy resources. China hopes that Australia would remain China's main energy provider over years. Thus with economic and energy concerns which play essential role in Sino-Australian ties, two countries have intentions on further development of their long-term stable relationship.

In the chapter there have been examined Chinese relations with the countries in Asia Pacific since China's establishment till present time. Much changed since that time in international arena and in China's domestic and foreign policies. As China develops economically during its reform era, it seeks cooperation with the countries in the region, making diplomacy very important. The relations of China with its regional neighbors have seen great changes from the 1978. China established relations with ASEAN countries, South and North Korea, India and Australia. China began playing a great role in economics and politics of these countries. All these changes in Chinese diplomacy can serve its policy of becoming a regional power in Asia. However there is still Japan's role in the region and of the US which affected all that happened in Asia, thus China's diplomacy towards countries in the region.

CHAPTER IV

CHINA AS A NEW HEGEMONIC POWER?

4.1 Potential for Becoming a Hegemonic Power

During the Cold War, there were two hegemonies: the United States and the Soviet Union. With the end of the Cold War, the Soviet Union dissolved. In the post-Cold War period another potential hegemony which either can be a major counter balance to US or can be a potential challenge to US hegemony is possibly emerging. This emerging superpower is China. In order to see whether China is a potential hegemony, it is necessary to examine such concept as hegemony.

The concept of hegemony was developed by the Italian Marxist philosopher and political leader Antonio Gramsci at the beginning of the 20th century. After the failure of a workers' revolution in Italy, Gramsci questioned the classic Marxist view that a proletarian revolution was the inevitable consequence of the economic division of labour between the worker and the capitalist, and that ideology would disappear once capitalism was overthrown. Instead, Gramsci emphasized that dominant ideological institutions such as political parties, the church, education, the media and bureaucracy also play an important role in maintaining relations of ruling. The term of hegemony was used by such Marxists as Lenin to indicate the political leadership of the working-class in a democratic revolution.

Hegemonia, in the original Greek sense, means "leadership". In this case, a hegemon is the "leader" or "leading state" of a group of societies or states. Translators of the Greek use not only "hegemony" but also "empire," "dominance," "supremacy," "command," and "leadership" in different contexts. The states which form the group are the units, of which the hegemonic state is but one, albeit the primary one. During ancient Greek history an early example of hegemony occurred

when Sparta became the hegemony of the Peloponnesian League in the 6th century BC.²³²

Modelski wrote that “the Encyclopedia of the Social Sciences, published in 1931, does not feature hegemony, the International Encyclopedia of the Social Sciences that came out in 1969 has no entry for hegemony in its index as well, but the 15th edition of the Encyclopedia Britannica (1975) has an entry on hegemony.” Thus, the emergence of the term into social science discourse can be dated between 1969 and 1975. Taylor has suggested the rise of the term hegemony was one of the signals of the appearance of delegitimation of the global political structures that created in 1945 and by 1973 reached maturity. They did not disappear, but reached the peak of their performance.²³³

Gramsci’s concept of hegemony differs from its realist/neorealist usage. As Gramsci was a Marxist, it is useful to say the Marxist insights on hegemony. For Marxists, the fundamental forces behind world politics are class struggle and uneven development. They consider the theory of hegemony partial since world history is based on the contradictions of capitalist relations of production. Gramsci proposed a complex term of hegemony to express a unity between objective material forces and ethico-political ideas - in Marxian terms, a unity of structure and superstructure - in which power based on dominance over production is rationalized through an ideology incorporating compromise or consensus between dominant and subordinate groups.²³⁴ For Gramsci, hegemony was a concept used to analyze the relation of forces in a given society. A hegemonic order was one where consent, rather than coercion, characterized the relations between the state and society.²³⁵ Thus Gramsci spoke about intellectual and moral leadership. Robert Cox has undertaken the study of Gramscian concept of hegemony and introduced the neo-Gramscian analysis of

²³² Richard Ned Lebow and Robert Kelly, “Thucydides and Hegemony: Athens and the United States”, **Review of International Studies**, No. 27, 2001, p. 594.

²³³ Christopher Chase-Dunn, et. al. “Hegemony and Social Change”, **Mershon International Studies Review**, Vol. 38, No. 2, 1994, p. 373.

²³⁴ Robert W. Cox, “Labor and Hegemony”, **International Organization**, Vol. 31, No. 3, 1977, p. 387.

²³⁵ Stephen R. Gill and David Law, “Global Hegemony and the Structural Power of Capital”, **International Studies Quarterly**, Vol. 33, No. 4, 1989, p. 476.

the concept of hegemony. Cox, working within the Gramscian tradition, argues that hegemonic structures are sustained by “universal norms, institutions, and mechanisms which lay down general rules of behavior for states and for those forces of civil society that act across national boundaries.”²³⁶ A hegemonial structure of world order is when power has a primary place, distinguished from a non-hegemonic order in which there are rival powers and no power has been able to establish its dominance.²³⁷

Neorealism is mostly based on the realist approach of international theory. Neorealism shares three most fundamental assumptions of classical realism: states are the principal actors of the world politics; states’ behavior can be explained rationally; states primarily seek power and they define their interest in terms of power.²³⁸ Neorealist hegemony suggests that order is a result of the concentration of power capabilities in a single state that uses its superior position in order to maintain order. Robert Keohane defines hegemony as preponderance of material resources and that hegemonic power must control raw materials, sources of capital, and markets.²³⁹ For Robert Gilpin, a hegemon dominates the lesser states in the system thereby unites the other states into a single international system.²⁴⁰ Gilpin argues that the governance of the international system is partially maintained by moral leadership of the hegemonic power. While the authority of the hegemonic power is ultimately established by military and economic supremacy, “the position of the dominant power may be supported by ideological, religious, or other values common to a set of states.”²⁴¹ Another realist Jonathan Joseph identifies two concepts of hegemony: a hegemony that works at a structural level, and a hegemony of concrete projects. Hegemony of the structural level secures the unity of the social system and ensures the reproduction of basic structural processes. Hegemony of the concrete projects

²³⁶ Robert W. Cox, **Production, Power and World Order**, Columbia University Press, New York, 1987, p. 172.

²³⁷ Robert W. Cox, “Social Forces, States, and World Orders: Beyond International Relations Theory”, **Journal of International Studies, Millennium**, Vol. 10, No. 2, 1981, p. 153.

²³⁸ Robert O. Keohane, **After Hegemony: Cooperation and Discord in the World Political Economy**, Princeton University Press, Princeton, 1984, p. 164.

²³⁹ *Ibid.*, p. 28.

²⁴⁰ Robert Gilpin, **War and Change in World Politics**, Cambridge University Press, New York, 1981, p. 28.

²⁴¹ *Ibid.*, p. 34.

involves strategies that are emergent out of the hegemonic conditions. The study of hegemony in the second sense takes in account various classes and groups, the interests they represent, the world views they have and the alliances they form.²⁴²

The theories of hegemony usually attempt to explain how dominant group can maintain its power. Keohane notes that “theories of hegemony should seek not only to analyze dominant powers’ decisions to engage in rule-making and rule-enforcement, but also to explore why secondary states defer to the leadership of the hegemon.”²⁴³ The hegemonic stability theory attempts to combine two theories of international relations: realism/neorealism and liberalism/neoliberalism. Its leading exponents are economic historian Charles P. Kindleberger and the political scientist Stephen D. Krasner. The theory asserts that international economic openness and stability occur when there is a single dominant power. In other words, the theory argues that a dominant hegemon is necessary for the existence of a liberal international economy; a relatively peaceful and secure international system.²⁴⁴ Historically, the emergence of a hegemonic power and of a liberal world economy has occurred only twice that is the Pax Britannica and Pax Americana which ensured an international system of relative peace and security. Great Britain and the United States created and enforced the rules of a liberal international economic order.²⁴⁵ Keohane argues that hegemony is a necessary and sufficient condition for creating a hegemonic order. Hegemonic leadership creates cooperation. The decline of hegemony does not mean that liberal world economy and peaceful and stable world order are collapsed. When a hegemon declines, the international system and a hegemonic leader establish international regimes that make possible posthegemonic cooperation.²⁴⁶ Strange also noticed a critical point about the theory of hegemonic stability. She suggests that structural power in the global system has four elements:

²⁴² Jonathan Joseph, **Hegemony: A Realist Analysis**, Routledge Pres, London, 2002, p. 125.

²⁴³ Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, p. 39.

²⁴⁴ Robert Gilpin, **The Political Economy of International Relations**, Princeton University Press, Princeton, 1987, p. 88.

²⁴⁵ Robert Gilpin, *War and Change in World Politics*, p. 144.

²⁴⁶ Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, p. 31.

security/defence; economic production; finance and credit; and production of knowledge and culture.²⁴⁷

Usually neorealists/realists treat the concept of hegemony as leadership, whereas the Marxists – with dominance as a way of analyzing the manifestations of world politics under capitalism. Thus Taylor, Arrighi, and Modelski identify the term hegemony with leadership, whereas Cox and Chase-Dunn – with domination, Chase-Dunn even regards the concept as exploitation. For Cox, the problematic of hegemony is located in the overlapping structures of society, economy, culture, gender, ethnicity, class, and ideology which can be constitutive of and sustain political authorities. He sees the hegemony as the term of the whole, not relationship among the parts. For this scholar, hegemony is more than dominance; it is a form in which dominance is achieved by acquiescence to this whole as the natural order of things.²⁴⁸

Taylor in developing the concept of hegemony says that hegemonic state is successful to the degree that other states emulate it. Emulation has two dimensions: inter-state economic relations and intra-state political relations. For the Dutch, this was the promoting freedom of the seas and oligarchic republicanism; for the British, free trade and parliamentary politics; and for the Americans, free enterprise and liberal democracy. Both Taylor and Arrighi consider that the term leadership is ambiguous. The state leads other states in its own path of development. Thus, the Dutch with their mercantile system led other states, such as the British; the United States similarly created a distinctive path of development and led others to follow in that path, but what is interesting is that as soon as the others actually succeed in following, hegemony ends.²⁴⁹ The process of the following creates and intensifies competition which, in turn, undermines the power of the hegemon. Thus, leadership in this sense can be called leadership against the leader's will. When Germany, the US, and others stepped up their industrialization, British hegemony began to decline.

²⁴⁷ Jeremy Mitchell, "The Nature and Government of the Global Economy", **Global Politics**, ed. Anthony G. McGrew and Paul G. Lewis, Polity Press, Cambridge, 1992, p. 195.

²⁴⁸ Christopher Chase-Dunn, "Hegemony and Social Change", p. 366.

²⁴⁹ *Ibid.*, p. 364.

The same pattern was in the 1970s and 1980s, when Europe and Japan successfully followed in the “consumerist” path of development opened up by the United States, the US hegemony began to decline.²⁵⁰ Having agreed with Gramsci, Arrighi also speaks about the presence of coercion, and consent in the exercise of the effective hegemony in international and national levels, besides noticed such a phenomenon that the rising power turned out to be regional rather than national.

Gills and Frank’s hegemony is based on the conception of the continuity and the centrality of the capital accumulation process. They define hegemony as a hierarchical structure, mediated by force, for the accumulation of surplus among political entities and their constituent classes. From this perspective the primary object and the principal economic incentive of a bid for hegemony is to restructure the regional, if not the overarching, system of accumulation in a way that privileges the hegemon and its ruling classes.²⁵¹ Brilmayer says that hegemony can be evaluated according to domestic liberal principles and is the potential solution to what is known as the public goods.²⁵² Overbeek focuses on a political class element which exists in the classical hegemonic process: hegemons deliberately host, protect, install, empower, and subsidize “friends” in the states within their hegemonic sphere.

Wilkinson treats the coerciveness and legitimacy of hegemony as empirically variable. He employs hegemony in relation to the world system, to denote a unipolar coercive-capability structure in a system of states. Wilkinson denies the existence of British or American hegemony. According to his view, there has not been hegemony in the central world system for the past millennium, there have been candidates, one or two per century, but all have been balked. The scholar styles the British and Americans not hegemons but parahegemons and antihegemons. They are parahegemonic in the sense that they found a place or a strategy that allowed them to get great benefits mainly economic from the world system without paying the very high coercive costs that hegemony entails. They are antihegemonic in the sense that

²⁵⁰ Ibid., p. 365.

²⁵¹ Ibid., p. 370.

²⁵² Lea Brilmayer, **American Hegemony: Political Morality in a One-Superpower World**, Yale University Press, London, 1994, p. 17.

it is not in their rational nor conscious interest either to become hegemon or to permit any other state to achieve hegemony.²⁵³ Wilkinson hypothesizes that hegemon, hegemon-candidates, and the hegemonic project function mainly dissipate than accumulate surplus, armies, weapons than fostering investment. Parahegemon, on the other hand, tend toward value-added production, savings and investments.²⁵⁴ He considers that the United States is not a hegemon, but the most successful parahegemon, and that it finds itself challenged for parahegemonies by Japan and China.

On the other hand Stuart Hall argues that hegemonizing is a hard work. Dominant groups must not only win the war of maneuver-control over resources and institutions, but they must win the war of position as well; they must make their triumphs appear legitimate and necessary in the eyes of the vanquished. That legitimation is hard work. It requires concessions to aggrieved populations, mandates the construction and maintenance of alliances among antagonistic groups, and it always runs the risk of unraveling when lived experiences conflict with legitimizing ideologies.²⁵⁵ Mearsheimer notes that hegemony is a rare phenomenon because the costs of expansion outrun the benefits before domination is achieved.

During a period of hegemony, one actor appears in the system that is able to exercise strong leadership in shaping the terms of world order: establishing essential systemic rules, and holds military and economic capabilities extensive enough to deter those actions of other actors that could potentially disrupt hegemonic leadership and systemic stability. Volgy stresses that hegemony appears when a single central actor has the capability and willingness to lead the system and to create order in global politics.²⁵⁶ Thus hegemony must consist of the possession of all dimensions of power: political, military, economic, diplomatic and ideological so that under the concept of hegemony we mean power - hegemonic power.

²⁵³ Christopher Chase-Dunn, "Hegemony and Social Change", p. 375.

²⁵⁴ Ibid., p. 376.

²⁵⁵ George Lipsitz, "The Struggle for Hegemony", **The Journal of American History**, Vol. 75, No. 1, 1988, p. 147.

²⁵⁶ Thomas J. Volgy, "Hegemonic and Bipolar Perspectives on the New World Order", **American Journal of Political Science**, Vol. 39, No. 4, 1995, p. 823.

The dominance of the British Empire during the 19th century can be considered the first emergence of a global hegemony whose influence reached all over the globe. The hegemony of Britain during this period came from its large military power on the seas, and from its financial and ideological power. Russian-American competition began in Pacific and spread to Europe, Southeast Asia, the Middle East with 1917 and the subsequent Soviet rise to power during the Second World War.²⁵⁷ Following WWII, the British Empire ceased to exist as hegemony. The Soviet Union and the United States began to be regarded as two hegemonies or superpowers, which engaged in the Cold War.

The term superpower firstly applied in 1994 to the US, the Soviet Union and the British Empire. Lyman Miller defines superpower as a country that has the capacity to project dominating power and influence anywhere in the world, and sometimes, in more than one region of the globe at a time, thus attain the status of global hegemony.²⁵⁸ Today the term of hegemony commonly referred to the term of superpower. After the Cold War, the most common belief held that only the US fulfilled the criteria to be considered a superpower, - the “lonely superpower” as Huntington has said.

After 1990 the United States extended its hegemony over the broader international system. The US accepted responsibilities for peace and stability in the world. It is involved in all events of all regions using force or benevolence in order to build a global social order being at its center. It possesses all dimensions of power: economic, military, political, diplomatic, ideological, and cultural. The US has the world’s largest economy, an overwhelming military advantage, a dominant position in key international institutions, and far-reaching cultural and ideological influence.²⁵⁹

²⁵⁷ Simon Bromley, **American Hegemony and World Oil: The Industry, the State System and the World Economy**, Polity Press, Cambridge, 1991, p. 77.

²⁵⁸ Lyman Miller, “China an Emerging Superpower?”, **Stanford Journal of International Relations**, Vol. 6, No. 2, 2005, p. 12.

²⁵⁹ Stephen M. Walt, **Taming American Power: The Global Response to U.S. Primacy**, W.W.Norton and Company, New York, 2005, p. 32.

Economic strength is the foundation for national power. Its economy is more diverse and self-sufficient than the other major economic powers making it less vulnerable to unexpected economic shifts. The US is not only the world's foremost economic power; it is the dominant military power as well. Its defense expenditures in 2003 were nearly 40 percent of the global total and almost seven times larger than that of the number-two power China.²⁶⁰ The US maintains hundreds of military bases around the world, has the largest and most sophisticated arsenal of strategic nuclear weapons and it is the only country with a global power projection capabilities. The US plays a unique role in the most important global organizations. Since 1991 the US has been committed to spreading democracy and preventing human rights abuses in the world. The US has acted for humanitarian reasons and made economic aid to the Third World Countries.

Another key advantage for the US is its ability to shape the preferences of others – to make them want what America wants – through the inherent attractiveness of US culture, ideology, and institutions.²⁶¹ The number of people who study English language around the world, foreign students in American universities, American films and products show the high level of penetration of American culture. In the past many societies were wary of “Americanization”, while today many accept its culture. Thus with all its power dimensions for today the United States is the only global hegemony.

4.1.1 From Pax Britannica to Pax Americana

The period between the Treaty of Vienna (1815) and the outbreak of the World War I (1914) is characterized by relative stability and usually referred to the time of Pax Britannica. It does not mean that during this time diplomatic conflict or warfare disappeared but just compared to the previous centuries of religious and territorial conflict, levels of violence diminished, in large part, because the British state exercised hegemony over the world's international, political, economic and cultural order. After victories over France and Spain at Trafalgar (1805) and

²⁶⁰ Ibid., p. 34.

²⁶¹ Ibid., p. 38.

Waterloo (1815) enjoying the world's largest navy, the British government found itself well placed to offer armed support and unrivalled protection for the nation's commerce with all other maritime economies of Europe, Asia, Africa, Australasia and the Americas.²⁶²

From 1815 British government pursued geopolitical and commercial aims. Since home and imperial markets were not really opened up to foreign imports and shipping, British diplomats began bargaining with other states to obtain mutually agreed advantages which promoted more open international commerce. Agreements admitted traders from Britain and from all other nations into the markets of the Ottoman and Qing Empires. The British merchants acquired shares of the profitable multinational business involved in the financing and servicing of commerce around the globe. Thus the British trade with the rest of the world flourished.

The links between free trade, freedom and Britain's democratic institutions made liberals think about connection of the trade and political reform. The representatives of European movements for democracy also suggested that free trade could undermine autocratic regime. Emperors and monarchs as well recognized that British commercial policies could maintain a stable and peaceful international order. So, in such a hospitable climate British government continued to spread an ideology of free trade. In addition, the Board of Trade concentrated on the legalistic business of spreading free trade through formal diplomatic agreements embodied in MFN and specified tariff reduction treaties.²⁶³

Britain aimed at political and cultural influence to persuade European states for more open trade. Actually, many European powers which pursued their own geopolitical and economic targets were willing to go with British policies. To achieve the same objective the British government employed coercive methods against weaker states. It used military and diplomatic threats to intimidate states in

²⁶² C. B. Schedvin, "Staples and Regions of Pax Britannica", **The Economic History Review**, Vol. 43, No. 4, 1990, p. 533.

²⁶³ Patrick K. O'Brien, "The Pax Britannica, American Hegemony and the International Economic Order, 1846-1914 and 1941-2001", **XIII. Congress of the International Economic History Association**, Buenos Aires, 23.06.2002, p. 17.

the Middle East, Asia, Africa and Latin America into opening their markets to the exports.²⁶⁴ Thus the force of weak countries together with the cooption of many European states produced an international economy. During 1846-78 only Britain possessed all dimensions of power that was able to change the political debate over trade and by spreading a liberal ideology persuaded other states not only to do what Britain wanted, but also to want what Britain wanted. In this time, historians observe the cultural and at the same time the coercive nature of Britain's nineteenth-century hegemony, and the essence of a Pax Britannica.²⁶⁵

The British state formally restored and maintained an interlocked monetary system based on gold for a century before the outbreak of World War I. Adherence by British state to the gold standard meant that the government's public authorities, private corporations, firms around the Empire and with the rest of the world utilized paper money - currency, banknotes, cheques, bank deposits - which could be exchanged for a fixed quantity of gold.²⁶⁶ All paper assets denominated in sterling and convertible into pound notes issued by the Bank of England became acceptable as gold for economic transactions inside and outside the kingdom and throughout the whole global economy. Between 1871 and 1900 nearly all great powers except China turned to the gold standard.²⁶⁷ For about a century till 1914 the anarchic sphere of international monetary relations maintained a regime of stable exchange rates.

Since World War II, the government of the United States began to play a role in great-power politics and in stabilizing the international economic order that in persistence and intensity bears only a resemblance to the foreign, strategic, monetary policies that pursued by British government from 1815 to 1914. The demographic growth, technologies, institutions and social capacities allowed the US to achieve and

²⁶⁴ Dunstan M. Wai, "Pax Britannica and the Southern Sudan: The View from the Theatre", **African Affairs**, Vol. 79, No. 316, 1980, p. 377.

²⁶⁵ Patrick K. O'Brien, "The Pax Britannica, American Hegemony and the International Economic Order, 1846-1914 and 1941-2001", p. 17.

²⁶⁶ *Ibid.*, p. 22.

²⁶⁷ *Ibid.*, p. 26.

maintain preponderance of economic and geopolitical power over all other states in the 20th century.²⁶⁸

The US began to exercise its power over various states in the end of the 19th century. Between 1898 and 1934 the US intervened militarily in Caribbean states to regulate their internal affairs. In 1904 the US took control over Dominican customs houses by force in order to collect international debts, later it occupied and ruled the Dominican Republic. In 1912 the US occupied Nicaragua; it was against the Sandinista regime there. This intervention showed that countries in the hemisphere and in Central America were not free to select any government opposed by the US. Continuing economic sanctions on Cuba and American support for the coup against Venezuelan president was the evidence of the punishments imposed on those who would defy the authority of the US in the region. Later the US extended its hegemony beyond the Western hemisphere to Europe and Northeast Asia.

Throughout the 20th century American hegemony manifested in the presence of garrisons, naval bases, airfields and other strategic facilities in numerous countries around the globe; fleets, dominated by modern aircrafts and submarines, patrolling the world's oceans and sea lanes; and American engagement in the formulation, funding and implementation of defence and strategic policies pursued by all its major allies and clients.²⁶⁹ The British state has never possessed the weapons of deterrence and retaliation which are provided by US nuclear arsenal.

After World War II the capital goods, skills, technologies, food and raw materials came mostly from strong economy of the US.²⁷⁰ Traditional bilateral and MFN treaties, favored by Britain before 1914 were supplemented and superseded by multilateral negotiations, led by the US.²⁷¹ From 1947 steps to reduce tariff levels around the world were made by the US government and its commitment to the

²⁶⁸ Charles A. Kupchan, "After Pax Americana: Benign Power, Regional Integration, and the Sources of a Stable Multipolarity", *International Security*, Vol. 23, No. 2, 1998, p. 46.

²⁶⁹ *Ibid.*, p. 45.

²⁷⁰ *Ibid.*, p. 48.

²⁷¹ Patrick K. O'Brien, "The Pax Britannica, American Hegemony and the International Economic Order, 1846-1914 and 1941-2001", p. 38.

principles for open trade. Furthermore, American support for the free-trade areas and customs unions regarded as the promotion to global economy with national frontiers open to trade and to investment from the US and from every other economy in the world.²⁷² The dollar's status during the 20th century was gradually consolidated into an operational set of arrangements and widely accepted by most countries outside the communist bloc.

European governments being busy with their economic and social problems after two world wars welcomed the US help which persuaded to relieve them of expenditures on defence and to assist with plans for economic recovery and social welfare. Many countries in Asia and Africa and the Middle East during the period of decolonization and state formation also turned to the US for aid and military assistance and became clients of the US government.

When European states' economies recovered from 1948 to 1973, their productivity levels converged to American standards. After their incorporation into the NATO, which appeared to be the outcome of the US financial help and political pressure, Germany and Italy ceased to pose any threat to the security of their European neighbours. The American policy of Japan's demilitarization as a member of the Western alliance also led to a successful conclusion. The US guaranteed Japan's security against Chinese and Russian aggression, and did everything to recover the devastated but potentially powerful Japanese economy.²⁷³ So, American, European and Asian markets were opened up to the exports of Japanese manufactures.

The US government offered states around the globe an alternative to fascism, authoritarian communism and their possible incorporation into Soviet empire. America's nuclear weapons and military power provided security. In trade the US offered freedom. Washington's elite were ready for power and responsibility to defeat German and Japanese imperialism. However American hegemony had not

²⁷² Ibid., p. 38.

²⁷³ Ibid., p. 49.

been always omnipotent. It changed with the shifting perceptions of potential threats to the US security coming from the communist Soviet Union and China.

4.2 US Hegemon versus China

The relations between China and the United States have never been easy. The relations became more volatile especially after the Soviet disintegration. Though two nations had many subjects of conflict they had not less of cooperation, much depended on how both sides perceived various notions concerning their disagreement or mutual interest.

For the US China is the emerging power which will tilt global trade and technology balances in its favor, becoming an economic, technological and military threat. It has been building allies across the Asia Pacific region besides its growing economic and military power. With the consciousness of its growing power, it is expanding its influence areas either diplomatically. It is now building the new regional order in which it will be the hegemon. Only China possesses the economic and military capacity to challenge the US. So, the challenge presented by a rising China is the principal issue facing American foreign policy. China is now a discontented, nuclear-armed major power that the US should deal with. In other words, China is seen as the only major power that the US is likely to go to war. It is not aligned with the US, it is not having a tense diplomatic relationship with US, it is just a rising power with high expectations, unresolved grievances and an undemocratic government. Thus the US is aware of the threat that China poses to its hegemony. Even if it seems that fighting with terrorism is its top issue, it is preparing for a fight against an entirely different enemy, China. As the only hegemony of the world, the US wants to prevent the rise of the competitor which can challenge its superiority.

The Chinese foreign policy makers have mixed feelings towards the US, the only superpower left in the post-Cold War era. On the one hand, the American market is vital, especially for the livelihood of the people living in the coastal areas of China, and for the rapid increase of China's foreign currency reserves. China

wants from the US a market for its exports, investment and management skill. On the other hand, the US is perceived as the only hegemonic power which seeks to export its own values regarding democracy and human rights through intervention in other countries' internal affairs.²⁷⁴ In the post-Cold War era Chinese Communists believe that the American policy towards China is containment and that China is the new belligerent target after the collapse of the USSR.²⁷⁵ Thus how the mutual perceptions of the two countries affect their evaluations of Sino-American relations and to what extent their perceptions influence the foreign policy decision making processes in the US and China will be examined below.

4.2.1 China's Confrontation with the US

4.2.1.1 Controversial Issues in Asia Pacific

Some see the conflict between China and the US as a confrontation between two civilizations, because both have the hope of inspiring all mankind with the rightness of their doctrines. The two civilizations smashed into each other starting in the late 19th century, as missionaries, merchants, and military men from the US moved across the Pacific and ran into East Asia in the process of an anti-colonial nationalist renewal meant to reestablish its independent and superior quality against a major foreign threat.²⁷⁶ East Asia, due to the strength of its civilization, managed to escape many of the internal changes colonialists pressed on other nations. Because the area had not been under European domination it seemed a natural object for the US ambitions. Thus international relations in contemporary Asia Pacific region are impossible without understanding the enormous role played by the US.

The US became a permanent presence in East Asia as a result of its acquisition of the Philippines from Spain. The subsequent decades embroiled the US in wars in the region and also established a major American economic presence that

²⁷⁴ Ting Wai, "Sino-American Relations in the Post-Cold War Era", **China in Transition: Issues and Policies**, ed. David C. B. Teather and Herbert S. Yee, Antony Rowe Ltd, Wiltshire, 1999, p. 94.

²⁷⁵ *Ibid.*, p. 95.

²⁷⁶ Edward Friedman, "Why America Fights in Asia", **Pacific Affairs**, Vol. 43, No. 2, 1970, p. 258.

as the 21st century begins is transforming the region in the emerging era of globalized development.²⁷⁷ Regional development and political progress became the legacy of distrust and rivalry born between China and the US. The US security presence in the region has been sustained by bases in Japan, South Korea, and by cooperation with ASEAN countries, Taiwan and Australia.

In the late 1940s President Truman initiated a new paradigm, which was upheld by successive administrations. The “Truman Doctrine” stated that the USSR and its allies (then including China) were totalitarian and had to be “contained” by economic, political and military power. Communism would be confronted anywhere in the world, at almost any cost.

In 1953 US military action in Korea ended in stalemate. This failure persuaded the US to overwhelm military strength. Subsequent administrations authorized massive investment in submarines, aircraft carriers, nuclear and conventional weapons and the maintenance of hundreds of thousands of American troops in Asia, mostly based in Japan and Korea. The US distributed economic aid to Japan, South Korea, Taiwan and several countries in Southeast Asia, including South Vietnam and the Philippines. The results were mixed. The Philippines degenerated into the extremes of political decadence and corruption under American efforts in Vietnam ended in humiliating defeat, whereas Japan and Taiwan and some other countries evolved into successful, prosperous, democratic states under US tutelage.²⁷⁸

Truman’s order of the troop into the Taiwan strait and provision the island with money and military supplies in 1950s was the first time when the United States intervened in the conflict between the island and mainland. The Chinese Government has struggled against the US illegal invasion of Taiwan, which gave a serious blow to the US for its ambitious plot to separate Taiwan from Chinese territory. Since that time the Taiwan question became the core of Sino-US relations. This sensitive issue

²⁷⁷ Richard H. Solomon and William M. Drennan, “The United States and Asia in 2000: Forward to the Past?”, *Asian Survey*, Vol. 41, No. 1, 2001, p. 2.

²⁷⁸ Alan Hunter and John Sexton, *Contemporary China*, p. 190.

cannot be easily solved, given the fact that Taiwan's ambition to achieve a better position in the world, as well as US policy on this issue, irrespective of Beijing's world view.²⁷⁹

The US policy on Taiwan's question was outlined in the Communiqués of 1972, 1979, and 1982. The US and China considered the Shanghai Communiqué in 1972 as the base for the normalization of relations, according to which the US was to reduce its forces and military installations on Taiwan. Despite of this Communiqué, China was not satisfied with the development of relations with the US because it continued to sell arms sales to Taiwan. At the same time the Soviet Union still possessed the potential to do damage to China; therefore it felt the need to build up military base. Thus the steps in China to modernize its military capabilities had begun. The US hoped that modernization will quickly "mellow" the Chinese regime, strengthen "democratic" cravings, and turn China's heart away from its Marxist-Leninist convictions.²⁸⁰

From 1974 to 1978 the US and China have not made any progress on Taiwan issue. Moreover, the new US President, Carter in 1977 appeared to support Taiwan's independence and therefore set the normalization with China back rather than forward. The next Sino-American joint Communiqué of 1979 was to be aimed at establishing diplomatic relations with China. Beijing and Washington were willing to expand economic and cultural ties. In the wake of normalization the two nations signed thirty-five treaties and agreements of all kinds.²⁸¹ However the Taiwan issue remains the matter of discord. When Carter administration approved arms sale to Taiwan, Beijing criticized the US charging that the sale violated the normalization agreement. After normalization, the Carter administration conducted a careful arms sales policy toward Taiwan. On the one hand, it tried not to provoke Beijing by arms sales to Taiwan; on the other hand, it transferred more than a billion dollars worth of

²⁷⁹ Ting Wai, "Sino-American Relations in the Post-Cold War Era", p. 106.

²⁸⁰ Lucian W. Pye, "Dilemmas for America in China's Modernization", **International Security**, Vol. 4, No. 1, 1979, p. 19.

²⁸¹ Michael Oksenberg, "A Decade of Sino-Japanese Relations", **Foreign Affairs**, Vol. 61, No. 1, 1982, p. 189.

arms to Taiwan. During 1979, the Carter administration sold Taiwan 800 million dollars worth of arms already contracted for by Taiwan.²⁸²

In 1980 Reagan, the next US President confirmed that the American relationship with Taiwan would continue to be conducted on an “unofficial” basis.²⁸³ China was sensitive to arms sales to Taiwan for three reasons. First, Chinese officials regard such sales as an infringement upon their sovereignty. Second, they saw such sales as an attempt to pursue a two-Chinese policy. Third, they viewed such a move as encouraging Taiwan to resist their peaceful drive for reunification. On the other hand, Reagan’s supporters in the administration and the Congress perceived arms sales as a commitment by Reagan to advance their ideological, anticommunist interests. Reagan himself being an “old friend” of Taiwan was driven by his ideology and emotion to favor such sales.²⁸⁴

In two years two countries again negotiated on the Taiwan issue. The US proposed a joint Communiqué where Washington would pledge not to increase its sales of military equipment to Taiwan with China’s public commitment to a peaceful resolution of the problem of reunifying Taiwan and the mainland. In spring of 1982 Reagan outlined basic principles which governed US diplomacy to China: there was only “one China,” and the unofficial US ties with Taiwan would not weaken this principle; the US supported Chinese efforts to settle the Taiwanese question peacefully; the need to sell arms to Taiwan would be diminished as conditions for the peaceful reunification of Taiwan and China.²⁸⁵ Thus the result was the next Sino-American joint Communiqué of August 17, 1982. However, the Communiqué had been uncertain about specific guidelines for the kind and quantity of arms the US might sell to Taiwan.

²⁸² Tan Qingshan, **The Making of US China Policy: From Normalization to the Post-Cold War Era**, Lynne Rienner Publishers, Boulder, 1992, p. 89.

²⁸³ John F. Cooper, “Sino-American Relations: Reaching a Plateau”, **Current History**, Vol. 81, No. 476, 1982, p. 242.

²⁸⁴ Tan Qingshan, *The Making of US China Policy: From Normalization to the Post-Cold War Era*, p. 91.

²⁸⁵ Hong N. Kim, “U.S.-China Relations in the Post-Normalization Era, 1979-1985”, **Pacific Affairs**, Vol. 59, No. 1, 1986, p. 80.

The 1995-1996 Taiwan Strait Crisis became probably the critical point in the issue of Taiwan in US-China relations because the military actions at Taiwan had been implemented in order to warn the US to stop its intervention in affairs of Chinese policy toward Taiwan. The United States' policy toward Taiwan particularly after the end of the Cold War became more pro-Taiwan. In 1992 US President George H. Bush announced the sale of jet fighter aircrafts which violated the 1982 Joint Communiqué. In 1995 the US government declared about its support for Taiwanese leader to visit the US.²⁸⁶ So the US-Taiwan relations were pushed to a new level. In July 1995, Chinese PLA forces in the East China Sea launched missiles, and in August live missiles and artillery exercises were conducted 90 miles north of Taiwan.²⁸⁷ These military actions had been continued till March 1996.

During late 1996 and 1997, the US proposed the “Three No’s” policy: no “two Chinas” or “one China, one Taiwan” policy, no Taiwanese independence, no Taiwanese entrance into UN or other international organizations, because the US was willing to improve its relations with China.²⁸⁸ During visits in 1997 and 1998 Clinton reiterated the “Three No’s” policy. But US actions still threatened Chinese security because it continued to sell Taiwan weapons in 1997 and 1998, with the number of contracts. The US-Taiwan weapons contracts increased from 354 million dollars in 1997 to 440 million dollars in 1998 with weapons deliveries which also from 200 million dollars reached 1.5 billion dollars.²⁸⁹

There have been other important developments in the region that affected Sino-US relationship. The most strategically significant was the establishment of new post-Cold War Defense Guidelines for the US-Japan security treaty, the most important treaty the United States has in Asia.²⁹⁰ Both Washington and Tokyo mounted a sustained campaign to convince other governments that the manifest

²⁸⁶ Robert S. Ross, “The 1995-96 Taiwan Strait Confrontation: Coercion, Credibility, and the Use of Force”, p. 87.

²⁸⁷ Ibid., p. 101.

²⁸⁸ Robert A. Scalapino, “The United States and Asia in 1998: Summitry and Crisis”, *Asian Survey*, Vol. 39, No. 1, 1999, p. 2.

²⁸⁹ Sun Xuefeng, “The Efficiency of China’s Policy towards the United States”, *Chinese Journal of International Politics*, Vol. 1, 2006, p. 68.

²⁹⁰ Lucian W. Pye, “The United States and Asia in 1997: Nothing Dramatic, Just Incremental Progress”, *Asian Survey*, Vol. 38, No. 1, 1998, p. 99.

strengthening of the military alliance in the post-Cold War environment was just normal development. Key Chinese analysts denounced the guidelines and suggested that they constituted an unfriendly act that would set back relations of the two countries with China.²⁹¹ Concerning the proliferation of nuclear weapons, China from all countries in Asia felt embarrassed about Japanese capabilities, since it had scientific and technological advantages over other countries and close ties with the United States.

In general the US has improved its relations also with ASEAN countries, India, and Korea at the end of the 20th century. But much has been set in motion in American policy in Asia after terrorist attacks on the US on September, 11. From that point forward, the US policy region gave top priority in mobilizing a coalition to fight terrorism. During 2001 Washington changed its treatment of Taiwan through more robust arms sales and better diplomatic treatment of Taiwan's leaders.²⁹² The US also did not promote the last "No" of President Clinton's "Three No's" policy which was about support on Taiwan's membership in the UN or any international organization of sovereign states.²⁹³

The US increases its attention to Southeast Asia and Australia, with particular attention to Indonesia, Singapore and the Philippines each of which faced internal threats from radical Islamic or separatist forces. Relations with India seemed ever-more important for the United States. The US saw a long-term strategic opportunity in enhanced ties with New Delhi, with a liberalizing, modernizing India. The US-Indian economic ties have been deepened. However India did not want its growing links to the US to limit its future strategic options. Even as ties grew substantially with the US, New Delhi saw a parallel opportunity for economic and political accommodation with China.²⁹⁴ The Bush administration also has interest in promoting trade with South Korea and in denuclearization program of North Korea.

²⁹¹ Ibid., p. 101.

²⁹² Kenneth Lieberthal, "The United States and Asia in 2001", *Asian Survey*, Vol. 42, No. 1, 2002, p. 10.

²⁹³ Ibid., p. 11.

²⁹⁴ Jonathan D. Pollack, "The United States and Asia in 2003: All Quiet on the Eastern Front?", *Asian Survey*, Vol. 44, No. 1, 2004, p. 11.

Thus the US pursues the role of stabilizer and peacemaker in Asia Pacific, and its policy after the September, 11, has stressed the importance of Asia Pacific region in the US policy.

Though China offered strong support for the War on Terrorism and Pyongyang's denuclearization program, China remains anxious about US policy in the region. The US affects China's foreign policy in Asia greatly considering its relations with Taiwan, Japan, India and ASEAN. China wants to be the predominant power in Asia within the coming decade. It is willing to organize East Asia in a way that puts it in the center of regional politics. China wants to replace US as the chief influence in East Asia.

4.2.1.2 Tough Issue: Nuclear Weapons Development

China presents today a realpolitik world view which permeates military affairs of modern history of the country. Realpolitik views are associated with relative power capabilities which are crucial in keeping domestic political order of the state. In this context the status and military value of nuclear weapons are important. Chinese program of nuclear development began with the formation of the China-Soviet Union Nonferrous Metals and Rare Metals Corporation to exploit radioactive ore products in Sinkiang, where uranium was reported to have been discovered about 1944 and with the establishment of the first central atomic research facility, the Institute of Atomic Energy of the Chinese Academy of Sciences in Peking.²⁹⁵ Research and development was slowed by the Korean War, which created a threat to Peking, and caused the Communist regime to re-assess its previous estimates regarding nuclear warfare.²⁹⁶

The first successful test explosion of Chinese atomic bomb occurred at Lop Nor in 1964. The bomb contained U-235 not plutonium, which, in fact, pointed to the

²⁹⁵ Michael S. Minor, "China's Nuclear Development Program", *Asian Survey*, Vol. 16, No. 6, 1976, p. 571.

²⁹⁶ William R. Haris, "Chinese Nuclear Doctrine: The Decade prior to Weapons Development (1945-1955)", *The China Quarterly*, No. 21, 1965, p. 89.

sophistication of the Chinese program at its early period.²⁹⁷ During the years 1964-69 Chinese attitudes towards nuclear weapons were dependent to some extent on certain major constraints affecting Chinese foreign policy behavior. They included considerations of American and Soviet military superiority – particularly nuclear superiority; awareness that the perceptions and policies of neighboring states would be affected by major transformation in China's foreign policy as a result of the latter's nuclear capability; and a similar awareness concerning the perceptions and policies of non-aligned and communist states not on China's periphery.²⁹⁸ Thus China tried to lessen the external threat posed by American and Soviet perceptions of hostility and superior capability and improve its external relations with non-nuclear states. The Chinese by their nuclear detonation and developing nuclear capability also would likely to remind the countries of Asia of the presence on their borders of a major military power. The Chinese recognized that being the only Asian nuclear power substantially increased their prestige among Asian elites and would strengthen the argument of those such as Prince Sihanouk of Cambodia and General Ne Win of Burma who felt that small countries in Asia must take their peace with Peking.²⁹⁹ Few Asian and African nations were against China's tests, the majority of states condemning the Chinese tests were either in the Western and the Soviet alliance systems.

Since 1970 China made explosions at the rate of about one per year, and only four of the six tests were reported in the Chinese media, indicating probably that some tests were less successful than others. Between 1980 and 1992 there were about 34 nuclear tests. After 1992 this figure increased to 1.7 per year.³⁰⁰

In the past domestic factors became the obstacles to Chinese nuclear development such as upheavals of the 1958-1960 Great Leap Forward and 1965-

²⁹⁷ John Wilson Lewis, "Strategic Weapons and Chinese Power: The Formative Years", **The China Quarterly**, No. 112, 1987, p. 544.

²⁹⁸ Jonathan D. Pollack, "Chinese Attitudes towards Nuclear Weapons, 1946-9", **The China Quarterly**, No. 50, 1972, p. 246.

²⁹⁹ Morton H. Halperin, "Chinese Nuclear Strategy", **The China Quarterly**, Vol. 5, No. 6, 1965, p. 272.

³⁰⁰ Alastair Iain Johnston, "Prospects for Chinese Nuclear Force Modernization: Limited Deterrence versus Multilateral Arms Control", **The China Quarterly**, No. 146, 1996, p. 560.

1969 Cultural Revolution. In later time the primary constraint on Chinese nuclear modernization was rather external factor that comes from multilateral arms control process, which includes the control and reduction of strategic nuclear weapons and missiles of China. Of course, China was reluctant to be engaged in this multilateral arms control process, since it knows that it would constrain its military capabilities.

Preventing the spread of weapons of mass destruction was one of the most important objectives of US foreign policy since the WWII. In 1965 the United States submitted a Non-Proliferation Treaty (NPT) draft, under which the nuclear powers would be prohibited from transferring nuclear weapons into the national control of any non-nuclear country, either directly or indirectly through a military alliance.³⁰¹ In 1968 the NPT was opened for signature.

The US wanted China to acknowledge and accept international nonproliferation practices and norms that the United States and other nuclear suppliers would follow and advocate.³⁰² From 1968 to 1981 Beijing condemned NPT, seeing it as discriminatory one, because the treaty bestowed a nuclear monopoly on the five declared nuclear weapons states (the United States, the United Kingdom, France, Russia and China) and relegated other nations to permanent non-nuclear weapons status.

Beijing began to convert its primarily military nuclear program to include peaceful applications of nuclear technology. China declared it would not export nuclear weapons to non-weapon states and adopted a policy of not assisting other countries to acquire nuclear weapons.³⁰³ However China was suspected in establishing a pattern of exporting nuclear materials and technology to different nations having secret nuclear weapons programs. Examples of such sales included exports to India and Argentina, nuclear technology to Brazil, nuclear technology and

³⁰¹ James E. Dougherty, "The Non-Proliferation Treaty", **Russian Review**, Vol. 25, No. 1, 1966, p.11.

³⁰² Qingshan Tan, "U.S.-China Nuclear Cooperation Agreement: China's Nonproliferation Policy", **Asian Survey**, Vol. 29, No. 9, 1989, p. 873.

³⁰³ Zachary S. Davis, "China's Nonproliferation and Export Control Policies: Boom or Bust for the NPT Regime?", **Asian Survey**, Vol. 35, No. 6, 1995, p. 588.

bomb design to Pakistan, possible nuclear cooperation with Iraq, Syria, and South Africa, a secret reactor sale to Algeria, and nuclear cooperation with Iran.³⁰⁴

The 1985 Agreement on Nuclear Cooperation between the US and China was important for both countries in developing their relations in the sphere of high technology cooperation. The Reagan administration by signing this agreement with China pursued two goals: securing a share of China's nuclear market and advancing US nonproliferation interests.³⁰⁵ The first negotiations about the possible agreement for the cooperation that were held in 1981 and 1982 did not go far, while later in 1983 there had been some progress toward bilateral agreement on nuclear cooperation. The United States wanted China to clarify its nonproliferation policies. In return China took some steps in redefining its position on the international nonproliferation regime, declaring that it would not assist other countries to acquire nuclear capabilities. Thus the nuclear agreement was signed on July 23, 1985.³⁰⁶

In 1991 Li Peng announced China's decision to join the NPT, and on March 9, 1992 China became the nuclear-weapon state of the NPT.³⁰⁷ There were some reasons that explained Chinese joining the treaty. China wanted to avoid criticism of its nuclear export policy after Tiananmen events; NPT membership would secure Chinese ability to purchase nuclear goods and services from other countries unwilling to sell nuclear technology to non-NPT states, and China accepted that nuclear proliferation could threaten its interests, thus NPT could contribute to China's security. By signing NPT, China of course moved closer to the nonproliferation regime, but continuing reports of Beijing's nuclear and missile exports suggested that China was not yet ready to support fully the nonproliferation regime.

³⁰⁴ Ibid., p. 589.

³⁰⁵ Qingshan Tan, "U.S.-China Nuclear Cooperation Agreement: China's Nonproliferation Policy", p. 877.

³⁰⁶ Ibid., p. 879.

³⁰⁷ Zachary S. Davis, "China's Nonproliferation and Export Control Policies: Boom or Bust for the NPT Regime?", p. 592.

Since 1992 China signed some other international arms control treaties – the Nuclear Nonproliferation Treaty, the Chemical Weapons Convention and the Comprehensive Test Ban Treaty.³⁰⁸ China's agreement to sign the Comprehensive Test Ban Treaty (CTBT) in 1996 was the first time when China agreed multilaterally to have its weapons capabilities under verifiable conditions.³⁰⁹ While China signed a number of nuclear non-armament agreements, these treaties did not represent a limitation on Chinese nuclear arsenal. Consequently, China refused to take part in such disarmament negotiation as the Strategic Arms Reduction Talks. China was pressured not only by the United States, but also by its neighbors in Asia.

Though China stated about its adherence to international nonproliferation norms, its deeds however did not always coincide with such statements. The US had evidence that China was cooperating with Iran. This cooperation raised questions about Beijing's commitment to the norm of nonproliferation. US and European intelligence sources disclosed that Iranian engineers were secretly trained in China, that China transferred technology and signed a secret nuclear cooperation agreement with Iran.³¹⁰ Finally China had to admit its nuclear cooperation with Iran. The Foreign Ministry acknowledged the existence of Sino-Iranian nuclear cooperation, explaining that Chinese and Iranian nuclear cooperation signed commercial contracts in 1989 and 1991. All this underlined the difference between China's words and its behavior.

In the "Report of Nuclear Posture Review" in March 2002 and the "Report of US China Security Review Commission" in July 2002, it has been stated that China is a potential military and economic rival and nuclear target for the US.³¹¹ In other words, its economic and military growth would pose a national security threat to the US. China has the nuclear capability to threaten the continental America. Therefore, there is a threat of nuclear arms race like the one in the Cold War. China, like the US,

³⁰⁸ Bates Gill and Evan S. Medeiros, "Foreign and Domestic Influence on China's Arms Control and Nonproliferation Policies", *The China Quarterly*, No. 161, 2000, p. 66.

³⁰⁹ *Ibid.*, p. 68.

³¹⁰ Zachary S. Davis, "China's Nonproliferation and Export Control Policies: Boom or Bust for the NPT Regime?", p. 590.

³¹¹ Oleksandr Gladkyy, "American Foreign Policy and US Relations with Russia and China after 11 September", *World Affairs*, Vol. 166, No. 1, 2003, p. 9.

has not ratified the Comprehensive Test Ban Treaty, so although the country adhered to the voluntary international moratorium and has not conducted nuclear testing since 1996, China will almost certainly follow suit if the US resumes testing its nuclear weapons.³¹²

4.2.1.3 International Politics of Human Rights

Serious disagreements between China and the US have been about the nature of China's political system and its internal policies. China remained a one-party system where the people who ruled were not always fair in their actions to the common people. The abuses of the Chinese system showed China's lack of respect for the rights of its citizens. Any individual or group can feel a threat, whether they were democratic activists, Christians, Muslims, journalists investigating corruption, protesting workers, or even university students. In spite of reform, Chinese legal system remained seriously flawed, and often did not provide a proper process for accused crimes, especially for political crimes. The growing violations of human rights in China became serious impediment to better relations with the US.

The Beijing massacre in 1989 exerted a powerful effect on China's relations with most of the outside world.³¹³ Following the demonstrators in 1989, the US enacted a number of measures to express their condemnation of the China's violation of human rights. The Tiananmen events deteriorated the US-China relationship in commercial and cultural spheres and created unfavorable opinion about China in the world for more than a decade.

By de-linking MFN from the human rights conditions in China, the Clinton administration unilaterally abandoned in 1994 the instrument of MFN as a means to foster the liberation of political prisoners in China – this despite the fact that MFN had been used skilfully by Bush in ameliorating human rights conditions in China.³¹⁴ As a signal of continuing commitment to the promotion of human rights by other

³¹² Ibid., p. 9.

³¹³ Andrew J. Nathan, "Human Rights in Chinese Foreign Policy", p. 638.

³¹⁴ Ting Wai, "Sino-American Relations in the Post-Cold War Era", p. 111.

means, Clinton retained a number of constraints on US-China trade and announced new initiatives. The package included continuation of post-Tiananmen Square sanctions that prohibited the export of satellites, banned trade and investment credits, barred export licences for crime control and detection equipment, and forbade nuclear trade or nuclear cooperation.³¹⁵ The MFN extension decision appeared to have no positive effect on China's human rights policies. Beijing postponed talks with the International Committee of the Red Cross on inspections and continued to arrest dissidents.³¹⁶

China agreed to renew human rights talks with the US. Beijing government acknowledged the importance of protection of human rights and promised to take steps to bring its human rights practices into conformity with international norms. Among these steps were signature of the International Convention on Economic, Social, and Cultural Rights in October 1997 that was ratified in March 2001.³¹⁷ In 2002 China released a significant number of political and religious prisoners, and agreed to interact with UN experts on torture, detention and religion. However, international human rights groups stated that no real movement on Chinese promises has been done and that China still has a long way to go in instituting the fundamental systemic change that will protect the rights and liberties of all its citizens in China.

Beijing believes that the US human rights policy toward China was the very danger of dictatorship by the US in the international arena. Chinese decision makers attributed a strategic quality to US policy that was more characteristic of their own conduct. They consider that the issue of human rights and democracy exist in China, giving this their own understanding which underlines not freedom, liberty but duty and self-sacrificing. Thus by failing to understand the roots of Western human rights policy and the power of the pluralistic public opinion, Beijing underestimated the issue's importance which leading to controversy with the US.

³¹⁵ Richard P. Cronin, "The United States and Asia in 1994", *Asian Survey*, Vol. 35, No. 1, 1995, p. 114.

³¹⁶ *Ibid.*, p. 115.

³¹⁷ Dali L. Yang, "China in 2001: Economic Liberalization and Its Political Discontents", *Asian Survey*, Vol. 42, No. 1, 2002, p. 27.

4.2.1.4 Energy Policy

There is a growing possibility of conflict between the US and China because of the rapid growth of China's energy demand and its competition with the US on reaching its oil needs. Its need for energy is mostly shaping its foreign policy towards its neighbors and the other parts of the world.

China is today the second largest oil importer. In 1993 China became a net oil importer, and energy demand and imports have increased steadily over time with the growth in import volumes significantly exceeding reported GDP growth. In 2005 China's imports of oil increased 30 percent over 2002. China surpassed Japan to become the second largest importer of petroleum after the US. The increasing reliance on energy imports will continue for the foreseeable future, driven by greater energy consumption by consumers and industrial growth.³¹⁸ Therefore, as its economy grows very fast, so does its need for energy. These new needs have serious implications for China's foreign policy. Beijing's access to foreign resources is necessary for its growing economic growth.

The US is affected seriously from the China's enormous need for energy. China, in order to get energy, enters the US spheres of influence over states that they have tried to marginalize. China challenges the US dominance and this situation increases the possibility of conflict between these two.

Over the last years, China has become an important actor in the Middle East because of its oil dependence. Since 2002 the Middle East has become important for Beijing's efforts to secure effective ownership of critical hydrocarbon resources to meet China's energy import needs.³¹⁹ About 45 percent of China's oil imports came from the region in 2004.³²⁰ Therefore, it is, by importing 45 percent of its oil need from Middle East, threatening US's energy and security interests in the region. Only

³¹⁸ Drew Thompson, "China Brief: China's Global Strategy for Energy, Security, and Diplomacy", **The Jamestown Foundation: China Brief**, Vol. 5, No. 7, 2005, p. 15.

³¹⁹ Flynt Leverett and Jeffrey Bader, "Managing China-US Energy Competition in the Middle East", **The Washington Quarterly**, 2005-2006, p. 188.

³²⁰ David Zweig and Bi Jianhai, "China's Global Hunt for Energy", **Foreign Affairs**, 2005, p. 28.

Iran is the exporter of its 11 percent of the oil imports, its one of the three important oil companies, state-controlled, Sinopec signed an oil and natural gas agreement with Iran that could be worth as much as 70 billion dollars in October 2004. China committed to develop the giant Yadavaran oil field and buy 250 million tons of natural gas; Tehran agreed to export to China 150,000 barrels of oil per day at market prices for next years.³²¹ Thus, one of the most important oil exporters to China is the one that US has problems with. By having closer ties with Iran, it clearly shows its lust for hegemony. It is increasing its influence at the same time decreasing the influence of the only hegemon. In the Sino-US summit, their difference in viewing and evaluating Iran became obvious. The US frustrated by Beijing's and Russia's delaying in the UN Security Council to condemn Iran's uranium and suspected nuclear weapons development program.

In addition to the oil it imports from Middle East, China was importing its oil from Africa; mainly from Sudan in 2004, another country that US has several policies like imposing sanctions on. It imports 7 percent of its oil from Sudan; therefore, again in this region it has begun to challenge the influence of the US. Sudanese oil from 1999 became China's first successful overseas effort to produce significant output.³²² In 2000, Beijing established the China-Africa Cooperation Forum to promote trade and investment with 44 African countries.

China is ensuring to get the oil it need from the countries that US has influence on and in return, it offers them economic and military aid, access to Chinese markets and support at the UN where China wields veto power at the Security Council. It has shown willingness to oppose US policies as it did in 2004 when it threatened to veto a US proposed resolution to impose sanctions on Sudan, or when it signaled resistance to any UN measure that would include the threat of military action against Iran.³²³ Aside from its imports from Middle East and Africa, China is also exploring potential partnerships in Latin America. In 2004 China

³²¹ Ibid., p. 29.

³²² Drew Thompson, "China Brief: China's Global Strategy for Energy, Security, and Diplomacy", p. 16.

³²³ David Zweig and Bi Jianhai, "China's Global Hunt for Energy", p. 29.

invested 1.4 billion dollars in the region; it is now the main impetus for export growth for many Latin American states.³²⁴ China's need for energy has also leads it to be the most important trading partners of the US allies like Australia. Australia agreed to export China from 2006 approximately 1 billion dollars worth of liquefied natural gas every year for 25 years. This agreement with Australia build a close ties with Canada to involve Canada's natural gas sector. China seeks to access to the massive tar sands which are very important for US energy security.

For the US oil has become a matter of national security concerns because China's search for resources leads it to have close relations with the countries that US tries to isolate. In other words, it is preventing the US to punish the states which do not obey the international law, limit nuclear proliferation or promote democracy like Iran and Sudan. Thus it is seen that China's growing energy demands and its policy in recent time pose a serious threat to US energy security.

4.2.1.5 The SCO and the US

The Shanghai Cooperation Organization (SCO) consists of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan which was formed in 2001 as a confidence-building mechanism to resolve border disputes.³²⁵ Some see the organization as a powerful anti-US bulwark in the region, while others say that due to the frictions between Russia and China, the SCO does not pose any threat to US interests in Central Asia.³²⁶ Originally called the Shanghai Five was formed in 1996 to demilitarize the border between China and the former Soviet Union. In 2001 Uzbekistan entered the organization and renamed Shanghai Five into Shanghai Cooperation Organization. The SCO has since risen in region being preoccupied with issues of trade, counterterrorism, and drug trafficking.³²⁷

³²⁴ Ibid., p. 30.

³²⁵ Adiljan Umarov and Dmitry Pashkun, "Tensions in Sino-Central Asian Relations and their Implications for Regional Security", **Conflict Studies Research Centre**, Vol. 6, No. 2, 2006, p. 13.

³²⁶ Ibid., p. 14.

³²⁷ Richard Giragosian, "The Strategic Central Asian Arena", *China and Eurasia Forum Quarterly*, Vol. 4, No. 1, 2006, p. 133.

The US is concerned that Beijing and Moscow by using their diplomatic alliance will limit America's role in Central Asia. Both Russia and China would prefer that Central Asian countries' contacts with the West be approved by Moscow and Beijing. But the main beneficiary from the SCO is China. The formation of the SCO marked the first time when China became a member of a formal regional mechanism that was not economic, and took the lead and an active role in shaping this multilateral organization.³²⁸ China's position in the SCO and relatively good relations with the US and Europe gives China the opportunity to serve as an intermediary for the West.

When the US proclaimed about its War on Terrorism after September 11, 2001 the Central Asian states of the SCO, which themselves were troubled by religious insurgencies for years demonstrated their support for the US. Uzbekistan and Kyrgyzstan allowed the US to deploy its troops at the air bases of Khanabad and Manas. In 2002, Kazakhstan allowed the US military to use three of its airports at Almaty, Chimkent and Jambyl.³²⁹ In 2002 the US and Kyrgyzstan signed the memorandum that has become the formal document for the US military presence in the country. The US annually provided aid of million dollars to Central Asian states particularly to Uzbekistan and Tajikistan.

China was anxious about US presence in Central Asia. It considered the US presence as fighting against terrorism in the region to be only a pretext in order to strengthen its own influence. China wanted to eliminate or at least minimize American influence in Central Asia for its geopolitical, geoeconomic and geostrategic interests. From 1996 Uzbekistan, Kazakhstan, and Kyrgyzstan annually conducted military maneuvers. After September, 11, 2001 Uzbekistan became a strategic partner of the US cooperating with American forces on counterterrorism issues. Uzbekistan received security guarantees and military equipment. China feared that other Central Asian states with such a strong ally together with Russia which has still great influence on former Soviet republics would not accommodate Chinese

³²⁸ Chien-peng Chung, "The Shanghai Cooperation Organization: China's Changing Influence in Central Asia", *The China Quarterly*, 2004, p. 994.

³²⁹ *Ibid.*, p. 997.

demands.³³⁰ China considered that the US aimed at creating “anchor state” in the Central Asia by its troops and loans to Uzbekistan to meet its interests in the region. China also has great economic interests in Central Asia since the region is rich with mineral resources and oil, and thus did not want see the US as rival in energy sector. For China it is important to ensure peace and stability on China’s borders in order to minimize the possible insurgencies in Xinjiang. In this context, it is clear that the US entrance into the SCO was unlikely. The US application to join the SCO was rejected.³³¹ It is doubtful that the US and China could agree on terms for US membership without conceding their respective interests. But the US does not necessarily need membership in the organization for working closely with Central Asian states. It is able to renew its application to join as an observer by using its friendly ties with states as Kazakhstan and Kyrgyzstan. The US engages the Central Asian states by balancing democracy promotion and democratization with national interests including security and energy.

Since the SCO primarily serves as a geopolitical counterweight to the US, China in its framework managed to take the US troops away from Uzbekistan. In 2005 the SCO issued a declaration calling the US for withdrawing its military forces located in southern Uzbekistan. The uprising in Andijan province, followed by a brutal crackdown by the Uzbek authorities brought sharp criticisms from Washington which irritates Uzbekistan. The Uzbek government also was suspicious in US democracy promotion in Georgia, Ukraine, and Kyrgyzstan.³³² Hence, the Uzbek government ended its military cooperation with the US and moved to eject its forces. The SCO declaration accelerated the withdrawal of US forces which was completed by the end of 2005.

Except Uzbekistan most Central Asian states maintain good ties with the US balancing Russian and Chinese power. The US improved relations with Central Asian states by providing economic, governance and legislative reform assistance

³³⁰ Ibid., p. 997.

³³¹ Fredrick W. Stakelbeck Jr, “A New Block Emerges?”, **The American Thinker**, 05.08.2005, http://www.americanthinker.com/articles.php?article_id=4703.htm (26.07.2007).

³³² “Kitay-Kazakhstan: Pogranichniy Spor Prodolzhayetsya [China-Kazakhstan: The Border Discussion Is Continued]”, **Izvestia**, 6.04.2007, p. 17.

and enhancing military relationships. Working with these states in combating terrorist organizations, the US can appeal to common goals and secure American strategic and energy interests in the region.

Whether or not the US is able to attain observer status, it is willing to use every diplomatic tool to oppose Iran's intention to join the SCO as a full member. Since Iranian President attended the Shanghai summit in 2006, it has been suggested that Iran might join the SCO.³³³ Iran's inclusion would give the SCO significant influence over one of the world's largest supplies of oil and gas reserves and also nuclear arsenal. Russian President Vladimir Putin's suggestion of forming a "natural gas OPEC" with Iran and Turkmenistan is of particular concern. These three countries are in natural gas reserves, and will have the capacity to raise the global price of gas by regulating supply. Some experts say that Iran's desire to join the SCO aimed at the US. For Iran the SCO would be a potential guarantor of future security.³³⁴ Membership could help Iran to decrease the international pressure put on Tehran concerning its uranium-enrichment program. As a whole today the SCO's influence in the region is on the rise, and probably it will be stronger with Iran as a full member which might serve as a check to US interests and ambitions in the region.

4.2.2 Sino-US Collaboration

4.2.2.1 Economic Interdependence

China and the US are the most important actors behind the growth in world economy. The world economy is growing; the two major actors behind this rise are China, with its high potential to gain FDI and US with its loose monetary policy.

The US is relatively reliant to Chinese economy. China has the one fifth of world population, it has one third of the global economy that is unusually open to the

³³³ Ibid., p. 20.

³³⁴ Ibid., p. 21.

rest of the world, as measured by trade or foreign direct investment.³³⁵ A decline in such an enormous economy probably affects badly the whole global economy. China itself prevents the dangerous decline in US economy by preventing the more decline in US dollars. The US is now the house for the 70 percent of global savings and China is in the first place that the US gets savings. China, by buying American Treasury bonds, finances the current deficit of the US. A cessation in this situation will affect the global economy. In addition, an unexpected increase rates in the US is one the most important dangers that the global economy faces with. So, China plays a very important and a dangerous role by holding down inflation and interest rates in the US.

China's modernization drive has provided many opportunities for US technology exports and its inexpensive labor-intensive products to meet US market demands. As China sped up its economic reforms US investments grew annually. The US is China's first foreign investor in contractual agreements. American companies have a significant market share in China's chemical products, telecommunications equipment and fast food outlets. China's entrance to the WTO is also a key to expand market opportunities for the US firms in China creating more jobs for American workers and farmers.

The trade is the most efficient symbiotic tool for common interests and cooperation between the two. Trade between China and the US is huge. The bilateral trade volume reached 55 billion US dollars in 1998, more than 22 times the figure for 1979 when China and the US established full diplomatic relations.³³⁶ In 2005 total two-way trade between China and the US reached 285.3 billion dollars.³³⁷ The US is China's second-largest trading partner, and China is now the third-largest trading partner for the US after Canada and Mexico.³³⁸ The US exports to China have been growing more rapidly than to any other market up 28.4 percent in 2003, 20 percent in

³³⁵ "The Dragon and The Eagle: A Survey of The World Economy", *The Economist*, 30.09.2004, p.8, at http://www.economist.com/surveys/displayStory.cfm?story_id=3219358 (15.07.2008), p. 5.

³³⁶ "Background Note: China", *Bureau of East Asian and Pacific Affairs*, April 2006, <http://www.state.gov/r/pa/ei/bgn/18902.htm> (20.05.2007).

³³⁶ Ibid.

³³⁷ Ibid.

³³⁸ Ibid.

2004, and 20 percent in 2006. The US imports from China grew 18 percent in 2005, bringing the US trade deficit with China to more than 200 billion dollars.³³⁹ Many experts predict that the Chinese economy will be second only to the US by 2020, and possibly surpass it by 2050.³⁴⁰

4.2.2.2 Counterterrorism Dialogue

Terrorism's emergence after September 11, 2001, as the primary threat to international security introduced a new focus to Chinese foreign policy and brought a great opportunity for improving relations with the US. A new recognition of terrorism after the September 11 attacks has largely reshaped China's security concept as well as its foreign and security policies.

China has faced its own terrorist threat posed by the East Turkistan terrorist forces in China's Xinjiang Province. China has intensified its counterterrorism efforts in the aftermath of September 11 through legal, military, and diplomatic measures. The East Turkistan terrorist threat existed because of the movement launched by Islamic fundamentalists in the Xinjiang Uygur Autonomous Region of China in the 1980s, which seeks to found a state of East Turkistan. In the 1990s, influenced by extremism, and international terrorism, part of the East Turkistan forces turned to separatist activities with terrorist violence as the main means. According to the Chinese government, from 1990 to 2001 the East Turkistan terrorist forces were responsible for more than 200 terrorist incidents in Xinjiang. Moreover, these forces are believed to have close connections with Al Qaeda.³⁴¹ Though China worked to cope with the terrorist threat, Beijing had a low profile on this issue before September 11, never internationally publicizing the threat or openly calling for international cooperation in fighting the East Turkistan terrorists. The events of September 11 and the emergence of an international security environment focused on combating global terrorism gave China a good opportunity to attract new

³³⁹ Ibid.

³⁴⁰ Minxin Pei, "The Dark Side of China's Rise", *Foreign Policy*, March/April 2006.

³⁴¹ Wu Xinbo, "The Promise and Limitations of a Sino-US Partnership", *The Washington Quarterly*, Vol. 27, No. 4, 2004, p. 116.

international attention to this threat. Therefore, China took a strong position in support of US efforts to combat international terrorism. China hoped that its cooperation with the US against international terrorism would contribute to developing a sustainable partnership with the US. For these and other reasons China did what it could to support the US at a time the latter most needed help from the other countries.

The Chinese government voted in favor of anti-terrorism resolutions in the UN Security Council, encouraging Pakistan's efforts to cooperate with the US to oppose Bin Laden and the Taliban regime of Afghanistan.³⁴² In October 2001 Presidents of China and the US met at the APEC summit meeting in Shanghai, where they agreed to cooperate on counterterrorism.

The September 11 attacks coupled with international attention that terrorists could acquire weapons of mass destruction (WMD) have also alerted China to threats posed by weapons proliferation. The concern about the spread of WMD made Beijing to adopt active diplomacy on the North Korean nuclear issue.³⁴³ Since the revelation of the North Korean nuclear program in 2002, Beijing has engaged in efforts to avoid conflict on the Korean peninsula and to prevent the further proliferation of nuclear weapons and technology.³⁴⁴ In 2006 after North Korea's ballistic missiles and nuclear weapon tests two nations cooperated in the effort to bring Pyongyang's program under measure of control.

The most important factor responsible for the improvement of the relations between China and the US after September 11 was the change in US foreign policy priorities as a result of the terrorist attacks. In the US foreign policy, China was thus transformed from a "strategic competitor" to a potential partner in the war on terrorism.³⁴⁵ The US advocated its support for China's entry to the WTO.³⁴⁶ Beijing

³⁴² Jia Qingguo, "The Impact of 9-11 on Sino-US Relations: A Preliminary Assessment", **International Relations of the Asia-Pacific**, Vol. 3, 2003, p.164.

³⁴³ Gilbert Rozman and Noah Rozman, "The United States and Asia in 2002: Needing Help against Evil", **Asian Survey**, Vol. 43, No. 1, 2003, p. 5.

³⁴⁴ Wu Xinbo, "The Promise and Limitations of a Sino-US Partnership", p. 118.

³⁴⁵ Jia Qingguo, "The Impact of 9-11 on Sino-US Relations: A Preliminary Assessment", p. 166.

also saw the opportunity to improve ties with Washington by providing valuable assistance and cooperation in the war on terrorism, such as supporting all UN counterterrorism resolutions, sharing intelligence, and cracking down on the financing of terrorist activities.³⁴⁷ Thus the events of September 11 transformed the mood of Sino-US relations from negative to positive and prompted the Bush administration to view China through a more rational lens providing more ground for cooperation.

The Chinese have seen both opportunities and challenges from the changes that have occurred in US foreign policy in the post-September 11 era. On the one hand, counterterrorism emergence as the top US priority changed the context of Sino-US relations and broadened the area of cooperation between China and the US; on the other hand, the US seems to become more unilateralist and unpredictable. If the level of political and strategic trust between the two countries is any indication, it would be right to say that the stability in Sino-US relations is tactical, not strategic.

There has been discussed Sino-US relationship at the end of 20th and at the beginning of the 21st centuries. The US and China found themselves more in the framework of competition rather than cooperation in the post-Cold War period. Consequently, while being preoccupied with the controversies with the US particularly without progress on Taiwan reunification and human rights politics China fails to become hegemony in the present time. However, it has the huge potential to become a regional power.

³⁴⁶ Ibid., p. 173.

³⁴⁷ Ibid., p. 167.

CHAPTER V

CHINA AS A RISING REGIONAL POWER

5.1 China as a Regional Power? Potentials and Threat

Though the rise of regional powers is an actual subject in the discipline of IR today, there is still a lot of confusion with regard to the concept of regional power and criteria which identify regional powers. The topic of regional powers refers to power hierarchies in the international system. Since the United States is the only superpower, there are regional powers, great powers, and middle powers. Different scholars categorize the states differently.

Martin Wight differentiates between dominant powers, great powers and minor powers, setting apart two categories of states: regional great powers and middle powers. The interests of regional great powers are focused on a limited region, where they can act on their own accord. Regional great powers are potential candidates for the status of middle powers in the international system, while middle powers are classified on the basis of their power in comparison with great powers, and power is first of all military power.³⁴⁸

Organski formulates the theory which posits a hierarchical international system with a dominant power and great powers at the top, while middle powers and small powers subordinated to them.³⁴⁹ The hierarchy reflects the distribution of power resources and is based on political and economic resources which serve the dominant power. A multiple hierarchy model was developed by Douglas Lemke.³⁵⁰ Instead of one international hierarchy of power, the international power hierarchy consists of a series of superposed power hierarchies. The sub-systems function according to the same logic as the overall power hierarchy – each of the regional or sub-regional systems has a dominant state at the top of the regional or sub-regional

³⁴⁸ Martin Wight, **Power Politics**, Royal Institute of International Affairs, London, 1978, p. 63.

³⁴⁹ A. F. K. Organski, **World Politics**, Alfred A. Knopf Press, New York, 1958, p. 32.

³⁵⁰ Douglas Lemke, **Regions of War and Peace**, Cambridge University Press, Cambridge, 2002, p.54.

power pyramid. The regional or sub-regional sub-systems are subordinated to the global power hierarchy. The dominant power in the global hierarchy, but also other great powers, can interfere in the sub-systems, especially if the local status quo is at odds with the global dominant power's preferences or the global patterns of political and economic resource allocation.³⁵¹ David Mares develops a model of the international behavior of a middle power located in a regional hegemony. The author focuses on explaining the behavior of a middle power whose location in a regional hegemony constitutes the chief potential threat to its sovereignty. The significance of this model lies in its potential to produce powerful hypotheses about the behavior of all actors in international arena.³⁵²

Buzan and Waever differentiate between superpowers and great powers, which act and have an impact on the global level and regional powers whose influence may be large in their regions but are not considered much at the global level.³⁵³ The status of a regional power requires material resources as well as the formal recognition of this status by superpowers and great powers. According to them; regional powers are Brazil, Egypt, India, Iran, Iraq, Israel, Nigeria, Pakistan, Saudi Arabia, South Africa, and Turkey.³⁵⁴

One of the first efforts to develop a concept of regional power in the international system was made by Oyvind Osterud, who used the notion regional power defining it as a state which belongs to certain region, has an ability to counter any coalition of other states in the region and highly influential in regional affairs.³⁵⁵ Holsti categorizes states or governments as regional leaders which have duties or special responsibilities in their relation to states in a particular region with which they identify.³⁵⁶

³⁵¹ Ibid., p. 55.

³⁵² David R. Mares, "Middle Powers under Regional Hegemony: To Challenge or Acquiesce in Hegemonic Enforcement", *International Studies Quarterly*, Vol. 32, No. 4, 1988, p. 458.

³⁵³ Barry Buzan and Ole Waever, **Regions and Powers: The Structure of International Security**, Cambridge University Press, Cambridge, 2003, p. 34.

³⁵⁴ Ibid., p. 32.

³⁵⁵ Oyvind Osterud, "Regional Great Powers", **Regional Great Powers in International Politics**, ed. Iver B. Neumann, St. Martin's Press, Basingstoke, 1992, p. 12.

³⁵⁶ K. J. Holsti, "National Role Conceptions in the Study of Foreign Policy", *International Studies Quarterly*, Vol. 14, No. 3, 1970, p. 261.

Miriam Prys writes “the states appear less powerful and preponderant than conventional assumptions about hegemony would suggest and the secondary states within the regions tend to reject the hegemon’s leadership. This leads to the notion that regional powers are a bit of a “letdown” and the concept of regional hegemony is regularly rejected.”³⁵⁷ According to Prys, regional hegemony is a point between domination or imperialism and neglect or indifference. This is the main reason for the instability of regional hegemony, since it requires the constant maintenance of a balance between benevolence and force. Its tensions are enhanced by being positioned between global and regional politics, where the regional hegemon will be challenged from both inside and outside of their region. Prys considers that for analysis of the terms hegemony and region, three factors emerged to be important: first, the provision of regional public goods, second, the projection of the regional power’s values and interests and third, its self-perception and its perceptions by others.³⁵⁸ These dimensions are necessary and sufficient for being constitutive of regional hegemony. Prys thinks that concept of regional hegemony is more useful than regional power. She proposes a number of reasons: first, cross-regional comparisons need a distinct concept with respect to all potential cases, while regions can be ordered in very different ways, regional hegemony describes across regions the position and behaviour of regionally preponderant states that operate at the nexus of global and regional politics; second, hegemony has always been an important concept in the history of IR; third, as the concept used in contemporary analyses of regional relations it cannot be discarded, the attempts should be made to get a better understanding of what it actually means; fourth, hegemony describes a particular power constellation in hierarchical systems, which cannot be covered by “regional leader”, “regional great power” or “emerging regional power”, but which exists in a world where regional powers recognize their responsibilities as regionally powerful states.³⁵⁹

³⁵⁷ Miriam Prys, “Regions, Power and Hegemony: South Africa’s Role in Southern Africa”, **Sixth Pan-European International Relations Conference**, Turin, 12-15.09.2007, p. 3.

³⁵⁸ *Ibid.*, p. 4.

³⁵⁹ *Ibid.*, p. 4.

Iyob defines regional hegemony as a creature of the post-colonial international and regional orders.³⁶⁰ A regional hegemon is able to establish and maintain the norms and rules of a political order which maximizes its own interests (domestic, regional, and international) while neutralizing opposition and minimizing the capabilities of others to respond independently. Military force is used to counter armed opposition, while economic and geostrategic resources are used to sustain the hegemon's armed forces and domestic needs in the pursuit of its policies.³⁶¹ What distinguishes such powerful nations in various regions of the world is not their dominant position over neighbours but the mechanisms used to establish their control. Unlike previous colonial systems, which extolled the virtues of expansion and the creation of empires, the mandate of these regional hegemons has stemmed from the establishment of anti-colonial norms and rules manipulated to legitimate spheres of influence themselves based on the struggles of the decolonization era.³⁶²

Different scholars propose various criteria for regional leadership. For example Maxi Schoeman proposes the following preconditions: internal dynamics of the state's political system and economy should allow it to play a stabilizing and leading role in its region; the regional power should indicate and demonstrate its willingness to become a regional leader, and stabilizer; the regional power should also have the capacity or ability to assume regional leadership, and the regional power should be acceptable to its neighbours as a leader responsible for regional security.³⁶³ For Baldwin the regional leadership should include scope: the possibility of state to vary in different policies, domain: defining the size of an actor's influence on others, weight: describing the reliability of an actor's power, costs: indicating the price an actor is willing and able to pay to achieve other actor's compliance and means: including symbolic, economic, military and diplomatic methods of exercising

³⁶⁰ Ruth Iyob, "Regional Hegemony: Domination and Resistance in the Horn of Africa", **The Journal of Modern African Studies**, Vol. 31, No. 2, 1993, p. 259.

³⁶¹ *Ibid.*, p. 264.

³⁶² *Ibid.*, p. 272.

³⁶³ Maxi Schoeman, "South Africa as an Emerging Middle Power: 1994-2003", **State of the Nation: South Africa 2003-2004**, ed. John Daniel, Adam Habib and Roger Southall, HSRC Press, Cape Town, 2003, p. 353.

power.³⁶⁴ Daniel Flemes distinguishes regional powers by four pivotal criteria: claim to leadership, power resources, employment of foreign policy instruments and acceptance of leadership.³⁶⁵ Other scholars take into consideration population, GDP, possession of conventional armed forces and nuclear weapons.

From this analysis it is seen that regional powers are the states which belong to a geographically defined region, articulate the pretension of a leading position in this region, has great influence in regional affairs and dominate this region in economic and military terms, play the role of regional peacemaker, integrated in interregional and global forums and institutions and recognized or accepted as the regional leader by its neighbours. Thus these criteria are expressed in power capabilities, leadership strategy, regional and international elements.

There have been different views on which states can be regional powers. These states to some degree meet the criteria to have regional power status, as described above. For example in Asia - China and Japan; in Europe - France, Germany, Italy, the United Kingdom and Russia; in Latin America - Argentina, Brazil, Mexico; in the Middle East - Egypt, Iran, Israel, Saudi Arabia, Turkey; in West Africa - Nigeria are considered to be regional powers by different scholars. So which of these states are regional powers? Particular criteria of regional leadership can be applied to some states, but it is difficult to meet all of them. For example Israel succeeds in dominating region militarily, but the costs at the regional and international level have been high, and its developments with Palestine may serve to undermine its regional status. Japan as a potential regional hegemony, has the second highest GDP in the world, and the second largest defence budget in the region, but has limited real power capability due to its post-war constitution.

It seems that China is close to fulfill the criteria of regional power status in Asia Pacific. Today China is one of the largest economies in the world in GDP, and

³⁶⁴ David A. Baldwin, "Power and International Relations", **Handbook of International Relations**, ed. Walter Carlsnaes, Thomas Risse, and Beth A. Simmons, Sage, London, 2002, p. 178.

³⁶⁵ Daniel Flemes, "Conceptualizing Regional Power in International Relations: Lessons from the South African Case", **German Institute of Global and Area Studies (GIGA) Working Paper**, Hamburg, No. 53, 2007.

has the largest reserves of foreign exchange. In terms of manpower, China has the biggest military in the world. Chinese defence expenditure is the highest in the region, and the second highest in the world. China possesses nuclear weapons, ballistic missiles and missile submarines.

In this chapter six mentioned above main criteria of regional power will be applied to China. A regional power must:

1. belong to a geographically defined region;
2. articulate the pretension of a leading position in this region;
3. have great influence in regional affairs and dominate this region in economic and military terms;
4. play the role of regional peacemaker;
5. be integrated in interregional and global forums and institutions;
6. be recognized or accepted as the regional leader by its neighbours.

1. The Asia-Pacific region includes East Asia, Southeast Asia and Australasia near the Pacific Ocean. China belongs to geographic region of East Asia. Taiwan, Hong Kong, Japan, North Korea, South Korea, and Mongolia also refer to geographic East Asia.

2. China pretends to be a regional power. The Asian economic crisis that occurred in 1997 can prove this fact. China wanted to assume itself as a state leader in solving that crisis. This leadership role became an important step towards China's recognition as a regional leader. During the Asian financial crisis China was able to shape Asia-Pacific development. At ASEAN summit meeting in 1997 a declaration was published to establish a good neighboring and mutual trust partnership between China and ASEAN members which oriented to the 21st century.³⁶⁶ China's leaders sent several billion dollars in aid to Southeast Asian economies. The World Bank

³⁶⁶ Wang Yong, "China, ASEAN Stress Peace: Summit Agrees on Approach", **China Daily**, 17.12.1997, p. 1.

indicated after the crisis: “China’s growth is one source of stability for the region.”³⁶⁷ The US government in its National Security Strategy even recognized China’s leadership role in the crisis by observing that, “China has been a helpful partner in international efforts to stabilize the Asian financial crisis.”³⁶⁸

3. China traditionally has looked to its neighbors in the region as the most important countries in its foreign policy domain. These are states that had relationships with China in the Qing dynasty and before. It is a region that is heavily influenced by Chinese culture. Japan’s culture is substantially derived from Tang Dynasty China. Korea’s was strongly influenced by China’s art and religion. Same holds true for Southeast Asia, Vietnam in particular. The spread of Buddhism from India through Tibet into traditional China and then outward to northeast and Southeast Asia, along with Confucianist thinking in Northeast Asia, also has provided a unifying foundation. Japan, Korea, and Vietnam all used Chinese characters for writing their languages for centuries.

China plays a larger role in regional affairs, particularly since the reform period in China. Economic and political reforms let China herself to become open and be opened for other countries in the region. Today China is one of the largest economies with high ratio of imports to GDP. Not only the ratio is high, but it has risen dramatically over the past two decades.³⁶⁹ China is open to inflows of foreign direct investment. Several years ago ASEAN were worried about China sucking in investment from developed countries at their expense, but this concern has diminished. As long as China’s imports and exports are rising to the region, the countries of the East and Southeast Asia can easily see China as an opportunity rather than a threat in economic engagement with it. This suggests that regional economic integration is driven increasingly by China. Within Asia Pacific, the growth of the Chinese economy has already a profound impact on both the structure

³⁶⁷ The World Bank, **Global Economic Prospects and Developing Countries, 1998/99: Beyond Financial Crisis**, World Bank, Washington, 1999, p. 34.

³⁶⁸ William J. Clinton, **A National Security Strategy for a New Century**, The White House, Washington, 1998, p. 46.

³⁶⁹ Edward J. Lincoln, “Comments on China as a Regional Player.” **World Economy Workshop**, China, January 2006, p. 1.

of the regional political economy, and on the developmental trajectories of individual regional states.³⁷⁰ Even Japan in economic sense does not perceive China as a threat; China is Japan's second largest trading partner and the preferred offshore production base for Japanese firms.³⁷¹ Moreover, Prime Ministers of two states set policy that Tokyo and Beijing would work to ensure regional stability.³⁷²

China maintains the strongest armed forces in the region. It undertook measures to enhance its military capabilities including its nuclear capacity, land- and sea-based access denial capabilities, and weapons.³⁷³ According to some analysts, Beijing's advanced missiles and weapons systems directed at expanding China's military power in Asia. They noticed that Japan can be troubled about Chinese military capabilities and that possible parallel buildup of the militaries of China and Japan could be troublesome in the region. Some other experts say that the rest countries in the region see China as a positive player rather than an aggressive military power. Moreover they consider China as a stabilizer in the region.

4. Since Chinese leadership is not interested to be perceived in the region and the world as a threat, it adopted a policy of good-neighborliness. The policy stresses China's non-hegemonic stance and the view that China's economic growth would benefit other nations, but not hurting them. China's further opening up economy can serve as a growing market for the rest of the world, thus providing increased opportunities than posing a threat to the international community.

To convince the world that it has positive intentions China tries to play the role of peacemaker in Asia Pacific. Since the end of the Cold War, China develops assiduous diplomatic relations with many states in the region and outside including its traditional rivals Russia and India. For example Beijing and Delhi have been engaged in a strategic partnership that led to a Treaty on Good Neighbourly

³⁷⁰ Shaun Breslin, *China and the Global Political Economy*, p. 131.

³⁷¹ Eric Heginbotham and Richard J. Samuels, "Japan's Dual hedge", *Foreign Affairs*, Vol. 81, No. 5, 2002, p. 116.

³⁷² *Ibid.*, p. 118.

³⁷³ Bernard D. Cole, *The Great Wall at Sea: China's Navy Enters the Twenty-First Century*, Naval Institute Press, Annapolis, 2001, p. 168.

Friendship and Cooperation. China is preoccupied with its participation in the security-oriented ARF and the APT ministerial sessions as a full dialogue partner of the ten-member ASEAN.³⁷⁴ China is interested in promoting peace on the Korean peninsula through its talks on the nuclearisation of the Korean peninsula, and a planned common economic future with Southeast Asia. China with four countries of the Central Asia: Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, and Russia founded the SCO - a regional organization for multilateral cooperation.³⁷⁵

5. China is a member of the United Nations Security Council. It is involved in more than 1000 international governmental organizations dealing with issues which range from drug trafficking to the environment. It is a supporter of the United Nations and international law, being against the exercise of military power and supporting peaceful methods of diplomacy. During the Cold War, China played the role of balancer in the strategic triangle: the United States, Soviet Union and China. In post-Cold War era China also has been an active participator in the forums for peace as in the campaign with the US against terrorism.³⁷⁶

6. Though China can be accepted as a regional power by ASEAN countries, there is a rivalry with India, Japan which pretends to have regional power status in Asia. Besides Taiwan reluctance of accepting China's formula of "one China" as well hinders it to become a regional power. Sino-Indian geopolitical rivalry has never stopped in the following issue-areas: Pakistan, Tibet, and Sino-India border. However despite India's will of achieving regional leader status in Asia, for today the solutions to the above mentioned issues seemed to be found by both states in order to establish a good neighboring relationship. For historical and geopolitical reasons, China's relationship with Japan has always been complicated. Despite rapidly expanding economic ties, Sino-Japanese political relationship has become increasingly troubled. The root causes involve a deep anxiety on the part of some Japanese about the international power implications of China's rapid growth, along

³⁷⁴ Hsiu-Ling Wu and Chien-Hsun Chen, "The Prospects for Regional Economic Integration between China and the Five Central Asian Countries", p.1059.

³⁷⁵ Adiljan Umarov and Dmitry Pashkun, "Tensions in Sino-Central Asian Relations and their Implications for Regional Security", p. 13.

³⁷⁶ Ibid., p. 12.

with a bruised ego as Japan loses a sense of self-worth as the informal “leader” of East Asia (a positive self-image considerably inflated beyond the lesser reality of the 1980s and 1990s). The Japanese government, for example, has been humiliated by having to adjust its policy toward the region in response to Chinese policy initiatives.³⁷⁷ Taiwan has become not only China’s problem but one of the important controversies between China and the US, for which still no solution has found. Both sides are not going to concede with each other on this issue.

As it was seen China fulfills fully five criteria of regional power: belong to a geographically defined region, articulates the pretension of a leading position in this region, has great influence in regional affairs and dominate this region in economic and military terms, plays the role of regional peacemaker, is integrated in interregional and global forums and institutions. As for the sixth criterion, that it should be recognized or accepted as the regional leader by its neighbors, China fulfills it to some degree: most ASEAN countries accept China as a regional power, while Japan, Taiwan and the US do not.

A state will have the status of regional hegemony when it is the single great power in its region. Except Japan’s pretension on regional power and Taiwan issue in Asia Pacific, from the previous chapters it is known that the role of the US in the region is big. It performs countervailing power to China in Asia Pacific. Thus, today China’s principal objective to regional power is focused on roles of Japan and US in the region and Taiwan reunification. China’s potential to challenge US military superiority in Asia is present, but it is uncertain whether Beijing will make attempts to use its future military capabilities in eliminating the US as Asia’s offshore balancer and establishing China’s regional hegemony. In return the US does not seem to cease its intervention in China’s internal affairs concerning Taiwan, its arms sales to the island and US-Japan alliance in order to prevent China’s emerging regional hegemony. As Mearsheimer has suggested, Beijing would first have to

³⁷⁷ Edward J. Lincoln, “Comments on China as a Regional Player”, p. 2.

assess whether the costs and risks involved in the process of eliminating the United States are greater or less than the benefits accruing from hegemony.³⁷⁸

5.2 Forming Regional Blocs Having a Systemic Impact

5.2.1 Sino-Russian Relations

After China's establishment in 1949 the Soviet Union became China's closest ally. Soviet equipment was set out for China's modernization and industrialization. So during the 1950s, after the devastation of the Sino-Japanese War and following it the Civil War, the CCP had to accept the Soviet support for economic recovery and development, and protection from possible military attack by the US.³⁷⁹ "Russia and China are brothers forever," or so proclaimed the 1950 ode to Sino-Soviet friendship.³⁸⁰

A visit to Moscow by Mao culminated in the 1950 Treaty of Alliance, Friendship, and Mutual Assistance, which bound the two states to assist one another militarily against Japan or other any state.³⁸¹ At the same time Mao did not see the role of Moscow as the ideological leader of the world communist movement, thus promoting the idea that communist movements in the world should follow Chinese model of revolution not Russian. However the fear of US military intervention did not allow the two states an ideological rupture and therefore the friendship between the two continued.³⁸²

Stalin's death in 1953 created a new situation in the Communist world. Nikita Khrushchev prompted by a combination of political cynicism and genuine good will, led an assault on Stalin and Stalinism that would astonish many in his own country

³⁷⁸ John J. Mearsheimer, "Back to the Future: Instability in Europe after the Cold War", **International Security**, Vol. 15, No. 1, 1990, p. 13.

³⁷⁹ Edward J. Lazzerini, *The Chinese Revolution*, p. 76.

³⁸⁰ Elizabeth Wishnick, "Russia and China: Brothers again?", **Asian Survey**, Vol. 41, No. 5, 2001, p. 797.

³⁸¹ Rosemary K. I. Quested, **Sino-Soviet Relations**, George Allen and Unwin, London, 1984, p. 116.

³⁸² Linda Benson, *China since 1949*, p. 36.

and abroad and would forever change the international communist movement.³⁸³ Khrushchev's policies began to deteriorate the relations with China. Mao supported Stalin ideologically and politically, while Khrushchev managed to ruin that support by rejecting the Stalin's leadership and downplaying the core Marxist-Leninist thesis of armed conflict between capitalism and socialism in a series of his speeches. Such position of Khrushchev clearly posed a challenge to Mao's foreign policy adopting in the aftermath of the Chinese Civil War, when there had been China's necessity for an alliance with the Soviet Union against possible US and Japanese military involvement in Chinese affairs.

During the Five Year Plan implemented in China in the years between 1953 and 1957, the Soviet Union did not give China any financial grants.³⁸⁴ Moreover, of the Soviet credits and loans to China, reported totaling 1.31 billion dollars, only a small part was definitely known to have consisted of long-term loans for economic development.³⁸⁵ Yet without Soviet assistance, the China could not have implemented its Five Year Plan. Therefore, economic issues had emerged as well a problem in the Sino-Soviet relations. Despite everything, Mao Zedong visited the Soviet Union in 1957 in order to take part in the 40th anniversary celebrations of the October Revolution.³⁸⁶ While Mao did not enter into open polemics in his public speeches, the mutual criticism voiced in closed sessions. The Chinese domestic and foreign policies had been criticized at closed sessions in the Soviet Union.

By 1960 the relations between the two Communist powers deteriorated. The Soviets alarmed by the Great Leap Forward, refused to assist China in its developing nuclear weapons program and decided not to support China in its border dispute with India, a country which was relatively friendly to the Soviets. These events offended Mao. Throughout the 1960s Sino-Soviet relations did not improved. Mutual distrust generated military clashes in 1969 along the lengthy border between the two

³⁸³ Edward J. Lazzerini, *The Chinese Revolution*, p. 75.

³⁸⁴ William A. D. Jackson, **The Russo-Chinese Borderlands**, D.Von Nostrand Company Inc Princeton, Toronto, 1962, p. 94.

³⁸⁵ *Ibid.*, p. 96.

³⁸⁶ Roy Medvedev, **China and the Superpowers**, Basil Blackwell, New York, 1986, p. 31.

countries.³⁸⁷ In 1968, the Soviets increased their troop deployments along the Chinese border, particularly the border with Xinjiang. In fact, the Soviet Union had its divisions, aircrafts, and medium-range missiles on the border from 1961. Though China was able to detonate its first nuclear device in 1964 at Lop Nor, its military power could not be compared to that of the Soviet Union.³⁸⁸

Being alarmed with Soviet military buildup on the border, Mao began seeking contacts with the US as a counterweight to the Soviet menace. Such a development led to President Nixon's visit to China in 1972 and reorientation of China's foreign policy toward the US. The Chinese began seeing the "social imperialism" of the Soviets as a much greater threat than the "bourgeois imperialism" of the US.³⁸⁹

After Mao's death, Xiaoping reversed Mao's policies and began a transition to a market economy in China. By the 1980s Deng's policies which emphasized the Chinese road to socialism in practice meant the restoration of a market economy in China and that China had largely lost interest in Communist polemics. Now after Mao's death rivalry between the Soviet Union and China turned to be less about the internal politics and more in the international field, where the national interests of the two states frequently clashed.

In 1985 in the Soviet Union Mikhail Gorbachev came to power, his policy was directed to normalization relations with China. Thus the Soviet military forces along the border were reduced, normal economic relations were restored, and the border issue was quietly forgotten. In 1986 Gorbachev announced and expressed Soviet interests in normalizing Sino-Soviet relations. Gorbachev's announcement of a new policy of accommodation toward China was accompanied by a peace of threat assessment namely a "Washington-Tokyo-Seoul" military axis was forming in East Asia and the threat of war in this region was escalating at a "dangerously fast pace."³⁹⁰ The new policy toward China was directed to the creation of a collective

³⁸⁷ Edward J. Lazzerini, *The Chinese Revolution*, p. 76.

³⁸⁸ John Wilson Lewis, "Strategic Weapons and Chinese Power: The Formative Years", p. 547.

³⁸⁹ Edward J. Lazzerini, *The Chinese Revolution*, p. 76.

³⁹⁰ Hung P. Nguyen, "Russia and China: The Genesis of an Eastern Rapallo", *Asian Survey*, Vol. 33, No. 3, 1993, p. 288.

security among socialist countries in the region. Thus between 1985 and 1987 China-USSR went to deepen the process of Sino-Soviet rapprochement of establishing a continental alliance against Japan and the US. When Gorbachev and Xiaoping agreed at 1989 summit meeting, the two leaders were ready to put aside old disagreements and focus on facilitating the new development of a constructive bilateral relationship. But both sides realized that it would be impossible to avoid some tensions in their relations. Deng reminded about unequal treaties imposed by the Tsarist regime, whereas among Russians who now supported Sino-Russian partnership were the critics of Maoist hegemony in the 1970s.³⁹¹ However, after the dissolution of the Soviet Union, with Russia having been weakened by its internal factors both countries found common interests. China and the Russian Federation began to maintain close and friendly diplomatic relations, strong geopolitical and regional cooperation, and significant levels of trade.

The treaty signed in 1991 by China and Russia aimed at demarcation most of the borders between the two states. The border between the Soviet Union and China has been an issue of contention for a long time. The Sino-Soviet border was a legacy of many treaties between China and Russia which were seen by China unequal, thus the issue arose again and again leading to military clashes along the border. Even when two states had good relations the border issue remained unresolved. Border negotiations were eventually resumed in 1987 by Gorbachev. A few months before the final dissolution of the USSR, there has been reached an agreement on the eastern portion of the border in 1991.³⁹² After the Soviet Union's dissolution, the former Sino-Soviet border was shared by Kazakhstan, Kyrgyzstan, Tajikistan, and Russia. Now the Russian Federation inherited only about 50 km of the former Sino-Soviet border. China negotiated separate border agreements with each of the post-Soviet republics on its borders.

In 1995, Primorskii Krai Governor Evgenii Nazdratenko called for the repudiation of the 1991 Sino-Russian border demarcation treaty, rather than the return of certain territories to China. Although compromise was achieved three

³⁹¹ Ibid., p. 289.

³⁹² Edward J. Lazzerini, *The Chinese Revolution*, p. 77.

border-river islands remain the subject of dispute. Two islands Tarabarov/Yinlong and Bolshoy Ussuriiskiy/Heixiazi occupy a strategic location directly across Khabarovsk. While the islands lie on the Chinese side, Khabarovsk Krai Governor Viktor Ishaev refuses to return them. He acknowledges the importance of cooperation with China in arms sales, labor exchange and international problems but insists that the two disputed islands are native Russian territory and he has no intention of returning them. Putin's representative to the Far East federal district Konstantin Pulikovskii agreed with Viktor Ishaev stating that the two islands belong to Russia. Since present-day border issue involve such participants as Kazakhstan, Kyrgyzstan, and Tajikistan these three Central Asian states together with Russia and China in 1996 agreed on measures requiring that each participant would inform the others about troop and weapons movements within 100 km of their common border. Summit meetings of the Shanghai Cooperation Organization became a regular forum for discussion of confidence-building measures and regional economic cooperation.

China in the post-Cold War international order became a valued strategic partner for Russia. From Beijing's perspective, Sino-Russian relations have never been better than in the 1990s. Chinese officials praised for it the former President Boris Yeltsin who saw the summit with China in 1992 as a conception of a foreign policy balanced between East and West.³⁹³ During a series of meetings throughout the decade, Presidents Yeltsin and Zemin announced first their constructive partnership in 1994 and their strategic partnership in 1996. The leaders of both nations found common reason in their opposition to what they perceived as US domination in the post-Cold War world order and were involved in a joint effort to form more multipolar international system.

The dramatic progress in Sino-Russian political relations paralleled the development of NATO expansion and growing concern in some American policy circles about China's rising power. Just as Russian officials saw NATO expansion as a way of containing Russian power, so have Chinese officials viewed the US role in the 1996 Taiwan Strait crisis and the tough battle in the US Congress over China's

³⁹³ Elizabeth Wishnick, "Russia and China: Brothers again?", p. 807.

entry into the WTO as attempts to counter Beijing's growing clout. The leaders of both Russia and China issued joint statements about US military strikes against Iraq, the NATO intervention in the Kosovo crisis and US plans for theater missile defense TMD.³⁹⁴ China considered American plans to develop TMD systems as an attempt to contain China. From the mid-1990s, China and Russia united against what they called American interference in their domestic affairs on human rights grounds. The Chinese supported Russia's effort to subdue Chechnya militarily, while the Russians - China's position on Taiwan. The partnership with Russia became the crucial for China's effort to prevent any major changes in the strategic security architecture which would neutralize the Chinese strategic nuclear deterrent and impede its aim of recovering Taiwan.³⁹⁵ The progress which was achieved in political relations between Russia and China since the dissolution of the Soviet Union surprised the world.

China and Russia discovered a number of common interests in economic and military spheres. For example China wanted to modernize its armed forces and Russia was desperate to find markets for its markets, among the few of its industrial products that were saleable overseas.³⁹⁶ Since late 1990s China and Russia have completed transactions in military equipment such as the sale to China of medium-range bombers, attack helicopters, battle tanks, ground-air and ground-ground missiles, naval vessels including submarines and nuclear and missile technology.³⁹⁷ These Russian military sales became the largest foreign arms delivery to China since the 1950s. However, regional economic development was that sphere where the two powers had lack of stabilizing dimension.

The normalization of Soviet-Chinese relations and the growing economic cooperation between two countries were met in the Russian border regions with enthusiasm. Russia hoped to benefit from the development of the border trade and direct contacts with the authorities of China. However, later enthusiasm disappeared.

³⁹⁴ Ibid., 800.

³⁹⁵ Ibid., 801.

³⁹⁶ Alan Hunter and John Sexton, *Contemporary China*, p. 193.

³⁹⁷ Bin Yu, "Sino-Russian Military Relations: Implications for Asian-Pacific Security", *Asian Survey*, Vol. 33, No. 3, 1993, p. 302.

The population of the Russian Far East decreased because of the high cost of living in the region, while Chinese citizens migrated there.³⁹⁸ The influx of Chinese traders and workers caused high social tension in the region. In 1993 and 1994 during the peak period of Sino-Russian regional trade, the regional press condemned the illegal presence of millions Chinese traders and laborers on Russian land who stayed in Russia for a long time or even settled there. This gradually led to anti-Chinese sentiment in Russian Far East. The journalist in the region argued that joint ventures with Chinese capital were too small and the Chinese did not invest in the local economy, transferring their profits back to China, that they managed to secure strong positions in the market through dictating prices on natural resources and goods beneficial only to one side and having a flexible customs policy.³⁹⁹ It was also claimed that the Chinese authorities tried to establish Chinese communities on Russian territory. Thus the pressure of public opinion led to a unilateral Russian decision to close a border. In 1994 the visa system was reintroduced. Several regional authorities adopted measures against illegal Chinese emigrants. These measures gradually decreased the numbers of the Chinese in the Russian Far East.

There was the difference between Moscow's approach to regional development and that of Beijing. On the one hand Moscow stressed large capital investment, natural resource development projects, in which governments and large state or privatized corporations are the principal players, on the other it attempted to encourage regional-level contacts. In the minds of regional commentators the centre is most interested in the former strategy, by-passing regional governments and interests, since this meets its own revenue raising needs and fits in well with the politics of privatization.⁴⁰⁰ This is in direct contrast to the Chinese experience where national development is de facto regional development-inward investment, economic restructuring and external orientation.

³⁹⁸ Won Bae Kim, "Sino-Russian Relations and Chinese Workers in the Russian Far East: A Porous Border", *Asian Survey*, Vol. 34, No. 12, 1994, p. 1065.

³⁹⁹ Alexander Lukin, "The Image of China in Russian Border Regions", *Asian Survey*, Vol. 38, No. 9 1998, p. 823

⁴⁰⁰ David Kerr, "Problems in Sino-Russian Economic Relations", *Europe-Asia Studies*, Vol. 50, No. 7, 1998, p. 1153.

There were also some doubts of the Chinese whether Moscow would grasp the implications of the post-planned economy. Moscow's instincts when approaching the problems of the Sino-Russian economic relationship are to search for administrative solutions. Beijing was involved in economic development but engine of development is based in the regions and the criteria are market-based. Thus in period of normalization relations between China and Russia the problems remained and felt most acutely in the Russian Far East.

The visit of new Russian President, Vladimir Putin to Beijing proved that the Sino-Russian partnership would continue to be important in its foreign policy in the 21st century.⁴⁰¹ In 2001 Russia and China signed a new Treaty. It was the first Treaty of Friendship since 1950. The Treaty was not directed against any third country as the previous one, but aimed at improving the strategic relations between China and Russia.⁴⁰² It included such commitments as renouncement of the use of force in Sino-Russian relations, and building close bilateral relationship on security issues, also in the fields of science, technology and energy. China and Russia reaffirmed the validity of 1972 Anti-Ballistic Missile Treaty (ABM) and advocated the reduction of strategic offensive weapons according to the ABM treaty.⁴⁰³ The Treaty was described by Presidents Putin and Zemin as one that would deepen friendship between the two countries as document oriented to the new era for the Sino-Russian relations.

For China Russia has become important in the post-Cold War era, since both shared much in common. Both are willing to strengthen their cooperation on economic globalization, and agree on the principle of a multipolar world, being opposed to hegemonism. Both were bidding for entrance into the WTO and after their entry shared a common concern about how to protect their national interests. Both nations are against external interference and are confident in solving the problems in their internal affairs without outside help as in the Chechen issue and the issues of Taiwan and Tibet. Security cooperation remained the top priority for both

⁴⁰¹ Elizabeth Wishnick, "Russia and China: Brothers again?", p. 802.

⁴⁰² Ibid., p. 819.

⁴⁰³ Ibid., p. 820.

countries. Thus since the 1996 with these common interests the two countries' relations were characterized by cooperation of border issues, security matters, confidence-building measures and arms control issues.

In recent time Sino-Russian trade has grown rapidly. Since 2000 more than 90 per cent of China's conventional weapons purchases came from Russia.⁴⁰⁴ Russian-Chinese military relationship was achievement of the commercial relationship because Beijing became the biggest buyer of Russian missile systems, submarines and helicopters. The SCO was established as an alliance of Russia, China and some states of the Central Asia in order to end border disputes. In relations with Central Asian states China and Russia aimed to annihilate terrorist forces, strengthen their relations with the Central Asian countries and promote the stability in the region. Although Sino-Russian ties have been raised, competitive elements exist in their relationship. They are the shifts in their foreign policies, particularly in the relations with the US, Russian special limitations on weapons trade, and the problem of Chinese migration to Russia. Despite Sino-Russian common strategic objectives towards Central Asian states, China within the SCO framework wants to establish stability in Xinjiang, promote free trade in the region and with the help of Russia to counter the US, while Russia pursues the intention of regaining its influence in Central Asia and of accelerating its own economic development through regional economic cooperation.

The most pronounced conflict of interests between China and Russia lies in the energy sector of Central Asia. Russia has the greatest stake in Central Asia of any of the major powers, because the region had been the integral part of the country for more than a century. Achieving the reintegration of these states within the Commonwealth of Independent States is a key component of the Russian government's policy, and Moscow seeks to enhance its influence in the region while simultaneously minimizing the influence of other nations.⁴⁰⁵ Though China aims at

⁴⁰⁴ Ren Dongfeng, "The Central Asia Policies of China, Russia and the USA, and the Shanghai Cooperation Organization Process: A View from China", **Stockholm International Peace Research Institute (SIPRI) Paper**, Stockholm, 2003, p.11.

⁴⁰⁵ Philip Andrews-Speed and Sergei Vinogradov, "China's Involvement in Central Asian Petroleum", **Asian Survey**, Vol. 40, No. 2, 2000, p. 383.

reducing Central Asian countries' dependence on Russia, in general China regards Russia as a guarantee of the stability of the Central Asian states. China realizes that, though there are complaints against Russia, the Central Asian states actually cannot manage without it. They prefer to be protected within Russia's defensive area and for most of the 1990s relied on Russian border troops in protecting their own outer – former Soviet borders.⁴⁰⁶

Russia would not mind retaining some control over the export route of Central Asia's oil and gas. From a security perspective, Russia can concern that one or several Central Asian countries might turn into an extremist Islamic state, that they might join with Turkey and create a bloc hostile to Russia, or that the long Russian-Kazakh border could become increasingly porous to organized crime and drug trafficking.⁴⁰⁷ After the Soviet Union's dissolution the Central Asia became very important for Chinese economic priorities as well. China which looks for outside energy supplies, viewed Central Asia as the ideal place for finding them. To feed its growing energy demands, Beijing needs Central Asia, attracting it to China's massive energy market.

Kazakhstan possesses the highest proven oil reserves in the Caspian Sea region and is seen as important potential source of oil supplies to world markets.⁴⁰⁸ China began to expand economic relations with Kazakhstan. Kazakhstan has become the largest trading partner of China in Central Asia. Two countries began cooperating in energy sector. In 2006 Kazakhstan and China completed a pipeline in the central part of the republic to Xinjiang province which would provide Central Asia with the first large non-Russian route for gas exports.⁴⁰⁹ Chinese investment to the oil projects in the west of Kazakhstan also strengthens its economic presence in Kazakhstan. However, the factors that constrain China's economic influence and hinder achieving its objectives in energy policy in Kazakhstan are deep Kazakh-Russian ties supported

⁴⁰⁶ Ibid., p. 386.

⁴⁰⁷ Shiping Tang, "Economic Integration in Central Asia: The Russian and Chinese Relationship", *Asian Survey*, Vol. 40, No. 2, 2000, p. 366.

⁴⁰⁸ Sergei Chebotarev, "Neft Kazahstana [The Oil of Kazakhstan]", *Centralnaya Aziya i Kavkaz*, Vol. 3, No. 9, 2007, p. 29.

⁴⁰⁹ Ibid., 30.

by Russian minority living in Kazakhstan and the irritation of Russians with the presence of Chinese managers and companies in Kazakhstan's market. Russia maintains autarchic control over energy firms to manipulate prices in its favor by being a monopolistic producer.

In 2005 the Russian energy firm Gazprom and Kazakhstan's main gas pipeline firm KazMunaiGaz agreed to increase gas transit of Turkmen and Uzbek gas via Kazakhstan to Russia for export to Gazprom's European customers. This move restricted China's gas importing options in the whole region.⁴¹⁰ Russia joined by US energy companies attempted to obstruct Chinese efforts to buy energy holdings in the region, thus compelling China to search other oil and gas options and to establish cooperation with such states as Iran. Therefore China's efforts to gain leverage and access to Central Asian holdings have not been easy.

China's rivalry with Russia on energy seems to be abnormal when one assumes an unbreakable strategic partnership with Russia against the US presence in Central Asia. However, the strategic partnership remains important for China in its global foreign policy outside and inside the region.

5.2.2 China in Central Asia within the Context of the SCO

With the collapse of the Soviet Union in 1991 and the emergence of five new independent states in the Central Asia, namely Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, Central Asia began to attract attention from leading international players such as the US, China, Russia, Turkey, Iran, and India. When the Soviet Union collapsed China found itself bordered with three new states in Central Asia and had to redefine its strategy and policy towards them in the region. Thus today Central Asia is an important part for Chinese foreign policy in terms of geoeconomic, geostrategic and geopolitical dimensions as a whole part of the Chinese foreign policy structure.⁴¹¹ China and its neighboring countries now increased

⁴¹⁰ Ibid., p. 31.

⁴¹¹ Dilixiati Maiamaiti, "China's Strategy towards Central Eurasia and the Emergence of Shanghai Five", **Master dissertation**, Institute of Social Science, Hacettepe University, Ankara, 2003, p. 134.

economic and political cooperation in the framework of the Shanghai Cooperation Organization (SCO).

At the beginning of the 20th century the Russians established direct rule over Central Asia, except for Afghanistan and Eastern Turkistan. After the October Revolution in Russia and the formation of the Soviet Union, Central Asia became an integral part of the Communist state under its Marxist-Leninist ideology. Meanwhile, Eastern Turkistan continued to be a region of competition between Russia and China until the death of Stalin in 1953. Twice, in 1933 and 1944, the independent republic of Eastern Turkistan was proclaimed, the first time inspired by Muslim fanatics, the second time supported by Stalin. After the death of Stalin in 1953 the special Sino-Soviet relationship was renegotiated, and the Chinese finally proclaimed the Xinjiang Uighur Autonomous Region as an integral part of China in 1955.⁴¹²

Xinjiang Uighur Autonomous Region's populations consist of ethnic minorities, who have cultural and ethnic ties with the Islamic Turkic populations in Central Asia.⁴¹³ The Uighurs are the largest single ethnic group of the region. In the autonomous region except Uighurs there live Kazakhs, Kirghiz, Tadjiks and Mongols. The Uighurs, Kazakhs and Kirghiz are ethnic Turks. The Chinese leadership always saw Xinjiang susceptible to anti-Chinese influences. Particularly after the Soviet Union's collapse, Chinese leaders became anxious greatly that Islamic or ethnic Turkic forces in the newly independent Central Asian Republics would support the separatist activities of minority groups in Xinjiang. So China sent a message to its Central Asian neighbors, which was in favor of the Uighur movement towards independence, that China would not stand any interference in what it defined as its own internal affairs. The governments of Central Asian states agreed with China on this point, they promised not to provide any support for the Uighurs. Nevertheless, the threat of ethno-nationalism and Islamic resurgence in Central Asia remains a core component of Chinese policy in the region.⁴¹⁴

⁴¹² Svat Soucek, *A History of Inner Asia*, p. 273.

⁴¹³ Linda Benson, *China since 1949*, p. 27.

⁴¹⁴ Svat Soucek, *A History of Inner Asia*, p. 274.

The Chinese engagement with Central Asia may be broken in the following points: the strategic importance of Central Asia and its potential impact on global events; the significant role of Central Asia as a supplier of vital energy resources; and security and political issues concerning Central Asian relations with Xingjiang.⁴¹⁵ In the opinion of many Chinese analysts, Central Asia is a transcontinental link in all senses: geographical, political, economic and cultural. The growth of economic ties with Central Asia is necessary for China which will help to spread its influence through the region, especially in the sphere of energy. Energy sources and other raw materials are one of the most important products for China in its trade with countries of Central Asia. The economic growth, energy and strategic interests in Central Asia may tie China, but the main precondition for realizing China's strategic and energy objectives in Central Asia as it was mentioned above is founded on internal stability in Xinjiang. Thus the objectives of China's foreign policy in the region: establishing stability and peace in Xinjiang and resolving disputes over borders, promotion of free trade and regional economy caused the emergence of the Shanghai Cooperation Organization with the former Soviet republics. There has been also the opinion that the SCO was created as a means to reduce US power and limit democracy promotion abroad.⁴¹⁶

The SCO is a regional organization for multilateral cooperation which was founded in 2001 by the leaders of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan had been the members of the Shanghai Five, after Uzbekistan's entering the members renamed the organization as the Shanghai Cooperation Organization. China and Russia always play the leading roles in this organization.

The Shanghai Five was originally created in 1996 with the signing of the agreement on confidence-building along the border areas by China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan. The agreement stressed that the armies two sides deployed in the border area would not affect each other; no military maneuvers

⁴¹⁵ Adiljan Umarov and Dmitry Pashkun, "Tensions in Sino-Central Asian Relations and their Implications for Regional Security", p. 4.

⁴¹⁶ Ibid., p. 13.

would be aimed at each other; the number of military maneuvers should be limited; all sides had to inform each other about important military activities within the borders. The agreement was a breakthrough in confidence building between China and Central Asian States in efforts to maintain peace and security in the wider Asia-Pacific.⁴¹⁷ In 1997 the same countries signed the agreement on reducing military forces along the borders. The aim of this agreement was eliminating tensions between China and the former Soviet republics. In 2001 the five members of Shanghai Five mechanism admitted Uzbekistan and Shanghai Five was transformed into the Shanghai Cooperation Organization. The six states signed the declaration of the SCO. According to this declaration all member states should maintain friendly ties and common development; should not target each other or the countries of other regions; and develop friendly relationships with other regions and international organizations around the world.⁴¹⁸

After the establishment of the SCO, the 11 September 2001 attacks took place, followed by the US military operations in Afghanistan. These events had a significant effect on the SCO. The Central Asian states have identified Islamic radicalism and terrorism as their main security threat and Afghanistan as the locus of the threat.⁴¹⁹ The member states of the SCO became active participants in anti-terrorism cooperation at the global level.

The states of Central Asia were important for the US war on terrorism because of their possible ties with radical Islamic organization al-Qaeda.⁴²⁰ After the September 11 attacks with the consent of Russia and Central Asian governments, the US stationed troops in Central Asia. At this point, China began to feel strategically

⁴¹⁷ Guan Cheng Xing, "China and Central Asia", **Central Asian Security: The International Context**, ed. Roy Alison and Lena Johnson, Brookings Institute Pres, Washington, 2001, p. 160.

⁴¹⁸ Ren Dongfeng, "The Central Asia Policies of China, Russia and the USA, and the Shanghai Cooperation Organization Process: A View from China", p. 3.

⁴¹⁹ Alec Rasizade, "The New "Great Game" in Central Asia after Afghanistan", **September 11 and World Politics: American Hegemony Reconsidered**, ed. Gokhan Bacik and Bulent Aras, Fatih University Publications, Istanbul, 2004, p.133.

⁴²⁰ Adiljan Umarov and Dmitry Pashkun, "Tensions in Sino-Central Asian Relations and their Implications for Regional Security", p. 11.

deterred by the US from both east and west - Central Asia and the Asian Pacific.⁴²¹ Therefore China had to increase economic and military cooperation with Central Asian states. It also bolstered the Sino-Russian strategic partnership.

This strategic partnership of the two most powerful and influential players in the SCO challenged US involvement in Central Asia. It was evident when the Uzbek demanded the US to leave the Karshi-Khanabad base in 2005.⁴²² China and Russia took advantage of the harsh US reaction to the Uzbek crackdown of Islamist rebels in Andijan province and managed to convince Uzbek president that the US had supported the insurgents.⁴²³ The US perceives the Central Asian region from the perspectives of its own strategic interests, stimulated by energy politics and by the challenge of international terrorism. It intends to contain both China and Russia by means of strong political, economic and military influence in Central Asia. However China together with Russia managed to oppose to US plans to build military bases in the Central Asian states, and carry out joint military maneuvers there.

As China wants to expand its military influence in Central Asia it has contacted with Kyrgyz officials, exploring the possibility of Chinese military bases there.⁴²⁴ The PLA has been involved in several joint exercises with troops from SCO states, including the bilateral joint exercise with Russian forces in 2005. China realizes that its increasing regional militarization and intensification of military buildup in Central Asia would raise the possibility to solve regional issues such as religious radicalism, terrorism and narcotics trafficking because for China security issues have always been a prime concern.

China increased economic cooperation with Central Asia. It has replaced the US in providing trade, investment and consumer goods to Central Asia. For example, in 2003 over 80 percent of Kazakhstan's exports to China were attributable to raw

⁴²¹ Wu-ping Kwo and Shiau-shyang Liou, "Competition and Cooperation between Russia and China in Central Asia and Shanghai Cooperation Organization: Analytical View from International Regime", **National Chengchi University**, 18.04.2005, at http://iir.nccu.edu.tw/hjournal/is_c/is_c_9403.htm (27.05.2008), p. 10.

⁴²² Aziz Guliaev, "Kitai-Kazakhstan: Pogranchnyi Spor Prodolzhayetsya", p. 19.

⁴²³ Ibid., p. 19.

⁴²⁴ Ibid., p. 21

materials (sources of energy 58 percent, ferrous and non-ferrous metals 24 percent).⁴²⁵ According to official Chinese statistics, the trade volume between China and the five Central Asian countries is growing rapidly. It reached 27 billion dollars in 2004, 1.5 times more than the figure in 2000. The bilateral trade volume in 2006 was 4 percent higher than that of 2005.⁴²⁶ Moreover Chinese leadership invested about 4,000 million dollars in the Central Asian countries. The unofficial trade, which is not included in the official statistics, is also growing rapidly. According to some estimates, it is comparable in scale to the official bilateral trade of China with countries of Central Asia.⁴²⁷ Thus Beijing's interests in the SCO can be separated into economics and security. Actually these two entities determined Chinese foreign policy towards Central Asia and within the SCO have become successful.

Chinese quick economic and political growth raises serious fears in Central Asia that soon Beijing will dominate the region both economically and militarily, while the Chinese deny any belief that it is seeking hegemony in the region, emphasizing that the basic priorities of China's policy in Central Asia is to develop relationship on a mutually beneficial basis. However the Central Asian officials remain suspicious about Beijing's policies. The main danger in the region is China's "yellow peril" in the form of uncontrolled penetration of Chinese population into Central Asia, which is unwilling to go back to China and prefer to settle in Central Asia, especially in Kazakhstan and Kyrgyzstan.

5.2.2.1 Kazakhstan in China's Foreign Policy

After Kazakhstan got independence it aimed at developing and improving strategic, diplomatic, and economic relations with the major powers, namely the US, Russia, China and Europe. Within these powers especially China has many reasons to cooperate with Kazakhstan. Kazakhstan with its advantageous geopolitical

⁴²⁵ Adiljan Umarov and Dmitry Pashkun, "Tensions in Sino-Central Asian Relations and their Implications for Regional Security", p. 5.

⁴²⁶ Aziz Guliaev, "Kitai-Kazakhstan: Pogranichnyi Spor Prodolzhayetsya", p. 42.

⁴²⁷ Adiljan Umarov and Dmitry Pashkun, "Tensions in Sino-Central Asian Relations and their Implications for Regional Security", p. 5

location and vast deposits of oil and gas has become very important in China's foreign policy. The strategic significance of Kazakhstan vis-à-vis China's development in the 21st century has been summarized below.

After the Soviet Union's dissolution Kazakhstan has yet to establish democratic political systems and market economies. With Soviet Union's collapse the disintegration of political institutions, economies and infrastructure did not end with the arrival of independence but continued through much of the first decade of their new existence. Production and trade decreased, unemployment and crimes soared, the gap between poor and of the suddenly very wealthy impoverished. Economic disarray accompanied a thorough disintegration of public-service infrastructure such as health care, police protection, transportation, and education.⁴²⁸ The social safety net disappeared. As a result of the decomposition, government itself grew weak and accelerated by the corruption spreading throughout its ranks. Kazakhstan completed its first decade of independence and entered the new century, it remained trapped in the punishing throes of uncertain political and economic transformations.⁴²⁹ Unlike other parts of the former Soviet Union, Kazakhstan suffered less in production and trade but the struggle to create a new post-Soviet political and economic order does not distinguish Kazakhstan from other Soviet republics. Kazakhstan, even before struggling with these problems, firstly had to create a functioning economic system. Weak governance, increased corruption and complex mixture of ethnic groups that inhabit Kazakhstan led to political instability in the country. The security situation in Kazakhstan and other Central Asian states could affect the political stability and economic development of China. Therefore economic development and trade links with Kazakhstan is seen as an important method of maintaining social stability in north-west China. There have been also other considerations that gave special importance to the economic dimension of China's evolving relationship with Kazakhstan. One is great transportation corridors connecting China and all of East Asia with Europe, a network of highways, railroads, and airports, stretching across Central Asia in two directions. The other is the medieval Silk Route, passing through Kazakhstan, Uzbekistan, Turkmenistan, Iran,

⁴²⁸ James C. F. Wang, *Contemporary Chinese Politics*, 201.

⁴²⁹ *Ibid.*, 203.

and out through Turkey. If these projects realized it would be a powerful influence helping to integrate the economic interests of China and Kazakhstan.

Since China's economy has grown rapidly it is now able to present itself as a major power and compete with the US. At the same time in the post-Soviet era Kazakhstan's natural resources have made it a focus of competition between the world's leading powers. Economic and military ties between China and Kazakhstan began developed rapidly in recent time and China realizes that by US maintaining control over resources and deploying its militaries in Kazakhstan China's influence in surrounding country would be limited putting China under pressure. Therefore China is willing to improve diplomatic ties with Kazakhstan.

As Central Asia plays an important role for China in the expansion of its international influence China's purchasing of large amounts of energy from Kazakhstan can be viewed as one of the ways in which China is expanding its influence in the region. The impressive performance of China's economy since the reform process began has made China a model for economic planners in other countries. China takes advantage of this situation to develop the relations with Kazakhstan in order to maximize the political and economic benefits to China and increase the degree of influence that China is able to exercise in the whole region.⁴³⁰ Moreover developing friendly relations with Kazakhstan will provide China with foundation on which it can build to strengthen its ties with Russia.

The natural resources of Kazakhstan have enormous strategic significance for China's future development. The rapid growth of China's economy means that demand for energy will rise. China's own domestic energy resources are very limited, thus it looks for external sources of energy supply that are large enough to meet Chinese needs. Kazakhstan possesses the necessary energy reserves and is located close to China. Kazakhstan, because of its very low consumption of energy, stands as a producing and exporting country to international markets. The abundance of oil produced and the extremely small population of Kazakhstan with relatively

⁴³⁰ Hsiu-Ling Wu and Chien-Hsun Chen, "The Prospects for Regional Economic Integration between China and the Five Central Asian Countries", p. 1062.

undeveloped refineries will force Kazakhstan to seek new, alternative ways to reach potential consumers.⁴³¹ Thus there will be collaboration in the area of energy production between China and Kazakhstan. Kazakhstan has also an important part to play in China's strategy to promote regional economic cooperation. As rising power China needs to strengthen economic collaboration with neighbouring countries, Kazakhstan can become a major focus of China's efforts to promote regional economic integration.

Since China has a common border with Kazakhstan, it is interested in maintaining friendly relations with Kazakhstan. As for Kazakhstan it is willing too to settle the border issue. Chinese security concerns also emerge from its worries Kazakhstan will become a staging area for Uighur nationalist groups agitating for an independent Xinjiang.⁴³² With the collapse of Soviet Union two strains of Uighur nationalism have come together, one present in Central Asia during the Soviet period, but repressed, and another that survived in Turkey but without the possibility of operating in the Soviet Union. China, has been living with Soviet hegemony over Central Asia for a long period of time and even today it accepted Russia's continuing dominance in the region particularly in Kazakhstan. But China has worries about third countries entering the region, particularly if they, like Turkey or Iran, are seen as candidates for stirring up nationalist or separatist movements in Kazakhstan that would affect China. China is against the inclusion of other major powers in Kazakhstan, but ready to put up with Russia's presence. In this context the SCO formation under Chinese leadership and its mechanism has become important in China's policy towards Kazakhstan, Russia and to the region as a whole.

Whether China reached achievements in its policy toward Kazakhstan or not could be seen over almost 16 years of diplomatic relations of China and Kazakhstan. China was among the first states to recognize Kazakhstan's sovereignty after the dissolution of the Soviet Union. In 1992 China and Kazakhstan established diplomatic relations. Since that time the two countries began developing bilateral

⁴³¹ Zhanibek Saurbek, "Kazakh-Chinese Energy Relations: Economic Pragmatism or Political Cooperation?", *China and Eurasia Forum Quarterly*, Vol. 6, No. 1, 2008, p. 82.

⁴³² James C. F. Wang, *Contemporary Chinese Politics*, p. 205.

cooperation. The same year two countries signed a joint communiqué and agreements on cooperation in economy, trade, science, and technology.⁴³³ Later China and Kazakhstan signed boundary agreement. So, the legal foundations of bilateral cooperation have been established, since agreements on such acute problems as confidence-building measures on the border and the disputed territory have been achieved. The leaders of both states began realizing great importance of the relations between their countries which was based on good-neighborliness and cooperation.

China follows all the developments in Kazakhstan. The Chinese media which is controlled by the state tries to avoid any negative assessments of conflicting or acute domestic problems with Kazakhstan, while in Kazakhstan the media can criticize the bilateral agreements with China.⁴³⁴ But both China and Kazakhstan want to achieve stability in the border regions. This was stated in 1993 and 1996 when the mutual declaration on the foundations of friendly relations and the mutual declaration on further development of friendly relations have been signed by both governments.⁴³⁵ The documents mention the problem of separatism. Cross-border contacts between the two countries were regulated by the consular convention signed in 1992. The consular convention stressed the economic, political, international, military, border and ecological aspects of cooperation, territorial integrity of each of the states and stability in the border regions. It is clear that Kazakhstan holds an important place in the Chinese defence policy because of revived separatism in Xinjiang and the intentions to create an independent state of Eastern Turkestan. China and Kazakhstan signed the agreement on confidence-building along the border areas. Later the SCO helped to develop closer political and security ties between China and Kazakhstan.

In 2002 Kazakhstan President Nazarbayev visited China. During this visit the heads of the two countries signed Sino-Kazakhstan Good-Neighborly and Friendly Treaty of Cooperation. The two sides also signed the agreement on the cooperation

⁴³³ Aziz Guliaev, "Kitai-Kazakhstan: Pogranichnyi Spor Prodolzhayetsya", p. 14.

⁴³⁴ Askar Mukin, "Razvitiye Kazahsko-Kitayskih otnosheniy [The Development of Kazakhstan-China Relations]", *Izvestia*, 5.08.2007, p. 8.

⁴³⁵ *Ibid.*, 9.

in the fight against terrorism, separatism, and extremism and the accord on the prevention of dangerous military activities.⁴³⁶ When President Hu Jintao visited Kazakhstan in 2003, the two countries approved the Kazakhstan-China cooperation program which directed to future mutual cooperation. In 2004 there has been signed an agreement on establishing the Kazakhstan-China cooperation committee, which has become the main mechanism to continuously promote bilateral relations in a systematic way.⁴³⁷ In 2005 in Astana the Presidents of the two countries signed a joint declaration on establishing and developing a relationship of strategic partnership, marking a new stage in mutual relations between the two nations. In 2006 the two Presidents signed an agreement on the strategy for cooperation in the 21st century and the development of economic cooperation, during Kazakh leader's visit to China.⁴³⁸ The same year Chinese President paid a state visit to Kazakhstan, and the two parties signed the program of cooperation in the non-raw material economic sectors. The program involves development of cooperation to rationally diversify the balance of trade. The two sides signed 9 agreements.

The National Security Committee of Kazakhstan and the Public Security Ministry of China carried out an anti-terrorist exercise in the border areas in the same year. Law enforcement agencies of the two countries continue to work together against traffic in drugs, weapons and explosives, as well as on organized transnational crimes. Each year Kazakhstan sends servicemen for programs in Chinese military academies.

Today both Kazakhstan and China continue to display thriving vitality in their relations, on the basis of mutual cooperation, which includes political dialogue. Summits and high-level meetings at regular intervals have also played an important role in taking further bilateral relationship further. Since 2003, the Kazakh and Chinese Presidents have met 12 times under bilateral or multilateral frameworks. These visits are clear proof of the strategic nature of bilateral relations between the

⁴³⁶ Ibid., 9.

⁴³⁷ Aziz Guliaev, "Kitai-Kazakhstan: Pogranichnyi Spor Prodolzhayetsya", p. 16.

⁴³⁸ Askar Mukin, "Razvitie Kazahsko-Kitaiskih otnoshenij", p. 10.

two nations, during which the two sides signed many documents covering the spheres of border issues, economy, energy, cross-border rivers and education.

Kazakhstan and China cooperate in the world arena, which includes such international and regional frameworks as the UN and SCO. China cooperates with Kazakhstan in sponsoring the congresses of the leaders of world and traditional religions with a view to facilitate harmony and dialogue among all religious sects.

The economic prospects between China and Kazakhstan are great. Power engineering, metallurgy, petrochemical industry, mineral fertilizers, textile industry attract economic cooperation being the most promising field of cooperation between Kazakhstan, China, and Xinjiang. China's cooperation in the textile industry embraces eastern Kazakhstan and Semirechie.⁴³⁹ Cooperation in the field of mineral fertilizers is concentrated in the Dzhambul area, in petrochemicals, in southern and northern Kazakhstan, and in the iron and steel industry, in central and eastern Kazakhstan. Most of the largest Xinjiang companies have already established cooperation with Kazakhstan.

In 2002 the meeting of the China-Kazakhstan economic and trade cooperation committee was held in Astana. According to statistics, bilateral trade volume between China and Kazakhstan in 2002 came to 1.95 billion dollars.⁴⁴⁰ Kazakhstan is next only to Russia among East European and Central Asian countries in terms of trade with China, and ranks 30th among China's worldwide trade partners. In 2006 trade between the two countries reached 8 billion dollars.⁴⁴¹ The presidents of the two countries have set the objective of expanding the index to 15 billion dollars in 2015. Compared with exports worth 3.6 billion dollars, Kazakhstan's imports from China were worth 4.5 billion dollars in 2005, representing an enlarged trade deficit with China.⁴⁴² In 2006, Kazakhstan's trade deficit with China amounted to 1.14

⁴³⁹ Aleksandr Myasnikov, "Aziatskiye Gosudarstva SNG v Politike Kitaya [Asian States of CIS in China's Politics]", *Vneshnepoliticheskiye orientiry*, 2.09.2004, p. 10.

⁴⁴⁰ *Ibid.*, p. 10.

⁴⁴¹ Askar Mukin, "Razvitie Kazahsko-Kitaiskih otnoshenij", p. 13.

⁴⁴² *Ibid.*, p. 16.

billion dollars, up 15 percent over the previous year.⁴⁴³ Raw materials constitute the bulk of its exports to China, with little diversity in their composition. To counter the negative influence of a growing trade deficit, Kazakhstan reached an agreement with China under the framework of the economic and trade cooperation sub-committee. They have set up a package of measures to improve the commodity circulation structure between the two nations. These include enhancing the efforts of Kazakhstan's business delegates in China to promote Kazakh products on the Chinese market, to create favorable conditions to boost exports of Kazakh traditional commodities and new products. The two countries give priority to altering the trend of Kazakhstan's inclination to export mostly raw materials to China, by expanding mutual cooperation in non-raw material sectors, and setting up joint ventures utilizing high technologies. So far, Kazakhstan has been tapping the potential of cooperating with Chinese companies in the petrochemical industry, as well as machine building and other non-raw material economic sectors.

Kazakhstan and China continue to develop the Korgas international border cooperation center, which is expected to become a cornerstone for regional economic and trade cooperation and the setting up of joint ventures. The two sides are also continuing to develop cooperation in the energy sector, which is of strategic significance in their mutual relationship. In 2005 the Atasu-Alashankou oil pipeline was put into use, indicating bright prospects for the export of Kazakh oil to burgeoning markets.⁴⁴⁴ It also makes for better utilization of transit potentials. When the President of Kazakhstan visited China, the two countries reached an agreement on main principles directing the construction of the second stage of the China-Kazakhstan Kenkyiak-Kumkol oil pipeline.⁴⁴⁵ They also discussed constructing a natural gas pipeline between the two countries.

Cooperation in the transportation field is another priority for both nations. The two countries have reached primary consensus on regulating vehicle

⁴⁴³ Ibid., p. 16.

⁴⁴⁴ Adiljan Umarov and Dmitry Pashkun, "Tensions in Sino-Central Asian Relations and Their Implications for Regional Security", p. 23.

⁴⁴⁵ Ibid., p. 24.

transportation. In 2006 the two countries opened up 22 international passenger and freight transportation lines.⁴⁴⁶ The number of Chinese tourists and entrepreneurs visiting Kazakhstan has increased in recent time. At present, concerned organizations of the two countries are studying the feasibility of opening more flight routes, which is expected to expand transit capacity and facilitate further development of economic and trade ties, and the tourism industry.

There have been also China-Kazakhstan cooperation in the fields of culture, science, technology and education. In 2002 the first cultural ministers' meeting of the SCO was held in Beijing. Kazakhstan Minister of Culture, Information and Social Coordination led a delegation to attend the meeting. In April 2002, the exhibition of "China's Scientific and Technological Day" was held in Almaty, and in May, 2002, at the invitation of "All-China Youth Federation," the Kazakhstan youth delegation headed by Kaliantayev, Deputy Director of the Youth Policy Bureau under the Ministry of Culture, Information, and Social Coordination, and Executive Secretary of the Kazakhstan Governmental Committee of Youth Affairs visited China.⁴⁴⁷ On the whole, China and Kazakhstan are proceeding steadily on the path of multifaceted cooperation. China-Kazakhstan bilateral relations to the strategic partnership level, the cooperation strategy agreement in the 21st century, and SCO mechanism created more opportunities to deepen bilateral relations in all spheres. Indeed, since 1992 China-Kazakhstan relationship improved greatly.

Kazakhstan has been important in China's policy of achieving the status of regional power in Central Asia. China aimed at economic development and Kazakhstan is China's principal economic partner in the region. Kazakhstan is already becoming more dependent on products manufactured in China, and the importance of Kazakhstan market to China's coastal regions is rising. Besides, the fact that Xinjiang's inhabitants share the same languages and customs as the peoples of Kazakhstan put Xinjiang at an advantage when it comes to developing trading relations with Kazakhstan. At the same time, the Chinese government has begun implementation of the plan, which focuses particularly on Xinjiang. This means that

⁴⁴⁶ Askar Mukin, "Razvitie Kazahsko-Kitaiskih Otnoshenij", p. 10.

⁴⁴⁷ Ibid., p.16.

the central government will be providing Xinjiang with extensive support in terms of manpower, material, finance, technology and policy tools, thereby facilitating further economic and security development not only with Kazakhstan but with the whole region.

As economies in transition, market opening is an important policy for both China and Kazakhstan. Kazakhstan in the post-Soviet era despite of the political chaos needed to revitalize its economy; whereas at the same time China focused on the bilateral economic development with Kazakhstan as the best means of increasing its influence over it and inclusion it in capitalist world system. Since China chose gradual approach changing firstly the economic system within the country, it saw its model applicable in other former socialist states particularly in Kazakhstan.

China has the potential to become a regional power. From six criteria of regional power it fulfills five criteria completely. The one that China fails is about states which do not accept China as a regional power in the Asia Pacific, namely Japan, Taiwan and the US. Instead, China has succeeded in establishing strategic, economic and diplomatic relations with newly independent states of Central Asia and Russia within SCO framework. Moreover Chinese achievements in economic, political and security relations with Kazakhstan in recent time prove China's potential to become a regional power in Central Asia. While in the Asia Pacific there is presence of the US, rivalry of Japan and Taiwan's issue that impede China to become a regional power, in Central Asia there is China's regional blocs with Central Asian states and Russia.

CONCLUSION

While the new world order has been recently shaped, Chinese foreign policy makers have attempted to form a foreign policy based on the Chinese interests in both regional and global terms. In this context, the structure of Chinese foreign policy can be examined in four dimensions. Firstly, Chinese foreign policy strategy aims mainly to open China's economy and to integrate it to the capitalist world system by launching the series of reforms. As a result of China's economic transformation to capitalist system China began to play the significant role in the economies of Asia Pacific region. Secondly, Chinese foreign policy is designed to establish diplomatic relations with the countries in the Asia Pacific. For further economic cooperation with leading role in the development of economies in the region China needs normalization of relations with the countries in the Asia Pacific. Thirdly, while the US attempts to constrain China's expansion in the Asia Pacific by backing up strategic alliance with Japan and supporting Taiwan's independence, Chinese leaders and foreign makers would perceive the US as the main threat to the security of China and attempt to counter the US. Fourthly, China uses the Shanghai Cooperation Organization as foreign policy tool, in the framework of which it increases cooperation with Russia and Central Asia. By cooperating with Russia and Central Asian states China attempts to prevent the US involvement in Central Asia and meets its objectives in the spheres of economics particularly energy sector and in security regarding Xinjiang issue.

Chinese foreign policy in the new world order aimed at becoming a regional power in the Asia Pacific. China's reform era beginning from the late 1970s has been in fact supported by an ambition to become a regional power in the capitalist world economy. The reform era has brought serious changes to the country's party, society, and regime. Before the reform period China was a communist country resisting not only to the US expansion in the region in terms of real politics but also was an outsider to the capitalist world economy. The reforms opened China the door to the capitalist world system. It is not surprising that on its way to the capitalist system

China faced challenges because 30-year party's position and its control over society was shaken by economic and political reforms. The strong leadership of party and military capacity in Maoist period have been the main sources of stability in China. The implementation of the reforms gave rise to such problems for Chinese society and the CCP as crimes, corruption, economic inequalities, growing discontent on the religious practice, and human rights violations, but at the same time, let China open its economy. Thus despite the Communist role in China its transition from planned to free market economy has been completed in a quite successful way. This transformation became crucial factor for China's new role in the Asia Pacific. Today Chinese economy is leading in the economies within Asia.

As China is pursuing a policy to sustain and stimulate its economic growth it has developed relationships with many countries in recent time. Before the reform era China's relationship with the states in the region was not characterized by friendship and mutual trust, but during the reform era and after it managed to establish alliances with many of them. Thus the relations of China with most of its regional neighbors have undergone tremendous changes from the 1970s. China managed to achieve progress in relations with ASEAN countries, South and North Korea, India and Australia.

ASEAN started to see China as potential trade ally. The Asian financial crisis in 1997 has played an important role in normalization relations between China and ASEAN. ASEAN states and partnership with them is very important for China's further growth and development. Though North Korean ballistic missiles and nuclear weapon tests displeased China greatly, it continued to maintain its military ties with North Korea and develop recently established relations with South Korea making a special stress on trade and investment. From Chinese diplomacy on Korean Peninsula it was evident that China wants to keep military and economic alliances not allowing ballistic and nuclear tests to break them. India for a long time has been the rival for China. Despite the areas of conflict between two countries regarding borders, Pakistan, and nuclear tests, there have been India's claims for regional power in Asia. However two states in the post-Cold War time found the basis for the

unity. Both are interested in economic cooperation, and opposition to the US presence in the region. The diplomatic relations between China and Australia have been established. As a vast and rich in mineral resources country in the Asia Pacific, Australia is important for China's foreign policy. In other words, China in recent time began to play a great role in economics and politics of these countries. China has achieved visible results in economic cooperation with Japan and benefited from this cooperation greatly. Sino-Japanese diplomatic and military spheres and Sino-Taiwanese relations remain strained. The radical difference in Chinese foreign policy towards the region before and after reform demonstrates China's aim at regional power within Asia.

China is growing economically and militarily and expanding its influence all over the world. China's economy is the second largest in the world after the US and is continuing to grow. This causes worries from the only hegemon US leading to competition and conflict between two powers. Military and economic issues became those spheres where the US and China found themselves more in the framework of competition rather than cooperation in the post-Cold War period. Two sides disagree on Taiwan issue, nuclear weapon development, human rights and democracy politics, and energy policy. While making attempts to find the solutions to these issues many of them demonstrated that there was the gap between words and deeds of both nations, both acted in ways they saw it appropriate, for both the series of treaties and agreements was only the legislative formality on the paper. The US-China policy had always an element of containment: the US impedes Chinese national unification with Taiwan, enacts economic sanctions on China after Tiananmen Square events, and rejects China's membership in the WTO. However China did not feel itself under the US hegemony. It continues to grow. Concerning the issue of energy and the SCO, China in order to counter the US established close partnership with US adversaries like Iran. China is looking for opportunities to gain power at the expense of rival of the US, and taking advantages of the situations when the benefits outweigh the costs. Its ultimate aim is to be a hegemon in the system. However while being preoccupied with the controversies with the US particularly without progress on Taiwan reunification and human rights politics China is not yet ready to become a hegemon.

Probably the most important period for China's transformation into hegemonic power and its relations with the US will be from present till 2045. During this period many political and military events can normalize the relations of the US and China, because despite conflicting issues China and the United States can work with each other as they do in economic sphere, and war on terrorism. Thus China fails to become hegemony in the present time but has a huge potential to become a regional power. The transformation of China into regional power is expected to have a systemic impact because of its economic, demographic, military and diplomatic power.

The six main criteria of regional power have been applied to China which are the following: (1) belong to a geographically defined region; (2) articulate the pretension of a leading position in this region; (3) have great influence in regional affairs and dominate this region in economic and military terms; (4) play the role of regional peacemaker; (5) be integrated in interregional and global forums and institutions; (6) be recognized or accepted as the regional leader by its neighbours. China fulfils completely first five criteria. It belongs to geographic region that is East Asia which refers to the Asia Pacific. China articulates its pretension on a regional power. It attempts to be involved in all regional affairs and play a great role, the Asian economic crisis of 1997 has been an example. China accepted the responsibility to solve this crisis thus assuming itself as a leader in the Asia Pacific. The reforms allowed China to lead economic integration in the region. The Asian states benefited from the growth of China's economy, even Japan for which China has been always a rival preferred economic cooperation with China. China possesses the strongest armed forces in the region, thus military superiority in the region is after China. China wants to play the role of peacemaker in the Asia Pacific. China stressed that its policy aimed at creating a peaceful international environment so that China can concentrate on its economic development; strengthening its comprehensive national power, and building a new political and economic order with less inequity of power and wealth between the rich and poor and a more rigid adherence to the principle of sovereignty in the country. Since the end of the Cold War, China normalized relations with many states in the region. It is engaged in the

security-oriented ASEAN Plus Three ministerial sessions as a partner of the ASEAN states and participates in the APEC framework for economic collaboration between ASEAN and China. China is also interested in peace on the Korean peninsula, thus making talks on denuclearization of the Korean peninsula. China with Russia and four Central Asian countries created a regional organization for multilateral cooperation. China is the member of the United Nations Security Council and has been involved in many international governmental organizations.

China is accepted as power with regional status by many Asian countries for which China is advantageous in all spheres. However Japan despite its economic cooperation with China in the region, Taiwan which leads the pragmatic diplomacy – attempts to break diplomatic isolation and to win its international recognition as a sovereign state, and the US as the only global hegemony do not regard China as a regional power in the region. The US military presence in the region affected all that happened in Asia, thus China's diplomacy in the region as a whole. It influenced China's relations with ASEAN countries, India, Japan, and Taiwan. It maintains its military alliance with Japan and supports Taiwan's independence. Consequently, for China, the Taiwan issue and US interference in the region are the main problems which hinder China to become a regional power in Asia. Thus it is seen that China fulfils completely first five criteria and partially the last one.

The US revitalization with Japan and its policy toward Taiwan were identified by China detrimental to its interests. However, despite all the developments in the region China continues its policy aiming at achieving national reunification with Taiwan, even by using the means of military force as in the 1995-96 Taiwan Strait crisis. Thus the US realized that China would not let Taiwan achieve its independence and would use force any time it saw the involvement of other power in its affairs. In return the US has not intention to concede China; it is not going to leave Asia, on the contrary continues to supply Taiwan with advanced arms and strengthen US-Japan defense guidelines and planned deployment of ballistic missile defenses. It is evident that the US does not want China's regional hegemony in the Asia Pacific.

China seeks opportunities to gain power over newly independent states of Central Asia and establish friendly relationship with Russia. The collapse of the Soviet Union and the independence of Central Asian republics created the problem for China. In historic-geographical terms, Central Asia is a place to which Xinjiang, Uighur Autonomous Region of China belongs. The same ethnic groups with the same beliefs live on the both sides of the border. China had the fears that the independence movements in Central Asia could be spread to Xinjiang. In order to prevent such a threat China worked toward developing warm relationship with the former Soviet republics after they got their independence. Besides, Central Asia has become an ideal place for China's growing energy demands. At the same time China realizes an important role of Russia in Central Asia and even to some extent regards Russia as a regional stabilizer. Thus China needs Russia as a partner not as a competitor. It is going to achieve its aims in Central Asia with the help of Russia, and though it knew that in some spheres it would be difficult to avoid the conflict, it preferred to have a stable relationship with Russia. In fact, both sides have more common than different interests. Both are interested in solving the border disputes, eliminating the terrorist forces, and strengthening their relations with the Central Asian countries by promotion the stability and economic cooperation in the region. China and Russia established strategic partnership in 1996 which has become very important in the foreign policies of both nations in the region. However the main mechanism in the dialogue with both Russia and Central Asian states has been the formation of the SCO. Indeed, within SCO framework Chinese relationships with the Central Asian republics and Russia improved greatly. The SCO allows its state members to provide regional security and border control, to combat terrorism, extremism and separatism, which promised basis for building trade, investment, cultural and technological relations. China and Central Asian states acknowledged the existing problems and have started cooperating both on bilateral and multilateral levels. Within the SCO China has expanded its role in the region meeting its main aims that is to achieve access to energy in Central Asian states particularly in Kazakhstan for sustaining its economic development program and to prevent anti-Chinese movements of the ethnic Uighurs in Xinjiang.

The SCO under Chinese leadership posed challenge to the US. Despite Sino-Russian economic rivalry concerning energy in Central Asian states, within the SCO two powers united against US presence in the Central Asia and its military bases on its territories. China and Russia could convince Uzbekistan of US suspicious actions concerning local insurgents. Consequently the US had to withdraw its stationed troops from Uzbekistan. As China wants to expand its military influence in the region, it has been involved in several exercises with troops from SCO states, including exercise with Russia.

The SCO has become the means for China in its foreign policy to pose itself as a regional power. While in Asia Pacific there is the US presence, rivalry with Japan and Taiwan's issue that impede China to become a regional power, in Central Asia or Eurasia that includes Russia, China has managed to establish strategic, economic, diplomatic relations with both Russia and Central Asian states over the past decade. Among Central Asian states especially Kazakhstan has been important in China's foreign policy, relations of which in recent time shows China's potential to become a regional power in Central Asia. It can be concluded that Chinese policy towards the Central Asia and Russia is to maintain neighboring relations with both and furthermore by cooperation with Russia China will attempt to prevent US involvement in the region while by cooperation with Central Asian states in the field of economy it will reduce Russian influence in Central Asia. China has managed to form regional blocs in the region.

Napoleon Bonaparte two hundred years ago said: "...When China awakes; it will shake the world." Having examined China's foreign policy in the last time it seems that China has awaked... It has been concentrating on its economic growth since it liberalizes its economy in late 1970s. Its ambitious economic reforms and its military modernization aimed at expanding its international influence. It has policies that reassured its neighbors that it is a responsible and cooperative actor. It has a central role in the SCO, it has tried to facilitate cooperation with the ASEAN countries by participating in APT meetings. Even if Chinese efforts can be perceived that it is becoming a responsible and cooperative player in the world arena, it wants

to alter the international system to its advantage. China is by improving relationships with the other countries, preventing them to unite against its rise and decreasing the US influence in international system. China is larger, militarily stronger and becoming richer than any other country in its region. China's military expenditure has raised recently increasing China's share of spending among the world's countries. Thus China is now the power which can match its economic growth with a strong army and be a peer competitor to the US superpower. It is now transforming the politics and economics of the entire world. In the Asia Pacific the US power militarily is threatened by China. The US now faces a strong power which claims territories like Taiwan and with respect to these territories, which claims a right to use force. In Central Asia the US faces China's strategic partnership with Russia and alliance with Central Asian states leaving no space for the US. Consequently, China is becoming the most important player in shaping the world order as a whole. Even if the US still holds the balance of power in the region, it has already lost the balance of influence to China. It has now the potential to become a regional hegemon and poses a greater threat to the US than during the last century. If China manages to overcome the problems with Taiwan, reduce Japan's role, and eliminate the US presence in the region which hinder it from becoming a regional power than it is possible that this would cause a great systemic impact because of its fulfillment the main criteria of regional power, forming a regional bloc and huge size.

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